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**PROJECT MANAGER'S REFERENCE GUIDE --  
SMALL SCALE ENTERPRISE**

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Submitted By:

DEVELOPMENT ASSOCIATES, INC.  
2924 Columbia Pike  
Arlington, VA 22204  
(703) 979-0100

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**SECTION I: INTRODUCTION**  
**PROJECT MANAGER'S REFERENCE GUIDE**  
**SMALL SCALE ENTERPRISE**

This document is the result of a desire by the Center for Development Information and Evaluation (CDIE) to provide project managers with development information in a terse, easily accessed manner. As a result, this guide draws heavily from documented AID experience in the Small Scale Enterprise (SSE) sector available from CDIE impact evaluations, project documents, and various research publications dealing with the sector.

The SSE sector, as defined in this guide, is composed of a diverse group of "enterprises," ranging from the one person, informal, street vendor type operations to manufacturing firms employing as many as 49 people. Those businesses having just 1-4 employees (what is referred to as "microenterprise"), are included in this document as a separate category within the SSE spectrum.

This guide is designed for the active use of AID managers of small scale enterprise (SSE) projects. As a reference work, this guide is intended to have general utility for anyone who is involved with SSE project development at any stage from feasibility studies clear through to monitoring and evaluation and at any point in between.

As the name "reference guide" implies, this book is for ready reference as guidance and information on SSEs as needed. The guide's format, unlike that of standard textbooks, need not be read sequentially. Each section stands on its own. Furthermore, the book is so structured that the reader, after a brief glance at the annotated table of contents, can readily turn to the nuggets of information that are most needed at any particular moment.

Briefly, the following sections progress sequentially from a background section describing SSEs, their importance to society and relation to AIDs policy, in particular. The next section, Section III, surveys the past experience of AID and other donors in SSE development and strives to highlight the pertinent lessons learned as guideposts for today's project manager. Section IV details the steps and relevant issues that need to be considered in all of the various stages of SSE development work. The next section, titled "References," includes a directory of organizations involved in SSE project implementation. It also includes selected statistical and other useful information sources as well as abstracts of nine SSE impact evaluation reports prepared for AID. Because the issues of capital formation and savings mobilization are of such importance within the context of SSE development, they are included in Appendix A. Finally, Appendix B contains detailed charts regarding impact indicators for SSE projects and Appendix C contains a quick reference list of 51 AID financed projects with relevant identifiers prescribing project activities.

With these introductory and structural notes in mind, readers are encouraged to utilize all of this information, but, as immediate needs-to-know arise, to turn directly to the relevant section.

The guide attempts to distill the experience of decades in designing SSE projects and to be of practical help to an AID officer attempting to design an activity. While a strict "cookbook" approach is impossible given the numerous variations in SSE project types, the guide attempts to communicate as directly as possible major tenets and considerations in SSE project development. It provides guidelines, highlights major points for attention, and uses other formatting devices designed to make the guide "user friendly". For those seeking more material and background, the document includes annotated footnotes, and up-to-date bibliographies guiding readers to other sources of information and assistance.

## SECTION II: SECTOR AND POLICY FRAMEWORK FOR SMALL SCALE ENTERPRISE (SSE) PROJECT DEVELOPMENT

AID, during the past decade, has increasingly focused its attention on small scale enterprises (SSE). AID-sponsored research has led to greater understanding of the SSE sector, its needs, and its valuable contributions to society. The results of the various studies point to a previously overlooked economic sector with considerable development potential. Furthermore, AID programs directed at bolstering small scale enterprises are fully supported by AID's principles and the policy framework undergirding its efforts.

This section of the guidebook provides a descriptive overview of the SSE sector, outlines its importance in LDC economies, and presents AID's policy framework for its SSE projects.

### A. What are Small Scale Enterprises?

A small scale enterprise can be defined as a privately owned and operated business employing a small number of people. In the illustrative typology presented in the table in this section, the number of employees ranges from one to forty-nine. Other standards that can be used to categorize a business as an SSE include asset levels and sales volume. There is, though, no single, universally accepted definition for an SSE.

While there is not a definitive standard, it is clear that small scale enterprises are simple economic entities that use low to medium levels of technology and management. They are located in both rural and urban areas and tend to be heavy users of local materials, supplies and labor. They generally produce for local or regional markets. Typically, they provide primary or secondary sources of income for great numbers of LDC workers.

Various levels of enterprise based on size and sophistication can be identified as part of the small scale enterprise spectrum. At the microbusiness level (1-4 employees), the level of sophistication and complexity is low and sales

and production processes are rudimentary. Generally, such enterprises exhibit no formal business management system. Occasionally, though, simple bookkeeping methods may be used to tally gross revenues and expenses. These businesses operate from makeshift shops in or adjacent to the homes of the owners and frequently employ family labor. Business and household economics are usually intertwined.

Small enterprises frequently begin as microbusinesses. As they grow, transactions are more numerous, contracts are more formal, and the business becomes more sophisticated, requiring increasingly complex management business systems and controls. Although no agreed upon size limit exists, 49 employees seems to be a reasonable ceiling for inclusion an SSE.

SSEs tend to be sole proprietorships whose owners/managers are frequently semi-skilled or skilled workers or employees in sales or production areas who decided to start their own businesses. Frequently, the impetus for starting an a microbusiness at the lowest level of the SSE spectrum is the lack of alternative employment opportunities. However, there are also many SSE owners who are true entrepreneurs. They recognized the opportunity to work independently and consciously took the decision -- and risk -- to do so.

The "small-scale enterprise sector" does not represent a homogeneous group of enterprises. Rather, it is composed of diverse rural non-farm and urban manufacturing, service, and commercial businesses with varying characteristics and needs according to the size, sophistication, and type of enterprise.<sup>1/</sup>

GUIDELINE: Understand the SSE Enterprise Levels.

If SSE project designers and managers are to provide services of an appropriate kind and degree of sophistication, they must have a detailed understanding of the various SSE enterprise levels within a country. Addressing the current lack of a uniform profile of the levels of enterprise of the SSE sector, this guidebook provides a suggested SSE typology in Table I on the following page.<sup>2/</sup>

TABLE I

SSE ENTERPRISE LEVEL TYPOLOGY

SUBSECTOR:	MICROENTERPRISES	SMALL ENTERPRISES (Level I)	SMALL ENTERPRISES (Level II)	SMALL ENTERPRISES (Level III)
NUMBER OF EMPLOYEES:	1-4	5-9	10-29	30-49
PLACE OF BUSINESS:	Often in home, frequently make-shift arrangement.	Shop adjacent to owner's home or perhaps in nearby rented house.	Separate from owner's home; no frills.	Separate locale and more sophisticated building; aura of being established and exhibits plant lay-out.
PRODUCTION PROCESSES:	Rudimentary.	Slightly more advanced processes.	More sophisticated; production may be in series with increased specialization of labor.	More complex production planning and technology.
EQUIPMENT:	Hand tools, except for a small power tool (e.g., sewing machine or circular saw).	Hand tools plus a few power tools (e.g., a lathe drillpress, welding machine, etc.).	More machinery and equipment than Level I, but still highly labor intensive.	Heavy reliance on machinery and other power equipment.
FINANCIAL SYSTEM:	Only cash flow accounting, with no formal business documentation of accounting records.	Greater need for business controls -- basic accounting system, at least.	Need for marketing assistance and personnel management, more specialization of personnel and increased number of employees.	More sophisticated planning and management required.
CREDIT SOURCES:	Informal sources at high interests. Formal sources precluded due to lack of business records and collateral.	If no alternative, informal sources. Increased need for working capital for production supplies and for financing equipment/fixed assets.	Business information required on applications make formal credit difficult and time consuming to obtain, thus seek alternative financing sources.	Better access to formal credit systems; but systems may operate too slowly or inflexibly to meet pressing needs.
MARKETS:	Localized, usually within the community.	Increased production necessitates market area expansion; competition increases.	Local markets insufficient, larger quantities of raw materials and supplies needed. Forward and backward linkages now more important.	Regional or national products.
LEGAL STATUS:	Generally unregistered, usually operate in informal economy.	Frequently unregistered.	Most likely registered due to greater "visibility."	Registered and interfaces with government policy and regulation in numerous areas (e.g., tax and labor regulations, import/export licensing, etc.).

As supporting institutions, governments, and donors move toward a common set of SSE definitions, this consensus can enhance the complementarity between SSE assistance programs and sector-wide strategic planning. A common framework, used on a national basis, may greatly facilitate cross-institutional coordination and more precision in program and strategy formulation at all institutional levels.<sup>3/</sup>

A basic enterprise profile that might be used within a given country could include:

- Numbers of employees;
- Approximate asset levels;
- Value added calculations; and/or,
- Total production or sales volumes.

Establishing categories of levels of enterprise will enable project designers to:

- Improve their understanding of the target groups and their variety of program options;
- Identify common characteristics and needs of given business strata upon which to develop appropriate SSE strategies;
- Design appropriate interventions at the project level;
- Achieve more effective program coordination or complementarity between different agencies and institutions;
- Assure a better match between assistance requirements and the institutional capacities of assistance providers to deliver the required services; and,
- Encourage more consistent policy and strategy formulation at the national level.

Despite their variety, SSEs do have in common several identifiable and overriding needs.

HIGHLIGHT: SSE Common Needs

Virtually all SSEs have need, at some stage, for:

- Credit at market rates. (The alternative is to pay much more than market rates to informal credit sources or to have no access to credit at all);
- Money for working capital as well as for fixed assets. (The smaller the firm the greater the proportion of the loan that will be for working capital. Microenterprises, for example, may use 100% of a loan for working capital. On the other hand, larger enterprises may split loans up into working and fixed capital.);
- Management and technical assistance will be needed in varying degrees depending on the level of enterprises, their sophistication, complexity, and perceived needs. (These will be in the areas of accounting, marketing, finance, production, and general management); and
- Trained employees, both in management and production, to improve enterprise efficiency and quality output.

B. The Importance of SSEs in LDC Economies.

Small scale enterprises account for a very high proportion of the total number of business establishments and of employees in LDCs. In fact, they constitute a major part of all private sector activity in such countries.<sup>4/</sup>

Some of the benefits of SSEs in LDC economies include:

- Helping generate needed income for domestic consumption;
- Creating jobs at costs that are relatively low (\$200 to \$1500 per job) in comparison to higher costs in more capital intensive modern industry;
- Providing materials, supplies, and subcontracting services to larger enterprises. The employment, income, and other economic multipliers derived from SSEs are great and support economic development and private sector expansion;<sup>5/</sup>
- Creating economic multiplier effects by their forward and backward linkages to agriculture and the larger manufacturing sector. They have important secondary impacts on other firms, as well as being major users of a country's primary production and add value to it; they supply needed goods and services for domestic consumption; and,
- Providing a primary training source for entry level workers in technical and business skills.

Determining the precise numerical importance of SSE production and service activities in LDCs tends to be difficult. Underestimation of the numbers of firms and employees in the SSE sector is likely if official statistics are used because the universe of firms usually is based on formal, registered businesses and tends not to take into account the thousands of enterprise units that remain unregistered, e.g., those frequently referred to as "informal sector" enterprises.

While the reliability of individual data sources is questionable in terms of exact numbers, comparative data from several different countries are consistent proportionally in their demonstration of the large amounts of employment created by SSEs and the preponderance of the number of these firms relative to larger enterprises. For example official data from El Salvador <sup>6/</sup>, excluding the informal sector enterprises, show:

- 88.5% of all firms to be in the microenterprise subsector, (1-4 employees).
- 9.0% are small enterprises, (5-49 employees).
- These firms created 22.4% and 17.0%, respectively, or 39.4% of total employment in the country.

Additional data compiled over the past eighteen years further show that SSEs, defined as firms of up to forty nine workers, employed anywhere from 47% (Korea 1975) to 95% (Sierra Leone-1974) of non-farm private sector workers of those countries<sup>7/</sup>. The statistics quoted are typical of SSEs in the developing world.

Because of the lack of accuracy of available data on SSEs, special surveys, if not already accomplished, may be necessary as part of any country specific project feasibility analysis to complement official sources.<sup>8/</sup> Such surveys can be valuable in gaining a more accurate appreciation of the magnitude of the SSE sector and in determining portions on which to focus.

C. Policy and Strategy Backdrop for AID Assistance to Small Scale Enterprises

1. Evolution of AID's Private Enterprise Strategy

The notion of assistance to the private sector and development through business and industrial growth is not a new one to AID. The Agency has supported LDC private enterprise development continually since 1957 when, after assisting Western Europe under the Marshall Plan, the agency made the shift to LDC development.

Over the past twenty-five years, United States' economic development aid has seen a number of distinct periods.<sup>9/</sup> The focus of private sector assistance has shifted periodically, reflecting varying perceptions of and approaches to the optimal way to achieve enterprise development and to assist target populations in developing nations through jobs and income generation.

The following breakdown describes this evolution:<sup>10/</sup>

1957-1973

- Program placed emphasis on infrastructure and industrial projects under the Development Loan Fund and later under AID programs;
- Large- and medium-scale enterprise development and showcase industries were emphasized;
- Program philosophy that externalities and other multipliers associated with these projects would help benefits "trickle down" through the economy;
- Emphasis on import substitution and regional development schemes such as the Latin American Free Trade Association; and,
- During the 1960's AID supported, and was a principal proponent of the development of new specialized financial intermediaries, the Development Finance Corporations, whose purpose was to provide a new source of development finance, thus increasing the accessibility of financing to small- and medium-scale industries.

1973-1980

- After 1973, AID began a period of "New Directions":

- Orientation shifted to the direct provision of services to poor, largely rural groups;
- Assistance to indigenous private sectors through targeting larger scale industrial and infrastructure projects, as was the emphasis in the 1950's and 1970s, was limited during the 1973-1980 period;
- During this period there was growing interest in the importance and impact of smaller enterprises, including microbusinesses;
- Several SSE research efforts to expand AID involvement in private enterprise development; and,
- Recognition began to grow that the SSE end of the private enterprise spectrum is the principal employment and income generator for the productive poor in both rural and urban areas.

### 1980 - Present

- AID renewed its emphasis on private enterprise development as a principal vehicle for economic progress and equitable growth;
- Technical and managerial assistance programs have been sponsored, including investment and export promotion, as well as direct investment to stimulate "cutting edge" firms with high indirect or spread effects;
- Larger scale industrial projects play a role in current development efforts, but the approach is a more balanced one;
- Greater recognition of the importance of supporting those very small scale businesses and their support institutions; and,
- A diversified private sector development strategy, one that places central importance on increasing employment opportunities for the "poor majority," whether those opportunities come from large-scale industrial enterprises or from micro businesses.

## 2. Current AID Policy Toward SSE Assistance

AID has not issued a specific policy statement on SSE programs. What it does have are policy guidelines for private enterprise development generally and a series of statements about agency goals and objectives, target populations, and important elements that should be part of program designs.<sup>11/</sup> Taken as a whole, these statements confirm that SSE

assistance is congruent with AID's legislated mandate and its policy and program objectives. Additionally, SSEs are particularly attractive targets of AID assistance because of their increasingly substantiated economic importance, the large number of firms comprising the sector, their substantial income and employment generating capabilities, and the fact that they are overwhelmingly privately-owned.<sup>12/</sup>

Programs that effectively reach the small scale enterprise sector are consistent with AID's primary policy objectives of:

- Free market development and private enterprise expansion;
- Development policy reform;
- Institution building; and,
- Technology transfer.

SSE programming supports AID's legislative mandate, expressed in the Foreign Assistance Act (FAA) Sections 101 and 102. Basically, the provisions state that United States bilateral development assistance is to help LDC aid recipients participate in a process of equitable growth through productive employment. The Act posits a primary objective of helping people increase their incomes and gain access to public services enabling them to "satisfy their basic needs and lead lives of decency, dignity and hope."

AID's Private Enterprise Policy paper adds:

"Projects which implement AID's private enterprise policy should clearly demonstrate the linkages between the activity which is to occur on the project and progress toward the primary FAA objectives."<sup>13/</sup>

As Administrator M. Peter McPherson, in his February 1984 statements to the House Foreign Affairs Committee, summarized AID's position: "Income is essentially the answer to basic human needs."<sup>13/</sup> Programs that generate income and growth for AID's mandated target populations are natural areas for AID assistance. In sum, there is a high degree of congruency between AID assistance to SSEs and its policy directives.

a. Policy References to the Informal Economy

Although not specifically focussed on the SSE sector, AID's private enterprise policy is clearly supportive of SSE programming. In addition, it makes specific reference to the "informal economy" that is, itself, a component within the larger SSE sector. As part of the discussion of policy dialogue AID policy states that the "heterogeneous, dynamic, largely unregulated informal economy..." exists in large part due to "uneconomic controls on the formal economy."<sup>15/</sup>

AID's positions regarding the informal economy are:

- Overall reduction of the inefficiencies of informal sector businesses caused by the persistence of the informal economy will be required to achieve significant private enterprise development;
- To accomplish this, AID missions must address with host countries the policy and regulatory issues that create the conditions that, in turn, necessitate the existence of the large and economically important informal economies found in most LDCs; and,
- Each mission should strive to formalize the informal economy through better policy choices as part of its SSE program strategy.

The caveat is:

- "In countries which are reluctant to discuss policy, assistance to productive activities carried out in the informal private sector may be the only effective way to stimulate broad-based growth and development -- such assistance is, in any case, highly cost effective in terms of meeting the needs of AID's mandated target group who are found in great numbers in this labor intensive, capital-saving sector. AID has a strong interest in programs which support the informal sector."<sup>16/</sup>

3. AID and SSE Assistance

Unemployment and underemployment represent a waste of human resources and are important impediments to economic progress and sustained growth. Statistics resulting from research on SSE's job generating capacity show

that these entities, the smallest units in the continuum of private enterprises, serve as primary vehicles to fuller use of human resources and engines of economic progress.

a. Constraints to Sustained Economic Progress

Large scale business and industry alone cannot be expected to solve the major underlying problems of sustained economic progress. These underlying problems include:

- High rates of unemployment and underemployment;
- Lack of disposable income for consumption, savings, and investment; and,
- Underutilization of potentially productive human resources.

While large scale enterprises clearly contribute to economic development, the resources needed are prohibitive and the employment capacity of these enterprises is insufficient to absorb the available workforce in the typical LDC.

b. AID Objectives

AID's objectives include achieving sustained economic growth and improved standards of living for the lower income segments of society in developing nations. The capacity of SSEs to improve the economic well-being and general living standards of large numbers of people through job creation and income generation is very important to the rate of progress toward development, growth, and improved quality of life for LDC societies.

While AID has varied objectives in its overall programming efforts, creating net new jobs, saving existing employment, and generating income have become critically important to the Agency's socio-economic objectives in SSE programming.

c. Rationale for SSE Assistance Programs

Given AID's objectives, the following points support the objectives and provide a rationale for assisting SSEs.

- SSEs have the capacity to absorb unemployed or underemployed labor with relatively low skill requirements;
- Development analysts have also found that the costs of creating employment through SSEs are a fraction of those of large capital intensive enterprises and that their contributions to LDC economies in terms of numbers of enterprises and employment generated are substantial.<sup>17/</sup> The cost per job created by SSEs can range from several hundred to several thousand dollars, substantially lower than large scale, capital intensive businesses where costs per job can be tens of thousands of dollars depending on the level of technology and mechanization. And it is not uncommon for SSEs in LDCs to represent over 80% of business enterprise.
- Indirect impacts of SSE projects are also important. These secondary impacts include improved housing, health, nutrition, and education derived from increased income created through the employment generated by SSEs. Other kinds of such "externalities" can include the effect of SSE programs on policy reform, institutional development of regulatory and support agencies, and generally their broader "ripple effects" across the larger community through the various forward and backward linkages that assisted SSEs have with other segments of the local economy if the program and individual projects are properly designed.
- Despite the tendency of many governments to develop policy environments that favor parastatal entities or large scale firms, the SSE sector, including its informal and unregistered segments abounds and is a powerful mechanism for generating large numbers of jobs and income.
- In addition to the above, SSEs can frequently be a stabilizing factor in economies where large scale industries are forced, due to economic conditions, inefficiency, and/or internal strife to curtail or shut down production. When this happens, scarcities, especially of essential items, will be developed creating inflationary pressures on prices. Where comparative advantages exist, where imports can be displaced by less expensive domestic production of the same or similar quality, and where a strong competitive environment exists, SSEs can frequently help fill the void and contribute to maintaining a sufficient level of supply relative to demand, to hold prices at reasonable levels having a stabilizing effect on the economy.

#### 4. Strategies for SSE Assistance

Generally speaking assistance approaches and strategies fall into the following categories:<sup>18/</sup>

- Studies: Including prefeasibility studies such as sector profiles, policy analyses, credit demand analyses, institutional assessments, and special product market analyses;
- Short or long term technical advisors: to carry out studies (see above) or to provide on-going assistance in project design and implementation to AID Missions and/or host country support institutions;
- Resource transfers: SSE credit through state or privately controlled rediscounting systems; grants or loan in the case of training and technical assistance may be provided at concessional terms. Over the past several years AID has moved away from the strategy of making direct resource transfers to final beneficiaries and has increased its emphasis on programs that create growth and provide income.<sup>19/</sup>
- Training: to host country support institutions and/or government agency personnel in project design, management, and evaluation; to small scale entrepreneurs in finance, business management and/or production improvements; and,
- Conceivably, a project could contain any one of these components individually or several or all of these in a package of assistance.

AID supports both public and private efforts to develop human resources and should promote and assist in training LDC indigenous entrepreneurs in business related topics. Such training may range from short training sessions for small independent entrepreneurs in both the formal and informal private sector, to more substantial efforts using participant training and advisory services.<sup>20/</sup> The same philosophy applies to training support institution staff whether a government agency or private institution. AID encourages increased support of non-governmental agencies.

No restrictions exist on the types of funds or modes of assistance applicable to private enterprise objectives. Development assistance monies, Economic Support Funds, and the local currency generations of PL-480 loans or grants may each, or in combination, provide appropriate resources to fund enterprise development.<sup>21/</sup>

## 5. Underpinnings of AID Program and SSE Development Strategies

### a. The Four Pillars

It is AID's position that regardless of the area of development, there are four principal instruments that should be part of any program. The AID Administrator has described these crucial elements as the "four pillars" of AID program development and implementation strategy.<sup>22/</sup> They are:

- Policy dialogue and reform;
- Institutional development;
- Technology transfer; and,
- Greater use of the private sector in development.

With regard to SSE programming, the guideline should be for program managers to:

- Engage in a dialogue with host governments regarding policies that adversely affect SSE development, such as interest rate subsidization, uneconomic labor and tax laws, and a regulatory environment which is responsible for reducing the efficiency of thousands of small businesses while favoring larger industrial enterprises. Unsound policies and regulations, besides their adverse effect on large, formal business activity, can force smaller firms to remain in an informal status, that is remain unregistered and generally outside the economic "mainstream." The perpetuation of the informality of these enterprises encourages systems that hold them at lower levels of efficiency and productivity than would be the case if more equitable and market oriented policies existed.

As AID Administrator McPherson has said, bad policies discriminate against the poorest segments of LDC societies; "you cannot discriminate against your poorest people and end up having economic growth."<sup>23/</sup>

- Foster institutional development in response to AID's recognition that faulty institutional frameworks can impede development and that "sustained development also requires that progress be institutionalized rather than be episodic."<sup>24/</sup> The goal of institutional development is three-fold:<sup>25/</sup>

First - to improve the internal operations and technical abilities of SSE support institutions so as to improve the

quality of services to clients; These institutions include financial intermediaries, technical/managerial assistance service providers, cooperative organizations (savings and loan associations), business associations, and, entrepreneurial development institutes.

Second - to foster the improvement of the service delivery capabilities of intermediary support organizations; to expand their coverage without losing their vibrancy, personalism and other traits that may have been the roots of their successes initially; and,

Third - to promote and support the development of appropriate, legal and regulatory institutions and a general policy environment conducive to private enterprise support institutions that will permit them to achieve their objectives more easily and at less cost to their projects.

- Transfer technologies to support institutions or to SSEs through technical and managerial assistance. Technologies can be "hard" (e.g., a technical production process, maintenance of quality Standards, etc.) or "soft" (e.g., a management system that could include, internal controls, operational planning, or project implementation to support the efficient implementation of the production process or service to be delivered).
- Make greater use of the private sector in development through the selection of private organizations to complement the role of governments in the provision of development services, information, and the transfer of technology. A residual effect is to bring the private and public sectors closer together in the resolution of common problems within a country. The effort encourages increased domestic policy and strategy dialogue and generally an increased understanding on the part of both sectors about the positions each is taking and the reasons why.

This section has provided a basic overview of SSEs, described their economic importance, their common needs, and background on AID's policy. Early in the section, a suggested SSE typology was presented (Table I, on page 4). This typology, categorizing the four levels of enterprise, is referenced repeatedly as we proceed to other sections. In the next section, this guide surveys the SSE development experience, focusing primarily on AID, but also drawing upon other donors' experiences as well.

SECTION II: END NOTES

- 1/ The PISCES Studies, Phase I, AID/S&T/RID/EED, Washington, D.C., September 1981, p. 15-35. Provides an interesting discussion of the levels of enterprise concept and a typology of organizations and program services.
- 2/ El Salvador: Industrial Stabilization and Recovery Project, Project Identification Document prepared by Development Associates, Inc., December 1983, p. 23-29.
- 3/ Daines, Samuel R., et al.; Agribusiness and Rural Enterprise Project Analysis Manual, Agribusiness Division, Office of Agriculture, Development Support Bureau, AID, Washington, D.C., March 1979. Chapter 7, p.65-73 "Project Identification, Target Group Selection, and Preliminary Constraints Analysis" present a nice discussion of project targeting that complements the conceptual framework presented in this guide.
- 4/ Leidholm, Carl and Donald Mead; Small Scale Enterprises in Developing Countries A Review of the State of the Art; Table 1, "Distribution of Employment in Manufacturing by Firm Size," and Table 6 "Distribution of Small Scale Manufacturing Establishments by Size" Michigan State University International Development Papers, East Lansing, Michigan (forthcoming).  
  
