The PISCES II Experience:

Case Studies from Dominican Republic, Costa Rica, Kenya and Egypt

Agency for International Development

Volume II

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THE PISCES II EXPERIENCE:
LOCAL EFFORTS IN MICRO-ENTERPRISE DEVELOPMENT

VOLUME II
CASE STUDIES

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PREFACE

Volume II of The PISCES II Experience: Local Efforts in Micro-Enterprise Development consists of case studies of the four demonstration projects designed, assisted, and studied by the PISCES Phase II team. A summary of the Africa experience of the Program for Investment in the Small Capital Enterprise Sector (PISCES), prepared by the Development Group for Alternative Policies, is also included. Volume II complements Volume I, which presents general conclusions about micro-enterprise assistance efforts, drawing from the four case studies and conclusions arrived at in the PISCES Phase I research and from evaluations of similar projects.

PISCES has been funded by the Agency for International Development (AID)/Washington since 1978 to explore the feasibility of direct assistance to tiny informal sector enterprises.[1] In its justification for the funding of PISCES, AID noted that from 30 percent to 70 percent of the urban labor force in developing countries involves informal sector activities and that in many countries that percentage is increasing rapidly. It also noted that informal sector entrepreneurs are among the poorest urban dwellers and speculated whether direct assistance to the owners of these businesses might increase their income, employment, and access to services, given their almost universal lack of access to credit at reasonable rates, lack of management skills, a hostile policy environment, and exploitative relations with middlemen and suppliers.

The prime contractor for the PISCES Project is ACCION International/AITEC. ACCION is in charge of the technical direction of the project, the Latin American fieldwork, and the synthesis of the study results. The African and Asian components have been subcontracted to the Development Group for Alternative Policies and to Partnership for Productivity, respectively. All three agencies are private voluntary organizations with considerable experience in small enterprise development.

In Phase I of the PISCES Project, 20 projects in 16 countries were studied and reported on, and the key elements were

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[1]PISCES Phase I, contract number AID-otr-C-0013.

identified so as to promote a systematic understanding of why some projects succeed and others fail.[2] Building on this research experience, in Phase II, demonstration projects in four countries were designed, implemented, and evaluated.[3] These demonstration projects, developed by the PISCES team in conjunction with local institutions in the Dominican Republic, Costa Rica, Kenya, and Egypt, were funded in part by local USAID Missions.

The four case studies and the introduction to the Africa case studies presented here provide a wealth of insight into the details (and the difficulties) of implementing micro-enterprise projects that reach the poorest strata of the population. They will be invaluable for project directors and planners who need to be aware of potential problems in project implementation and for researchers seeking to understand these projects better.

Jeffrey Ashe
Director of the PISCES Project
Senior Associate Director
ACCION International/AITEC

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[2]Michael Farbman, ed., The PISCES Studies: Assisting the Smallest Economic Activities of the Urban Poor (Washington, D.C.: Agency for International Development, September 1981), the final report of PISCES Phase I, is available from the Center for Development Information and Evaluation, Bureau for Program and Policy Coordination, U.S. Agency for International Development, Washington, DC 20523. The PISCES Phase I final report summary, Assisting the Smallest Scale Economic Activities of the Urban Poor: Summary and Recommendations for Donors and Practitioners, by Jeffrey Ashe, is available from ACCION International/AITEC.

[3]PISCES Phase II, contract number AID-otr-C-1823.

GLOSSARY

AID	- Agency for International Development
AIP	- Accelerated Impact Program
ALOZ	- Adult Literacy Organization of Zimbabwe
barrio	- Neighborhood
¢	- Colon--Costa Rica's currency
CDTF	- Community Development Trust Fund
CEOSS	- Coptic Evangelical Organization for Social Services
CHF	- Cooperative Housing Foundation
CRS	- Catholic Relief Services
DDF	- Dominican Development Foundation
Development gap	- The Development Group for Alternative Policies
IMAS	- Institute for Social Assistance
K Sh	- Kenyan shilling
LE	- Egyptian pound
MTSS	- Ministry of Work and Social Security
NCCK	- National Christian Council of Kenya
NGO	- Non-governmental organization
NTFC	- National Task Force Committee
PISCES	- Program for Investment in the Small Capital Enterprise Sector
PRODEME	- Program for the Development of Micro-Enterprises (Programa para el Desarrollo de Micro-Empresas)
PVO	- Private voluntary organization
SBP	- Small business promoters

SBS	- Small Business Scheme
<u>tricicleros</u>	- Vendors who pedal heavy cargo tricycles throughout Santo Domingo selling their wares
<u>triciclo</u>	- Heavy cargo tricycles
UCIP	- Urban Community Improvement Program

CHAPTER ONE

ASSISTING THE SURVIVAL ECONOMY: THE MICRO-ENTERPRISE AND SOLIDARITY GROUP PROJECTS OF THE DOMINICAN DEVELOPMENT FOUNDATION

by Jeffrey Ashe

SUMMARY

The Dominican Development Foundation (DDF), a private voluntary organization founded in 1965, has worked extensively in rural areas in the Dominican Republic. The DDF became interested in an urban micro-enterprise project in 1980, and that year the Agency for International Development (AID) approved funding for a feasibility study that clearly demonstrated the needs of the informal economic sector in Santo Domingo. The Program for the Development of Micro-Enterprises (PRODEME) became operational in May 1981, and the first loans were disbursed to microbusiness owners in July of that year.[1]

PRODEME includes two components: (1) a solidarity group component consisting of small groups of five to eight members who mutually guarantee a loan made to the group for individual business purposes and (2) a micro-enterprise component that provides loans to individual business owners and management assistance. Through December 1983, 343 loans to solidarity groups with nearly 2,000 members averaging $233 per member have been granted, and 211 loans averaging $1,817 have gone to those in the micro-enterprise component.

The objectives of the micro-enterprise component are stated in concrete terms of increased income and employment. The solidarity group component, while including these goals, also has the more intangible aim of "empowerment" of participants by means of developing mutual support and leadership through group processes. The results of the solidarity group program are therefore measured according to the criteria of group cohesion and the participation of members, as well as increased income.

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[1]PRODEME is funded by USAID, the Inter-American Foundation, Appropriate Technology International, and local Dominican sources. From the start AITEC has provided technical assistance through a full-time resident adviser whose contract ended in August 1983.

Solidarity Group Component

The businesses of the solidarity group component are much smaller than the micro-enterprise businesses, usually comprising only the owner. Eighty-three percent of the project's clients are tricycle cart vendors (tricicleros) and the other 17 percent are seamstresses, food vendors, or market stall holders and are known as the "working capital" group. The tricicleros of the program receive $212 toward the purchase of a triciclo (which they had previously rented) plus $21 for working capital, to be repaid in 52 weekly payments. The working capital group members receive up to $233 to be used for working capital only, also to be paid in 1 year. A flat annual interest rate of 24 percent is charged.

Tricicleros are all male and average 30 years of age, whereas three-quarters of the working capital recipients are female and average nearly a decade older. Almost all in both groups are immigrants to Santo Domingo from rural areas (tricicleros average 9.6 years' residence in Santo Domingo and working capital recipients 14 years). They have lived in their barrio (neighborhood) for 5 or 6 years and have 4 years of schooling. Both groups work an average of 48 hours a week. The beneficiaries of the solidarity group component are poorer than those of the micro-enterprise component, although not the most destitute members of society, and live in the poorest barrios of the city.

The solidarity group project methodology emphasizes participation, and group members are encouraged to take an active role in the program. Members are responsible for recruiting new members, who organize themselves into provisional groups. These newly formed groups attend a 4-hour two-part course on the program emphasizing the solidarity group concept and their responsibility for paying their loans; at the end of the course members select group presidents. The groups attend barrio-level meetings for 1 to 2 months before their credit request is submitted to the DDF, further testing their cohesion as a group and commitment to the program.

Late-payment problems are handled by one of the five coordinators of the program responsible for certain barrios within the city. When a member is 8 weeks late the possibility of repossessing his triciclo (in the case of tricicleros) or taking some other measure is discussed. Group membership reinforces the individual's sense of responsibility for loan payback as each group member is a cosigner for the debt of the others.

Access to credit at reasonable interest rates is a strongly felt need among the Dominican poor, since loans are usually obtained from moneylenders at exorbitant rates of up to 20 percent a day. Besides this, what draws people to the program is

the mutual support among members, the easily understood goals, and the possibility of assuming leadership roles in the solidarity groups or in the Dominican Association of Tricicleros, which was formed by group members.

Measuring Solidarity. One measurement of solidarity and therefore of the impact of the solidarity component of PRODEME is the opinion of the group members themselves concerning the program. When asked if they would prefer a group loan to an individual loan, 6 in 10 said they would prefer a group loan. Also, most (74 percent) said they would take out a second loan with the same group, 24 percent that they would take out one with some of the members of their group, and only 2 percent said they would prefer to take out a loan with another group altogether, showing that group cohesion is quite strong. Active participation in the program is broad based: over half said they have recruited others for the program and a third said they are in a group that meets "frequently" outside the regular barrio-level meetings.

Group presidents were also questioned about solidarity. They were asked what functions their groups served in addition to collecting the loan quota, an important measure of the effectiveness of the group mechanism. Ninety percent said that members give each other business advice, and 80 percent and 70 percent, respectively, said their members help recruit new members and form new groups. Two-thirds of the group presidents said they would be president again, if given the choice. They liked the opportunity to take on responsibility and felt this experience had opened up new paths for them.

The perspective of the PRODEME coordinators on the issue of solidarity was also studied. They consider as among the positive aspects of their groups that 70 percent have "good presidents," half the groups have "good solidarity," and a third meet among themselves frequently to share ideas and advice. On the negative side, 85 percent of the groups have had one or more late payments, in a third of the groups it has been necessary to either repossess a triciclo or remove a member because of late payments, and in a quarter of the groups one or more members have sold or pawned their triciclos. In rating the groups they worked with, coordinators noted a strong trend for the first groups formed to have far more problems than the groups recently formed. When the first flush of enthusiasm fades and other pressing needs arise, payback, which with new groups is always on time, often becomes a second priority. Divisiveness then emerges as group members who are paying on time start pressuring the slower ones.

Perhaps one of the most significant impacts of the solidarity group program has been the formation of an association of tricicleros, the Dominican Association of Tricicleros San Jose Obrero, which shows the degree to which tricicleros are willing

to organize and work together for mutual benefit. The Association meetings have evolved from the chaotic gatherings of the first months to orderly meetings with an agenda, elected officers, and parliamentary procedures. The meetings, previously held in a garage, are now held in a rented hall.

Through contributions from members, an emergency loan fund has been created, to be used mainly in the event of sickness or death in families. There is also a committee to visit the sick, and Association leaders have agreed to visit members who are jailed. An Association savings and loan cooperative has been planned. At least one of the Association leaders attends each of the barrio-level meetings held throughout the city every week.

Changes in Income. Changes in income must be related to the health of the economy. If the economy is booming, or at least stable, small informal sector businesses will thrive; if the economy is in severe recession, the street economy will be affected adversely as well. The Dominican economy is in a period of decline. When asked if current economic conditions made it hard to earn more, 88 percent of the tricicleros and 73 percent of the working capital recipients answered yes. Most say the cost of the items they sell is higher, and a majority are selling more now but earning less because of rising costs.

This partly explains the 11-percent decrease in income among group members measured from the time they entered the program to the date of the interview. But are program participants better off for having received a loan? For the triciclero, at least, the answer is yes. Simply through ownership of the triciclo they will save $468 a year in rental fees, representing a 16-percent increase in yearly business income. The 17 percent who keep their triciclos at home will save an additional $50 a year in garage fees. Tricicleros are also able to ride further and faster with their new tricycles, thus expanding their market.