See also: Leidholm, Carl and Enjinna Chuta, Rural Non-Farm Employment: A Review of the State of the Art: Michigan State University Development Paper No. 4, 1979.
- 5/ A Comparative Analysis of Policies and Other Factors Which Affect the Role of the Private Sector in Economic Development; AID Program Discussion Paper No. 20, December 1983, p. 15 (Contains a short statement about income elasticity of demand for the products of small scale manufacturers in Sierra Leone.) The PISCES Studies: Phase I, op. cit. p. 11-13 contains a concise description of informal sector microenterprises.
- 6/ El Salvador: Industrial Stabilization and Recovery Project, Project Identification Document prepared by Development Associates, Inc., December 1983, p. 25-27.
- 7/ Leidholm, Carl and Mead, Donald; op. cit., Table 6.
- 8/ A Comparative Analysis of Policies Other Factors Which Affect the Role of the Private Sector in Economic Development, op.cit.,p.15
- 9/ For more information on the evolution of AID private sector policy see Deborah M. Orini, "AID Private Sector Initiatives: Past, Present, and Lessons Learned" prepared for the Presidents Task Force on International Private Enterprise, November 1983.
- 10/ A Review of AID's Experience in Private Sector Development, AID program Evaluation Report No. 14, Robert R. Nathan Associates, Inc., April 1985. This section of the Nathan report draws heavily on the Orini report op. cit. We have also amplified this breakdown of major periods with our own observations about the focus and interpretation of AID efforts.

- 11/ AID Policy Paper: Private Enterprise Development (revised), Washington, D.C. March 1985, p. 11
- 12/ Liedholm, Carl; Mead, Donald, "Small Scale Enterprise in Developing Countries: A Review of the State of the Art," MSU International Development Papers, East Lansing, Michigan. Table 7.
- 13/ AID Policy Paper: Private Enterprise Development (revised) Washington, D.C., March 1985, p.11.
- 14/ Hearings before the Committee on Foreign Affairs, House of Representatives, Ninety-Eighth Congress, Second Session, February 2, 8, and 9, 1984 p.3.
- 15/ AID Policy Paper: Private Enterprise Development, Washington, D.C., March 1985 p.12
- 16/ Ibid, p.12
- 17/ For an interesting comparative analysis of the importance of SSEs in LDCs see Carl Liedholm and Donald Mead, [Small Scale Enterprises in Developing Countries: A Review of the State of the Art, MSU International Development Papers, East Lansing, Michigan (forthcoming)]
- 18/ AID Policy Paper: Private Enterprise Development (revised) Washington, D.C., March 1985, p.10
- 19/ Ibid, p.16
- 20/ Ibid, p.16
- 21/ Ibid, p.10
- 22/ Hearings before the Committee on Foreign Affairs, House of Representatives, Ninety-Eighth Congress-Second Session, February 2, 8, and 9, 1984, p. 3, 4, 6.  
  
See also: Agency for International Development, Congressional Presentation Fiscal Year 1985, Main Volume, p.4 and 5 for additional discussion of the "four pillars."
- 23/ Ibid, p.3
- 24/ Agency for International Development, Congressional Presentation Fiscal Year 1985, Main Volume, p.5
- 25/ For details on the broader issue of institutional development and an expansion on its implications, see AID Policy Paper. Institutional Development, Washington, D.C., March 1983.

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## SECTION III: EXPERIENCE IN SSE DEVELOPMENT

### A. AID Initiatives

Between the early 1950s and 1985, AID funded hundreds of enterprise development projects. Most were in Asia and Latin America. Largely initiated prior to 1973, these projects sought to combine financial, technical and managerial assistance.<sup>1/</sup> While frequently labeled Small Scale Enterprise (SSE) development projects, they principally dealt with medium and larger scale firms in the LDC context. Only in some cases, did they deal with firms smaller than 50 employees. Beginning in 1974, the Agency targeted its overall assistance program to reach poorer segments of the Third World more effectively. With this program emphasis, AID focussed more on rural, sole proprietorship enterprises. In the past decade, AID has paid increasing attention to SSEs and to efforts to assist them in their role as a primary vehicle for income generation and for creating employment opportunities.

This section of the guide describes important elements of AID's SSE research, its development efforts and results of AID-funded SSE development projects. The experience of other donors in promoting SSE development is also described.

#### 1. Research and Development: AID-Sponsored Studies

"Small Enterprise Approaches to Employment" was the title of the umbrella project under which the Bureau for Science and Technology concentrated its long-term efforts in a series of studies begun in 1978 to learn more about SSE firms and the programs and institutions that help facilitate their development.<sup>2/</sup> Its purpose was to provide AID with better tools to design, implement, and evaluate SSE projects by improving AID's understanding of the nature and constraints of small enterprise development.<sup>3/</sup>

This umbrella project included three subprojects to:

- Study small enterprise components of housing improvement projects and related impacts on employment;
- Examine evaluation methodologies for small enterprise assistance projects with the aim of advancing the state-of-the-art of cost-effective impact evaluation methodologies; and,
- Conduct long-term research, commonly known as the PISCES Studies (Program for Investment in the Small Capital Enterprise Sector), to expand the body of knowledge about the urban informal sector and the assistance delivery systems and methodologies that seemed to be most effective in reaching this target population.

The PISCES Studies noted important differences between entrepreneurs in two categories established urban dwellers and recent migrants into the city.

Now that the PISCES Studies have revealed these two urban entrepreneur categories, it is clear that differing approaches to each may be necessary. A technical assistance project, for example, that assumed literacy and familiarity with business concepts would be off target for recent migrants to the city who, unlike those with urban roots, are often illiterate and with virtually no exposure to basic business concepts. This is an example of difference in what otherwise might appear to be a uniform target audience. If such information about beneficiaries is overlooked, an otherwise well-designed project could fail.

**GUIDELINE:** Design projects after carefully identifying intended beneficiaries and with a clear understanding of their skill levels, interests and abilities.

The urban focus of the PISCES studies complemented nicely the earlier rural enterprise research which included the following key studies:

- Under cooperative agreements with Michigan State University starting in the early and mid-1970's and financed by AID, a series of Rural Non-Farm Employment and Enterprise Projects were begun<sup>4/</sup> The purpose of this research was to generate more information and knowledge about the economic importance of rural non-farm enterprise.

- Work on Rural Financial Markets and Savings Mobilization was financed by AID and carried out by Ohio State University, resulting in a number of publications on rural credit and finance.

In its efforts to document the state-of-the-art in SSE development, AID sponsored various studies to examine the issues of evaluation design and appropriate methodologies for determining SSE project impact. A list of such studies is provided at the end of this section.<sup>5/</sup> Many of these studies have contributed to the search for appropriate indicators for evaluating SSE projects.

Additionally, AID's Office of Private and Voluntary Cooperation has carried out a substantial amount of work on evaluation techniques for SSE projects. They financed a series of impact evaluations and a workshop at the end of 1983 to debate the SSE evaluation issue.

"Entrepreneurship and Small Enterprise Development" is the title of an on-going research project financed by S&T/RID/EED. It deals with an aspect of entrepreneurship that was not addressed by the earlier Small Enterprise Approaches to Employment research and studies series. The new series addresses the motivational and behavioral aspects of entrepreneurship development. Specifically, the goals of the ongoing series are to:

- Identify entrepreneurs;
- Develop behavioral training approaches to improve entrepreneurial effectiveness through behavior modification;
- Test the impact of modified approaches; and,
- Determine, on the basis of empirical evidence, whether behavioral training does improve entrepreneurial performance.

The results of the first two years of work are to be forthcoming at the end of 1985 and can be obtained through S&T/RID/EED (Office of Rural and Institutional Development, Employment and Enterprise Division).

2. Findings and Trends Observed in SSE Programs Sponsored by AID Since 1975

Since 1975 there are a number of general findings and trends discernable in AID's SSE programming. Based on impact evaluations, special reports and other AID documents, the following lists some of those findings and post-1975 trends:

- a) Increased supporting assistance to SSE as research has confirmed the economic and social importance of truly small and microenterprises. (Appendix C lists 51 AID-financed SSE projects that illustrate the focus, level of support, and kind of assistance AID has provided in the past 10 years.)
- b) Increased AID commitment to small and microenterprise projects has resulted as AID has increased its commitment to balanced and sustained economic growth through private enterprises and increasing employment and income for the productive poor.
- c) Increased use is being made of private and voluntary organizations (PVOs) as SSE intermediaries, with mixed results.
- d) Reduced use generally of national development banks (NDBs) and development finance corporations (DFCs) as intermediaries for the delivery of SSE credit and technical/managerial.
- e) Increased use of alternative credit lines and revolving funds for microenterprise and Level I small enterprise development have been tried with varying degrees of success.
- f) Increased attention paid to the "pre-entrepreneurial" group whose businesses are extremely unproductive or who are very poor and have no business but are interested in starting one."<sup>6/</sup> (To date, projects that "create" entrepreneurs have proven to be more costly and risky than projects that work with established entrepreneurs.)

g) Increased questioning of the need for traditional kinds of technical assistance is occurring as projects have started to focus more on microenterprises and Level I small businesses.

Examining these trends and some of the underlying causes for the mixed results and increased or decreased use of specific service providers, leads to the following guidelines.

**GUIDELINE: Good design is of critical importance!**

The mixed results achieved using PVOs as intermediaries point up the need to place great emphasis on achieving a solid design in SSE programming. In the case of PVOs, it appears that project failures frequently are the result of poor design, not poor implementation. As a rule, good implementation of a poorly designed project can rarely have a positive impact.

Admittedly, PVOs, which often have a unique ability to "reach" the SSE target population, also have sometimes lowered their success rates as they have engaged in projects that require business oriented management approaches, specific project returns, and clear financial recordkeeping procedures.

**GUIDELINE: Link SSEs with appropriate, responsive institutions. Be sure that institutions are appropriate matches for, and responsive to, SSEs unique needs.**

Although NDBs and DFCs were, prior to the late 1970's, a popular and logical choice of lenders to SSEs, other alternatives are increasingly being viewed as desirable. While NDBs and DFCs are financially self-sustaining and have the expertise, discipline, and capacity to lend money, they do not seem to maintain the ability and/or desire to reach the lower strata of the SSE continuum. This particular example of a "mismatch" became apparent as these institutions, often originally adopting a "development" focus:

- Tended over time toward lending procedures almost as conservative as commercial banks themselves.
- Adopted inflexible review and approval procedures, often involving long approval chains and costly duplication of financial analyses.
- Requested information of a type unavailable to small firms.

**GUIDELINE: When to provide technical assistance.**

There is no question that SSEs could use technical or managerial assistance. But the simplistic answer of providing the needed assistance as the sole means of bolstering SSEs has not proven effective. Bearing in mind that different approaches work with different sizes of businesses, here are two tested conclusions about providing technical assistance:

- 1) Assess the probability that the assistance will be used well by the client; and
- 2) Provide only the most useful assistance, i.e. that which will quickly produce a long-term impact on the efficiency and profitability of the client's business.

PVOs and development banks are gaining experience in the microenterprise credit area. Some notable recent examples should be studied for the smallest SSEs:<sup>7/</sup>

- ADEMI - Dominican Republic (ACCION International/AITEC - Cambridge, Mass.)
- Fundacion Ecuatoriana de Desarrollo - Ecuador (ACCION Int'l/AITEC - Cambridge, Mass.)
- Badan Kredit Kecamatan Program (BKK) - Indonesia: (Report can be obtained through S&T/RID/EED - Washington, D.C.)
- FEDECCREDITO/PRIDECO - El Salvador (The PISCES Studies- Phase I)

While these projects themselves do not necessarily indicate a trend, they do show significant common factors in successful small enterprise assistance mechanisms and could provide an important foundation for programming future credit and technical/managerial assistance to the SSEs that reach the largest number of AID's mandated target group. Some of these factors are presented in the highlights at the end of this section.

HIGHLIGHT: Common Features of Successful SSE Projects

As SSE projects have evolved over the years, some common features of the more successful projects reaching the lowest end of the spectrum have emerged. They include the following:

- Flexibility in program design. It has to be kept in mind that a feature of many microenterprises is that "they represent but one of several commercial activities being pursued by the family household."<sup>8/</sup>
- "Program inputs reflect the plans and desires of those they serve and to the degree possible stay close to the level of skills and knowledge that commonly exists in the community."<sup>9/</sup>
- Assistance to cooperative enterprises is frequently beneficial due to their shared interests and goals.
- Credit delivery needs to be fast and efficient and loan amounts should be compatible with the entrepreneurs' income generating capacity.
- For very small loans to microenterprises turnaround time on loans should be quick and the review and approval process ought to be as paperwork free as possible. The ADEM program in the Dominican Republic and the BKK program of Indonesia are two of the best examples of efficient credit models for this level of enterprise.<sup>9/</sup>
- Careful consideration as to whether or not to provide technical or managerial assistance, even of the most basic kind such as bookkeeping in light of the level of need, the perception of the need for the assistance by the entrepreneur, the absorptive capacity of the entrepreneurs to receive assistance, and the cost of it.

As indicated in the above highlights, credit is a very important ingredient and consistent factor needed in SSE projects. Projects seeking to target business with 1-9 employees (Level I small-scale businesses and microenterprises as defined in the typology) have special needs that are rarely met by the larger, more, established financial institutions. The following example illustrates the mechanisms of a successful SSE credit program.

EXAMPLE: Mechanisms of a Successful Credit Program

Incorporating the common features listed in the highlights above, the successful ADEMI (Association for Development of Microenterprises) program in the Dominican Republic employs the following mechanisms to leverage the funds necessary for a large program, achieve self-sufficiency, and reach a massive number of clients in the private sector with strong public sector support:<sup>11/</sup>

- incremental loans, that is initial small loans that, when paid back, make clients eligible for larger loans;
- short-term loans, usually one to six months;
- loans for working capital only at the outset, and for fixed assets after growth;
- minimum paperwork and credit analysis;
- positive real rates of interest charged to prevent fund decapitalization and to cover operating expenses; and,
- no technical training is required for the initial loan.

3. Past Project Performance

Over the years AID projects dealing with SSEs have sought to accomplish numerous goals and achieved various degrees of success. The effects of any one SSE project are likely to be complex, and may involve positive, negative and neutral impacts relative to project objectives. For instance, an SSE project could have positive employment and production impacts, while also creating monopolies which imply negative impacts on competition, efficiency, and product prices.

What Types of Impact Does an SSE Project Have?

SSE project impacts can be assessed at five different levels: (1) the firm, (2) the entrepreneur, (3) the community, (4) institutional, and (5) government. Indicators at each of these levels are described below as is the extent to which AID SSE projects have achieved such impacts.

a. Firm Level Impacts

Firm level indicators focus on how an SSE project may affect the profitability and sustainability of the enterprise. This includes the firm's production levels, the number of employees, the level of processing for its products, and technologies involved.

Employment Generation

Employment creation is probably the most commonly stated goal in SSE project papers. While many project evaluations show net employment increases, some evaluations have not come to this conclusion, and others are guarded in their treatment of the subject. An evaluation of the Northeast Union of Assistance to Small Businesses (UNO) lending program in Brazil "found that UNO loans appear to save jobs: over a 2.5 year period, 112 UNO firms suffered a net reduction in employment of 5% versus a reduction of 37% in a matched sample of unassisted firms."<sup>12/</sup> Another evaluation concluded that "jobs created by UNO and some other programs... last only for the duration of the credit."<sup>2/</sup>

The employment results of selected SSE projects are widely divergent and indicate that job generation, while normally a key goal in projects, is not always clearly discernible. The results are sometimes arguable, e.g. the amount of new employment actually created. Sometimes there are conflicts between the goals of maximizing current output and employment. When that is the case, the competing factors need to be weighed on a country and project-specific basis.

In the area of employment generation in AID-sponsored SSE projects, three observations can be made.

- First, some microenterprise projects have produced noticeable new employment in both firms and communities. This can be especially true in periods of economic recession.

- Second, while often SSE projects have produced jobs, sometimes it has been at excessive cost. It is usually the case that the more complex the economy and project, the higher the cost per job generated.
- Third, the less complex a job is, the more labor-intensive it tends to be.

### Improved Profitability

The issue of profitability, like that of productivity, is difficult to quantify. When trying to measure whether a firm's profitability has increased due to an SSE project, and, if so, how much, the following points should be kept in mind:

- Measures of profitability are measures of efficiency in the use of resources. Resources are used when a firm (or an entire economy) is able to generate greater profits for the same amount of input.
- As a result, increased levels of sales or profits do not necessarily imply enhanced profitability. A firm might not be more efficient in generating income than before.
- Return on assets is a commonly used indicator of changing profitability. Calculated by taking the ratio of operating profits to total assets, this figure indicates how much a company earns on each dollar of assets used in the business.
- Return on equity is an alternate means of assessing a company's profitability, although only for publicly held firms. It is calculated by dividing the firm's annual net income by total stockholders' equity.

### Linkages

Linkages generated by local enterprises is another type of firm level impact in SSE projects. As one firm becomes more profitable, it very well may buy more inputs in the local market. Thus, suppliers for an SSE project would be an indirect beneficiary of the project in terms of increased income and perhaps the creation of new additional jobs. Because of its improved position, the supplier firm may in turn provide benefits to other firms and individuals. The indirect income and employment generated by a successful enterprise can form a chain of linkages and secondary impacts that are important to the SSE assistance.

In general, it seems that projects which work with small-scale manufacturers generate more linkages to other sectors of the economy than do informal and service-oriented microenterprises. For example, small bakeries or foundries buy inputs for their own products and sell inputs to create other products.

The following linkages are usually a part of any microenterprise project:

Forward linkages:

- Income to, and employment of marketing agents for the products of the enterprise;
- Income and employment resulting from the use of the products of the enterprise; and,
- Income and employment from the production of complementary goods.

Backward linkages:

- Income to and employment of input suppliers and marketing agents; and,
- Increased producer surplus.

While numerous examples of increased linkages are obvious, such as greater income to lumberjacks and truck drivers due to increased furniture manufacture, others are more subtle. For example, a number of urban borrowers in Paraguay's CREDICOOP projects were producers of cattle feed and mattresses, for both they purchased byproducts of farm outputs that otherwise had little value.

b. Entrepreneur Level Impacts

A project can also have secondary positive benefits to the individual entrepreneurs and their families. These "entrepreneur level" impacts include:

- Improved health, education, and nutrition levels;
- Reduced levels of isolation and increased mutual support, via technical and managerial assistance seminars; and,
- Improved capacities to plan family life as entrepreneurs apply their newly developed planning skills to other areas of their lives.

Other benefits that can accrue to entrepreneurs through cooperative development projects, are the following:

- The provision of personal loans;
- Improved health for coop members due to general health workshops and seminars, as well as credit for health-related situations; and
- Credit for educational purposes.

c. Community Level Impacts

The impacts that SSE projects may have on communities are important. Small and microenterprises "are perceived as catalysts spurring community development through the provision of increased income, employment, and human welfare opportunities."<sup>14/</sup>

Thus, SSE projects may be important in their potential impact on community development. Some common community level impacts are the following:

- Increases in total enterprise-related employment, measured either by the number of jobs or number of person-days, less job losses and job transfers.
- Sustained increase in jobs, measured either by total jobs generated, or by net person-day increases.
- Enhanced worker welfare, measured in wages and benefits accrued to workers, the ratio of wages or benefits to enterprise profits, or various other ways.
- Lower direct cost of employment creation, measured by the ratio of capital investment per job created, or the ratio of investment to additional person-days realized.<sup>15/</sup>

The following conclusions are worth bearing in mind regarding community level impacts.

- Larger loans made by most programs, especially agriculture, normally do not create more permanent employment than the smaller loans. This implies that many more smaller loans should be made to correspondingly smaller enterprises so as to generate greater impact per unit of capital lent.
- Community well-being is enhanced due to added spending on consumer goods due to greater disposable income.
- Income multipliers have been found to be significant. Assisted firms normally contribute to the economic growth of their communities by spending more on personal consumption through their increased purchasing power.
- Forward Linkages are usually less noticeable. Commonly in SSE projects, the only prospect for significant forward linkage is to promote commercial wholesaling.
- As pointed out in Searching for Benefits, "for the moderately successful projects, a critical proportion of their benefits comes from unseen external economies -- backward linkages, the final demand linkages, and consumer benefits."<sup>16/</sup>
- However, as the UNO evaluation in Brazil points out, employment levels can actually fall even after firms receive the assistance from SSE-type programs. Even if firms expand as a result of credit-financed investments, such expansion can be labor displacing, particularly where the cost of credit is highly subsidized. Enhanced automation is frequently an attractive option for firms.

d. Institutional Level Impacts

Some of the more commonly cited institutional impacts of SSE projects include the following.

- "Innovative lending programs can sometimes demonstrate to a lending institution that small business lending is less risky than fully collateralized lending to larger borrowers."<sup>17/</sup>
- State-owned development banks, which sometimes act as intermediaries in SSE credit schemes, can have their management, personnel, and physical capacity strained when they are called upon to provide new clients, in new areas.

- "Graduation of borrowers" from a loan program to borrowing from commercial banks is a common goal.
- A greater awareness of the strength and dynamism of the SSE sector can be obtained by governments and lending institutions.

A project specifically designed to strengthen training organizations was the Entrepreneurship Training (ET) program of the Lesotho Opportunities Industrialization Center (LOIC).<sup>18/</sup> The ET program involves the provision of training in basic business skills of owners for small firms through the establishment of a new training institution. In an evaluation of this project, several interesting points were made regarding institution building:

- LOIC made a concerted effort to establish an alumni association, providing a means for reaching out to groups not yet tapped by the training organization.
- The training institution was very well integrated with important sources of knowledge and political influence in Lesotho.
- In the design, planning and administration of the entrepreneurship training program there is only a modest sense of linkages and potential linkages among training efforts and enterprise expansion.

The specific evaluation of the LOIC as a training institution made numerous positive points. The following are some of the key points.

- The classes were small in size;
- Ample opportunity for discussion was provided;
- Students were motivated and confident; and,
- Professors were well prepared and open to student concerns.

#### e. Government Level Impacts

At the government level, SSE programs are often seen as ways to achieve numerous goals and objectives.

- Expanding the small enterprise sector is often considered as a way to relieve political and social tensions which a government may be experiencing.

- Promotion of small enterprise is seen by many as a way to strengthen the pressure for democracy. "The argument is that a large number of small firms...would presumably bring forth a large new constituency; one which would increasingly gain an understanding of the economic and political system."<sup>19/</sup>
- State-owned development banks, which sometimes act as intermediaries in SSE credit schemes, can have their management, personnel, and physical capacity strained when they are called upon to provide new clients, in new areas.
- A more comprehensive and well-balanced policy environment for government intervention can be achieved through a well-run small enterprise program. Focusing more government attention toward private sector approaches, and less on the publicly owned sector, would be a hoped for benefit.
- Labor Laws is another area where a government's policy framework can be analyzed. Frequently very rigid labor laws, which sometimes make it nearly impossible to fire employees, lead firms to substitute capital for labor. These types of laws tend to keep enterprise within the informal sector.

## B. Selected Experience of Other Donors

All major multi-lateral donor institutions have supported small-scale enterprise projects. Of these, however, the World Bank probably has accumulated the greatest amount of experience in this area. In the following pages, the SSE-related experience of the World Bank and the Inter-American Development Bank (IDB) is presented.<sup>20/</sup>

### 1. Overview

As indicated elsewhere in this guide, there are no universally-accepted criteria for defining a small-scale enterprise. Some relevant positions of the World Bank are the following.

- The Bank decided early that it should be left to the government of each country to determine the definition of the small enterprise sector, in keeping with various factors peculiar to that country.
- In its 1978 sector policy paper<sup>21/</sup> the bank suggested that generally SSEs should have fixed assets of no more than \$250,000. (today \$350,000).
- SSEs should not exceed 100 employees.

- The bank uses the same definition of "micro" enterprise employed by the Inter-American Development Bank, i.e., up to 10 employees with total assets of up to \$20,000.
- Sub-loans to beneficiaries have seldom been made below \$10,000 under the bank's projects, so lending to small enterprises has hardly benefitted the very small, informal, microenterprises.<sup>22/</sup>

The following points are noteworthy regarding IDB support for small enterprise under its Program for the Financing of Small Projects, which was begun in 1978.

- The program limits loans to intermediaries to a maximum of \$500,000.
- The funds are sublent by the intermediaries to beneficiaries which, to be eligible, must qualify as microenterprises.
- Beneficiaries are not limited to private firms. Cooperatives, as well as trade associations and other similar organizations are eligible.

## 2. Lessons Learned

The experiences of the World Bank and IDB in working with SSEs yield a variety of lessons. They can be described both generally and with respect to the specific topics of intermediaries, interest rates and technical assistance.

### a. General

In a book entitled Investing in Development, published in July 1985, the World Bank summarized the principal lessons to be drawn from the wide range of experience accumulated since the creation of the bank at the end of World War II.<sup>23/</sup> It contains the following observations regarding World Bank experience with small scale enterprises.

Small enterprises have flourished where governments have allowed markets to operate relatively freely. In addition, some steps may be necessary to ensure that small and large firms are put on a more nearly equal footing. Inputs commonly needed by small firms may be made more readily available and the range of marketing opportunities may be increased. Evidence in many countries indicates that if small enterprises are

economically efficient, they will thrive without special subsidies -- provided they are not handicapped by measures favoring large firms. The provision of more nearly equal incentives and access to scarce resources is likely to produce more beneficial and lasting results than special programs tailored exclusively for small-scale enterprises. Specific measures found useful include:

- Providing information and advice to make it easier for small firms to compete in procurement by government departments.
- Aiding the establishment of a subcontracting clearinghouse.<sup>24/</sup>
- Developing industrial estates, especially those that promote links between large and small firms, and making available common services and technical assistance.
- Providing working capital, often needed as much or more than fixed-asset finance.
- Reducing collateral requirements or devising alternative means of securing loans that are acceptable to lenders and feasible for borrowers.
- Designing simpler lending criteria and procedures for allocation of funds and loan supervision to reduce red tape and delays.

When not properly designed and market-oriented, however, government programs to aid small enterprises have failed to promote, or have even discouraged, growth and efficient operation. Several examples can be cited.

- First, selective controls to protect small firms from competition have sometimes had unexpected adverse effects. Such devices as reserving government procurement of various items for small firms may discourage technological development and adaptation among the protected firms; consumer demand may then switch to more attractive products coming from the modern or large-scale sector.
- Second, small-industry institutes to provide various centralized services to small enterprises, unless carefully designed, have had disappointing results. Institutes limited to specific subsectors of industry or to a relatively small geographical area appear to have been most effective.
- Third, subsidized interest rates on funds provided through specialized institutions often lead to high credit demand, credit rationing, and abuses in the allocation process. Since interest

rate ceilings are generally applied to all financial institutions lending to small industry, institutions such as commercial banks that do not receive subsidized funds are deterred from lending to small firms.

Additional general conclusions based on IBRD experience were reflected in the Review of World Bank Lending to Small Enterprises. The following are noteworthy.

- With few exceptions, the forebodings that lending to SSE was a "high risk" operation have not been borne out. The author states that SSE lending will of course have higher arrears rates than those of conventional loans if one wishes to encourage added risk-taking by entrepreneurs.
- Over-optimism of financial targets in project preparation is sometimes evident, but usually this has been in relation to the time frame for reaching profitability rather than with respect to the basic viability of the subprojects.
- Regarding employment creation: in general, subprojects that involved the establishment of new enterprises created more jobs for a given investment than did subprojects involving modernization, restructuring, or expansion.
- Helping small firms should be seen as a way to breed indigenous entrepreneurs. Care has to be taken, though, to aid those entrepreneurs who can how to choose among investment risks and can organize economic activity.

b. Intermediaries

World Bank SSE projects have used, almost exclusively, the following financial institutions as intermediaries.

- Development finance corporations (DFCs) were used heavily in earlier years, but their excessive centralization led the bank to try new institutions.
- Central banks have been used in recent years, especially for rediscounting arrangements. The central bank will rediscount loans to a variety of other institutions after the initial World Bank loan.

World Bank  
ADBS

- National development banks have also been used for refinancing, as they are normally good at monitoring and supervising their lending decisions.
- Commercial banks are advantageous because they are more able to meet SSE working capital needs, offer a variety of banking services, usually have a large branch network, and are quicker to respond to the needs of small business. A major drawback though is that these institutions usually perceive these types of loans as too costly and risky.

In contrast, the Inter-American Development Bank has made most of its loans to the following:

- Private voluntary organizations;
- Foundations, associations and other non-profit institutions; and,
- Government-owned banks and other government institutions such as municipalities.

Keeping in mind that IDB small projects have focused entirely on microenterprises, the conclusion reached on the basis on this program was that the most effective intermediaries were non-profit organizations or associations of the beneficiaries themselves. As a general matter the IDB concluded that the intermediaries which proved to be the most effective were those that were closest to the beneficiaries, both geographically and socially.

c. Interest Rates

The policies of both the World Bank and the IDB have been to attempt to keep interest rates to the ultimate borrowers -- i.e., the beneficiaries -- at a level that is positive in real terms in relation to the inflation rate, and close to the prevailing commercial bank lending rate. Both institutions believe that subsidized interest rates "lead to abuses."<sup>25/</sup>

d. Technical Assistance

Just as there is a strong consensus regarding interest rate policies between the two banks there is similar agreement regarding the importance of technical assistance linked to SSE projects. That is, both institutions believe that small enterprises not only suffer from a lack of access to finance, but they are unlikely to be able to utilize financing effectively unless they are given suitable technical and management assistance.

Although SSE borrowers, particularly at the microenterprise level seldom are prepared to borrow to pay for technical assistance, the IDB generally expects the microenterprise beneficiary to pay at least a nominal portion of the cost of the advisory assistance.

Some final, general observations regarding technical assistance, are the following:

- World Bank policies have tried, with much difficulty, to establish government organizations to provide support on a grant basis to SSE borrowers.
- The IDB believes it has been most successful when it has related technical assistance to loans provided to a group of producers in the same field.
- Experience seems to indicate that there is no single design suitable for providing technical assistance for SSEs in all countries. Flexibility and adaptability to circumstances is almost always of key importance.

In sum, AIDs experience and that of other donors working in the area of small scale enterprise development provides a wealth of valuable experience from which project officers and managers can draw. Using the lessons and guidelines learned from the recent past, there is no need to repeat past errors. In the following section, this guidebook presents specific considerations on how to plan and design future small scale enterprise projects.

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- Association for the Development of Microenterprises (ADEMI) Santo Domingo, Dominican Republic; For information contact ACCION International/AITEC, 10-C Mt. Auburn St., Cambridge, MA
  - Ecuadorian Development Foundation (FED) Quito, Ecuador. For information contact ACCION International/AITEC at the above address.
  - Development Alternatives, Inc., Credit to Indonesian Entrepreneurs: An Assessment of the Badan Kredit Kecamatan Program, May 1983.
  - Farbman, Michael, ed., The PISCES Studies, Assisting the Smallest Economic Activities of the Urban Poor, Agency for International Development, September 1981; Project Study: FEDECCREDITO/PRIDECO p. 163-191.
- 8/ Kilby, Peter and David D'Zmura, Searching for Benefits, AID Evaluation Special Study No. 28, June 1985 p.3
- 9/ Malley, Raymond C. et al., Assisting Small Business in Francophone Africa: The Entente Fund African Enterprises Program, AID Project Impact Evaluation No. 40, December 1982 p.3
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Farbman, ed. The PISCES II Experience, Local Efforts in Micro-Enterprise Development, Agency for International Development, S&T/RID/EED, Washington, D.C. p.13-17
- 11/ An Urban Credit Program, The Case of the Association for the Development of Micro-enterprises (ADEMI), paper presented by Mirtha Olwares, Executive Director, Toronto, Canada, April 1985.

### SECTION III. END NOTES

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- 13/ Tendler, Judith, Ventures in the Informal Sector, and How They Worked in Brazil, AID Evaluation Special Study No. 12, March 1983, p. xi.
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Investing in Development: Lessons of World Bank Experience; Warren C. Baum and Stokes M. Tolbert; Published for the World Bank by the Oxford University Press; 1985. See Chapter 9 for a summary of the bank's experience with industry.

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## SECTION IV: PROJECT PLANNING AND DESIGN: MAJOR CONSIDERATIONS IN PROJECT DEVELOPMENT AND IMPLEMENTATION

### Introduction

This section of the guide is to alert AID project officers and others to important considerations in design, implementation, monitoring and evaluation. SSE project interventions and assistance methodologies are as diverse as the sector itself. There are many variations in program strategies, concepts, and final designs depending on the targeted client group(s) and various constraints of the enterprises to be assisted.

Section IV reviews essential design considerations in project development and implementation. The following areas are covered:

- SSE Strategy Formulation;
- Project Design and Implementation Issues; and
- Monitoring and Evaluation.

#### A. SSE Strategy Formulation

An AID SSE program strategy and specific project interventions should be based on a thorough knowledge of the essential ingredients and constraints that will affect the ability of a program or project to realize positive impacts on business.

##### 1. Factors Influencing Program Strategy

Factors influencing program strategy and project design include:

- Type of enterprise to be assisted (cooperative or sole proprietorship; SSE level; manufacturing/commerce/service);
- Degree of development of alternative institutions for consideration as project implementers or delivery mechanisms (government or private banks, development finance organizations, vocational/management training/direct assistance organizations, membership organizations, Chambers of Commerce, specialized agencies, cooperatives, community/social development organizations); and,

- Level of host government support for small scale enterprises and programs. (As evidenced by the policy and regulatory environment and the level of programmatic and budgetary support, personnel, etc.).

## 2. Prefeasibility Analyses

Prefeasibility studies are an essential step in developing a viable SSE program strategy and designing relevant SSE projects. Prefeasibility studies should focus on three areas: the SSE sector, institutions that deal with SSEs, and the policy environment. Their purpose is to gain a full understanding of the constraints to enterprise development and the institutional and business parameters of the potential project.

### a. Analysis of Host Country Policies Affecting SSE Development

Project designers and managers must understand host country policies and strategies toward business and the private sector. This will provide a basis for informed assessments of the impacts of proposed SSE projects. The host country's policy environment can also tell a great deal about how to proceed with SSE programming.

Aspects of policy which inhibit SSE development represent potential targets for policy dialogue. Project managers and designers should assess policy and regulatory legislation in terms of:

- Constraints on SSE development efforts and their compatibility with AID policy directives; and
- Government biases toward larger scale industries that may adversely affect SSE development policy.

Policy areas of special importance are:

- Credit access for SSEs and capital market formation. (Interest rates, savings mobilization, incentives to stimulate internal savings and investment usury laws, loan terms and conditions, Central Bank/private financial system inter-institutional relationships/effectiveness and flexibility of lending systems).
- Labor and wage laws and regulation. (Minimum wage, fringe benefits, seniority, separation, retirement.)

- Business registration. (Over-regulation may encourage businesses to remain "informal" or in extreme cases to "informalize" parts of heretofore formal business to avoid regulation).
- Taxation. (Income, sales and business turnover, payroll, export, import).
- Trade. (Licensing requirements for import/export, allocation of foreign exchange).
- Regional development. (Effect of SSE projects on shifting employment patterns, rural to urban migration).
- Women's employment and integration in SSE programs.

b. SSE Sector Profile

Project officers and designers need to know the general attributes of the client group of enterprises that would be assisted through an SSE project.

The SSE sector profile should involve assessment of:

- The relative importance of SSEs in the country (numbers of firms at various levels using an established typology, the amount of employment generated, value of sales, linkages with other parts of the economy and particularly the manufacturing sector.);
- Kinds of enterprises; profile of characteristics and needs for project interventions such as credit, management/technical assistance; and,
- Socio-economic information on families of entrepreneurs and workers, living conditions, and general standard of living.

c. Institutional Assessment

It is important to develop a clear sense of the array of institutions in a country with the desire and/or potential to work with SSEs. The information is crucial information in deciding whether to use existing institutions or to create new institutions for project implementation.

An institutional analysis should involve assessment of:

- the number of organizations and level of in-country institutional capacity to carry out different kinds of SSE projects;

- types of organizations that might be selected to implement SSE projects: banks, development finance institutions, PVOs, training organizations, and technical managerial assistance providers;
- kinds of enterprises each institutional type deals with;
- domestic and international resources available to institutions in terms of technical, managerial and financial assistance for internal development. Leadership and management capabilities and general disposition to increase their coverage of SSEs; and,
- institutional comparative advantages -- the kind of assistance each can best provide.

After completion of the prefeasibility studies, project designers and managers will be in a better position to determine a project concept and design.

### 3. Related Issues to Be Considered

In addition to the information to be collected through the prefeasibility analyses, there are several related issues that should be considered in formulating overall AID SSE concepts, strategies and individual projects.

#### a. Regional Development Considerations

Related to the prefeasibility analyses are regional development considerations. A look at these issues requires a shift in focus from the "trees" of individual projects to the "forest" of aggregate regional linkages. The forward and backward linkages that benefit SSE firms, larger enterprises and the agricultural sector can create important economic multipliers locally and regionally that lead to additional benefits to the area. The following considerations are worth bearing in mind with regard to the regional development implications of SSE projects.

#### Assumptions:

- As firms' abilities to buy and sell to each other increase, overall regional economic activity will tend to be strengthened.
- Demand elasticities for the products of small-scale enterprises are generally favorable, including rural non-farm enterprises producing and selling simple products.<sup>1/</sup>

Points to consider:

- SSE Project designers should consider the interrelationship and effect of complementary national level policies and programs. For example, based on demand elasticities it would be sensible for SSE project designers to encourage inter and intra governmental dialogue on agricultural sector policies and programs that will increase agricultural sector incomes. Increased farm incomes would have positive effects on SSE incomes.
- Linkages among small-scale enterprises, combined with favorable demand elasticities, are compelling arguments for the support of SSEs in the context of their contribution to regional development.

Provided that:

- Purchases of materials and supplies due to increased SSE activity are made locally or regionally in order that benefits of these linkages accrue to the locale or region.

Consequently:

- In developing project strategies, designs, and in selecting sites and industries to be emphasized, it will be important to consider the likelihood that new linkages that will benefit the community near the assisted businesses.

b. Rural to Urban Migration

The tremendous exodus of rural people to the major urban centers in LDCs is a persistent problem with which development planners and theoreticians have grappled for years. The lack of employment opportunities and miserable conditions that people often must endure in rural areas are the root causes of the rural to urban migration.

Assumptions:

- The influx of masses of people to the major cities places tremendous pressures on the overloaded urban infrastructure (water supply, sanitation, and housing); and,
- The creation of a burgeoning population of unemployed people having inappropriate skills for urban environment, places heavy socio-economic pressures on local and national authorities in terms of health care, education, training, and social services.

Points to consider:

- Small, rural manufacturing enterprises often create more total employment than large urban manufacturing establishments. In Sierra Leone, for example 86 percent of the total manufacturing sector employment and 95 percent of the manufacturing establishments were located in rural areas;<sup>2/</sup> and,
- There are not enough jobs being generated by urban businesses to fill the need.

Then, as has been the case, the logical program response would be to:

- Design SSE rural development initiatives with the aim of improving the standard of living and quality of life in rural areas;
- Focus program efforts on more equitable distribution of the benefits of development outside the major urban centers; and
- Include objectives of stemming the flow of people to the cities by making rural life more attractive.

But, the realities are not necessarily bound by logic:

- Perplexing as it may be, the lure of the city, with its bright lights and urban entertainment, continues to be irresistible, particularly to young people; rural to urban migration persists.

Therefore:

- Project officers and designers must carefully assess how realistic it is, despite what appears to be the logical solution, to locate SSE projects in rural areas with the objective of having an appreciable impact on reducing the rural to urban migration.

4. Development of Project Concept

With a good grasp of the business context, including the constraints at both the enterprise and policy levels, project officers can formulate their concepts and ultimately design their projects. Their awareness of the overall environment should reduce the likelihood of exogenous policy, regulations, or other factors unexpectedly thwarting program goals.

Project concepts include:

- Target enterprise level(s) to be assisted;
- Type of credit system to be used;
- Kind and sophistication of technical/managerial assistance and/or training to be provided (if provided at all);
- Level of project self-sufficiency contemplated.
- Type of service delivery mechanism, including credit training, technical and managerial assistance;
- Institution(s) responsible for carrying out the project; and,
- Area of project operation (local, regional, national).

SSE programs generally consist of projects that provide:

- Credit and technology transfer assistance to SSEs themselves.
- Assistance to SSE private or public support institutions that serve the sector (e.g., financial intermediaries, training/management assistance providers, business association advocacy groups cooperatives; etc.); AID's policy is to use private sector organizations whenever possible;

More projects ought to pay greater attention to providing:

- Assistance to host country government institutions (ministries and development corporations) in policy and strategy development and formulation through projects and bilateral policy dialogue initiatives.

##### 5. Analysis of Project Social Soundness

Project designers must be alert to a SSE project social soundness. What kinds of social ramifications will the project have? What will be its impact on people and the environment? Specifically, the following areas need to be considered.

##### Socio-cultural implications of shifts in employment patterns and technologies

Based on the type of SSE project to be implemented, questions that need to be answered during the prefeasibility and concept development stage are:

- What effect, if any, will the project have on rural to urban migration?
- Will the project stimulate more integrated enterprise and regional development through increased economic linkages?
- What will be the impact of new technologies introduced through the project on traditional businesses?
- Will the local area continue to be able to supply sufficient needed materials to sustain the higher production levels fostered by technological advances?
- In the case of increased agricultural production needed to support increased agriprocessing businesses, what will be the environmental implications on land base and land use patterns?
- Will displaced labor be created? If so, how will it be absorbed?
- Will the project decrease seasonal unemployment in the agricultural sector?
- Will people be more fully employed as a result of the project?

#### Gender considerations in SSE design

Another important social soundness issue concerns women's issues. AID's policy statement, formulated in 1982 as the "Women in Development Policy Paper," emphasizes that the importance of fully integrating women in development processes stems from the recognition that, at all levels of society, women represent largely underutilized resources whose contribution to development could be substantially greater than the present level.\*

Consideration should be given to gender issues from the initial stages of project design. They should extend to prefeasibility studies, outreach, project management, and evaluation of impacts.

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For additional information on issues to be considered in integrating women into SSE projects see the forthcoming Guidebook on Women and SSE Project Development Implementation, commissioned by the Office of Women in Development and written by Maria Otero.

Microenterprises frequently are operated by LDC women. Women are often involved in trading and services although they also operate many small food preparation and processing businesses and clothing manufacturing shops. Questions to be answered are:

- To what degree do potential intermediaries work with female entrepreneurs?
- To what extent will the project include women entrepreneurs in the informal sector and recognize women as generators of family income?
- To what extent has the project developed outreach and promotion systems especially tailored to reach women entrepreneurs as such systems may be different than those designed to reach men?
- To what degree is there sensitivity on the part of intermediary staff to the unique characteristics and constraints to women in development?

#### B. Considerations for Project Design

This section of the guide covers seven important project design issues that must be thought out by individuals in charge of developing a project. How issues are addressed and what decisions are made in each area will be dependent, to a great degree, on the information generated in the prefeasibility stage. This section is intended to provide project development officials with insights, guidance, and some of the important questions pertaining to the design of the delivery system for services, the principal project components and the design process itself. This section covers the following areas:

- Selection of Support Intermediary
- Site Selection
- Financial Assistance for SSE's
- Human Resource Development
- Selection of Financial Alternatives
- Technological Implications
- Host Country Participation in Project Design

#### 1. Selection of Support Intermediary

An early SSE project design consideration involves deciding what institution(s) or organization(s) would provide the most effective service

delivery mechanisms and would be best suited to implement SSE development support and assistance. Institutions selected to serve in the support intermediary role should have:

- Organizational goals and objectives that are compatible with the project concept;
- Both the technical and managerial ability, to carry out the type of SSE project(s) conceived;
- The desire and commitment to work with SSEs; and,
- Outreach and promotion systems to reach SSEs.

IF intermediaries lack these characteristics,

THEN expect some or all of these problems:

- Sluggish project operations; years may be required before even a moderately successful level is achieved;
- High staff turnover and poor client relations; and,
- Consequent poor project results.

IF potential support intermediaries' goals and objectives are not generally compatible with project and commitment to working with the targeted SSEs is lacking,

THEN even additional training and technical assistance to staff is unlikely to enhance sufficiently project quality. Compatibility of fundamental goals, objectives, and commitment is critically important.

Points to consider:

- Optimally the project officer should identify organizations with a workable mix of capabilities and commitment.
- If organizations have sufficient technical and managerial capabilities, but little or no commitment to work with SSEs, an assessment must be made as to whether training technical assistance or new staff hires can overcome such shortcomings. Conversely technically or managerially weak organizations having the commitment and desire to work with SSEs can often be improved through training, technical assistance or hiring new staff.

- Without either capacity or commitment, project operations will be at best delayed and at worst take years to develop even a sluggish operation. Under these adverse circumstances high staff turnover and poor client relations can be expected, compounding project implementation problems and leading to poor project results.
- It also is important to know how organizations promote their programs, through what communications media, and with what area of coverage (e.g., town, city, regional, national). In the microenterprise area particularly outreach and promotion methods are extremely important. Many poorer segments of society including women simply do not know of projects designed to assist them. Media and promotional information should be used to reach and interest all potential beneficiaries at the lower end of the SSE spectrum.

### Overextension of Project Capacity

One of the problems faced by SSE project designers is to know when an intermediary is threatened by over extension and should not be used.

Excellent or potentially very good organizations meeting all or nearly all the criteria sought in an intermediary usually are few. Under the circumstances, good intermediaries are besieged by many bilateral and multilateral donors to take on various projects.

### Points to consider:

- It is tempting for institutions (small ones in particular) to accept additional projects in order to reap the resources made available with each new activity;
- Local organizations that may take on additional or enlarged programs from one or several donors can lead to overextension of personnel and physical resources and fragmentation of project activities resulting from the differing objectives of the additional projects; and,
- The result of unmeasured expansion often is a reduction in the effectiveness of the organization and, possibly loss of clarity of organizational goals, objectives, and mission.

### Therefore:

- The effects on the intermediary of expansion and scale-up should be carefully analyzed by project designers. It is important to be very careful not to suffocate an organization in excessive fiscal or programmatic obligations.

### Establishing New Institutions

In the process of intermediary selection, project designers and managers may consider creating new institutions or using existing organizations and infrastructure to carry out the work.

Arguments for establishing new institutions include:

- Increased likelihood of compatibility between the institution's goals and objectives and the project concept and design; and,
- Opportunity to set up efficient systems for deciding such project elements as loan terms and conditions from the outset, rather than adjusting systems of existing institutions.

Drawbacks are:

- The need for significant effort and resources;
- Extended project start-up time; need for staff orientation and training; and once established, the need to allow time to build organizational credibility;
- Trial and error in getting system to operate smoothly; and
- Possibility of isolating the project from other activities, creating resentments, and neglect of existing resources and investment.

### 2. Site Selection

The issue of site selection is closely related to the selection of support intermediaries. The designers, in conjunction with their potential intermediary counterparts, should determine the best places in which to carry out project operations. Thus, ease and availability of transportation are important site selection factors.

#### Points to consider:

Project offices are often established in urban areas because of the relative logistic ease of working in urban centers and the desire of many project

employees to be located in the larger cities. But the urban site may be inconvenient for the potential beneficiaries who frequently live at fairly great distances from urban centers.

- Public transportation is almost always inadequate to the efficient displacement of project staff. Promoters, and technical assistance providers -- especially those who work in the rural areas -- will probably need project-supplied transportation in order to reach clients.
- If the decision is made to establish the project office in a town or city, its location within the town or city is also important. Microentrepreneurs, both men and women, easily can be intimidated by offices in parts of town they normally do not frequent. For larger scale, more sophisticated entrepreneurs who are probably at least somewhat acclimatized to urban life and or "formal" banking or training institutions, the issue may be less important.
- Decentralization of project operations and decision-making, particularly with regard to credit projects, is extremely important to the project's efficiency, effectiveness and coverage of target beneficiaries.

It is essential that:

- Clients feel comfortable going to the project office;
- Potential and current clients are encouraged (partly due to office location) to go to the project office for information and direct assistance;
- The office staff have ready access to clients and visa versa; and
- Local infrastructure is sufficient to support project operations and communications.

Essential questions for project designers and officers to answer, then, are:

- Will the project have a local, regional, or national focus?
- What special logistics will be needed to provide services to project beneficiaries? Is the project rural or urban? Will project supplied transportation be required by the staff?

- How close will the project office be to the intended beneficiaries? Will it be easily accessible to them?
- Is the potential site of the project office intimidating to the clients?
- How do office locations in rural areas and secondary cities affect the ability to recruit and retain good staff? (As discussed in the section on management and staffing, SSE projects seem to have a tendency to be training grounds for entry-level employees, especially in the business management and finance areas, who leave for better paying jobs and greater opportunities in major urban centers.); and,
- Do sites under consideration have adequate infrastructure required for project operation (e.g., utilities, communications, branch offices of financial/banking institutions)?

### 3. Financial Assistance for SSEs

#### a. The Nature of the Problem of Credit to SSEs

Mobilization of domestic capital for business investment in LDCs has been a concern of AID over the years. The major problem has been to increase the amount of funds available for productive investment through LDC capital market expansion. AID's policy to encourage the establishment of positive real rates of interest is in part designed to stimulate the flow of private domestic resources into the capital markets which should augment funding for private sector business lending generally, with the intention that part of the additional supply of funds would be used for credit lines for smaller firms. Another solution to the problem has been to create appropriate institutional channels for SSE lending.

#### Operational assumptions underlying SSE credit assistance:

- Lending to SSE's under traditional terms and lending systems of loan review, analysis, and supervision is expensive to financial intermediaries and is perceived to be risky business.
- Because of the high costs of lending to SSEs, bankers who are bound by host country policy to charge low interest, will lend their "low cost" capital to their traditional most trusted clients who represent low risk and low administrative costs per unit of capital loaned.

- Conservative lending terms and practices used by commercial banking institutions (and many "development" oriented financial intermediaries) requiring the kind of business information and collateral that most SSEs do not have, coupled with the social biases of the institutions, almost always preclude SSEs from qualifying for credit for business expansion.
- High loan minimum amounts that are deemed profitable to the banks, given the expense of the review and analysis process, general transaction costs and collateral requirements effectively have separated most SSE's from medium and long-term credit access. SSEs generally do not seek large loans, which has been a problem for them.
- Short-term working capital loans to small enterprises at the larger end of the spectrum, having developed a firm relationship with banks, have been available through the commercial banking system using mechanisms such as temporary overdrafts based on the firm's accounts with the banks. Access to longer term credit for fixed investment and expansion has been very scarce even to these enterprises. In all cases, loans have been collateral based and presumed a fairly high level of "formality" in the businesses served.

Given the nature of the formal capital markets, a parallel informal credit market (aggregate of money lenders, friends, and relatives) exists and plays a major role in financing the short-term (days/weeks) working capital enterprise cash flow, often including the household needs of the smaller SSEs' owners, at very high interest. Capital for SSE business start-up and expansion in the majority of cases appears to be financed from personal savings, reinvested profits, friends, or relatives.

b. Channels for Increasing SSE Credit Access Commonly Used by AID

AID has attempted to address the long and short-term credit needs of small enterprises by developing/supporting systems and supplying capital to projects earmarked for various levels of SSE. Through SSE financing systems and mechanisms, including guarantees, AID has attempted to encourage the development of loan terms and lending practices considered appropriate to the level of business, sophistication, and needs of the targeted segment of the SSE sector and to provide institutional alternatives to the informal credit markets.

AID initiatives over the years in the area of credit institutions have sought to:

- Promote and fund Development Finance Corporations (DFCs);
- Establish rediscount systems through Central Banks; and,
- Establish revolving loan funds through PVOs.

Let's examine each type of initiative:

#### Development Finance Corporations (DFCs)

- 1960's program emphasis;
- Response to generalized lack of availability of business finance to all but the largest firms in LDCs;
- Purpose is to provide an institutional channel for longer term loans to smaller scale enterprises than was generally the case;
- Intended to increase possibility of smaller firms to finance fixed assets;
- Actual clients were (are) larger SSEs and medium scale businesses; and,
- Many successful DFCs became self-sustaining;

#### Rediscount Mechanisms

- 1970's to the present;
- Purpose: to encourage lending to small firms; and,
- Mechanism to make loans available to governments possibly in conjunction with host country counterpart financing. Fund managed by the Central Banks with the objective of making capital available to domestic commercial banks and development finance institutions that in turn lend to final borrowers.

While the system appears to be one that would not only be responsive to SSE credit needs, but also encourage private commercial bank lending to this level of business, in reality there are precautions that should be considered by project officers/designers.