The long-term impact on income of the working capital loan recipients is less clear. Often working capital is used up on household necessities rather than being reinvested.

Group Members' Opinions About the Program. When asked what they liked about the program, it is striking that "solidarity" (25 percent) and "the emergency fund" (20 percent)--two things brought about by the beneficiaries themselves--together rate higher than the loan component, another indication of the beneficiaries' sense of "ownership" of the program.

When asked what they liked least about the program, most disliked the irresponsibility of some group members. Also mentioned frequently were "the long delay in receiving the loans"

and "the way the loan payments are made, or the loan terms," comments that suggest ways the program might be improved.

Showing their desire for additional sources of working capital, 56 percent of the loan recipients, when asked to rank new types of services the program could provide, said they would like a savings and loan cooperative or small working capital loans; 28 percent said "a place to buy cheap merchandise," 14 percent "a course or class," and 2 percent said "trips or parties." Sixty-five percent believe the program should provide small working capital loans, and 80 percent are interested in taking out a second year-long loan.

Problems and Recommendations. The Dominican Development Foundation is to be commended on the success of the solidarity group component of the program. In 30 months, 343 solidarity groups with nearly 2,000 members have been financed, and many more solidarity groups already organized by project participants are awaiting funding. But despite the undeniable successes, program improvements are needed.

The 1982 evaluation identified two major, closely intertwined problems: a worrisome problem of low payback, and the slowness of the institution's procedures for disbursing loans, which results in increased administrative costs and unnecessary delays for the program's clients. On the programmatic side, it was noted that the policies and mechanisms for granting second loans needed to be specified and a system for granting smaller, shorter term working capital loans needed to be created.

Problems with repayment became evident in April 1982. Before then, all payments had been made on time. By April, the repayment rate had decreased to 80 percent, and by September 1982 to 67 percent. The solidarity group coordinators estimated then that they spent half their time with loan collection and repayment problems.

This problem was discussed with the DDF staff and beneficiaries, and at that time the conclusion was that there was little incentive for the solidarity group members to repay their loans other than their moral commitment to the program. Coordinators complained they could not get the backing of the Foundation to repossess triciclos or to take other measures when serious late payment problems emerged. It was also noted that another possible cause of low payback was that only one second loan had been given out. Why pay the loan if there is little possibility of getting a second one and when there are so many other urgent needs to be met?

It was decided that to improve the late payment problem, PRODEME needed to take two measures:

1. Define the policy on late payments clearly and make repossession easier for coordinators. For example, triciclos should be repossessed after 8 weeks' default, with the group's approval.

2. Grant second loans as quickly as possible after the first loans are paid. This would provide an incentive for prompt repayment.

Another change that was considered was providing short-term working capital loans. The loan payback period--52 weekly payments--was a problem for many clients. If one considers that virtually none had had experience with business loans that lasted more than a week, 1 year appeared interminable.

Granting shorter term loans might have several consequences:

-- Smaller initial loans granted for shorter periods would help select groups that are responsible about payback.

-- Being strict about loan repayment would lower the late repayment rate.

-- Success in paying the first loan and subsequent larger loans would help increase solidarity and decrease divisiveness.

-- Granting second loans quickly would act as a stimulus to pay existing loans.

-- These measures should cut considerably the time required to collect on late and defaulted loans and reduce the cost of administering the program.

By the time of the September 1983 visit some progress had been made in all these areas. An aggressive effort to improve loan payback by repossessing triciclos from individuals who refused to pay had increased the repayment rate from 67 percent to 78 percent for the newer groups and to 68 percent for the older groups. Also, several second loans had been made, and the DDF had experience with loan payback periods as short as 6 months.

Only modest progress had been made, however, in reducing the time required to make a loan. Indeed, some groups had been waiting for as long as 6 months to receive their loans. A similar program in San Salvador took less than a month to approve and disburse its first loans and only 2 or 3 days to disburse second and subsequent loans. Increasing the agility of the program will have been worth it if the solidarity component covers its costs, thus opening the way to serving far more clients.

The Micro-Enterprise Component

The businesses of the micro-enterprise component are considerably larger than those of the solidarity group component, having an average of 2.2 full-time equivalent employees (part-time employees are counted as one-half a "full-time equivalent") and $4,244 in total investment. The owners of these businesses average 38 years of age and have 10 years of education and 15 years of experience. In contrast to the solidarity group beneficiaries, members of this group tend to be among the upper strata of the poor. It is the increased employment opportunities offered to the truly poor that justifies this type of project on social grounds.

The methodology of the micro-enterprise component contrasts sharply with that of the solidarity group assistance effort. Assistance is to individual enterprises, and, except for an artisan fair held in September 1983, there is no mechanism to group micro-enterprise beneficiaries together. Assistance to each micro-enterprise is intensive, and considerable effort goes into setting up a bookkeeping system and improving management capacity.

Measuring Business Success. To assess the impact of the micro-enterprise component of the project, the success of the businesses in the program was compared with that of a control group of businesses that had made contact with the DDF but had dropped out early in the program. The impact of the loan and the management training was demonstrated by the fact that the businesses assisted intensively by the program with loans and management assistance outperformed the businesses of the control group on every measure of business success. Subtracting the advances made by the control group from those of the businesses in the program showed net increases of 31 percent in total investment, 24 percent in machinery and equipment, 25 percent in monthly sales, and a 20-percent increase in "aggregate value" (sales less the cost of raw materials--a simple measurement of overall business change).

The September 1982 study showed that within the 101 assisted businesses, 141 new full-time equivalent jobs were created that paid an average of $115 a month--a 64-percent net increase in employment compared to the control group. In a year, the total amount of these new salaries alone would be greater than the total value of the loans. The program also increased the incomes of the owners by 27 percent. Given that 211 businesses have been aided to date, the impact of the program on poor micro-enterprises has probably more than doubled.