- Central Bank on-lending schemes, channeling credit through the commercial banks, are often cumbersome systems despite project designs institutions.
- Multiple levels of project analysis and review are often required by Central Banks that are time consuming, expensive to operate, frustrating for the commercial banks and final borrowers, and exclude many intended clients from the system. Credit loan terms may set upper and lower limits in terms of firm size to define the project target group. Under normal conditions on-lending projects will generally end up lending to firms near the upper limits.

#### PVO Revolving Loan Funds

- Used primarily through mid-1970's to the present;
- Credit fund generally operated as a component of a larger program in conjunction with technical/managerial assistance;
- Generally reach the smallest enterprises on the SSE spectrum;
- Institutional set-up through PVOs conceptually sound given PVO mandate to work with lower income peoples and thus smallest enterprises (micro, Level I);
- Funds are normally operated by PVO's themselves enabling them to maintain control over the focus and methodology of lending system;
- Projects tend to be small scale with limited coverage partly due to limited financial, resources, limited numbers of staff, and limited expertise of personnel;
- Quality of management of PVO revolving loan funds has been varied in terms of fund maintenance and operations due to variances in staff capabilities and/or priorities.

#### c. Credit Guarantees

Loan guarantee systems are not channels for credit, but are devices that have been used by donors to encourage participating financial institutions to lend to SSEs. Under these schemes, an established percentage of a given loan amount is guaranteed to the lending institution in case of default.

Points to consider:

IF credit institutions are convinced that SSE lending at the level of enterprise targeted in the project is highly risky and that the cost of loan supervision (supervision being equated with risk reduction) is not justified by the return (equated with interest spread on loans);

THEN credit institutions will be reticent about or unwilling to actively participate in SSE credit projects.

Donors have attempted to address the problem by providing funds that are obligated and held available under certain rules (guarantees) to back up loans thus reducing the risk assumed by financial intermediaries in SSE lending.

Operational assumptions:

- The size of the percentage of guarantee will in large part be determined by the corresponding level of perceived risk to the credit intermediary.
  - The higher the percentage of the guarantee the greater the incentive for the lending institution to make loans to SSEs.
- d. Improving Credit Access to SSEs by Lowering the Costs of Credit Delivery and Fund Operations

A central problem with SSE credit is the high cost of lending under traditional systems. The challenge is to find mechanisms to reduce administrative costs and to be able to make appropriately-sized short-term loans to large numbers of the smallest enterprises. Because of high administrative costs, the "spread" [the difference between the cost of funds to the institution and what they can, in turn, charge for them (interest rate) to the final borrower] that they require may be substantial and helps explain why financial institutions are reluctant to lend to small enterprises. This is particularly important in cases where countries have "capped" interest rates at levels too low to permit an advantageous "spread."

While many banks have not succeeded in getting SSE lending going on a truly institutionalized basis, relying instead on small "goodwill" lines of credit, some have succeeded in setting up well run projects. On the basis of successful lending programs for the smallest SSEs the following findings have been documented. Effective, low-cost lending schemes have the following characteristics:<sup>3/</sup>

- character based screening;
- locally-based lending with decentralized decision making;
- primarily short-term working capital credit;
- small initial loan levels increasing loan size over time; and
- high volume of loans per loan officer and/or outlet.

e. Use of Credit Groups

One way that projects have used successfully to reduce the transaction costs of lending has been through grouping beneficiaries into self-selecting credit groups. These group credit schemes can have the following effects:

- Greatly reduce the staff time needed to identify and select project participants since these functions are taken by the groups themselves;
- Increase the likelihood that group members will be honest and conscientious since groups are self-selecting;
- Through the organization of the groups, permits at a higher volume of clients per loan officer; and,
- Can provide an effective group credit guarantee mechanism where group members guarantee each other loans (based on peer pressures).

For a careful analysis of how these group credit systems operate see The PISCES Studies, Assisting the Smallest Economic Activities of the Urban Poor, Farbman, ed., USAID, Bureau of Science and Technology, Office of Rural and Institutional Development, Employment and Enterprise Division, Washington, D.C.

#### 4. Human Resource Development

Project designers and officers should consider the human resource development needs of both beneficiary SSEs and intermediary institutions that operate projects.

This section covers the following areas:

- a) Technical/Managerial Assistance to Small Entrepreneurs;
- b) Vocational/Technical Training for Employees;
- c) Alternative Approaches to the Provision of Assistance;
- d) Social and Community Development Interventions; and,
- e) Institutional Development Assistance to Project Implementing Organizations.

#### Assumptions:

- All SSEs have needs for upgrading the skills of owners, managers, and/or employees, but at the lowest levels the amount of assistance vis-a-vis the cost and project objectives need to be very carefully assessed;
- Vocational/technical training is an important area for consideration as a potential SSE project component;
- Variations in the type, sophistication, and amount of assistance to entrepreneurs will occur according to the level of enterprise and perceived needs; and,
- Support institutions require training and/or direct assistance to improve their capacities to implement SSE projects.

#### a. Technical/Managerial Assistance to Small Scale Entrepreneurs

Small scale entrepreneurs tend to be careful and somewhat reticent about spending time and effort on technical/managerial assistance because:

- The reputations of technical/managerial assistance projects have not always been good; and,
- Time is at a premium for small scale entrepreneurs who frequently maintain responsibility for all aspects of their businesses and who will not or cannot delegate responsibility to others.

Targeting:

The provision of assistance to SSEs at all level should be carefully targeted reflecting:

- Their needs and willingness to receive assistance;
- Their absorptive capacity for the planned assistance;
- Their ability to help pay for the costs of assistance.

To ensure to the extent possible that the assistance will be accepted and used, it must be perceived by entrepreneurs as having a near-term impact on increasing the net income of their businesses

The following subsections list the generally defined categories of target groups likely to be served by SSE projects, the kinds of assistance that would tend to be provided, and, in the case of projects serving potential entrepreneurs, the programmatic considerations that should be taken into account.

**Established entrepreneurs at the lower end of the SSE spectrum**

- Assistance at the lowest SSE levels should include in order of priority:
  - methods of reducing costs such as implementation of better purchasing arrangements or reduction of wasted of materials through better production techniques; techniques having an immediate perceivable impact on profits;
  - cost analyses and possibly low-level bookkeeping; and,
  - improvement of product quality and sanitation (if applicable).

Experience is that the usefulness of costly and time consuming inputs at this level of enterprise is low and probably will not be sufficiently effective to justify the extra cost and effort to either the project or the entrepreneurs. Very rudimentary, quick provision of basic notions of business management are probably all that should be given to the very smallest microenterprises.

#### Established entrepreneurs at the upper end of the SSE spectrum

The larger SSEs tend to develop more sophisticated management and technical assistance needs that require a greater level of business and/or production expertise of project staff.

- Assistance at the upper SSE levels should include:
  - cost accounting and financial planning (cash flow) systems;
  - personnel management (improved efficiency/productivity);
  - market development assistance;
  - production planning and new technology; and,
  - industrial engineering (plant design/layout);

Generally speaking, as at the lower levels of enterprise, the key to successful technical/managerial assistance interventions is to provide entrepreneurs with the assistance they believe is going to provide the greatest benefit.

#### Potential Entrepreneurs

Projects that attempt to create new entrepreneurs and enterprises have been carried out with some success, it would appear, in a few countries. The bulk of experience in this programmatic area has been in South Asia.

#### Points to consider:

- The selection of beneficiaries in terms of determining their entrepreneurial abilities and motivation is difficult.
- The costs of these projects per beneficiary are likely to be substantially greater than well-run projects that work with established enterprises.

- The selection of and advice to potential entrepreneurs on the viability of new enterprises is a major responsibility for which project staff needs to be particularly well-suited.

Research, mentioned in Section III, is currently underway to improve the ability of projects to identify entrepreneurs by understanding more about the competencies of successful entrepreneurs and, motivational factors. Another component of the research is to test training programs for potential entrepreneurs. Second year results should be forthcoming soon and will be available through the Bureau for Science and Technology, Office of Rural and Institutional Development of AID.

b. Vocational Training for Employees

Upgrading the production skills of workers may be an important project output. SSE projects may provide direct or coordinated vocational training to current employees or potential new employees of SSEs. Areas of training would include:

- Machinery operation;
- Maintenance;
- Middle management plant operations and supervision;
- Plant safety;
- Improved production processes; and,
- Quality and sanitation controls

c. Alternative Approaches to the Provision of Assistance

The way in which assistance will be provided to SSEs will be important to determining project costs and scope of coverage.

- One-on-one direct assistance is often required because of the specific and unique needs that need to be addressed in an enterprise. The entrepreneur's confidence in and personal rapport with the assistance provider are very important sometimes requiring the one-on-one approach in order to produce the best results.

Technical assistance in resolving a specific production problem is an example of an area that will probably require one-on-one assistance due to the unique nature of the need being addressed.

The one-on-one method of providing technical/managerial assistance is expensive, however, and its coverage limited due to the staff and budget constraints that most projects have.

- Use of groups, as in the case of credit projects, is one way that projects have reduced the cost of management training per beneficiary. Group training of entrepreneurs has a better chance of being successful if the entrepreneurs are grouped according to relatively homogeneous sets of needs that can be addressed in a class setting. Areas of management training, such as the principles of cost accounting, lend themselves to group training, although the actual establishment and implementation of the system will probably require one-to-one work.
- Other reasons for creating beneficiary groups:
  - Beneficiary associations have also been formed on the suggestion of the support institutions or the beneficiaries themselves to represent their interests in project services (feedback to project staff on project interventions) and to be channels for additional outreach and promotion.
  - The PISCES Studies reported that peer groups of beneficiaries (solidarity groups) having a special interest in the well-being of members belonging to a credit group provide internal assistance to each other in business-production improvements. For instance, if a member of a group credit guarantee scheme is having a production problem and is in danger of defaulting on a payment, it is in the best interests of everyone in the group to help with the technical or management problem enhancing the other member's ability to make payment. Otherwise the remaining members of the credit group may have to cover debt.

d. Social and Community Development Interventions

The smallest marginal entrepreneurs consisting of hawkers and vendors and smallest, least developed microentrepreneurs (owning businesses employing 1-4 workers) are frequently served by community and social/development projects operated by private and voluntary organizations (PVOs) and other not-for-profit groups and institutions.

The needs of these entrepreneurs, in addition to their enterprise development needs, are great. They can be characterized in the following way:

- Their quality of life tends to be substandard with regard to health, sanitation, and nutrition;
- Their ranks are comprised of very high percentages of women; and,
- They generally have low levels of education or none at all.

Project designers and officers frequently design projects to address the broad array of felt needs among this level of beneficiary adding the employment/income generation component to the basic social orientation of the core project. These projects combine low level enterprise and social and community development components. Projects may include:

- Basic notions about what a business is, i.e. general "check book" type record-keeping is often a starting point for assistance;
- Organization of small production groups (often centered on handicrafts or commercial crop production);
- Education and training (non-entrepreneurial);
- Health;
- Sanitation; and,
- Nutrition;

Precaution:

The more interventions that are designed into a project:

- The more complex it becomes;
- The harder it becomes to manage;
- Given resource limitations, the fewer beneficiaries it will probably be able to reach, particularly on a one-to-one basis; and,
- The costs of project operation will increase per beneficiary.

In order to provide services of the desired kind and comprehensiveness, these projects will almost always work with groups rather than individuals to reduce the per capita costs of training and other services.

e. Institutional Development Assistance to Project Implementing Organizations

The second tier of assistance that project designers and officers should plan for is in providing assistance to implementing institutions.

The nature of the needs and required assistance vary between institutions, but tend to include the following areas:

- Development of operations plans;
- SSE assistance methodologies:
  - credit project terms and management options vis-a-vis keeping project costs at sustainable levels while providing sufficient coverage and credit access to the targeted beneficiary population; and,
  - technical/managerial assistance interventions; structuring beneficiary needs assessments and determining the level, depth, and mode of assistance that can be provided within the financial constraints and objectives of the projects;
- Project outreach and promotion; and,
- Project monitoring and self-assessment techniques.

External assistance to institutions, whether domestic or international, could be important to upgrade institutional capabilities for providing effective and efficient services and, in some cases, to increasing project coverage.

A number of institutional sources of U.S.-based technical assistance are listed in Section V.

## 5. Selection of Financial Alternatives

### a. SSE Project Self-sufficiency

The issue of self-sustainability of SSE projects has taken on increasing importance over the past several years, reflecting AID's concern that projects continue to operate once donor financing expires. Project designers and implementers are being asked to develop project financial plans that will cover the costs of lending (cost of capital and administration), technical and managerial assistance and other kinds of services provided through the project.

Self-sufficiency is achieved when a project has been able to generate sufficient income from its activities to cover operating expenses. It should not be confused with an organization's ability to get new grants from other donor organizations.

Principal project expenses include:

- Salaries (management, outreach, technical/managerial assistance, secretarial, and support staff);
- Rent, utilities;
- Materials and equipment;
- Communications;
- Transportation; and,
- Cost of capital, in cases of credit projects.

The object of self-sufficiency is to cover these costs through project income. Income is normally generated through:

- Interest charges (assuming a loan component)
- Fees for services rendered; and,
- Commissions.

Operating assumptions:

- Achieving self-sufficiency is difficult;
- Very few SSE-oriented organizations, especially PVOs, have the philosophical approach required to place serious priority on achieving self-sufficiency through non-subsidized charges for services; they infrequently operate as businesses;
- Country policies (such as usury laws) setting maximum interest charges that can be made on loans (including fees and commissions) or regulations on income generating activities of private and voluntary/not-for-profit organizations, could block their efforts at self-sufficiency;
- Traditionally the costs of providing credit and technical/managerial assistance on training to SSEs in a package of services are high and are unlikely to be completely covered by project income; credit projects alone have the best chances to achieve self-sufficiency;
- The more complex projects are, in terms of breadth of their training and human development (educationally oriented) components, the less likely they are to cover operating expenses;

- To achieve self-sufficiency, project implementers must know especially well the market for their non-credit services. On this basis, they will need to adjust their program to reflect the requirements of the clients and the price they would be willing and/or able to pay for the service;
- If a project works primarily with the smallest entrepreneurs, the kind and depth of managerial assistance to be provided must to be carefully considered; and,
- The utility of additional assistance at varying levels of SSEs vis-a-vis the cost should be carefully assessed and project methodologies should reflect reality. (Note: There is no question that knowledge of business management and production techniques is needed by even the smallest entrepreneurs. The trick is in pin-pointing what kind and how much assistance will be absorbed/utilized while keeping costs within recoverable limits.)

In sum:

- Single component credit projects with simple review and analysis processes, high loan volumes, and effective collection procedures can become self-sufficient in the near term...

Provided that:

- Interest rates are not capped at levels that will not enable projects to cover costs plus sufficient interest spread to provide for profit and risk, and,
- Project management is capable of operating the credit system.

IF more project components in training, technical and managerial assistance are added to the core credit project...

THEN costs will rise at a greater rate than income and become increasingly more difficult to cover through fees, especially when the clients are from the smallest enterprises on the SSE spectrum.

Thus, judgments will need to be made by project officers on whether the project should provide fewer services to keep costs down, or whether to maintain a higher level of services, accepting continuing subsidies of lending operations.

IF the project selects the self-sufficiency option...

THEN a business-like approach to operations planning and budgeting is critical.

IF on the other hand, the project decides to provide continuing subsidies...

THEN the following questions are raised:

- What will be the source(s) of continued subsidization?
- What will be the level of subsidization?
- What degree of permanency is there in the funding source? and;
- What impact will this have on the permanency of the institution itself?

In sum, several ways of approaching project finances are:

- To develop a self-sufficiency plan to cover costs through charges/commissions for services; this may imply major project design and approach adjustments;
- To develop multiple grant funding sources where each grant may be used for separate project components; or,
- To combine grant financing and charging for services to support project activities.

In this last scenario, a project designer may wish separately to budget the credit and non-financial assistance components, and strive for self-sufficiency in the credit component and some level of subsidization in the non-financial assistance component.

Over time, prospect of self-sufficiency for different types of SSE project components are illustrated in the following chart.

FINANCIAL ALTERNATIVES

<u>Type of Project</u>	Time Line		
	Near-Term	-----	Medium-Term
	<u>Fully Subsidized</u>	<u>Partially Subsidized</u>	<u>Fully Self-Sustaining</u>
1. Business Advocacy Policy Analysis (think tank)	X	X	
2. Credit		X	X
3. Technical/ Managerial Assistance	X	X	
4. Training	X	X	
5. Combination of 2 to 4	X	X	

b. Financing from Local Sources

When developing the financial arrangements for an SSE project, designers and managers should assess the degree to which local finances can and should be used. Questions that should be answered on this topic include:

- What amount of AID financing is needed to cover which budget line items? What is the host country balance for project budgetary support.?
- What is the plan for the host agency to cover project recurrent costs?
- What percentage of loan funds should be capitalized by AID?
- In terms of the development of local capital markets, is it not desirable for AID to stimulate local participation in SSE lending by requiring counterpart financing of the fund? and,
- How will project income be generated and what kind of AID phase-out/subsidy transfer to the host country does this imply?

While the answers to these questions will reflect operational characteristics of specific project, preliminary answers should be provided from the outset. Such answers will help projects have the long-lasting impact desired, and make the "weaning" process from AID funding a more gradual one.

## 6. Technological Focus of SSE Projects

The technological focus of SSE projects will be determined by the level of enterprise and type of business being assisted. Generally, the main focus will range from very small to mid-level.

### Points to consider:

- The level of technology used in production processes, machinery operation and maintenance at the micro-business level is very low;
- Larger SSEs will be more sophisticated and will use higher levels of technology in production processes, machinery operation and maintenance.
- In general the level of technology used in even the larger and more sophisticated SSE's can probably be classified as low to medium.

IF projects work with microenterprises,

THEN they will not need very sophisticated levels of technical expertise on staff. The technical assistance would concentrate on providing rudimentary assistance to business in areas such as cutting costs through more efficient purchase and use of materials, new product ideas, improved product quality and, generally those areas that are relatively unsophisticated but that have an immediate impact on enterprise profits.

IF projects work with the larger SSEs at the upper end of the SSE spectrum.

THEN chances are that the project will need to have on staff or have short-terms access to technicians competent in mid-level technology areas. The production processes and equipment used will be much more sophisticated for the largest SSEs than for the smallest and require a greater level of technical input from the project. These services could be either provided by the project directly or entrepreneurs could be referred to other specialized organizations such as government training and development centers.

## 7. Host Country Participation in Project Design

Host country participation in designing SSE projects can be highly desirable. The following sections review participation from the perspective of the participation of potential host country organizations and beneficiaries.

### a. Participation of Potential Host Country Implementing Agencies

The process of involving potential host agencies in project development from the design stage may help project designers and officers to determine areas where compromises should be made or, conversely, where compromise is not possible; what the areas of divergence are; and how bright possibilities are for carrying forward with a particular host country partner. To protect the viability of the project, issues should be out on the table early to avoid conflicting design and methodological problems during implementation.

#### Points to consider:

- The quality and usefulness of host country agency participation in project design will vary widely depending on the institution's familiarity with SSE programming and its own biases;
- A good way to be sure that the implementing agency is "on board" completely and ready to implement the design is to obtain their early participation in project design;

- Participation will help to ensure that project goals and general approach, as conceived by the designers initially, are compatible with those of the potential host country implementing agency;
- Preliminary involvement of the host agency in project design and planning will help to separate out what may be attractive statements about local acceptance of the design (how to set up a loan fund, how to target assistance) and what can really be accomplished given the qualifications of the institution, its financial and/intra-governmental (turf) constraints;
- Early participation in design will tend to cement the agency's commitment to the design later in the project implementation stage; and,
- Preliminary pre-project participation in design and planning will give project officers a preview of working with potential host country agency counterparts.

b. Participation of Potential Beneficiaries

Small scale entrepreneurs at all levels can frequently articulate their primary constraints to further business development. They are an excellent and ultimately the prime source of information for determining the kinds of services that projects should provide. Prefeasibility analyses (see Section IV.A.2) including sector profiles and beneficiary needs assessments should be conducted that pay particular attention to what small scale entrepreneurs are saying about their own problems and what kinds of services would help them most.\*

Participatory involvement of potential beneficiaries should produce the following results:

- To assure to the extent possible that the project as conceived addresses the most important needs as identified by beneficiaries; and,
- To assure that the project methodology is one that beneficiaries feel is an appropriate response to their problems.

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\* ACCION International/AITEC, 10-C Mt. Auburn St., Cambridge, MA 01982 has conducted similar pre-feasibility analyses for microenterprise projects in the Dominican Republic and Ecuador.

A principal consideration is:

IF projects are designed and implemented having consulted a sampling of potential project beneficiaries...

THEN the probability of targeting beneficiaries properly and designing appropriate interventions according to the needs of beneficiaries is enhanced...and the likelihood of achieving successful project outputs is increased...provided that the implementing agency has the desire, commitment, and expertise to provide effective services.

C. Project Implementation Issues

This section of the guide covers four major issues relevant to SSE projects from the perspective of the questions about project implementation. They are discrete elements that should be planned from the design stage of the project. Setting the ground rules in these areas before a project actually gets under way will clear the path for much smoother start-up and project development.

The areas for consideration are:

- Project organization and planning;
- Project management and staffing;
- Scaling up: increasing institutional capacity to reach significantly greater numbers of clients; and,
- Procurement.

1. Project Organization and Planning

In order for projects most effectively to achieve their goals and objectives, well defined and documented operations plans should be developed to guide staff in carrying out their various functions. For lack of a proper planning foundation, project implementing organizations often proceed without clearly defined directions, thus seriously reducing their potential impact.

a. Reasons for having operations plans:

The ability to show a well constructed plan of action linking goals and objectives to institutional capabilities and resources can be an important "marketing" tool for projects to possess. Furthermore, the planning process has other beneficial effects:

- Planning forces project management to think about operations in a defined format. The plan that results provides the guidelines for project implementation.
- Planning compels management to define the boundaries of their projects, their mission, operating objectives, what will be done and what will not be done, and sets the basis upon which project evaluation later will be conducted.
- Planning describes how the various activities will be accomplished, by whom, and when.
- Planning forces managers to link activities to the availability of both human and financial resources.
- Planning lays the groundwork for future business activity and expansion plans.

b. Elements of the Project Operations Plan:

- Background
  - description of the problem or needs to be addressed by the project;
  - description of the "mission" and approach of the implementing organization;
  - overview of project history; and,
  - a listing of project staff and board of directors of the implementing agency.
- Goals and Objectives
  - description of project goals describes the linkage and compatibility of these objectives with the overall mission of the institution.

- Project Activities and Strategy

Describes the action plan for the project. This section is the "meat" of the overall operations plan:

- what will be done?
- how?
- by whom?
- when?
- where?

- Management and Staffing

- the organizational chart;
- listing of personnel and expertise; and,
- division of functions and responsibilities (how are project and overall institutional responsibilities going to be distributed by staff).

- Financial Plan and Budget

- degree of self-sustainability sought by project;
- description of income sources over a specific time frame;
- rationale for financial plan;
- plan for covering recurrent costs of project and for weaning project from AID (or other donor) subsidy; and,
- budget.

- Monitoring System

- description of the purposes of the system; and,
- description of any relationship between the monitoring and evaluation systems.

- Plan for project evaluation

- definition of indicators for evaluation and instrument for tracking project progress; and,
- how baseline data will be collected.

Points to consider:

- The primary obstacle to good planning is not project staff ignorance of the need for planning, but rather the lack of experience and planning expertise on the part of project staff, particularly a lack of clear enough goals and objectives to know what to plan for;
- Because projects are often small and deal with limited target populations, it may be difficult to maintain a sense of urgency with regard to the need for careful planning;
- Managers and staff of projects may already be overworked and consider the time and effort in planning as "down time" that could be better spent on "action", that is in actually doing the field work and providing project services; and,
- Projects targeted on the lower end of SSE's often have a highly community and social development orientation even if they are components of business oriented institutions such as development banks. Developing operations plans, while not always a new concept to the managers and staff of these projects, frequently has not been done adequately.

2. Project Management and Staffing

Organizing management and staffing to achieve project goals and objectives most effectively is part of the planning process and is an element of a good operations plan.

However, in addition to the normal planning considerations staffing levels, functions, and mix of expertise, SSE projects present interesting variations in management and staffing patterns depending on the type of project intermediary, its orientation, mission, and "world view."

In broad terms, at either end of the spectrum of projects that work with SSEs are:

- Community or social/human development oriented projects; and,
- Enterprise/economic development oriented projects.

a. Community or Social/Human Development Oriented Projects

Points to consider:

- These are frequently operated through host country and/or U.S. private and voluntary organizations (PVOs) and other not-for-profit institutions. Thus, by their very nature, the implementing institutions will probably not possess a strong business, income generation orientation. Some project objectives such as self-sustainability consequently will be very difficult to achieve;
- These projects generally target their assistance on the smaller SSEs;
- Enterprise development components (credit and low level managerial assistance) are normally add-ons to core projects; and,
- Pay levels for project personnel generally are low and not competitive with other private sector management positions in the same country or region.

Implications for Staffing

- There is high probability that enterprise development components will be operated with insufficient levels of expertise to be able to provide effective business advisory services and/or credit management at least without further training. (At the lower levels, SSE projects do not require high levels of business management expertise for project staff. Even so, some formal or informal training in business is needed and projects may have to provide it.)
- Projects tend to attract dedicated members who are committed to the beneficiary group and to furthering equity, human, and social development causes.
- The tendency is for such staff to be trained in the social sciences.
- Staff members who have some business or economics training will often be entry level employees facilitating their ability to adapt to the project concept and methodologies which may depart from the "conventional wisdom." (They may not yet have developed too many biases!); and,
- Project staff may not bring to the enterprise development component a "hard nosed" approach that fosters its effectiveness. For example, having the necessary attitudes regarding loan repayment and interest rates affect the sustainability and maintenance of loan funds.

Ultimately, no matter how well designed a project is, its success will rest on how successful those responsible have been in implementing it. If staffing is not considered in the light of the above precautions, chances are that the project will have serious problems in implementation.

b. Enterprise/Economic Development Oriented Projects

Points to consider:

- Such projects have tended to be operated through development finance corporations, national development banks and occasionally management training institutions.
- Financial intermediaries have started credit lines often tied to technical assistance in response to the wishes of donors and governments. They frequently became more gestures of "good will" than truly development inspired projects.
- These kinds of projects tend to work with larger SSE's and medium scale businesses.
- Project staff, will probably not know very much about the smallest levels of SSEs and will tend to have strong biases, built on traditional credit system and management concepts, regarding the high cost and risk of dealing with these enterprises.
- Pay levels tend to be competitive with other low to mid-level positions in prestigious organizations. The image coupled with the relatively good pay can make these projects attractive.

Staffing traits

- Staff will generally be trained in business, economics or a related field;
- They generally will not know much about, or have had experience with, SSEs, at least of a smaller size;
- Commitment to microbusiness and very small scale enterprise will probably not have been developed; and,
- Theoretically such individuals should be able to manage efficient, well run SSE projects.

Because of the nature of the implementing institutions and the biases of staff, "goodwill" SSE projects will tend to remain small and not very effective in relation to what the implementing organization could and probably should be doing.

In sum:

Where organizations are familiar with lower level SSEs, the beneficiaries and their needs and have the commitment to serve these people...

They may not have the expertise, approach, or inclination to run an SSE project (especially one involving credit) well.

Conversely organizations that appear to have the comparative advantage of view of of staff expertise and institutional capacity to operate SSE projects may not have the mandate, interest or commitment to work with the SSE sector, particularly at the microenterprise level.

Leadership in Management

Leadership plays a major role in translating a plan into action. Management has the task of communicating the substance of the local organization's goals, objectives and operations plans to the staff, organizing personnel to contribute to the implementation of services, and properly allocating labor and responsibilities.

SSE project officials should carefully assess leadership abilities.

The Role of Charisma

SSE projects often rely on the vision, commitment and charisma of one or a few individuals who provide the pulse and life of projects. Frequently, however, these "institutional entrepreneurs" are not be very good managers. Hence, they need to be backed up and complemented by staff who have the requisite planning and project operations skills.

### 3. Scaling-up: Increasing Institutional Capacity to Reach Significantly Greater Numbers of Clients

The "scaling-up" issue is, in large part, an aggregation of the implementation issues previously discussed. Without proper planning, a competent and appropriate staff, sufficient resources, good management and leadership, institution building cannot take place over the medium and long-term.

#### Precaution to be heeded:

While it is important for project managers to explore various avenues for increasing program size, coverage and impact, this must be done in a way that does not in the process destroy elements that are the roots of prior success.

The following points are brought up especially regarding projects that have been successful in working with the smallest SSEs at the microenterprise level. These often will be PVO operated projects that are in the category of community and social/human development oriented projects with an SSE component. As a project expands:

- It may lose the community orientation and aura of personalism that gives beneficiaries the confidence to use the services the project provides and the incentive to comply with its terms; and
- It may, as a result, also jeopardize the sense of belonging, acceptance, and confidence that beneficiaries have in a project or an organization that may be the key to its success.

With regard to projects working with larger SSEs, scaling-up can cause other dislocations. Those projects will often be operated by development finance institutions and management/technical assistance institutions that are in the category of Enterprise/Economic Development oriented projects.

Expanding such activities too far or too fast can have these effects:

- Overextension of staff causing a commensurate reduction in effectiveness;
- Increases in workloads slowing down the project's ability to respond efficiently to beneficiary requests for assistance; and,

- A resulting diminished credibility and ability to maintain effective operations.

In sum:

The scaling-up process will require:

- Exceptionally good planning of human and financial resources;
- Properly targeted beneficiaries;
- Rationally planned project services that respond to real needs of beneficiaries, ones they will truly benefit from and, in pursuit self-sustainability, pay for; and,
- Project managers who are careful to understand the working dynamics of projects and avoid actions that have residual effects that jeopardize project effectiveness.

4. Procurement

a. Of Commodities, Supplies and Equipment

- Small Scale enterprise projects typically are uncomplicated with respect to procurement;
- Projects do not usually directly purchase equipment or supplies for client beneficiaries as, for example, agricultural cooperatives do for farm inputs and equipment, or a water or health related project would for hand pumps, latrines and pharmaceuticals; and,
- Major procurements financed by AID generally will be for motorcycles or other vehicles used for project outreach, promotion, or supervision.

Purchase Origin

- Where a project purchases items is an important consideration and should be addressed in the project agreements. Procurements under AID direct contracts are governed by the Federal Acquisitions Regulations (FAR). Code 904 governs overseas procurements and should be consulted for procurement regulations.

b. Procurement of Technical/Managerial Services

SSE project procurements sometimes will be for technical or managerial assistance services. This assistance could be to provide long-term program implementation or short-term area specific technical services. Potential areas of assistance are:

- Long-term advisory services for project implementation and general project operations and management;
- Technical assistance in specialized areas requiring short term specialists such as in credit systems design, production systems, training and curriculum design.; and,
- Short-term project design services, institutional organization, and planning.

Several principal ways exist for obtaining these services. They are:

- AID direct contracts, including purchase orders, with firms and other assistance providers to provide long or short term professional services;
- IQC Contracts with firms prequalified to provide short-term, quick turn around assistance;
- Host country contracts;
- Grants:
  - Matching Grants made by FVA/OPC (Office of Private and Voluntary Cooperation) to U.S. PVOs for long term (2-3 years) SSE program development and operations;
  - Operational Program Grants (OPG's) made by overseas USAID Missions to host country or U.S. PVOs for long term (2-3 years) project operations or advisory services;
- Cooperative Agreements: forms of grants in which AID retains a greater degree of control over the specific activities being supported.

Chapter 16 of Handbook 18 and Handbook 13 govern the use of grants and cooperative agreements.

D. Project Monitoring and Evaluation

The evaluation of SSE projects is not as straight-forward a task as might be imagined. The parameters of various evaluations and the indicators that should be used have evoked a great deal of discussion over the past five years as AID has begun to conduct more impact evaluations of SSE projects.

As part of its SSE research and development efforts AID has embarked on a concerted effort to examine the issues of assessing the impact of SSE projects through work carried out by the S&T Bureau, Office of Urban Development (now Office of Rural and Institutional Development) and the FPVA Bureau, Office of Private and Voluntary Cooperation. Guidelines have been forthcoming on how to go about SSE project evaluations.

Evaluations of SSE projects have tended to focus much of their analyses on monetary and numerical indicators of enterprise growth. Increasingly, other measures are being used to evaluate projects. The following are some of the most commonly used indicators of positive impact.

- Increased or sustained income;
- Newly created or sustained employment;
- The stimulation of new development activities;
- More efficient new and old enterprises;
- Greater competition in various industries;
- Forward and backward linkages, further integrating the economy;
- Stimulation of more "appropriate" domestic consumption; and
- Improved migration patterns.<sup>4/</sup>

Negative impact indicators consist essentially of the inverse of the positive impact indicators. Negative outcomes may never have been picked up in evaluations of AID SSE projects.

In addition to the indicators listed above, other more subtle impacts are both possible and likely. These include impacts on health and educational levels, or the general attitude in society toward entrepreneurship.

The common theme has been that the diversity of types and levels of SSE's worked with by different groups, the variations in contexts that projects work in, and generally the differences in the "world views" of implementing organizations need to be considered when judging the effectiveness of projects.<sup>5/</sup>

Organizations operating SSE projects, but working in differing program contexts (e.g., with differing types and levels of enterprise, etc.), should be evaluated, the argument goes, using indicators that reflect the special and possibly unique organizational and program directions of the particular project being assessed. A broad framework of impact measurements and indicators generally applicable to all institutions would guide evaluators, but ultimately the specific data collected and the way a project is evaluated should reflect a recognition of its goals and objectives should be to critically assess project progress toward what the project was designed to do. General indicators will include:

- Economic and financial changes on final beneficiaries;
- Multiplier impacts;
- Social/human resource development and equity improvements; and,
- Institutional development of the implementing organizations.

#### Dimensions of Impact

"The effect of outside assistance on SSEs and their subsequent impact on the surrounding community may be varied and complex."<sup>6/</sup> Figure B-1 located in Appendix B outlines potential changes caused by a planned intervention. The model assumes that if there is program impact on the enterprise, there is a broader, community impact as well -- either positive or negative.

The evaluation model is fairly simple, examining three broad levels of impact.

They are:

- Institutional level;
- Enterprise or firm level; and,
- Community level.

As can be seen, it is not assumed that projects will always have positive impacts. Indeed, employment may decline or a project may not produce a financially self-sustaining enterprise.

The same document contains a useful set of tables which are also reproduced in Appendix B, Tables B-2 through B-6. They provide a comprehensive listing of impact measures that are important to determining the effect of projects on enterprises and the broader community around them.<sup>7/</sup>

But, as the authors point out, they can only evaluate if change has occurred, not why it has occurred.

Given the diversity of projects and "world views" and the strong concerns about evaluation methodologies, a working group of private and voluntary organizations (PVOs) under the coordinating umbrella of PACT (Private Agencies Collaborating Together) has recently begun to develop an SSE Evaluation Sourcebook which should be ready for distribution in mid to late 1986. Earlier in 1984 another group of PVO small scale enterprise development specialists held a series of workshops that carefully treated SSE evaluation, linking project assessment and analysis closely to project design, organizational mission and philosophy. A report entitled A Systems Approach for the Design and Evaluation of PVO Small Enterprise Development Projects emerged from these meetings in which four major benefit areas were identified:<sup>8/</sup> They are:

- Enterprise/household economic benefits;
- Benefits to the local economy;
- Human and social development benefits; and
- Organizational and institutional benefits.

Charts B-7 through B-10 located in Appendix B, are taken from the working group document. They provide another approach to the evaluation process. Together the two systems presented here represent a synthesis of the discussions of indicators over the past several years. Another document, Searching for Benefits, discusses how to use the data obtained to generate benefits and costs analyses of projects and suggests how to use the data for comparing the impact of SSE projects.

## 1. Enterprise Financial Indicators

The following are some key profitability indicators or measurements of impacts to the enterprise, as well as comments on their advantages and/or disadvantages.

- Net Sales, while a good indicator because it is possible to make comparisons across firms, is not a measure of profitability.
- Net Profit, while a clear indicator of a firm's health, has problems in its very definition.
- Return on Investment is a traditional, and easily understood indicator.
- Capacity utilization can be a good indicator, as it helps determine a ceiling for profitability.

While the prior four indicators can be used for measuring profitability impacts, the following are often used to measure the sustainability of an enterprise. However, an exact interpretation regarding sustainability can be difficult.

- Total Fixed Costs can indicate minimum revenue requirements.
- Asset Turnover will reflect a firm's dynamism.
- Market Share will indicate a firm's marketing ability, although it is not applicable to a single SSE, but rather to SSEs as a sector.

## 2. Enterprise Economic Indicators

The following indicators generally reflect economic benefits which accrue to an enterprise or the household. Effective approaches in quantifying these measures could include the study of a few units of analysis, and subsequent use of them as approximate values for other clients.

Some indicators are easily quantified:

- Changes in numbers of workers.
- Changes in numbers of products.
- Changes in volume of machinery.

Those indicators, unfortunately, may not tell the analyst very much about a project's success. Other indicators, although more difficult to quantify, are likely to be more informative. They include:

- More efficient use of labor or equipment; and,
- Increased savings, both monetary and labor.

### 3. Entrepreneurial Indicators

The following indicators could be used to evaluate the degree to which an SSE project has increased entrepreneurial ability or awareness. While a comprehensive evaluation of any or all of these benchmarks would be costly and time consuming, project managers would be wise to keep them in mind when dealing with specific entrepreneurs or businesses.

- The entrepreneur's perception of market opportunities;
- Gaining of command over scarce resources;
- Marketing of the product and response to competition;
- Dealings with government bureaucracy;
- Management of human relations within the firm;
- Management of customer and supplier relations;
- Financial management expertise;
- Production management expertise;
- Industrial engineering expertise;
- Quality control processes; and,
- The introduction of new production techniques and products.

### 4. Community Level Indicators

The following are commonly referred to as some of the indicators of community level benefits. Included in these are benefits to the local economy.

- Greater use of local labor and raw materials reflect an expanded local industry.
- The replacement of imports by local production will benefit the balance of payments.
- The encouragement of needed kinds of goods and services that were not previously available indicates a positive shaping of the local economy.
- More and better information on prices and demand benefits the local market infrastructure.

- Increases in household purchases will reflect a rise in disposable income. This indicator deals directly with project impact.
- Wages and benefits increases should be a good indicator of overall worker welfare.
- The number of jobs in the community is one of the better indicators of the total employment impact of a project.

#### 5. Institutional Level Indicators

Institutional or organizational benefits from a project are frequently long-lasting. Such benefits as improved human qualities, better project management systems, and organizational growth and development can be measured with the following indicators:

- Improved leadership would be reflected in the degree to which role models actually have others adopt new behavior.
- Better financial documentation, with regular and reliable data would indicate a stronger project management system.
- A positive change in a project's ability to meet its expenses would signal progress in the area of organizational growth and development.
- Three key indicators of a project's replicability are:
  - an agency's ability to document its methods and impact;
  - an agency's production of formal, widely used training materials; and,
  - the management ability to form and keep collaborative relationships and keep non-constructive competition under control.

#### Data Collection

To attempt the rigor of scientific experimentation in SSE data collection and evaluation is unrealistic. Even if the data base were recorded, accurate, and available (most SSEs and implementing institutions do not maintain good records, if any at all) the cost of data collection would be prohibitive and far outweigh the marginal utility of the additional information generated.

Tables B-11 and B-12 located in Appendix B taken from Evaluating Small-Scale Enterprise Promotion: State of the Art Methodologies and Alternatives<sup>9/</sup> describe data collection techniques at the enterprise and community levels and some of the advantages and disadvantages associated with each.

### The Importance of Good Planning to the Evaluation Process

Time, budgetary constraints, and the realities of field work dictate that a high degree of pragmatism be brought to the SSE evaluation process.

To collect data on all of the indicators from all potential sources would not be possible nor would it necessarily be appropriate. The following points are worth bearing in mind concerning data collection in the evaluation process.

- Using some of the indicators presented in this guide, project managers should determine what they want to know about a project, and what indicators they can use.
- Development of baseline and periodic follow-up data on enterprises and implementing institutions can be done through pre-project control sheets. With the proper amount of data already on these sheets prior to a project beginning, monitoring becomes much easier.
- A key factor in monitoring is assuring that the information being collected is compatible with that needed for evaluation.
- Data collected through a carefully designed monitoring system will upgrade the quality and objectivity of the evaluation process.
- Variables and indicators of project progress should be followed over time, as well as possible, on the basis of pre-established norms based on the project's goals and objectives.
- Management-oriented monitoring, connected to goals, objectives, and evaluation norms established for the project, will help diminish the possibility of ending up with an evaluation that does not reflect the array of outputs that the project had intended to deliver.
- Project managers must determine exactly how much monitoring and data collection they can afford.
- The type and amount of data to be collected should be incorporated as part of a project's operations plan.

An aphorism to keep in mind.

"How to collect which data on what impacts are of greatest interest."10/

In the foregoing chapter, consideration has been given to major elements of project planning, design and implementation. They should provide an adequate guide to an AID officer in developing and presenting an SSE project. Clearly, however, not all wisdom can be communicated in a single, slim guide such as this. Thus, in the next chapter, we have provided other sources of assistance, both reference documents and organizations, for the project officer.

#### SECTION IV: BIBLIOGRAPHY

1. Barnett, Stanley A., and Engel, Nat; Effective Institution Building: A Guide for Project Designers and Project Managers Based on Lessons Learned from the AID Portfolio; AID Program Evaluation Discussion Paper No. 11, Washington, D.C., March 1982.

This document is based on a comprehensive review of 302 institution building projects between 1974 and 1982. The guide tends to be oriented toward project development and project implementation concerns and provides a checklist of lessons learned for designers and managers of institution building projects.

2. Daines, Samuel R. Agribusiness and Rural Enterprise Project Analysis Manual, Practical Concepts, Incorporated, prepared for the Agribusiness Division, Office of Agriculture, Development Support Bureau, AID, Washington, D.C., March 1979.

The purpose of the manual is to provide AID project personnel with background and project analysis methods for agribusiness and rural enterprise projects. It is designed as a management oriented guide to provide AID project managers with the necessary understanding to write a satisfactory scope of work for a project analysis and the background necessary to "manage" the specialists involved in project identification, design, implementation, and evaluation.

3. Development Alternatives, Inc., Evaluating Small-Scale Enterprise Promotion: State-of-the-Art: Methodologies and Future Alternatives, prepared for the Office of Urban Development, AID Washington, D.C. 1984.

This document was prepared to review the state-of-the-art of SSE project impact evaluation, particularly focusing on methodologies used to assess the project's effect upon the income and employment of their target populations and to examine the merits of alternative SSE evaluation methodologies in four different field settings.

4. Hunt, Robert W., Private Voluntary Organizations and the Promotion of Small-Scale Enterprise, AID Evaluation Special Study No. 27, Washington, D.C., July 1985.

This paper discusses some central issues of private voluntary organizations' activities relevant to SSE development. Project design consideration as to what kinds of interventions have been used by PVOs are presented followed by discussions of their relative successes and problem areas. Credit, non-financial assistance and institutional development are discussed.

5. Kilby, Peter and D'Zmura, David, Searching for Benefits, Wesleyan University, AID Special Study No. 28, Washington, D.C., June 1985.

This study examines five small microenterprise development projects, four of which were designed and implemented by private voluntary organizations. It seeks to measure the costs and economic benefits to national income resulting from the projects.

6. Partnership for Productivity/International. A System Approach for the Design and Evaluation of PVO Small Enterprise Development Projects, August 1984.

This paper develops the ideas of a Working Group of PVO donor representatives that met in March 1984 to formulate an analytical framework for evaluating SSE projects that would encompass the diversity and complexity of PVO income generating and small enterprise projects and provide the basis for comparisons between different projects.

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SECTION IV: END NOTES

Regional Development Considerations

- 1/ Chuta, Enyinna and Carl Leidholm; Rural Non-Farm Employment: A Review of the State of the Art, Michigan State University Rural Development Paper No. 4, Department of Agricultural Economics, East Lansing, Michigan 48824, 1979.
- 2/ Chuta, Enyinna and Carl Leidholm, Rural Non-Farm Employment: A Review of the State of the Art, Michigan State University Rural Development Paper No. 4, Department of Agricultural Economics, East Lansing, Michigan 48824. All following statistics for Rural Non-Farm Activities come from this document p. 8-9.

Project Design Considerations

- 3/ Leidholm, Carl, Small Scale Enterprise Credit Schemes: Administrative Costs and the Role of Inventory Norms, Michigan State University International Development Papers, Department of Agricultural Economics, MSU, East Lansing, Michigan 48824. p.8-14

Monitoring and Evaluation

- 4/ Development Alternatives, Inc., Evaluating Small-Scale Enterprise Promotion: State of the Art Methodologies and Future Alternatives; 1984, p.36.
- 5/ Partnership for Productivity/Int'l, A Systems Approach for the Design and Evaluation of PVO Small Enterprise Development Projects, August 1984, p.4.
- 6/ Development Alternatives, Inc., op.cit. p.35
- 7/ Ibid, Tables IV-2 through IV-6, p. 50-55
- 8/ Partnership for Productivity, op.cit., p. 9-12.
- 9/ Development Alternatives, Inc., op.cit., Tables IV-7 and IV-8, p. 59-60.
- 10/ Ibid, p.57.

## V. REFERENCES

### A. Selected Statistics

The following are economic and social indicators which are regularly available from easily accessible sources. They are available annually, and can thus be used for comparing economies and groups of economies. They give a rather full picture of industrial development in general for the particular countries, as opposed to a well focused, but virtually unobtainable, view of small-scale enterprise development in those countries.

The following economic and social indicators should be used in order for project officers to gain a grasp of what type of economy a particular SSE project will be taking place in, and how it varies from other countries of which they have knowledge or experience.

#### 1. Latin America/Caribbean Data, from Economic and Social Progress in Latin America.

This annual publication is available from the Inter-American Development Bank, 808 17th St., Washington, D.C., at no cost.

All values are in millions of constant dollars.

- Value Added by Agriculture, by Country
- Value Added by Manufacturing, by Country
- Value Added by Electricity, Gas and Water, by Country
- Value Added by Construction, by Country
- Value Added by Other Services, by Country

#### 2. Worldwide data, from World Development Report

This annual publication is available from the World Bank, 1818 H St., Washington, D.C., at a nominal cost.

- Growth of Production (In constant prices)
  - agriculture
  - industry
  - manufacturing

(Manufacturing is a part of the industrial sector, but its share of GDP is shown separately because it typically is the most dynamic part of the industrial sector.)

- services
- Structure of Production (Distribution of Gross Domestic Product; %)
  - agriculture
  - industry
  - manufacturing
  - services
- Growth of Consumption and Investment (In constant prices)
  - private consumption
  - Gross Domestic Investment
- Structure of demand (Distribution of Gross Domestic Product; %)
  - private and public consumption
  - gross domestic investment
- Industry Structure, (Distribution of manufacturing value added; %)  
(1975 Prices)
  - food & agriculture
  - textiles & clothing
  - machinery & transport equipment
  - chemicals
  - other manufacturing
- Structure of merchandise exports & imports  
(Percentage share of merchandise exports/imports)
  - food & agriculture
  - textiles & clothing
  - machinery & transport equipment
  - chemicals
  - other manufacturing
- Labor Force
  - percent of labor force in agriculture
  - percent of labor force in industry
  - percent of labor force in services

### 3. AID Sectoral Expenditures

#### a. Program Trends Based on FY 1985 Congressional Presentation, AID

The tables in this manual provide summary figures for gross obligations under the functional development assistance appropriations, the Sahel

Development Program and the Economic Support Fund. The summaries give breakdowns by account, by regional bureau or central bureau and by country or central program unit from 1979 through 1985. It is prepared annually by PPC.

b. Congressional Presentation, Fiscal Year 1985, Main Volume, AID

This volume reflects the program and budget justification of the Administration's bilateral foreign assistance program. It summarizes the requests and describes certain other programs in which AID plays a role. Project level details for each region and for centrally funded programs are also included, along with budget and fiscal summary tables for the entire AID program.

B. SSE Information and Technical Assistance Sources

There are a number of different sources of information and assistance that project designers and managers can tap from both the for-profit consulting and private and voluntary communities. (For information on ways of procuring outside services see Section IV.B.4, p.34.)

**Contractors**

World-wide enterprise development contracts have been financed by AID's Bureau of Private Enterprise and the Bureau for Science and Technology. While these contracts are concerned with various levels of business activity, they have usually concentrated on larger SSEs and medium size businesses. These kinds of contracts are generally carried out by private, for-profit contractors that might provide useful sources of technical assistance in project design, implementation, and evaluation. For this reason they are included here.

On-going Enterprise Development Contracts are:

1. Employment and Enterprise Policy Analysis Project

Prime Contractor: Harvard Institute for International Development  
Time Period: 1984-1989  
Project No. 936-5426  
Bureau S&T

Purpose: Designed to have an impact on policy through dialogue. It offers technical assistance and training, including participant training, to USAID Missions by means of a resident advisor in each Mission. Various reports will also be issued on the results.

2. Research on Entrepreneurship Identification and Development

Prime Contractor: Management Systems International  
McBer  
Time Period: 1983 - 1988  
Project No.: 936-5314  
Bureau: S&T

Purpose:

To determine various personal characteristics of good entrepreneurs will be the initial focus. Then, a training program will be developed so as to enhance entrepreneurial development. International conferences will be held to disseminate the findings.

3. Market and Technology Access Project (MTAP)

Prime Contractor: Bolles World Trade (LAC)  
Inter Matrix (ANE)  
BDIM (ANE)  
Time Period: 1983 - 1988  
Project No.: 936-4053  
Bureau: S&T

Purpose:

To establish intermediate organizations in LDCs so as to carry out field trials to develop and test methods for promoting collaborative ventures.

The range of such collaborations could include marketing and supply relationships, domestic and international subcontracting relationships, training and management contracts, licensing agreements, and joint ventures.

#### 4. Small and Micro-Enterprise Support Institution Development

Prime Contractor: Robert Nathan Associates, Inc.  
Time Period: 1985 - 1989  
Project No.: 936-1090  
Bureau: S&T

Project will develop the capabilities of institutions which support small and micro-enterprise activities in developing countries. Contractors will focus on:

- Research, centered on a long-term assessment of the institutional characteristics particular to the types of intermediaries;
- Development of Training Materials, based on existing information and the result of research;
- Technical Assistance, short-term assistance to local intermediaries; and,
- Field Tests and Seminars with practical applications and on-site testing of the training materials.

#### 5. Management and Technical Assistance: Financial Markets

Prime Contractor: Arthur Young & Co.  
Time Period: 1986 - 1989  
Project No.: 940-2005  
Bureau: PRE

##### Purpose:

Support PRE's objectives by developing, refining and implementing projects aimed at selected private sector institutions within selected LDC financial markets. Contractor will also recommend the program strategy framework for such projects. Both long and short-term technical assistance will be provided in:

- Policy analysis and financial market constraints;
- Financial markets assessment and analysis

- Institutional management;
- Private enterprise financing;
- Accounting and auditing;
- Investment and commercial banking; and,
- Regulatory and legal framework analysis.

6. Private Enterprise Support and Strategy Development

Prime Contractor: Coopers & Lybrand  
Time Period: 1986-1988  
Project No.:  
Bureau: PRE

Purpose

Developing, testing and promoting innovative approaches for implementing the private enterprise initiative, as well as helping AID Missions in their efforts to promote policies and develop projects that:

- Facilitate the development of indigenous private enterprise; and,
- Assist LDC government in transferring to the private sector those production and service delivery activities in support of development objectives which need not be government owned and operated.

7. Divestiture and Privatization

Prime Contractor: Analysis Group, Inc.  
Time Period: 1986-1987  
Project No.: 940-0008  
Bureau: PRE

Purpose:

There are three major elements to this contract:

- Assisting USAID Missions in initiating and prolonging a policy dialogue with the particular host country government;
- Designing a strategy and a particular project for the divestiture and privatization; and
- Implementation of the project.

## Ongoing Cooperative Agreements

The following two institutions have had long-term, on-going cooperative agreements with the S&T Bureau. Although these two organizations are not-for-profit institutions, they are classified separately. The focus of both of these contracts is research.

### 1. A.T. International

Prime Contractor: A.T. International  
Time Period: 1983 - 1986  
Project No.: 936-5438  
Bureau: S&T

#### Purpose:

- To develop business opportunities through the application of appropriate technology.
- Through grants to LDC institutions, ATI is attempting to accomplish the following:
  - support the development, transfer, adaptation, commercialization, dissemination and assessment of technology appropriate to conditions of LDCs.
  - emphasize the technology used by small-scale, private enterprise.