Within the intensively assisted businesses there are sharp differences in the degree of success. For the purposes of the study, success was divided into four categories or levels. In profiling the most successful businesses, it was found that success was not related to the amount of the loan or the amount of management assistance: program inputs were virtually identical for all four groups. What was different about the most successful business owners was the way they used the program inputs. They expanded aggressively, turning their working capital over several times, increasing production, hiring new workers, and purchasing new machinery and equipment. They were also more likely to adopt the management suggestions made by the coordinators.

One reason for the differences among the groups may be that the most successful business owners tend to join PRODEME at a critical stage in their evolution as entrepreneurs. They are generally younger and better educated than the other business owners, their businesses are newer and, having proved that their businesses have been viable for 4 or 5 years, they are highly motivated to expand. The PRODEME program provided the needed management assistance and the capital at an appropriate point in their experience.

Job Creation. An analysis was also made of the employees of the businesses to determine whether the jobs being created were "marginal." This did not appear to be the case. The average monthly salary ($115) of new employees is above the minimum wage in the Dominican Republic ($104 a month). Most of those in the program earning less than $104 are under 19 years of age and are learning their trade; by age 25 three-quarters are earning more than $104 and one-half are earning over $166 a month. It is still too early to know how long these jobs will last, but it is encouraging that 80 percent of those working before the loan and 90 percent of those hired since the loan are still working.

The study also showed that micro-businesses serve as training schools for learning trades and entrepreneurial skills. Most employees said that they had learned how to use a machine or to repair or make something since they started work. Only 11 percent of the employees are 35 years of age or older, which may indicate that by that age many employees had left to start their own shops or move into formal sector jobs.

Problems and Recommendations. When asked in September 1982 what they liked best about the program, 40 percent of the clients said "the loan," 25 percent liked the comfortable loan terms, and 30 percent said they liked the courses. When asked what they did not like, the "purchase order" rated the highest by far (46 percent of all responses). To guarantee that the loan money was

used for business purposes, the program required that previously agreed-upon goods be purchased from certain merchants; once the goods were purchased, the DDF paid the merchant. The recipients felt this system restricted their ability to get good prices and showed the DDF's lack of faith in them. Beneficiaries also complained of delays in receiving loans.

Recommendations for improving the program corresponded closely to the complaints of the clients. One suggestion was to eliminate the purchase order or to experiment by granting some of the loans without the purchase order and then to compare the success and payback rates of the two groups. Other suggested improvements were the simplification and speeding up of loan application and disbursement procedures.

By the time of the last visit to the program in September 1983, significant progress had been made in most of these areas. To simplify the loan approval process, the number of visits to a micro-enterprise before a loan is approved was reduced from an average of 16 visits to 8. The documentation required to complete a loan request was also simplified considerably, and the number of visits to micro-businesses after the loan is disbursed was reduced, with the most frequent visits made to businesses that needed the help and were genuinely interested in adopting improved management techniques.

The program also was modified to relieve some of the principal complaints of the clients. The use of the purchase order was reduced, and short-term working capital loans were extended on an experimental basis. Finally, the micro-enterprise project staff were stricter than they had been earlier. The payback rate reflects the effectiveness of these measures. In September 1982, payback was only 56 percent; 1 year later it was 71 percent.

Conclusion

The solidarity group component of the PRODEME program was evaluated in this study mainly according to degree of group cohesion and participation and development of leadership. There were many positive indications of success in these areas: three-quarters of the members said they would take out another loan with the same group, over half had recruited new members, and three-quarters of the group presidents were willing to be president again. The member-formed Triciclero Association also indicated a remarkable degree of solidarity. The participants in the micro-enterprise component, which reached a slightly higher income strata than the solidarity component, experienced gains in every category of business success measured by the survey: investment, amount of machinery and equipment, monthly sales, and aggregate value. Within the 101 assisted businesses, 141 new

full-time equivalent jobs were created, paying an average of $115 per month.

The problems in both components identified in the 1982 evaluation--mainly related to the late payments by the loan recipients and the long delay in delivering loans--show that there is room for improvement in the program, although much progress was made after the 1982 evaluation.

This study found that the solidarity group and micro-enterprise components of PRODEME, although distinct in approach and evaluated according to different criteria, both demonstrate effective methods of reaching and assisting the smallest businesses of the urban poor.

1. INTRODUCTION: THE DOMINICAN DEVELOPMENT FOUNDATION'S MICRO-ENTERPRISE PROGRAM

The Dominican Development Foundation (DDF), a private voluntary organization founded in 1965, has worked extensively in rural areas in the Dominican Republic. The DDF became interested in an urban micro-enterprise program in 1980, and USAID approved funding for a feasibility study in early 1980. The study clearly demonstrated the needs of the informal economic sector in Santo Domingo.[2] In May 1981, the Program for the Development of Micro-Enterprises (PRODEME) was launched by the DDF with AID funding; the first loans were granted in July 1981. Later the Inter-American Foundation, Appropriate Technology International, and Dominican sources also provided funds.[3]

The program has two parts: a micro-enterprise component that reaches small artisan manufacturers with two to three employees and a solidarity group component designed for hawkers and vendors and the smallest cottage manufacturers, principally seamstresses. The micro-enterprise component was based on methodologies developed by ACCION in Brazil, Colombia, and Mexico. The solidarity group component transferred the methodologies that were developed by local organizations in San Salvador and Madras and found to be effective during the PISCES Phase I research.

Between July 1981, when AID funds were first used for loans, and December 1983, 343 solidarity groups (with close to 2,000 members) and 211 micro-enterprises were assisted. Table 1 presents data on the amount loaned through December 1983.

1.1 The Solidarity Group Component

The DDF solidarity group component is based on ideas from two projects identified in PISCES Phase I: the PRIDECO/FEDECCREDITO program in El Salvador and the Working Women's Forum in Madras, India.[4] Both programs reached over 2,000 businesses in less than 2 years and were characterized by low cost, high payback, and highly motivated clients. A small paraprofessional staff administered the programs.

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[2]Stephen R. Gross, Estudio de Factibilidad: Programa de Micro-Empresas, Tomo I, II (Fundacion Dominicana de Desarrollo, 1980).

[3]USAID provided $500,000, the Inter-American Foundation $385,000, and Appropriate Technology $60,000.

[4]For complete descriptions of these programs see Farbman, PISCES Studies, pp. 162-192 and pp. 141-148.

Table 1

Loans Extended to Micro-Enterprise and Solidarity Group Components, July 1981-December 1983

Micro-Enterprises

Date	No. of Loans	Total Amount	Average Amount
July-December 1981	49	$91,788	$1,873
January-June 1982	14	$27,358	$1,954
July-December 1982	38	$74,877	$1,970
January-June 1983	54	$100,379	$1,859
July-December 1983	56	$88,959	$1,589
Total	211	$383,361	
Average			$1,817

Solidarity Groups

Date	No. of Loans	No. of Beneficiaries	Total Amount	Average Amount	Average per Member
July-December 1981	64	418	$100,160	$1,565	$240
January-June 1982	40	236	$ 56,341	$1,409	$239
July-December 1982	54	324	$ 72,486	$1,342	$224
January-June 1983	99	546	$130,117	$1,314	$238
July-December 1983	86	474	$106,455	$1,233	$225
Total	343	1,998	$465,559		
Average				$1,357	$233

Both projects relied on similar mechanisms to guarantee loans. Credit groups formed by business owners collectively guaranteed loans which were used for the individual business needs of group members. In addition, in the Madras Working Women's Forum, a board of directors made up of group presidents reinforced the group process and acted as an advocacy group for the needs of the women micro-business owners.

The PRIDECO/FEDECCREDITO program and the Working Women's Forum demonstrated that project costs could be lowered by assigning to clients the bulk of responsibility for promotion, selection, group formation, and payback. This practice had the important secondary effect of reinforcing the skills and networks of friendship and commitment which led to (1) the exchange of information between business owners and (2) the creation of a grassroots advocacy and service organization. Use of the group credit mechanism led to participatory leadership and skill development in addition to the emergence of a grassroots social support organization.

The DDF solidarity group component incorporates elements of both of these successful programs and has as its objectives "empowerment" of participants through group experiences that reinforce entrepreneurship and grassroots advocacy, increase income, and provide assistance to large numbers of businesses at low cost.

The solidarity groups of the DDF program are autonomously formed informal associations of five to eight business owners who know each other well enough to collectively guarantee the loan made to the group. Seventy-three percent of the solidarity group members are food and fruit vendors, 10 percent are collectors of bottles and cardboard, and 17 percent are engaged in other activities such as dressmaking, craft manufacturing, market vending, and running streetside stalls. As in the projects previously mentioned, loans are made to the group for the purpose of improving the individual group members' businesses. Daily or weekly loan payments from members are received by the group president, who makes weekly payments at barrio-level meetings with DDF coordinators. All group members are expected to attend the meetings, and a majority generally do so. In addition, clients, largely on their own initiative, have organized an association of solidarity groups, the Asociacion Dominicana de Tricicleros--an important source of communication, skill development, and support for program participants.

1.2 The Micro-Enterprise Component

The micro-enterprise component was adapted from ACCION's experience with larger informal sector businesses in Brazil, Colombia, and Mexico. The average micro-enterprise client of the program has 2.2 full-time equivalent employees[5] and $4,244 total investment. The objectives of the micro-enterprise component are limited to generating new income and employment and improving business skills. There is little emphasis on reinforcing communication and mutual assistance among clients through meetings or a group structure. Only small manufacturers and service providers are accepted as clients, as it is believed that loans to commerces generally result in expanded inventory, not new jobs.

As in the solidarity group component, participants promote the program among other business owners they know; Foundation coordinators are not responsible for recruiting clients. After a business owner makes an initial phone call or a visit to the Foundation, a coordinator is assigned. The coordinator visits the business several times, often weekly, helps start a simple bookkeeping system, and prepares the client's loan application. After the loan is approved, the coordinator continues the weekly visits to help detect problems, check on loan repayment, and provide further technical assistance in bookkeeping, marketing, and the effective management of employees. Courses in bookkeeping, marketing, and cost accounting are also provided.

1.3 The Two Components Compared

The methodologies of the two components contrast sharply. The solidarity group component reinforces collective responsibility through a highly participatory approach, whereas the micro-enterprise component tends to emphasize one-on-one technical assistance and has limited solidarity or associative objectives. The methodologies of the two projects are compared in Table 2. As the two components of PRODEME are analyzed in the following pages, these methodological comparisons help provide an understanding of the differences in participant income in the two components.

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[5]Part-time employees are counted as one-half a "full-time equivalent."

Table 2

Comparison of Methodologies of Solidarity Groups and Micro-Enterprise Components

Solidarity Groups	Micro-Enterprises
Promotion	
Word of mouth--informal conversation among friends, relatives and workmates	Word of mouth--informal conversation between project participants and other micro-business owners
Meetings to explain program, set up and run by beneficiaries	Response to announcements in newspapers
Selection	
Consensual selection of group members who will share responsibility	Suitability of client determined by the project staff through an economic analysis of the business
Guarantee	
Loans guaranteed through the group mechanism/repossession of property	Loans guaranteed through property, inventory, or cosigners
Mechanism	
Client-formed credit groups of from five to eight business owners	One-on-one assistance to individual clients
Group process reinforced by regular meetings of the solidarity groups and barrio-level Association meetings	
Ensuring Loan Payback	
Group structure ensures that those who do not repay will be pressured by other group members	Coordinators advised of late payments and make visits to the businesses
If this fails, program coordinators can, as a last resort, repossess property purchased through the loan	If this fails, legal procedures are carried out