### 2. Michigan State University

Prime Contractor: MSU  
Time Period: through 1987  
Bureau: S&T

#### Purpose:

This long-term cooperative agreement is designed to support applied research activities carried out in collaboration with selected USAIDs Missions, focusing on:

- Working capital needs of small-scale enterprise;
- Sub-contracting relationships between large and small-scale firms;
- Potential for small-scale firms; and,
- Potential for small enterprises operated out of the home.

## Private and Voluntary Organizations

Private and Voluntary Organizations (PVOs) are another important source of technical assistance particularly for projects intending to work at the smaller end of the SSE spectrum. The following is an extensive listing of PVOs that work with small scale enterprises and are sources of information and assistance. The extracts which follow summarize information provided in a publication of the American Council of Voluntary Agencies for Foreign Services, Inc., Technical Assistance Information Clearing House, June 1982, called "Small Enterprise Development Assistance Abroad." These organizations primarily assist Microenterprises and Level I small businesses (i.e., those enterprises with 1-9 employees, according to the typology on page II-3).

1. A.T. International  
1724 Massachusetts Ave., N.W.  
Washington, D.C. 20036

### Programs:

- Supports specific enterprise development activities by local institutions in LDCs, including strengthening local delivery systems, developing appropriate management and financial schemes, operating credit and loan funds, and providing training.
- Operates the "Small Enterprise Resources Exchange," which specializes in linking enterprises in the Third World to U.S. enterprises and other private sector organizations in the developed world with relevant managerial, technological and financial resources.

### Publication:

- Project Focus, (one page project descriptions available on request).

2. Accion International/AITEC  
10-C Mount Auburn St.  
Cambridge, Massachusetts 02138

### Programs:

- Creates programs and assists existing institutions develop and operate programs to provide managerial training and loans to urban micro-business having an average of 2-3 employees, assets of \$2,000 and credit needs ranging from \$500-\$3,000.

- Assists small, one-person enterprises having assets averaging \$200 and credit needs of \$80-\$300; loans are made to individuals who form credit guarantee groups of 6-8 people.

Publication:

- Assessing Rural Needs: A Manual for Practitioners.
- Case studies and reports on PISCES.
- A set of micro-business training manuals in English.
- A set of manuals in Spanish for training small farmer cooperatives

3. Africare  
1601 Connecticut Ave., N.W.  
Washington, D.C. 20009

Programs:

- Develops and carries out integrated rural development projects.

4. Aid to Artisans, Inc.  
64 Fairgreen Place  
Chestnut Hill, Massachusetts 02167

Programs:

- Provides direct technical and some financial assistance to help small LDC craft producers enter the U.S. market.
- Acts as consultant to government and private organizations in the U.S. and overseas who are involved in crafts marketing & rural development projects with small or cottage industry components.

5. The Asia Foundation  
550 Kearny St.  
San Francisco, California 94108

Programs:

- Technical and financial services for non-governmental organizations working in the rural SSE sector.
- Support for womens' associations, with training and technical assistance for SSEs.
- Cooperative development for both producers and consumers.

6. CARE, Inc.  
660 First Ave.  
New York, NY 10016

Programs:

- Conducts projects mainly to increase income-generating and small business opportunities, particularly in food and crafts production and for women.

7. Caribbeana Council  
2016 O St., N.W.  
Washington, D.C. 20016

Programs:

- Proposed to develop an Export Co-venturing Project to enhance trade and increase participation of small businesses in economic development activities in the Caribbean.

8. Carnegie Corporation of New York  
437 Madison Ave.  
New York, NY 10022

Programs:

- Support to the Population Council for production, publication and dissemination of the SEEDS pamphlet series which is designed to share information and spark new projects on income-generating projects for low-income women.

9. Catholic Relief Services  
United States Catholic Conference  
1011 First Ave.  
New York, NY 10022

Program:

- CRS supports small industry development in the areas of technical and management skills training, cooperatives, credit unions and loans, material aid, marketing analysis, and appropriate technologies and processes.

10. Church World Service  
475 Riverside Dr.  
New York, NY 10115

Programs:

- Provides financial, material and personnel support to overseas agencies in more than 70 countries working with community groups in providing the training needed to secure employment. Support is directed to cottage industries, handicrafts, cooperatives, rural artisanship, and marketing of excess food production.

11. Cooperative League of the U.S.A.  
Cooperative League Fund, Inc.  
1828 L St., N.W.  
Suite 1100  
Washington, D.C. 20036

Programs:

- Provides organizational, technical and managerial assistance to cooperatives and pilot urban and rural development programs using cooperatives.

12. Coordination in Development, Inc.  
79 Madison Ave.  
New York, NY 10157

Programs:

- Currently assists over 150 projects sponsored by its member agencies in 47 countries with money or technical assistance. The majority of projects are oriented toward community development and encompass a wide variety of programs, including small enterprise development and cooperative development training.

Publications:

- Environmental and development resource materials.
- Five booklets in the Guidelines for Planning series.

13. Credit Union National Association, Inc.  
1120 19th St., N.W.  
Suite 404  
Washington, D.C. 20036

Programs:

- CUNA-assisted credit unions include large numbers of small entrepreneurs as members, e.g., merchants, traders, artisans, farmers and craftspeople. They provide small loans to assist in the initiation of an enterprise, obtaining supplies, equipment and materials, replenishing inventories, expansion and numerous other activities. They also provide technical and/or management assistance to their member entrepreneurs.

14. The Ford Foundation  
320 East 43rd St.  
New York, NY 10017

Programs:

- Currently places a strong emphasis on providing grants to programs which promote non-farm employment among rural women, resource poor farmers and the landless through development of local industries.

15. Foster Parents Plan  
155 Plan Way  
Warwick, Rhode Island 02887

Programs:

- Supports the following: savings, loans and consumer cooperative development; revolving loan fund for small business development; supplementary income schemes for women; and handicrafts and artisan training.

16. Institute for International Development, Inc.  
360 Maple Avenue West  
Suite F  
Vienna, Virginia 22180

Programs:

- Provides technical assistance in small business development using resources of the private business sector. Makes financial investments and loans to local enterprises unable to obtain local financing. Provides a training course in small business management, marketing, accounting and personnel administration, as well as offering day-to-day problem-solving.

Publications & Audio-Visuals:

- Training manual
- Strategic Self-Evaluation
- Promotional tape

17. International Executive Service Corps  
622 Third Ave.  
New York, NY 10017

Program

- Recruits experienced executives to volunteer for short-term (2-3 months, average) assignments abroad as management advisors to locally owned firms. A wide range of areas of assistance is offered.

18. International Voluntary Services  
1424 16th St., N.W.  
Suite 504  
Washington, D.C. 20036

Program:

- Provides technical assistance to an integrated village development and training program. The program has a small enterprise promotion

component, involving assistance to village women with income-earning activities such as weaving, sewing, and handicraft production.

19. Opportunities Industrialization Centers International, Inc.  
240 West Tulpehocken St.  
Philadelphia, Pennsylvania 19114

Programs:

- Establishes Entrepreneurial Training/Management Development Programs, including a vocational training component. Other programs emphasize the development of skills in small business management and bookkeeping.

20. Oxfam America  
115 Broadway  
Boston, Massachusetts 02116

Programs:

- Supports private voluntary rural development institutions.
- Supports intermediate organizations, providing technical assistance and small grants to cottage industry cooperatives.
- Trains craft people in cooperative production and management.

Publications:

- A catalog listing project reports, audio-visual presentations and development education materials

21. Pan American Development Foundation  
1889 F St., N.W.  
Washington, D.C. 20006

Programs:

- Assists in the establishment and expansion of autonomous, indigenous National Development Foundations (NDF). NDFs encourage local private sector participation in development activities, including the establishment of revolving loan funds and bank guarantees to finance community self-help projects and small business development.
- Cooperates with SOLIDARIOS, the council of Latin American and Caribbean NDFs based in the Dominican Republic, to expand the number of national foundations eligible to draw on its external credits and technical assistance.

22. Partners of the Americas  
National Association of the Partners of the Alliance, Inc.  
1424 K St., Suite 700  
Washington, D.C. 20005

Program:

- Involved in technical education and vocational training programs, and women in development projects focused on income generation.

23. Partnership for Productivity/International  
2001 S Street, N.W., Suite 610  
Washington, D.C. 20009

Programs:

- Assists in the creation of national enterprise extension services. Activities include the establishment and operation of small business advisory services and training.
- Designs methods for providing loans and training in the use of loans to small entrepreneurs who are unable to obtain credit.
- General emphasis on technical assistance, economic analysis, feasibility studies and management training worldwide.

Publications:

- Partnership for Productivity International

24. The Pathfinder Fund  
1330 Boylston St.  
Chestnut Hill, Massachusetts 02167

Programs:

- Training programs for women in non-traditional income-producing activities.
- Income-generating and skills training projects for rural women.

25. Private Agencies Collaborating Together, Inc. (PACT)  
777 United Nations Plaza  
Suite 6B  
New York, NY 10017

Programs:

- Supports foundations which support rural agricultural production and marketing.
- Assists in cooperative design and implementation.
- Provides technical and managerial assistance to savings and credit societies and small business projects.

26. The Salvation Army  
1025 Vermont Ave., N.W.  
Washington, D.C. 20005

Programs:

- Provides financial and personnel assistance for small enterprise development projects. Encourages the local manufacture of products such as tools, supports vocational training, and conducts feasibility studies.

27. Save the Children  
54 Wilton Rd.  
Westport, Connecticut 06880

Programs:

- Strengthens income-generating activities and small enterprise at the community level through training in basic skills, management, and cooperative organization, and through providing information, access to credit, equipment, and materials and technical assistance.

28. Technoserve, Inc.  
11 Belden Ave.  
Norwalk, Connecticut 06852

Programs:

- Responds to requests for assistance from local low-income enterprise sponsors in LDCs and provides a full range of managerial and technical services to their enterprises. Assistance covers all aspects of supply, production, marketing, organization and administration. Provides management in turn-around situations until local managers are capable of fully managing their small enterprises, and works with low-income groups on a participatory basis.

Publications:

- Project feasibility studies, semi-annual newsletter, impact evaluation case studies
- "Lessons Learned"
- Audio-visual filmstrip
- Brochures

29. Volunteers in Technical Assistance, Inc. (VITA)  
1815 North Lynn Street  
Suite 200  
Arlington, Virginia 22209

Programs:

- Identifies potential market demands in LDCs by analyzing the more than 2,500 requests for technical information. Researches specific technologies that best meet the needs of a target audience. Identifies host country entrepreneurs who are able to establish commercial enterprises. Locates companies that are interested in collaborating with local entrepreneurs to develop new markets, establish joint ventures or research possible products. Develops and manages overseas projects, many of which involve small enterprises development.
- Publishes and distributes numerous how-to books, resource guides, bibliographies, slide shows and other materials on subjects pertaining to small enterprise development.
- Offers semi-annual training programs in information resource development. The three-week class teaches Third World librarians how to collect and organize technical information that is useful for their situations.

Publications and Audio-Visuals:

- VITA News, which incorporates Energy Bulletin
- A publications catalog of the books, bulletins, slide shows and other materials that VITA prints and distributes.

30. Young Men's Christian Association of the United States  
International Division of the National Board  
101 North Wacker Drive  
Chicago, Illinois 60606

Programs:

- Through a program of technical and financial support, and communications, training and program development services, assists local YMCA associations to carry out the following small enterprise-related programs: rural marketing cooperatives; vocational training and youth employment involving vocational trades; as well as feasibility studies, extension services and management training.

Publications:

- Rural Youth

C. Impact Evaluation Abstracts

1. U.S. Aid to Paraguay: Assistance to CREDICOOP's Agricultural Credit Union System

The Project:

AID assistance toward development of a cooperative vehicle for delivery of agricultural service to Paraguayan farmers began in 1970 with a \$500,000 grant to assist in the development of a national credit union system (CREDICOOP), which initially focused its efforts on Paraguay's farm towns. In 1975, AID approved its second investment in Paraguay's credit union system, a \$3 million loan whose primary objective was to provide a central source of credit funds and technical assistance for the emerging credit union network.

The purpose of the project was the development of a viable agricultural credit union system with capacity to provide technical and marketing assistance to farmer members.

The Evaluation:

An impact evaluation team, consisting of five members, visited six rural credit unions representing a cross-section of the credit union populace.

Major Findings:

- a. CREDICOOP is hampered by a heavy load of delinquent loans which, if they prove not to be collectible, will cause the system to decapitalize. Long-term institutional viability is thus still unclear. It hinges on the ability of CREDICOOP's member credit unions to collect the old debts while carrying on with the present, more conservative lending policy.
- b. CREDICOOP appears to have had a positive impact on small farmers in the areas it reaches. However 98% of Paraguay's smallest farmers still rely exclusively on informal, high priced, credit markets.

Lessons Learned:

- Integration of farmer and nonfarmer members in the same credit union can strengthen the institution by (1) helping to level financial flows during the course of the agricultural year and (2) providing relatively sophisticated leadership.
- If an agricultural credit institution is to develop long-term sustainability it must charge a rate of interest that takes into account both its operating costs and the costs of competitor's money.
- The ability to lend without requiring mortgage collateral is an important strength of the credit union vehicle.
- Whether or not individuals in the area served by a credit union have benefitted directly, availability of the credit union alternative tends to make other agricultural services supplies more competitive.
- Informal market lenders are formidable competitors in the small farmer credit business. AID should learn from such private trade lenders and explore ways of working with them.

2. Assisting Small Business in Francophone Africa: The Entente Fund African Enterprises Program

The Project:

The program to assist African enterprises through the Entente Council (made up of five countries -- the Benin, Ivory Coast, Niger, Togo, and Upper Volta) has been an important part of AID's total effort in French West Africa since 1973. The Council created the Mutual Aid and Loan Guaranty Fund (Entente) in 1966 to promote economic development in the member countries.

The objectives of the project were:

- a. To help African entrepreneurs by lending money and providing technical assistance to the Entente Fund, which would relend and provide technical help to six development banks in the member countries; and
- b. To help strengthen the ability of these development banks, and to encourage commercial bank lending to African entrepreneurs.

The Evaluation:

The evaluation team, composed of nine people, gathered material and interviewed knowledgeable AID, World Bank, IMF officials as well as numerous business people and entrepreneurs in each of the respective countries.

Major Findings:

- a. The objective of helping African entrepreneurs by lending money and providing technical assistance to the fund, which would relend to national development banks, which would sub-lend to enterprises, has not been met.
- b. The objective of strengthening the ability of these development banks, plus promotion centers and guaranty funds to assist small-scale enterprises has not been met.

Lessons Learned:

- Subloan criteria should be well defined before the program begins. Small-scale enterprises should be defined, and decisions should be made on whether to concentrate on helping ongoing companies or establishing new ones.
- A careful assessment should be undertaken of the institution(s) that will administer the program. Frequently it will be found that management by a banking institution works best because the program is thereby placed into an ongoing, disciplined financial environment.
- The borrower should make reasonable financial contributions. AID should not finance almost the entire program.
- The provision of meaningful technical assistance to both the implementing institution(s) and the borrowing companies is extremely important to the success of such programs.
- Changes in the financial and economic environment within which the small- and medium-size enterprises program operates can markedly affect its success.

3. Impact Evaluation: Institute for International Development, Inc.(IID)/ Honduran Development Institute (IDH).

The Project:

In 1979 IDH was registered in Honduras as a private non-profit development organization. It was IID's subsidiary in Honduras, and remained dependent on IID for U.S. financial and some staff support until December, 1981.

The IID/IDH project established a number of principal objectives:

- a. Reduce unemployment, malnutrition, migration to the cities and related social problems through the creation, expansion and strengthening of small business.
- b. Promote operational growth of small businesses, groups, and individuals who are unable to obtain credit from the national banking system by providing an alternative credit source.
- c. Promote and encourage the growth of small business by providing administrative and technical assistance.

The components for reaching these objectives were a loan fund/credit system, as well as low level training in management.

The Evaluation:

For two and a half weeks a two-person team interviewed 28 program beneficiaries in Honduras. Along with this, both IID and IDH staff were interviewed and evaluated.

Major Findings:

- a. IDH has worked with the lower class as well as middle class clients, has given small and large loans, and has lent to manufacturing and commerce as well as agriculture. Credit has had significant positive impact on

employment, income of entrepreneurs, and growth of individual and business assets.

- b. IDH needs to define its beneficiary population more precisely, and it will have to determine in what type of lending the organization (a) is most needed and (b) has a comparative advantage in terms of services it can offer.
- c. The program's comparative advantage is in the small-scale enterprise/micro-business area.

Lessons Learned:

- Programs should focus their efforts by defining more specific target areas in the SSE field rather than attempting to work with all sizes and types of loans.
  - Programs need to set priorities in terms of whether they wish to concentrate on increasing the number of jobs they can create at less investment per job, or whether to improve labor productivity through more highly capital intensive projects.
  - Programs must decide in terms of their goals and objectives whether to continue to lend to middle-class "safer" clients with several income sources or to concentrate on lending to those entrepreneurs who derive a living exclusively from their businesses and who may be from lower income groups.
4. Aid to Entrepreneurs: An Evaluation of the Partnership for Productivity Project in Upper Volta

The Project:

The PFP project was begun in 1977 with two expatriates located in Fada N'Gourma, an administrative and marketing center and one of the largest villages in the region, and in Diapaga, the center of an agricultural district bordering Niger. The project design was for these two individuals to experiment with different types of credit funds and technical assistance to discover within 2 years those programs that could effectively promote the development of self-sustaining small enterprise.

The Evaluation:

A three-member team worked in Upper Volta from mid-April to mid-May 1982. Two weeks were spent in the Eastern departments interviewing 94 clients.

Major Findings:

- a. The most tangible impact of the assisted enterprises upon their local communities was that they have increased access to the community of goods and services. However, local economies benefitted little via backward production linkages from the increased purchases made with the loans.
- b. Most entrepreneurs had such a high level of underemployment that any production increase resulting from purchase of additional inventories or diversification of product lines could be met by the existing labor force.
- c. About half of the entrepreneurs used their loans exclusively for working capital, and one quarter used the credit to purchase equipment of various kinds.
- d. Since most enterprises sell finished goods or offer personal services, they failed to generate significant linkages to other enterprises.
- e. The project did not generate substantial local investment.

Lessons Learned:

- Credit institutions need to establish consistent rescheduling and write-off policies for delinquent loans.
- Institutions should also collect balance sheet information on clients as a staff training tool and to serve as base-line data.
- Projects with a credit component need to define loan criteria which match project objectives.

- Clients receiving loans should be required to contribute equity to fixed capital investment.
- Credit projects should institute an accounting system that will allow the intermediate institution to evaluate the cost of administering its loan program and estimate the average administrative cost per loan.

5. An Impact Evaluation of the Industrial Bank of Peru's Rural Development Fund

The Project:

The Rural Development Fund (FDR) Program of the Industrial Bank of Peru (BIP) was initiated in November 1975 in the Bank's Sierra Departments of Cuzco, Junin, Puno, and Ayacucho. The program's funding totaled \$10 million, of which \$4 million came from BIP and \$6 million was granted from AID. Initial lending operations were small. After additional funding, the program had lent out \$29 million through 1981.

The objectives of the FDR were to develop and strengthen rural enterprises, create new employment, and to generate income and to improve its distribution.

The Evaluation:

An impact evaluation was conducted during five weeks in January-February 1982 by a three-person team. Two weeks were spent in the field gathering primary and secondary data.

Major Findings:

a. Total loan funds disbursed since the program's inception have helped to generate, each year:

- \$60 million in net profits and salaries to owners;
- \$19 million in income to new employees; and,
- \$50 million in sales to Peruvian suppliers.

b. Approximately \$7,000 of loan funds helped generate one additional full-time job; thus the entire program helped to create about 6,150 jobs.

c. On average, about \$2,700 of loan funds helped sustain jobs existing at the time of the first disbursement or create new jobs. Thus, about 15,700 jobs were sustained or created.

Lessons Learned:

Financial intermediaries should:

- Create an automatic mechanism by which loans are adjusted upward so as to account for inflation if processing time is excessive;
- Clarify to sub-borrowers that interest rates may change automatically with an estimate of the potential increase during the loan period;
- Increase efforts to provide additional banking service to capture the business of FDR borrowers who have graduated to the commercial loan level; and,
- Charge branches for the cost of funds and services provided by the central branch, without penalizing unprofitable branches.

6. The Entrepreneurship Training Program of the Lesotho Opportunities Industrialization Center (LOIC): An Evaluation of its Impact

The Project:

The training program in Lesotho began in 1978, following four years of feasibility studies, negotiations and planning. The first courses were those of the artisan variety for school leavers, with early emphasis placed on the preparation of these individuals for course work, and their training and job placement. It was two years later before the entrepreneurship training course was begun.

The Evaluation:

Over 60 individuals were interviewed during the evaluation, about 40% being graduates of the training program. Another 15% were other businessmen, including some drop-outs from the program, and some who had not taken the entrepreneurship course at all, but whose business operations were similar to those of the trainees.

Major Findings:

- a. Among its graduates and many observers, there seems to be a substantial consensus on the LOIC's performance as a training institution.
- b. Students felt that they had been dealing with highly motivated, competent teachers and hope to keep in touch with them in the future to continue the process of learning from them.
- c. The training institution is well integrated with important sources of knowledge and political influence in Lesotho.
- d. The institution building activities in general, and the advisory bodies in particular, have been supportive of the primary training functions of the LOIC.
- e. There is only a modest sense of the linkages and potential linkages among training effort, enterprises expansion and viability, and community development.

Lessons Learned:

- LOIC training should include efforts to encourage students to do surveys of the local market as a means for identifying economic opportunities which they might later pursue themselves.
- Trainees should be required to write development plans for their business firms, drawing when possible on evidence from the market surveys.
- The LOIC should support, where possible, the establishment and functioning of business associations and chambers of commerce to serve its trainees and the small enterprise sector generally.

Credit to Indonesian Entrepreneurs: An Assessment of the Badan Kredit Kecamatan Program

The Project:

The Badan Kredit Kecamatan (BKK, the Sub-District Credit Body) Program is considered a single program only in that it operates under the auspices of

the provincial government, and receives technical supervision from the Central Java Provincial Development Bank (BPD). The program is composed of 486 BKK, each of which is an independent sub-district credit institution that is locally administered and financially autonomous.

The key components of the BKK program were to:

- Rely on character references from local officials for loan eligibility, rather than on the availability of collateral or lengthy staff analyses of a proposed enterprise feasibility;
- Reduce risk by making small initial loans to a new borrower, and then gradually raising that client's credit ceiling as his or her repayment record warrants;
- Use repeat loans as the borrower's primary incentive for full and timely repayment;
- Charge interest rates high enough to cover operating expenses, including the cost of funds; and,
- Blend local autonomy with overall program quality control.

#### The Evaluation:

An impact evaluation was conducted during six weeks in Indonesia in November-December 1982. Two people were responsible for designing and implementing the evaluation. BPD and BKK staff administered questionnaires and coded and summarized results. One other evaluator provided background research on credit programs in Indonesia and on the BKK.

#### Major Findings:

- a. Petty trading is the primary economic activity for over half of BKK borrowers, and farming the secondary activity for over half.

- b. 60% of the clients are women.
- c. Average borrowers quadrupled their loan size in real terms within four years and received over 13 loans.
- d. Survey results show that BKK loans have promoted the expansion of most borrowers' businesses.
- e. About one-fourth of BKK clients have begun new economic activities since receiving their first BKK loan.
- f. BKK loans have had a positive, although moderate, effect on employment.
- g. The BKK program has had its most significant community impact in areas where the district commission views the program as a vehicle for district-wide development, rather than simply as a collection of sub-district credit organizations.

Lessons Learned:

- Ultimately, the growth and sustainability of the BKK program can be achieved only by maintaining the health of these successful units, and slowly enlarging their ranks to include BKK previously in the lower classes.
- Transplanting the BKK program elsewhere in Indonesia, or abroad, could prove difficult. The program's success is the result of a complementary blend of political support and accountability, decentralized operations and control, skilled external financial and administrative supervision, lending terms and procedures that offer the convenience of money-lenders at a much lower cost, a socially cohesive and homogeneous setting, and a moderately expanding economy.

8. Ventures in the Informal Sector, and How They Worked in Brazil

The Project:

UNO, a Brazilian voluntary organization, was created in 1973 by the U.S. PVO, Accion International/AITEC, with support from Recife's business community, other foreign donors, and the Brazilian public sector. The first

step after the establishment of UNO was to obtain the participation of banks as intermediaries for the onlending of public sector credit funds.

The objectives of the program were twofold: (1) to contribute to increased employment, production, and income among the poor by assisting businesses that had no access to formal credit and government subsidies, and that tended to use "appropriate" labor-intensive technologies, and (2) to create a private voluntary institution that would become completely Brazilian, and able to stand on its own.

The Evaluation:

The evaluator spent four weeks with UNO in the city of Recife during the months of January and February, 1982. There were interviews with: 25 small businesses that had received credit from UNO, 10 members of UNO's management and staff, five members of Recife's business community; and four economists at a local university who were conducting research on UNO and Brazil's informal sector.

Major Findings:

- a. UNO succeeded in reaching business that, in the most part, would have had no access to institutional credit.
- b. Though UNO is a PVO, it succeeded in obtaining a substantial share of its budget from the public sector from the start.
- c. Repayment rates on UNO lending, at 92% to 98%, are remarkably high.
- d. UNO's operating costs have been quite high as a percentage of loan value -- ranging from 50% to over 100%.
- e. Productivity is low, with loans made per non-supervisory worker in Recife at about 24 per year.

- f. UNO's Recife program hardly grew during its first nine years of operations, and reached only 0.3% of Recife's micro-firms in 1981.
- g. UNO has never been able to generate its own income, or to be as financially independent of the public sector as it was meant to be.