Table 2

Comparison of Methodologies of Solidarity Groups and Micro-Enterprise Components (continued)

Solidarity Groups	Micro-Enterprises
Management Assistance	
Informal exchange of ideas about improving business practices--through conversations with group members and more formally in meetings of the Association	Clients taught how to improve their businesses in one-on-one sessions or in formal courses with program personnel
Beneficiary's Role in the Program	
Clients can assume increasingly important roles in meeting program goals: - membership - informing others about the program - taking an active role in the solidarity group - becoming a solidarity group president - participating more actively in the Association. - assuming Association leadership	Limited, aside from clients' activity in promotion and the courses
Most Appropriate Client Population	
Very smallest businesses May be appropriate for larger businesses, but needs to be explored	Larger shops of two employees or more Probably not suited for the smallest businesses, as cost per beneficiary is higher and the supportive structure of the group is absent

1.4 ACCION Technical Assistance

The role of the ACCION adviser to the Dominican Development Foundation, Stephen Gross, was to transfer specific skills and information within a predefined period, as is the typical procedure in any ACCION-assisted project. When the Foundation became interested in micro-enterprise development, he provided information both on ACCION's micro-enterprise projects and on the PISCES reports on solidarity group programs. Working closely with Foundation staff, he helped design the two components of the project and develop the funding proposals; he was also largely responsible for designing and carrying out the initial feasibility study.

Once the program started, Mr. Gross took a major role in training PRODEME personnel and providing feedback to the DDF through monthly reports and frequent meetings. He also helped design the manuals and courses for the micro-enterprise component. In the initial months, he worked side by side with the PRODEME staff; his role in the final months was much less direct, and in August 1983 he left the DDF. Since then the DDF micro-enterprise program has received no outside consulting services.

1.5 Evaluation of PRODEME

A comprehensive evaluation of PRODEME was initiated as part of PISCES Phase II activities. It focused mainly on the solidarity group component, but later included the micro-enterprise component. The monitoring system was added to the program in September 1981. In October 1981, an initial report reviewing the first months of the solidarity group component was submitted to AID by Susan Sawyer, who had conducted a participant-observation study and interviewed program participants in their workplaces, in their homes, and at barrio-level meetings.[6] In April 1982, a second evaluation focusing on project methodology was completed.[7]

In September 1982, a comprehensive investigation was completed by Jeffrey Ashe with the assistance of Dominican University student-researchers and PRODEME coordinators. Interviews

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[6]PISCES Phase II--The Solidarity Group Program of the Fundacion Dominicana del Desarrollo with Technical Assistance from ACCION International/AITEC: The First Eight Months.

[7]Jeffrey Ashe, "Extending Credit to Urban Hawkers and Cottage Enterprises: Reaching Large Numbers at Low Cost Through Credit Guarantee Groups."

were completed with 120 program participants from randomly selected solidarity groups, including both quantitative and open-ended questions. In addition, structured interviews were carried out with solidarity group presidents. Finally, the solidarity group coordinators for PRODEME completed a rating sheet on each solidarity group they were assisting.

Interviews for the micro-enterprise component of the project were completed with the 50 clients who had received their loans before March 1982. A "control group" of businesses who had joined the program but had dropped out before receiving a loan was also studied. Close to 200 employees of the micro-enterprises that had received a loan also were interviewed.[8] In March 1983 a return visit was made to present the results of the investigation to the DDF.

Between March and June of 1983, an in-depth ethnographic study of the Dominican Association of Tricicleros was carried out by Rebecca Reichmann, using participant-observation methods, and funded by Private Agencies Collaborating Together (PACT) and the Inter-American Foundation (IAF).[9] The impact of the solidarity group mechanism was assessed through its evolution into a grassroots organization of tricicleros. Organizational and educational skill development that resulted from participation in the Association of Tricicleros was examined through extensive interviews and observations of Association meetings. Further interviews were also conducted to investigate the impact of the program on members' business practices, income levels, and savings.

Finally, in September 1983, a brief return visit was made by Jeffrey Ashe to study the changes in program methodology which had occurred since the comprehensive evaluation carried out in September 1982.

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[8]Jeffrey Ashe, Assisting the Survival Economy: the Micro-enterprise and Solidarity Group Projects of the Dominican Development Foundation (Cambridge, Mass.: ACCION International/AITEC, 1983 edition).

[9]The Dominican Association of Tricicleros 'San Jose Obrero': A Case Study in Local Empowerment (Cambridge, Mass.: ACCION International/AITEC, 1984).

2. THE SOLIDARITY GROUP COMPONENT

2.1 Description of Program Beneficiaries

The principal beneficiaries of the solidarity group program (83 percent of the groups) are tricicleros, men who pedal heavy cargo tricycles through the streets of Santo Domingo, selling fruits and vegetables and prepared foods or collecting bottles, cardboard, and scrap metal. The triciclero (like the rickshaw driver in Asia) rents his triciclo from an agency for a fee of about $1.00 to $1.25 a day. Rented triciclos are usually in poor repair, and it is commonplace for tricicleros to be in debt to the agency, paying loans with high daily interest rates. Tricicleros aspire to owning their own triciclo and working independently, not only to save the rental payment but also to liberate themselves from dependency on the agencies.

The remaining 17 percent of the solidarity groups are the working capital loan recipients, made up of seamstresses and food vendors, who are mostly women. This group needs working capital to purchase the food they sell or the material they make into clothing.

Members of the solidarity program form their own groups through a reciprocal selection process before coming to the DDF office and applying for a loan. Groups are made up of friends, relatives, or those who are at least familiar with each other in the market; they are not only known to each other but are perceived as trustworthy.

Table 3 profiles the personal characteristics of the two groups. Persons who join the program are by and large the heads of established families; only rarely do young adults starting an economic activity join the program. Solidarity group members have lived in the area long enough to be known by their neighbors. They are hard-working, and the viability of their businesses and their commitment to them has been tested over several years.

2.1.2 Sources of Family Income

Since working capital loan recipients are nearly a decade older than the tricicleros, they are more likely to have working children, and since three-quarters of them are women, they are more likely to have a spouse who supplies income than are the male tricicleros. Therefore, the structure of family income between the two groups differs markedly (see Table 4).

Table 3

Characteristics of the Two Principal Beneficiary Groups of the Solidarity Group Component

Tricicleros	Working Capital Loan Recipients
Works as a vendor, principally of fruits and vegetables, or as a collector of bottles, cardboard, or metal.	Works as a sidewalk vendor, a market stall holder, or a cottage artisan, most likely a seamstress.
Is a male head of household (there are no female tricicleros); 88 percent are heads of households averaging between five and six members.	Is a female head of household. Three-quarters of the working capital loans are to women business owners. Of these, 58 percent are heads of households, 15 percent are wives, and the rest are other adults living in the household. Of the men, 75 percent are heads of households. Households average between six and seven members.
Average age is 30. Virtually none are over 50 (peddling a heavily laden triciclo through the streets of Sto. Domingo is work for the young).	Average age is 38; three-quarters are between 21 and 50.
Is poorly educated; the average is 4 years.	Is poorly educated; the average is 4 years.
Is an immigrant to Sto. Domingo; only 4 percent were born in Sto. Domingo.	Is an immigrant to Sto. Domingo; only 5 percent were born in Sto. Domingo.
Is a long-term urban resident; average is 9.6 years. Only 18 percent have been in Sto. Domingo 3 years or less.	Is a long-term resident; the average is 14 years. Only 2 percent have been in Sto. Domingo 3 years or less.
Has lived in the barrio for several years; the average is 5.5 years.	Has lived in the barrio for several years; the average is 6.5 years.
Works long hours and is experienced. A triciclero's work week averages 48 hours or six 8-hour days. They have been tricicleros for an average of 5.3 years.	Works long hours and is experienced. The work week averages 47 hours over 6 days. They have worked at their current occupation for 8.7 years.

Table 4

Sources of Family Income (percentages)

Sources of Income	Tricicleros	Working Capital
Spouse of owner	6	46
Another family member	13	32
Secondary employment of owner	2	19
Other (mainly renting rooms)	2	17

Compared to the tricicleros, the working capital loan recipients are 8 times more likely to have a spouse that is working, 2.5 times more likely to have another family member earning an income (generally a child over 15 years old), 9.5 times more likely to have a secondary source of employment, and 8.5 times more likely to rent out rooms or have another source of family income.

The average daily family income of a triciclero is $9.27; 95 percent of that income is derived from the owner's business. For the families of working capital groups, income averages $10.10, of which 65 percent is derived from the owner's business. Seventy-five percent or more of family income is earned by the business assisted by the program in nearly 9 in 10 of the families of tricicleros and in over 4 in 10 of the families of working capital recipients. Table 5 provides more detail on the percentage of family income derived from the businesses of these two groups.

The greater age and income of the working capital loan recipients are reflected in the total value of their assets, including their homes, house lots, and domestic appliances. For the working capital groups, assets average $2,704; for the tricicleros, $1,351. While a somewhat greater number of tricicleros than working capital group members own houses and lots, the homes of the working capital group are in better, more established sections of the city. Over half of the working capital group members have a television and a refrigerator; these percentages for the tricicleros are 26 percent and 9 percent, respectively.

Table 5

Percentage of Family Income Derived From Business

Percentage of Total Family Income	Tricicleros	Working Capital
75-100	87	42
50-74	9	14
25-49	4	18
0-24	0	26

2.2 Development of Program Methodology

2.2.1 History of Program

The first test solidarity group, made up entirely of tricicleros, was funded in December 1980 using Dominican Development Foundation funds. The terms were the same as for all the triciclero loans that have followed: a $249 loan to each individual group member for the purchase of a new triciclo and for $21 of working capital, to be repaid in 52 payments ($5.98 a week). A flat 24-percent interest rate was charged--$59.76 for a $249 loan over the 1-year period. The triciclero's daily payment of $1.00 represented an immediate savings of up to $.25 a day over the fee charged by the rental agencies, so, not surprisingly, tricicleros flocked to the new program.

Formation of groups occurred rapidly because their informal networks were already well developed in the barrios. Typically, a triciclero would hear about the program from another triciclero and return to his barrio to tell his closest friends about the possibility of forming a group. The majority of groups are composed of friends who have known each other for a long time, often having come from the same rural areas. Many group members have brothers in the group. What were these enthusiastic tricicleros looking for? Most members said they were looking for a better life and that the DDF program seemed like a way to improve their economic condition.

Between December 1980 and May 1981, the first solidarity group, "Los Cumplidos," ("the accomplished ones") had organized

18 new triciclero groups on its own initiative. The framework was by then established for a triciclero association, with the goals of encouraging the formation of new groups, forming a grassroots self-help organization, and initiating collective business and savings activities.

By the time of the first project evaluation in September 1981, 85 triciclero solidarity groups had been organized with 600 members and loans had been approved for 62 of these groups. At that point, there had been no late payments--a source of pride for the fledgling Triciclero Association. Soon after, several working capital loans of up to $250 were granted to seamstresses and market vendors.

By the time of the next evaluation in April 1982, however, several problems had emerged. Although 80 percent of the loan payments were still on time, late loan payments were becoming a persistent problem. In addition, a few tricicleros had sold their triciclos for ready cash, a few group presidents had misused the payments from group members entrusted to them, and in a few groups distrust was so great that individuals insisted on paying their loans separately instead of through the solidarity group presidents.

A careful examination of the program showed that in their desire to get their loans, many of the original members had formed their groups too quickly. Some group members did not know each other very well, and a few were not even business owners. Some did not live in the same barrio or even in neighboring barrios, which made loan collection difficult for group presidents. It also became evident that many participants did not fully understand the program, particularly the need for complete payback of the loan.