Lessons Learned:

- As seen in the above strengths and weaknesses of UNO, many of the weaknesses of a credit program seem to be inextricably bound with the strengths.
  - In order for an organization to be successful at what UNO will have to do under future World Bank projects, it will, like UNO, first have to become strong.
  - Many small firms perceive expansion as "unnatural" and even imprudent -- mainly because of the management problems involved in taking on new employees.
  - New jobs created frequently last only for the duration of the credit.
  - An organization that has been so successful at surviving, like UNO, may be particularly loathe to modify the way it does things because it considers the whole package to have been responsible for its success.
9. An Evaluation of the Dominican Development Foundation's (FDD) Program for the Development of Microenterprises (PRODEME)

The Project:

Until 1981, FDD focused all of its resources -- an annual budget of approximately \$1.4 million -- on the rural areas where the majority of poor Dominicans live. In May 1981 FDD extended its program to the urban areas, where it provides technical assistance and credit to individual microenterprises and informal associations known as "solidarity groups."

The three main objective of the program were: creation of employment; enhancement of income; and the provision of credit and management assistance to microenterprises at low cost.

The Evaluation:

An evaluation was conducted of PRODEME by a two-person team in 1984.

Major Findings:

- a. FDD's technical assistance to enterprises is on a one-to-one basis, and focuses on providing management and technical information that serves to improve enterprise efficiency, productivity and growth.
- b. Accion/AITEC's technical assistance to PRODEME was considered by all interviewed under this evaluation as effective an instrument for transferring knowledge, introducing new ideas and affecting decision-making processes as one could expect.
- c. The credit lending system still suffers from structural deficiencies that continue to burden lending activities. The most important ones to note are: weak communication between both main departments of FDD; centralized decision-making; lack of differentiation between fixed capital and working capital loans; and no shortened application process for follow-up loans.
- d. The formation of two very different, autonomous institutions were unanticipated results of PRODEME. The first is the "Asociacion de Tricicleros" (a group of businessmen who market their products/services by three-wheeled cycles), a grass-roots organization with a membership of over 200 "tricicleros." Also, the Association for the Development of Microenterprises (ADEMI), a new SSE credit program is based mainly on the experience developed within the Foundation. ADEMI was organized as a non-profit institution and started activities in April, 1983.

Lessons Learned:

- The PRODEME experience indicates that the best methodology for providing technical assistance requires striking a balance between a full-time resident advisor and "parachute consultancies."

- Donors should take a more aggressive role in assisting institutions in pursuing the path towards self-sufficiency.
- Foundations like to view grants as seed money that will flower into a self-perpetuating perennial. It is surprising how many organizations start with a flourish, receive a number of grants to start a program, show promising initial results, but then run into rough water about the time the granting agencies decide they want the organization to stand on its own feet.

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**APPENDICES**

APPENDIX A      FINANCIAL ISSUES.

APPENDIX B      SEE EVALUATION INDICATORS AND DATA  
COLLECTION TECHNIQUES.

APPENDIX C      AID PROJECTS IN SMALL SCALE ENTERPRISE  
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## APPENDIX A

### FINANCIAL ISSUES

#### A. Financial Resource Mobilization

This appendix focuses on issues of SSE financial resource mobilization. Transcending the specific mechanics of small-scale enterprise development projects, these issues are important elements in the broader policy and program conceptualization context. They must be taken into consideration during the project concept and design stages.

#### General Observations

- Mobilization of domestic capital for business investment has been of concern to AID over its history;
- AID has encouraged and supported with financing and technical assistance the formation of specialized institutions to channel resources to smaller enterprises (see Section IV. B.3); and,
- AID has attempted to address the long and short-term credit needs of businesses for private sector development by supplying capital through specialized institutions and mechanisms.

#### SHORTCOMINGS OF CAPITAL TRANSFER PROGRAMS

- Such capital transfer programs have had evident shortcomings: Although AID's subsidized capital has augmented the credit available for assisting SSEs in LDCs, outside donors have been less successful in institutionalizing domestic capital formation for the same purpose. Therefore, AID has encouraged host governments to permit lenders (both state owned and commercial) to charge positive real rates of interest, permitting them in turn to offer more attractive returns to sources of capital. The objective is to stimulate the flow of capital into domestic capital markets, augmenting the availability of capital for business lending generally, and for SSE credit lines particularly.

## 1. Interest Rates and Capital Formation

### Assumptions:

- Capturing domestic private capital requires that returns to these funds be profitable;
- Political risk of local investment will be considered carefully by investors; and,
- Interest rates must provide sufficient economic returns and cover the perceived risks of domestic investment.

IF: Interest rates are capped and usury laws exist holding interest charged by vendors at exceedingly low or negative real rates precluding them in turn from offering sufficiently attractive returns to sources of domestic capital.

THEN: domestic financial markets generally will have a difficult time competing with alternative investments available such as commodities, equipment (to be held for speculation), luxury automobiles, land, and real estate.

### Further Implications of Non-Market Interest Policies are:

- SSE lack of access to credit. IF maximum interest that can be charged by lenders is held very low by law or for any other reason.....THEN it can be expected that banks and other formal lenders will opt for lending to their traditional clients where:
  - the size of loans will be greater than to SSEs;
  - the cost of each transaction will be relatively lower than to SSEs; and,
  - the perceived risk will be reduced.
- Low rates of domestic savings.

IF: people cannot get a return on their savings that is at least equal to other alternatives such as in purchasing commodities, equipment, or real estate where the return will be close to or exceed the rate of inflation in the country...

THEN: potential savings will be diverted to these alternatives with a corresponding detrimental impact on the rate of savings, capital formation, and potentially more productive use of domestic capital.

## 2. Capturing and Increasing Savings

AID recognizes the importance of savings to economic development. In addition to interest rates, institutional mechanisms oriented to capturing and increasing domestic savings have been implemented by AID and other donors.

- Savings and loan associations:

AID has supported over the past two decades the institutional development of savings and loan associations. They were created to provide lower and middle income clients with alternative institutions to the traditional commercial banking system to serve their financial needs and interests. Mobilization of the savings of these clients for their own use through relending to themselves is a major objective. While not set up specifically for SSEs, many members are SSE owners and have used savings and credit associations for small, low-interest loans for business expansion.<sup>1/</sup>

- Enforced savings requirements:

SSE credit projects have mobilized savings by requiring the maintenance of accounts and minimum deposits in lending institutions. Large, successful schemes in Bangladesh and Indonesia (BKK)<sup>2/</sup> have "enforced savings" requirements that link borrowers into the formal financial system and provide the lender with additional liquidity, collateral, and information on the borrower.<sup>3/</sup>

## 3. Venture Capital

This area of business finance would generally apply to a very small, select, group of firms that will specialize in high growth potential products often utilizing relatively high-tech and/or capital intensive production techniques and processes. Venture capital is an area that is important to financial resource mobilization for business investment, and will apply to small growth firms. This category of SSE is different from those described in the typology of Section II of this Guide. SSE growth firms normally possess:

- A higher level of technology, capital investment, and per unit labor cost;
- Their owners and managers will probably be better trained; and,
- They will almost certainly be part of the formal sector.

Despite their appearance of being the kinds of businesses that would be eligible for traditional credit, these SSEs still need help. Because of their frequent inability to provide sufficient collateral and the risk level of their enterprises as perceived by bankers, they tend not to meet traditional credit requirements.

Venture capital can be viewed as a second tier in business investment finance. When banks will not lend, venture capital firms can fill the void. "Venture capital" is characterized by long-term debt and equity financing; investments rather than loans; and ideas, deals, and business relationships rather than collateral.<sup>4/</sup> The emphasis is on the assessment of the business, its potential returns and the risks involved.

AID has gained several experiences in what are essentially venture capital operations.<sup>5/</sup> They are:

- Private Investment Bank - Costa Rica;
- Trafalgar Bank - Jamaica;
- Life of Jamaica - Jamaica/PRE;
- Southeast Asia Venture Investment Company (SEAVIC);
- Jamaica Agricultural Development Foundation - PRE; and,
- International Small Business Investment Company;(ISBIC) - S&T/RID

A study conducted by the Bureau of Science and Technology pointed out the lack of long-term and uncollateralized funding for small growth businesses in LDCs. On the basis of this study, the ISBIC model was developed. The model included:

- Establishment of a Washington-based "parent" to seed investment companies in LDCs;
- Provision of a development grant of \$10 million for 10 years (\$1 million per year); and,
- A loan draw down of \$50 million over 10 years for leverage capital.

Other options that project designers and manager's may wish to consider as they think about the problems of small enterprise finance are:

- AID guarantees to private investment companies - AID would guarantee loans made by commercial banks to investment companies, and
- AID guaranties to private banks - a blanket guarantee to any U.S. bank that lends to venture capital companies for LDC investments that meet specific development and credit criteria.

These larger considerations of domestic capital formation, while always a concern to the project designer, may well be beyond the scope of a specific project to aid SSEs. Being fully cognizant of the SSE issues, however, provides a background which should enhance and inform the entire design process.

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END NOTES

APPENDIX A: FINANCIAL ISSUES

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Case study contains a description of how a Colombian savings and loan cooperative works and some of the affiliated social service components that complement the financially oriented activities.

- 2/ Development Alternatives, Inc., Credit to Indonesian Entrepreneurs: An Assessment of the Badan Kredit Kecamatan Program, USAID/S&T/RID/EED, Washington, D.C.

- 3/ Leidholm, Carl, Small Scale Enterprise Credit Schemes: Administrative Costs and the Role of Inventory Norms 21 pages; MSU International Development Papers, Department of Agricultural Economics, Agriculture Hall Michigan State University, East Lansing, Michigan 48824, 1985, p.12.

Contains a good description of the characteristics of low cost lending schemes for microenterprises as a response to the high cost of traditional lending schemes.

- 4/ Mazzie, Bruce L., Venture Capital, USAID/LAC/DR, Washington, D.C. August 1985. p. 1.

This document contains a description of venture capital operations, how they make money, what AID has done in the venture capital area, and a model for a venture capital company. All information on venture capital is drawn from this document.

- 5/ Ibid, p.4.

## APPENDIX B

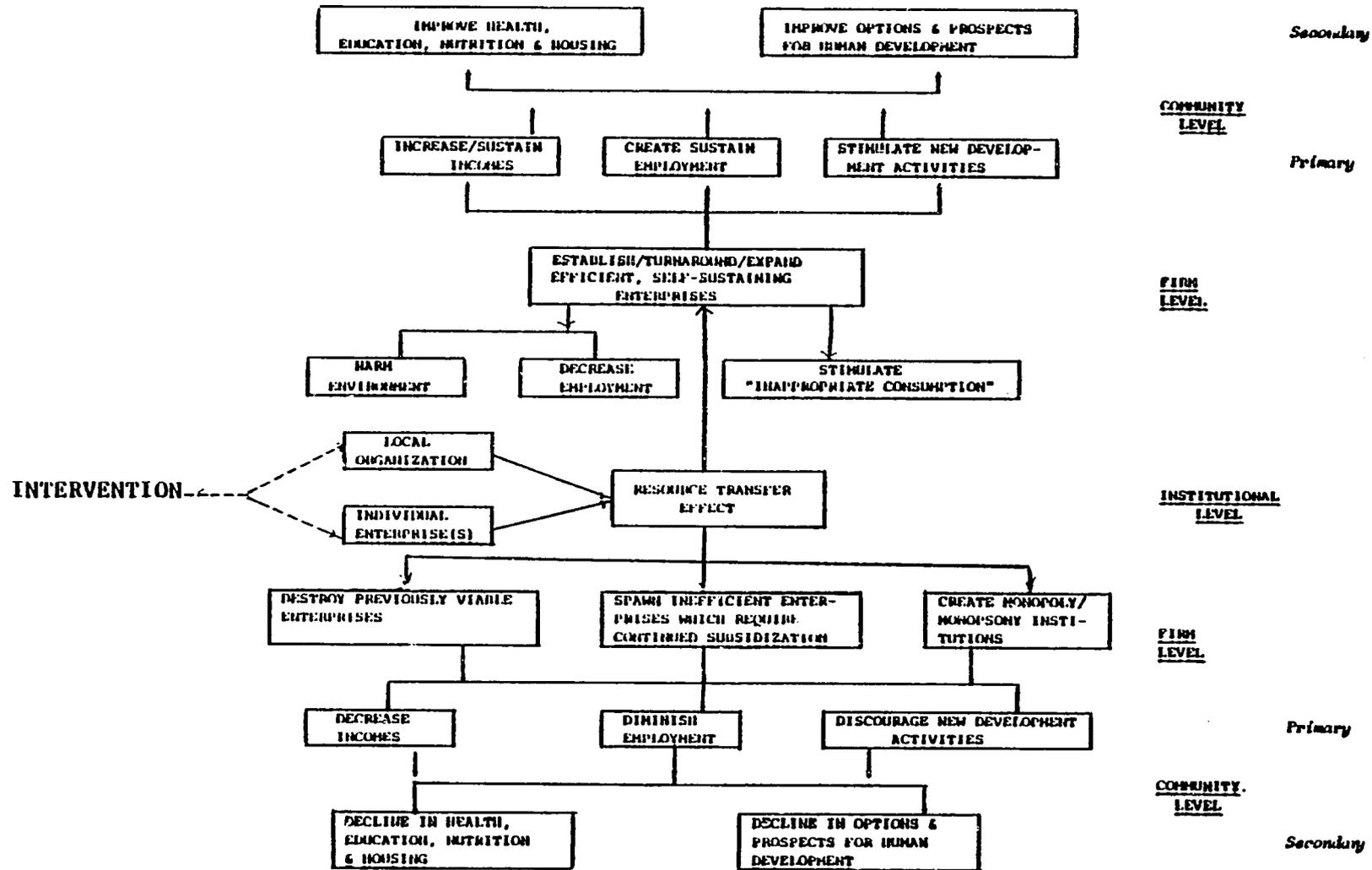
### SSE EVALUATION INDICATORS and DATA COLLECTION TECHNIQUES

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FIGURE B-1

SSE IMPACT HIERARCHY



KEY : | POSITIVE EFFECT  
 | INDIVATIVE EFFECT  
 - - > ALTERNATIVE ASSISTANCE STRATEGIES

Source: Evaluating Small Scale Enterprise Promotion:  
 State of the Art: Methodologies and Future Alternatives.

FIGURE B-2

IMPACT MEASUREMENT: ENTERPRISE PROFITABILITY

INDICATOR	ADVANTAGES	DISADVANTAGES	DATA COLLECTION TECHNIQUES
Gross Sales Product Volume	Purchasing Power Adjustments Unnecessary	Only Comparable With Like Firms	Enterprise Records Review; Entrepreneur Interview; Enterprise Survey; Public Source (Survey, Census)
Cash Value	Common Unit	In Nominal, Not Real Terms	
Net Sales (Cash)	Comparable Across Firms	In Nominal, Not Real Terms, Not Indicative of Profitability	
Gross Profit	Easier To Define Than Net Profits	Misleading Profitability Indicator	
Net Profit	Clear Indication of Firm Health	Definitional Ambiguities	
Profit Margin	Indirect Sensitivity Indicator		
Net Profit/Sales	Indirect Sensitivity Indicator		
Return On Investment	Easily Understood Traditional Indicator		
Social Internal Rate Of Return	Accounts For Opportunity Costs Of Inputs, Value of Outputs	Highly Subjective, Seldom Consistent from Project to Project	
Expenditure Stream/ Income Stream	Describes Firm Liquidity		
Recovery of Promotional, Development Costs	Accounts For Hidden Subsidies		
Dividends		Indirect Indicator of Profit- ability	
Capital Gains		Indirect Indicator of Profit- ability	
Capacity Utilization	Helps Determine Profitability Ceiling		
Product Quality*	Helps Determine Growth Potential	Subjective	Observation; Competitor Comparison
Production Output	When Coupled With Sales, High- lights Possible Technical As- sistance Needs	No Provision For Inventory Indirect Link to Profitability	Enterprise Records Review; Entrepreneur Interview; Enterprise Survey; Public Source (Survey, Census)
Product Value Added	Highlights Net Contribution To Economy		Enterprise Records Review; Entrepreneur Interview; Enterprise Survey; Public Source (Survey, Census)

\* Not an indicator in itself, but rather, a category under which indicators for specific products would be employed.

Source: Evaluating Small Scale Enterprise Promotion:  
State of the Art: Methodologies and Future Alternatives.

FIGURE B-3

IMPACT MEASUREMENT: ENTERPRISE SUSTAINABILITY

INDICATOR	ADVANTAGES	DISADVANTAGES	DATA COLLECTION TECHNIQUES
Total Fixed Costs	Indicates Minimum Revenue Requirements	Interpretation Regarding Sustainability is Conjecture	Enterprise Records Review; Entrepreneur Interview; Enterprise Survey; Public Source (Survey, Census)
Recurrent Costs/Investment	Reflects Dependence on Sales Revenue		
Asset Turnover	Reflects Firm's Dynamism		
Indebtedness/Equity	Can Compare with Records of "Safe Ratios"		
Incremental Investment	Indicates Firm's External Attractiveness		
Incremental Sales Growth	Accounts For Cyclical Variations		
Profitability Over Time			
New Products	Non-Monetary Long-Range Implications		
Worker Turnover	Non-Monetary, Subtle	Not Applicable to a single SSE, But Rather to SSEs As A Sector	
Market Share	Reflects Firm's Marketing Ability		

Source: Evaluating Small Scale Enterprise Promotion:  
State of the Art: Methodologies and Future Alternatives.

FIGURE B-4

IMPACT MEASUREMENT: COMMUNITY INCOME

IMPACT DIMENSION	INDICATOR	ADVANTAGES	DISADVANTAGES	DATA COLLECTION TECHNIQUES
Total Income	Sum of Household Wages + Cash Revenue + In Kind Receipts + Value of Production for Consumption	Comprehensive	High in Cost and Time Requirement; Difficult to Establish	In-Depth Household Surveys and/or Interviews
Net Income	Above less Taxes And Transfers	Assumes Household Perspective		In-Depth Household Surveys and/or Interviews + Official Records Review
Cash Income	Household Wages + Cash Revenue	Common Unit and Definition	Assumes Monetized, Competitive Market Economy	Household Surveys; Enterprise Records
Changes in Total Income	Annual Changes in Sum of Household Wages + Cash Revenue + In Kind Receipts + Value of Production for Consumption	Deals Directly with Impact	High in Cost and Time Requirement; Difficult to Establish	In-Depth Household Surveys and/or Interviews
Disposable Income	Household Purchases + Household Investments	Common Unit and Definition; Deals Directly with Impact	High Cost; Time Consuming; Difficult to Establish; Assumes Market Economy	Household Surveys; Enterprise Records; Observation
Changes in Disposable Income	Changes in Household Purchases + Household Investments	Deals Directly with Impact		Household Surveys; Enterprise Records; Observation
Additional Consumption	Community Sales	Allows for Contextual Values, Unobtrusive Measurement, Deals Directly with Impact	Difficult to Quantify Cheaply	Observation; Interviews; Surveys; Public Sources
Additional Investment	Standard of Living Proxies, i.e., Housing			Observation; Interviews; Surveys; Public Sources
Distribution	Any of the Above Disaggregated Class, Caste, Tribe, Ethnic Group, etc.	Deals with Equity Considerations	High in Cost and Time Requirement; Difficult to Establish	Observation; Interviews; Surveys; Public Sources

Source: Evaluating Small Scale Enterprise Promotion: State of the Art: Methodologies and Future Alternatives.

FIGURE B-5

IMPACT MEASUREMENT: COMMUNITY EMPLOYMENT

IMPACT DIMENSIONS	INDICATOR	ADVANTAGES	DISADVANTAGES	DATA COLLECTION TECHNIQUES
Total Employment	Number of Jobs; Number of Person-Days Worked	Easy To Collect	Does not Account for Worker Source, Quality of Job	Enterprise Records Review; Entrepreneur Interview; Enterprise Survey; Public Source (Survey, Census)
Net Increase in Employment	Change in Number of Jobs; Change in Number of Person-Days (Less Job Losses, Transfers)	Specifies Enterprise Net Employment Impact	Does not Account for Quality of Job	
Total Sustained Increase in Employment	Number of Jobs with Previously Highly Seasonal, Erratic, or Precarious Characteristics Now Stabilized; Net Increase in Person-Days Excluding Those due to the Creation of New Job Positions	Complements Otherwise Misleading Simple Job or Person-Day Tabulations; Reflects Job Stability as Benefit Distinct from Job Creation	Difficult to Assess; Relatively High Degree of Personal Judgment Required	
Worker Welfare	Wages and Benefits; Wages/Profits; Benefits/Profits; Employee Ownership; Employee Management Participation; Worker Turnover; Work Stoppages	Enhances, Personalizes Statistics on Job Creation	Benefits Difficult to Quantify; Discounts Non-Monetary Gains; Sometimes Inappropriate for a Small Enterprise	Enterprise Records Review; Entrepreneur Interview; Enterprise Survey; Public Source (Survey, Census) + Worker Surveys or Interviews + Observations
Composition	Disaggregated Work Force Figures by Economic or Social Class, Race, Sex, Etc.	Indicates Job Sustainability; Indicates Underlying Dissatisfaction, Deals with Equity Issues, Targeting Success or Failure	Difficult to Establish	Enterprise Records Review; Entrepreneur Interview; Enterprise Survey; Public Source (Survey, Census)
Cost	Investment/Job Created; Investment/Additional Person-Days	Indicates Implications For Replication	Does not Include Non-Employment Investment Benefits	

Source: Evaluating Small Scale Enterprise Promotion:  
State of the Art: Methodologies and Future Alternatives.

FIGURE B-6

IMPACT MEASUREMENT: COMMUNITY-LEVEL SOCIOECONOMIC CHANGE

IMPACT DIMENSIONS	INDICATOR	ADVANTAGES	DISADVANTAGES	DATA COLLECTION TECHNIQUES
Secondary Employment and Income	Same as Employment and Income Indicators, but for Larger Populations (Input Suppliers, Users of Output for Further Production, Complementary Producers, etc; See Figure 5 Linkages, And Figure 4: Impact Hierarchy)	Same as for Employment and Income Indicators; Causality Especially Difficult to Determine, but Costs Easier to Justify if Secondary Benefits Included		Same as for Employment and Income Indicators
Spin-Off Activities	Enterprise Community Investments; New Community Enterprises; New Community Organizations	Compatible With View of SSE as Catalyst for Development	Causality Difficult to Establish	Observation; Surveys; Public Sources; Interviews
Externalities	Environmental Degradation; Inappropriate Consumption Shifts	Accounts for Unintended Effects	Causality Difficult to Establish, Judgment Subjective	
Quality of Life	Improved Diets; Declining Infant Mortality; Increased School Attendance	Compatible with View of SSE as Catalyst for Development	Highly Subjective, Expensive to Quantify	
Migration Patterns	Net Rural-Urban Population Flow		Difficult and Expensive to Quantify	

Source: Evaluating Small Scale Enterprise Promotion: State of the Art: Methodologies and Future Alternatives.

FIGURE B-7

ENTERPRISE/HOUSEHOLD ECONOMIC BENEFITS

Source: A Systems Approach for the Design and Evaluation of PVO Small Enterprise Development Projects.

Benefits	Indicators
1) <u>ECONOMIC VALUE ADDED (Income)</u> - Financial profitability - Economic profitability - Income of households	1) Changes in value added are crucial but hard to measure. Some of the more easily counted of these are: - change in number of workers - change in number of products - change in number of machines - change in sales
2) <u>SAVINGS/INVESTMENT/CAPITAL FORMATION</u>	2) Savings include not just cash but also labor.
3) <u>BACKWARD AND/OR FORWARD LINKAGES</u>	3) Backward linkages equal the net income of primary producers (income minus cost); forward linkages are price reductions.
4) <u>NEW CONNECTIONS OF THE FIRM TO OTHER LEVELS OF THE ECONOMY</u>	4) Village = region = urban centers = national capital = international These connections can provide new markets, information, technology, capital
5) <u>INCREASED PRODUCTIVITY</u>	5) Improved ratio of inputs to outputs; more efficient use of labor, equipment, local raw materials, waste by-products; more options about when, how, what to produce and sell.
6) <u>HUMAN CAPITAL FORMATION</u> (Management, formation of entry-level entrepreneurs)	6) This includes the mastery of such skills as the management of working capital, identification of markets, more effective use of business records, planning etc.
7) <u>LABOR</u>	7) Better distribution of labor throughout the year. Increase in skills. Increase in the total number of hours worked.
8) <u>TECHNOLOGY ADAPTATION</u>	8) Performance, efficiency, reliability, maintenance requirements of new technologies. Skill acquisition by users.

Measurement Notes

Many people think economic data is 'hard' because it deals with numbers. However, if one examines the reliability of the numbers more closely, most data about individual economic benefits is very soft. Profitability is difficult to measure even in a monetized economy: there have to be good business records. In a subsistence household there are no records of cash inputs and labor input is very hard to measure. Carl Liedholm noted that to calculate "profitability," labor must be given a price. In addition to the challenges presented by their economic size and lack of records and prices, the subsistence sector and informal economic sector ("micro-enterprises") often have cycles of production which are short, or quite different seasonal economic activities. Therefore, good measures of profits or income are hard to get. An effective approach to measurement may be to carefully study a few units of analysis and use them as an approximate value for other clients. Two weeks of careful monitoring of a client can produce reliable data on labor allocation.

PVO's and evaluators should look for proxy kinds of information which may be useful in estimating benefits and save time and effort in measurement. These include technical reports, theses, and journal articles, which have studied in detail the behavior of small economic units.

BENEFITS TO LOCAL ECONOMY

Source: A Systems Approach for the Design and Evaluation of PVO Small Enterprise Development Projects.

Benefits	Indicators
1. <u>Gross Village Product</u> - increased availability of goods and services (price, quantity, quality, diversity, regularity of supply).	1. This measure must be indicated in terms of local utility of, and need and preference for goods and services. For example, local preferences may be to have regular access to medicine, farm supplies, or fuel; favorite local foods; equipment repair services, or items like good bread and fresh produce.
2. <u>Improved Local Market Infrastructure</u>	2. Increased organization; improvements to actual physical space; more information about prices, demand; creation of alternative channels; regularizing legal requirements and eliminating public regulatory corruption.
3. <u>Development of Other Local Economic Infrastructure</u>	3. Examples of other infrastructure include transport, packing, grading, storage facilities; businesses which supply goods and services which are key to many other producers (distributors, suppliers of farm inputs, veterinary services).
4. <u>New, Expanded Local Industry</u>	4. Greater utilization of local labor, raw materials; increased organization of small producers; increased skills, production technology.
5. <u>Shaping the Local Economy</u>	5. Rationalizing competition; encouraging needed kinds of goods and services; facilitating linkages among firms and between economic levels; more able to export surplus and import for shortages in local economy.
6. <u>Positive Influence on Balance of Payments</u>	6. Local economy replaces more imports with the consumption of local goods and services; local economy increases its exports to other levels.
7. <u>Employment</u>	7. Decreased underemployment; increased productivity of those who are employed; better distribution of employment (more work available in dry seasons; labor saving techniques that increase productivity during peak demand periods).

EQUITY (HUMAN AND SOCIAL DEVELOPMENT) BENEFITS

Source: A Systems Approach for the Design and Evaluation of PVO Small Enterprise Development Projects.

## Benefits

## Indicators

1. Skills, Knowledge, Information

- increased ability to plan, problem solving
- formation of entity-level entrepreneurs
- skill acquisition - managerial/technical
- understanding legal rights
- creativity, reading, writing

2. Quality of Life (physical and psychological)

- income generation and reduced risk of subsistence (food/health)
- better employment conditions
- sense of security/reliability
- socio-economic life of children (education, health, clothing)
- happiness (i.e. preferences are addressed/available)

3. Status/(perceived social distance among individuals)

- expanded roles for poor/ability to fight corruption
- reduced caste distinction
- treatment of women
- decreased subsidies from poor to rich

4. Empowerment and Action

- ability to leverage resources
- increased problem solving ability and efficacy
- ability to defend self, exercise legal rights
- independence, self-reliance, hopefulness
- ability to work together

5. Social Benefits/Costs

- reduced unemployment/underemployment
- recognition of/dealing with social costs
- altruism/social accountability
- reduced social corruption, ecological destruction
- increased integrity as a social norm
- reliability that the system works

1. Examples of skills include technical skills such as fertilizer using, bee-keeping, food processing, money management skills, and farm management/skills in planning and executing over time a strategy of production. Since most peoples' economies involve several economic activities (several farm plots, dry season activities, cash activities, diverse forms of savings and investment) this last type of management skill impacts critically on productivity.

2. Various kinds of indices exist to measure satisfaction of basic needs regarding nutrition, shelter, clothing, health, and education. Service delivery can also be analyzed by types/volume delivered to women, landless labor, minority ethnic groups, and others determined to be poor or disadvantaged in a given local context.

3. Benefits concerning status, empowerment and social costs/benefits are not easy to indicate or measure, let alone compare across programs. Use of multiple indices or scales usually increases reliability for this kind of benefit.

4. In addition to attitude and perception changes, one must also analyze the concrete actions that have resulted from empowerment, and the significance of these actions in terms of social gains. The use of baseline data or local comparison groups are necessary to set some reference point for validly judging progress and change. They Know How (Inter-American Foundation, Rosslyn, VA, 1977) is a good source of social gains indicators.

5. The Evaluation Sourcebook for PVOs published by the American Council of Voluntary Agencies in Foreign Service (NY:1983) is an excellent introduction to tools such as diaries, farmer records, social mapping, problem stories, etc. Pictures and video are also appropriate research tools to indicate social gains over time.

Measurement Notes:

For a long time the feeling has been that human and social development benefits are too soft and too intuitive to quantify. While attitudinal and status variables do not lend themselves easily to measurement, a growing body of interesting and reliable methods for doing this is coming into being. For example, interesting operational definitions exist for coding attitudinal transformations as people experience consciousness-raising and empowerment education.

Clearly, any quantitative indication of attitude transformation or change of social status or quality of life must be accompanied by a qualitative contextual analysis which looks at structural variables like social hierarchy and the impact of class or caste differences on peoples' access to resources. To treat human and social variables well, there must be a quality merging of development theory with social research methods.

## ORGANIZATIONAL AND INSTITUTIONAL BENEFITS

Source: A Systems Approach for the Design and Evaluation of PVO Small Enterprise Development Projects.

### Benefits

### Indicators

#### 1. HUMAN QUALITIES

- Leadership capability of project managers, community leaders.
- Model entrepreneurs/farmers/other beneficiaries (low cost local demonstration system).
- Staff capacity development.

#### 2. PROJECT MANAGEMENT SYSTEMS (Reliability of Operations)

- Project planning and design that is appropriate to context and target group.
- Monitoring and evaluation systems.
- Management information system.
- Financial management and accounting systems.
- Personnel administration and training.

#### 3. ORGANIZATIONAL GROWTH AND DEVELOPMENT

- Progress towards financial viability and away from subsidy - revenue generation.
- Size of budget as a proxy of ability to handle money (also number of direct participants and area served).
- Organization 'Learning Curve': ability of organization to learn from both successes and failures.
- Extent to which project staff, beneficiaries and local community share the same image of project goals, benefits and responsibilities.

#### 4. POLITICAL LINKAGES AND POLICY IMPACT: EXTERNAL ORGANIZATIONAL STRENGTH

- Public respect for an institution demonstrated by beneficiaries, national government, local elites.
- Degree to which an institution is being formed from scratch vs. upgrading of formal organization, services, or practices which already exist.
- Decentralization of services to new areas, target groups.
- Contribution of models, behaviors, methods that are solutions to manifest problems present in the public administration of policy context of a country.
- Replicability/dissemination/transfer of design and methods to other institutions.

1. Degree to which role models actually have others adapt new behaviors, whether a project manager whose staff follows his or her example of productivity, energy or leadership, or a farmer whose neighbors "borrow" agricultural innovations.

2. Presence of Project Management Systems as indicated by:

- a) Adequate financial documentation and cost center accounting, as dictated by program needs (versus consuming income only to pay recurrent costs such as salaries and the latest bills)
- b) Clear analytical understanding of the relationship between project goals, inputs, and the causal sequence by which inputs are transformed into outputs and impact appropriate for the target group.
- c) Regular and reliable data produced about the number and quality of client services.
- d) Written policies and procedures about hiring, benefits, discipline and dispute settlement.
- e) Training systems other than informal apprenticeship.

- a) Change in project's ability to meet its own expenses. Depending on longevity, design, and context of project, milestones in the development of a project's viability would be: consciousness of issues of cost-effectiveness; plans to reduce subsidy; project covers local operational expenses; project maintains capital in loan fund; generation of funds for equipment replacement; project generates surplus for expansion.
- b) Experience of management in negotiation, and bargaining.
- c) Degree of local mastery of higher skills such as planning and management.
- d) Generation of local revenues (fees, services, local investments).
- e) Degree of local equity (money, materials, labor, decision-making participation, intellectual involvement) in project activities.

- a) Demand for agency services and lack of glaring abuse of them:  
Local investment in project services;  
Local peer pressure and cooperation for program efficiency and effectiveness;  
National government contribution.
- b) Examples of "high policy impact":  
recycling of 'white elephant' projects or infrastructure so it is put back into use, and programs which reduce the drain on public resources.
- c) Three indicators of replicability are:  
Agency's ability to document its methods and impact;  
Agency's production of formal widely usable training materials;  
Management ability to form and keep collaborative relationships and keep non-constructive competition under control.

FIGURE B-11

SPECIAL TECHNIQUES FOR COLLECTING SMALL ENTERPRISE DATA

TECHNIQUE	ADVANTAGES	DISADVANTAGES
Enterprise records review	<p>Source of:</p> <ul style="list-style-type: none"> <li>• Profitability indicators</li> <li>• Supplier income indicators</li> <li>• Consumer usage indicators</li> <li>• Community employment and income indicators</li> <li>• Enterprise sustainability indicators</li> <li>• Indirect indication of management and skills</li> <li>• Monetized and physical product figures (comparable and real terms)</li> <li>• Relatively neutral measures</li> </ul>	<ul style="list-style-type: none"> <li>• Often either incomplete, unsystematic, unreliable, or unfamiliar bookkeeping system</li> <li>• Often nominal terms which do not account for inflation or terms of trade changes</li> <li>• Assumes enterprise has Western goals of profit maximization and cost minimization</li> <li>• Sometimes multiple set of books for different purposes (for example, enterprise management versus tax liabilities)</li> </ul>
Enterprise records reconstruction	<ul style="list-style-type: none"> <li>• Standardizes, completes existing data</li> <li>• Formalizes available information for analysis</li> </ul>	<ul style="list-style-type: none"> <li>• Subject to high degree of uncertainty</li> <li>• Liable to be affected by evaluator perspectives and biases</li> </ul>
Entrepreneur, employee interview	<ul style="list-style-type: none"> <li>• Personal perspective(s)</li> <li>• Accounts for nonquantifiable aspects of firm</li> <li>• Often rather quick and inexpensive</li> </ul>	<ul style="list-style-type: none"> <li>• Highly subjective and quite dependent on individual biases</li> <li>• Incomplete, and relatively unsystematic and uncontrolled</li> </ul>
Personal observation (inventory, production system, management-labor relations, marketing activities, etc.)	<ul style="list-style-type: none"> <li>• Individual, qualitative perspective</li> <li>• Quick, inexpensive, and open to creative experimentation</li> </ul>	<ul style="list-style-type: none"> <li>• Highly subjective and liable to be affected by personal biases and selective observation</li> </ul>
Enterprise survey, public surveys and censuses	<ul style="list-style-type: none"> <li>• Large, comparable data base</li> <li>• Systematic</li> <li>• Relatively controlled</li> <li>• Comprehensive</li> </ul>	<ul style="list-style-type: none"> <li>• Expensive and time consuming</li> <li>• Difficult to conduct with wide variety of bookkeeping techniques, and individual enterprise idiosyncrasies</li> <li>• Often biased by status of enterprise data base, and access to this information</li> <li>• Sometimes too aggregated to be useful</li> <li>• Not explanatory</li> </ul>
Competitor comparison	<ul style="list-style-type: none"> <li>• Indicators of product quality</li> <li>• Indicators of plant capacity utilization</li> <li>• Can sometimes provide either baseline for comparison or enterprise development goal</li> </ul>	<ul style="list-style-type: none"> <li>• Often results in inappropriate or misleading comparisons</li> <li>• Implies generalisable assumptions and observations</li> </ul>

Source: Evaluating of Small Scale Enterprise Promotion:  
State of the Art: Methodologies and Future Alternatives.

FIGURE B-12

DATA COLLECTION TECHNIQUES AT THE COMMUNITY LEVEL

TYPE	CHARACTERISTICS <sup>1</sup>	EXAMPLES	ADVANTAGES	DISADVANTAGES
Formal	<ul style="list-style-type: none"> <li>• Quantitative orientation</li> <li>• Logical-positivist perspective</li> <li>• Obtrusive and controlled measurement</li> <li>• Depersonalized data</li> <li>• Static reality assumption</li> <li>• Particularistic</li> <li>• Generalizable</li> <li>• Reliability due to hard and replicable data</li> <li>• Outcomes oriented</li> <li>• Ungrounded, verification-oriented, confirmatory, reductionist, inferential, and hypothetico-deductive</li> </ul>	<ul style="list-style-type: none"> <li>• Comprehensive survey</li> <li>• Random or purposive, sampling, using repertory grids, transects, and the like</li> <li>• High technology reconnaissance</li> </ul>	<ul style="list-style-type: none"> <li>• Standardized</li> <li>• Comparable</li> <li>• Relatively neutral</li> <li>• Controlled if classically designed</li> </ul>	<ul style="list-style-type: none"> <li>• Expensive and time consuming</li> <li>• Simplified version of complex field realities</li> <li>• Limited perspective</li> <li>• Does not explain the change process</li> </ul>
Informal	<ul style="list-style-type: none"> <li>• Qualitative orientation</li> <li>• Phenomenological and verstehen perspective</li> <li>• Naturalistic, gestalt observation</li> <li>• Subjective, personalized data</li> <li>• Dynamic reality assumption</li> <li>• Holistic</li> <li>• Ungeneralizable</li> <li>• Validity due to "real," "rich" data</li> <li>• Process oriented</li> <li>• Ungrounded, discovery-oriented, exploratory, expansionist, descriptive and inductive</li> </ul>	<ul style="list-style-type: none"> <li>• Personal observation</li> <li>• Group interviews, meetings, and panels</li> <li>• In-depth personal interviews, profiles</li> <li>• Participation/observation</li> <li>• Informal chats, games, exercises</li> </ul>	<ul style="list-style-type: none"> <li>• Accounts for project-specific characteristics</li> <li>• Incorporates nonquantifiable features</li> <li>• Utilizes evaluator's accumulated experiences, observations</li> <li>• Multiple perspectives</li> <li>• Relatively inexpensive and quick</li> </ul>	<ul style="list-style-type: none"> <li>• Difficult to standardize</li> <li>• Usually not comparable</li> <li>• Highly subjective</li> <li>• Often uneven and highly selective</li> </ul>

<sup>1</sup> Draws heavily from Thomas D. Cook and Charles S. Reichardt, Qualitative and Quantitative Methods in Evaluation Research, Beverly Hills: Sage Publications, 1979.

Source: Evaluating of Small Scale Enterprise Promotion:  
State of the Art: Methodologies and Future Alternatives.

## APPENDIX C

### AID PROJECTS IN SMALL SCALE ENTERPRISE DEVELOPMENT SINCE 1975

The attached list of 51 SSE projects was compiled from printout reports obtained for the contractor by the Center for Development Information and Evaluation (CDIE). The list is intended to provide project officers and designers with a quick reference to locating projects of interest. It indicates the project reference number, project title, level of funding, type of implementing organization, type of services provided, level of enterprise served and additional brief comments on project purpose.

## APPENDIX C

AID PROJECTS IN SMALL-SCALE ENTERPRISE DEVELOPMENT													
PROJECT NUMBER	PROJECT TITLE	COUNTRY	PROJECT COST	TIME PERIOD	SUPPORT INSTITUTION	TYPE	TECH. ASST.	MNGRI. ASST.	GROUP TRAIN.	TYPE OF ENTERPRISE	LOAN FUND	EST. AVG. LOAN	COMMENTS
5320080	Jamaica Nat'l. Development Foundation	Jamaica	\$ 750,000	81-85	Jamaica Nat'l. Dev. Found.	PVO	Yes	Yes	Yes	Micro	Yes	\$ 1,000	Training to include exchange trips for MDF personnel.
5270241	Urban Small Enterprise Development	Peru	10,000,000	82-86	Peruvian Ind. Bank	MDB	Yes	Yes	Yes	Micro	Yes	4,600	Focus of reforming financial markets as well.
5210181	Haitian Development Foundation	Haiti	4,500,000	84-86	Haitian Dev. Foundation	PVO	Yes	Yes	Yes	Micro	-	4,000	Project fund to be used partly for covering operating deficit.
5220205	Small Business Development	Honduras	5,000,000	84-87	Ind. Lending Fund	Gov.	Yes	Yes	Yes	Small/Medium	-	38,000	Gov. institution will provide funds to five private commercial banks.
5250221	Employment Planning and Generation	Panama	5,765,000	81-85	3 Ministries	Gov.	Yes	Yes	Yes	Small/Medium	Yes	31,000	One element of three-part project, credit for small business.
9380211	Accion International/AITEC	Lat. Amer. Regional	650,000	83-86	AITEC	PVO	Yes	-	-	Micro	No	-	Evaluates impact and efficiency of its programs.
5200245	Rural Enterprises Development	Guatemala	8,170,000	79-85	CORFINA	DFC	Yes	Yes	Yes	Micro/Small	Yes	30,000 Max.	Also to focus on appropriate technology use for artisan development.
5170154	Small Business	Dominican Republic	500,000	81-84	Dominican Dev. Found.	PVO	Yes	Yes	-	Micro	-	2,100	Two-thirds of the loans were to solidarity groups.
5190216	Central Marketing Cooperative	El Salvador	75,000	79-81	National Small Busin. Feder.	Trade Assoc.	No	No	Yes	Small	No	N/A	Technical assistance grant to permit Federation to assist members.
5180098	Small Enterprise Loan	Ecuador	4,450,000	71-77	Central Bank	Gov.	Yes	Yes	Yes	Small Indust.	Yes	14,600	Special fund in trust department of bank.
5220127	Expanding Income and Employment	Honduras	155,000	76-79	Technoserve	PVO	Yes	Yes	Yes	Micro	Yes	N/A	Grant mostly for technical assistance to micro-manufacturers.
9380131	Institute for Int'l. Development	Worldwide	1,011,000	79-82	IIDI	PVO	Yes	Yes	Yes	Small/Micro	No	N/A	U.S. PVO establishing training centers and promoting business development.
9380145	Technoserve	Latin Amer./Africa	2,126,000	79-82	Technoserve	PVO	Yes	Yes	Yes	Small	No	N/A	Focus on rural agri-business.
9380141	Partnership for Productivity	Worldwide	673,000	79-82	???	PVO	Yes	Yes	Yes	Small Micro	No	N/A	Focus on management and credit assistance
5220179	Honduran Federation of Industrial Coops	Honduras	70,000	80-81	Hond. Fed. of Indus. Coops.	Nat. Coop.	Yes	Yes	Yes	Manuf. Coops.	Yes	-	Manufacturing Coops needing raw material and marketing assistance.
5240141	Rural Small Merchant Credit Unions	Nicaragua	135,000	77-75	Nicaragua Dev. Found.	PVO	Yes	-	-	Small/Micro	No	N/A	Focus on strengthening "FUNDE" to carry out loan programs.

## APPENDIX C (Cont'd.)

## AID PROJECTS IN SMALL-SCALE ENTERPRISE DEVELOPMENT

PROJECT NUMBER	PROJECT TITLE	COUNTRY	PROJECT COST	TIME PERIOD	SUPPORT INSTITUTION	TYPE	TECH. ASST.	MNGRL. ASST.	GROUP TRAIN.	TYPE OF ENTERPRISE	LOAN FUND	EST. AVG. LOAN	COMMENTS
5240198	Small Enterprise Development	Nicaragua	\$ 700,000	80-83	Technoserve	PVO	Yes	Yes	Yes	Small/Micro	No	N/A	Objective of continuing Technoserve's role in providing technical assistance to private organizations to identify, implement, and operate business.
5210118	Haitian Development Foundation	Haiti	495,000	79-81	Haitian Dev. Foundation	PVO	Yes	Yes	Yes	Small/Micro	Yes	2,056	Establish a private credit institution to provide credit and technical assistance.
5130282	Small-Scale Regional Development	Chile	110,000	76-78	Ind. Corp. for Regional Dev.	PVO	Yes	-	-	Small/Micro	No	N/A	Grant centers on identification and promotion of small industrial projects.
5130287	Small-Scale Regional Development	Chile	100,000	76-77	Ind. Corp. for Regional Dev.	PVO	Yes	-	-	Small/Micro	No	N/A	Grant centers on identification and promotion of small industrial projects.
9329034	Institute for Int'l. Development	Worldwide	650,000	72-78	IIDI	PVO	Yes	No	No	Small/Medium	No	N/A	Assistance to indigenous entrepreneurs and to encourage foreign investment.
9365428	A.T. International	Worldwide	1,650,000	72-78	ATI	PVO	Yes	Yes	-	Small/Micro	No	N/A	Follow-on grant for appropriate technology promotion.
9310290	Small Enterprise Approach to Employment	Worldwide	2,778,000	78-85	Various	PVOs, etc.	No	No	No	Micro	No	N/A	Grants and contracts for research and analysis of microenterprise projects.
9380203	Partnership for Productivity	Worldwide	2,080,000	82-85	PPP	PVO	Yes	-	Yes	Small/Micro	No	N/A	Grant to support small-scale, rural enterprise development.
2530147	Production Credit	Egypt	68,000,000	82-85	Dev. Industr. Bank	NDB	Yes	Yes	No	Small/Micro	Yes	-	Credit program, both for commodity imports and SSE development.
5270176	Rural Enterprises II	Peru	8,000,000	79-83	Peruvian Industr. Bank	NDB	Yes	-	Yes	Small/Micro	Yes	1,562	Focus on Rural Development Fund for extension of credit and IA to SSE.
5220195	Rural Enterprise Credit Fund	Honduras	236,000	81-83	Honduran Dev. Institute	PVO	-	-	Yes	Small/Micro	Yes	-	Focus on credit to small, rural business.
5190197	Small Enterprise Development	El Salvador	800,000	78-82	Technoserve	PVO	Yes	Yes	Yes	Small/Micro	No	N/A	Establish and expand rural enterprises/cooperatives.
9380146	Action International/AITEC	Latin America	530,000	79-82	AITEC	PVO	Yes	Yes	Yes	Small/Micro	No	N/A	Employment generation and management programs for small urban and rural enterprises.
5120287	Assistance to Small and Medium Industries	Brazil	-	-	Training/Research Center	Gov.	Yes	Yes	Yes	Small/Medium	No	N/A	Establish training and research center for labor and management.
5270140	Reconstruction and Development, Small Business	Peru	2,446,000	72-75	Commission for Recon. & Rehab.	Gov.	Yes	Yes	No	Small/Medium	Yes	4,600	Credit to small and medium business affected by earthquake.

## APPENDIX C (Cont'd.)

## AID PROJECTS IN SMALL-SCALE ENTERPRISE DEVELOPMENT

PROJECT NUMBER	PROJECT TITLE	COUNTRY	PROJECT COST	TIME PERIOD	SUPPORT INSTITUTION	TYPE	TECH. ASST.	MGR. ASST.	GROUP TRAIN.	TYPE OF ENTERPRISE	LOAN FUND	EST. AVG. LOAN	COMMENTS
5380018	Employment Investment Promotion	West Ind./ East Caribb.	\$ 9,800,000	79-84	Caribbean Dev. Bank	RDB	Yes	Yes	Yes	Small/Medium	Yes	>\$100,000	Both direct lending and on-lending by CDB.
5190229	Small Enterprise Development	El Salvador	18,750,000	80-84	FEDECACES and FEDECOFINITO	Private and Semi-Autonomous	Yes	Yes	Yes	Small/Micro	Yes	-	Expansion and improvement of the cooperative associations.
5320076	Small Business Association of Jamaica	Jamaica	350,000	82-85	Small Bus. Association	Gov.	Yes	Yes	Yes	Small/Micro	No	N/A	Develop the SBA's ability to provide members with services and expand membership.
5170150	Small Industry Development	Dominican	5,850,000	82-87	Central Banks Econ. Devel. Inv. Fund	Gov.	Yes	No	No	Small/Micro	Yes	26,000	Sets up five technical assistance centers for delivery and Central Assistance Facility for credit.
4980277	ASEAN Small and Medium Business Investment	Asia Regional	2,750,000	84-87	Technonet Asia, AIM, ISEAS	PVO	No	Yes	Yes	Small/Medium	No	N/A	Focus on management and technical training and problem-related technology transfer and research.
6330212	Rural Enterprise Extension Service	Botswana	500,000	78-82	PIF	PVO	No	Yes	Yes	Small/Micro	No	N/A	Establishes an extension training program for small-scale entrepreneurs.
6150174	Rural Enterprise Extension Service	Kenya	360,000	77-81	PIF	PVO	No	Yes	Yes	Small/Micro	No	N/A	Delivery of appropriate and individual management skills to small-scale rural entrepreneurs.
6450222	Small Enterprise Support	Swaziland	-	85	-	PVO	Yes	Yes	Yes	Small/Micro	No	N/A	Focus on trade associations and entrepreneurial training.
6250715	Entente States: African Enterprises	Central/West Afr. Regional	17,495,000	73-82	5* NDBs	Gov.	Yes	Yes	No	Small/Medium	Yes	-	Loans to the five-nation Entente Fund, which re-loans to their NDBs, who in turn, make business loans.
6320209	Cottage Mohair Industry	Lesotho	500,000	78-81	CARE	PVO	Yes	No	Yes	Micro	Yes	-	Developing a handspun mohair yarn industry in the villages.
6310034	Training for Small Business	Cameroon	2,361,000	80-82	Univ. Center for Bus. Adm. and PVOs	PVO & Gov.	No	Yes	No	Small/Micro	No	N/A	Training, research, and extension for SSE in rural towns.
6690163	Nimba County Rural Technology	Liberia	4,750,000	80-85	PIF	PVO	Yes	Yes	No	Small/Micro	Yes	-	Appropriate Technology Center for small rural enterprise and agriculture.
6860249	Small Economic Activity Development II	Upper Volta	2,300,000	81-86	PIF	PVO	Yes	Yes	No	Small/Micro	Yes	-	Establishes a non-collateral production credit fund with variable terms.
6150220	Rural Private Enterprise	Kenya	36,000,000	83-89	Minist. of Finance	Gov.	Yes	Yes	No	Small/Medium	Yes	-	Loans for establishing new enterprise or expanding existing ones in rural areas.
9380231	Pan American Development Foundation	Latin Amer. Regional	225,000	83-86	8 NDBs	PVOs	Yes	No	No	Small/Micro	Yes	-	Focus on strengthening eight regional NDBs especially in credit.

\*Ivory Coast Industrial Development Bank; National Development Bank, Upper Volta; Development Bank of the Republic of Niger; Togo Development Bank, Togo; and Dahomey Development Bank, Dahomey.

APPENDIX C (Cont'd.)

AID PROJECTS IN SMALL-SCALE ENTERPRISE DEVELOPMENT													
PROJECT NUMBER	PROJECT TITLE	COUNTRY	PROJECT COST	TIME PERIOD	SUPPORT INSTITUTION	TYPE	TECH. ASST.	MNGRL. ASST.	GROUP TRAIN.	TYPE OF ENTERPRISE	LOAN FUND	EST. AVG. LOAN	COMMENTS
5210144	Haitian Development Foundation	Haiti	\$ 690,000	82-83	Haitian Dev. Foundation	PVO	Yes	Yes	No	Small/Micro	Yes	\$ 2,500	Small business and cooperatives in urban areas.
5140181	Small Industry Development	Colombia	5,000,000	75-78	Popular Finance Corp.	DFC	Yes	Yes	Yes	Small/Medium	Yes	-	Equity capitalization of the various DFCs for relending to industrial concerns.
3880042	Rural Industries	Bangladesh	5,000,000	81-86	Micro Ind. Dev. Assist. Society	Gov.	Yes	Yes	Yes	Small/Micro	Yes	-	Rural industry promotion; financing feasibility studies and pilot projects.
4930329	Private Sector In Development	Thailand	5,600,000	83-87	Indust. Finance Corporation	Gov.	Yes	Yes	Yes	Small/Medium	Yes	-	Multi-faceted project concentrating on numerous aspects of private sector development.
6120219	Management Assistance to Rural Traders	Malawi	2,828,000	83-84	PIF	PVO	No	Yes	No	Small/Medium	No	N/A	PIF to establish the Development of Malawi Traders' Trust to act as business advisory service.