In an effort to deal with these problems, a more realistic balance was struck between the role of staff and the role of the clients. The Foundation decided to maintain ownership of triciclos until the last payment was made, thus making it more difficult to sell or pawn triciclos. The policy of paying the loans at the Foundation's headquarters was also abandoned, and loan repayments at the barrio-level meetings were reinstituted. The directors also decided to require all prospective solidarity groups to pass through a two-evening, 4-hour training course before they were accepted as loan candidates. Previous solidarity groups often had little knowledge of what joining the program entailed, so the training course was designed to acquaint them with the DDF and the program procedures and expectations.

The methodology that evolved from these circumstances is essentially unchanged today and will be described in detail below.

2.2.2 Current Program Methodology

The first step--promotion and group formation--has been in the hands of the clients since the beginning. By taking on this responsibility, clients become "owners" of the program. The assumption of responsibility by clients has been one of the major built-in incentives of the solidarity groups, and much of the low cost and rapid growth of the program is attributable to this factor.

Once the groups are formed, the DDF coordinator gives the two-part course on the program and requirements for membership in a solidarity group. Courses are generally held for four groups of aspirantes (premembers) at a time.[10] Those not qualified or not sufficiently interested drop out, and the remaining individuals recruit new members, who must also attend the course.

By the end of the course, the coordinator knows the group. A president is elected by the members, and the group is registered. The group must then attend the barrio-level meetings for 1 to 2 months, at which the PRODEME coordinators provide further orientation and training, before they can apply for credit.

After this waiting period, the coordinator fills out the loan proposal and the group is checked by the DDF credit analyst who verifies that all the group members know each other, that they come from the same or neighboring barrios, and that they have been business owners for at least 1 year. The loan proposal then goes to the credit committee, where it is generally approved, and checks are disbursed to the companies who manufacture the triciclos. In the case of working capital groups, the check is given to the solidarity group members.

For the tricicleros, once the loan on the triciclo has been turned over, weekly payments begin and coordinators follow up vigorously on late payment problems. If an individual in a group does not make a loan payment for 8 weeks, the possibility of repossessing the triciclo is discussed with him. Repossession is a last resort and occurs only after consultation with the group president and one or more meetings with the solidarity group. In general, the members' sense of responsibility to the group reinforces the program's emphasis on prompt repayment.

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[10]These courses are held at the barrio level, and meetings with solidarity groups of that geographic area are held weekly with the DDF coordinator. There are six barrio-level meetings held in different parts of the city.

Program Staffing. The program staff now consists of five full-time coordinators and a supervisor--all young, highly committed, university-trained economists or economics students. The coordinators orient and train new groups, prepare credit proposals, collect weekly loan repayments, and troubleshoot groups that are having difficulty with loan repayments. In addition to the five coordinators and the supervisor, the solidarity group component also requires an estimated 40 percent of the PRODEME credit analyst's time and 40 percent of the PRODEME director's time.

Incentives for Client Participation. It is important to reflect on the factors that promote a well-functioning program of this type. The success of the solidarity group component largely depends on client participation, which is fostered at each step of the program by building the necessary incentives and controls into the methodology.

1. The program addresses a strongly felt need. The possibility of owning one's triciclo or receiving a working capital loan is a powerful motivating force.

2. The program has well-focused goals. It is perceived by the beneficiaries as "do-able" and is easily explained by program clients to their coworkers.

3. Forming and joining a solidarity group requires hard work, risk taking, and repeated meetings, all of which reinforce the commitment of the group to the program. There are also Association meetings whose ideology emphasizes mutual help, individual advancement, responsibility to the program, and being part of a movement.

4. Positive feelings about the program are sustained after a member receives the loan because an immediate increase in prestige, independence, and income is experienced. Furthermore, group cohesion, which might be expected to lessen at this point, is maintained through the loan repayment process whereby an entire group is immediately penalized if individual group members do not pay. Participant interest is also reinforced through offering the possibility of a second loan and through the discussion of a range of relevant issues at Association meetings--community involvement, organizing to protect basic rights, and the like.

5. PRODEME project beneficiaries who have the ambition and an understanding of the program's transforming role in the community can progress through a kind of internal "career ladder," moving from group member to program advocate to solidarity group president to Association

leadership, thus increasing their level of interest, commitment, and participation in the program. The active involvement of this minority of members is essential for the dynamic expansion of the program.

6. Potential for significant collective action and hopes for "a better future for every triciclero" are identified by members as a major reason for their participation in the Association of Tricicleros.

The solidarity group mechanism has proven to be more efficient in terms of project costs than traditional programs in which staff members assume dominant roles. Because group members form strong commitments and alliances when organizing to receive their loans, it may also have greater social impact as well. Association meetings reinforce that process and facilitate the development of skills, attitudes, and mutual support necessary for creating an effective grassroots organization and encouraging entrepreneurship.

2.3 The Association As an Offshoot of the "Solidarity Group" Methodology

How did this program methodology promote solidarity and encourage the nearly spontaneous formation of the Dominican Association of Tricicleros, and what traditional values of the tricicleros helped shape the Association? The insights of this section are drawn from Rebecca Reichmann's ethnographic study of the Association of Tricicleros which was carried out between March and May 1983.[11]

The Dominican Development Foundation facilitated the formation of the Association, not by increasing the staff role through intensive training efforts or extensive contacts with clients and client groups, but by doing quite the contrary. By getting involved less than is typically the case in similar community-oriented, income-generating projects, they left a larger role for the clients.

The process of developing solidarity and the Association began during the earliest phase of the project. The first solidarity group began to promote the DDF program even before credit was available to other groups, and interested tricicleros began to flock to these pre-Association meetings in the garage of one of the members. The ACCION adviser attended many of the first meetings and gave organizational advice when needed, but other-

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[11]Reichmann, The Dominican Association of Tricicleros.

wise emphasized that the success or failure of the program lay in their hands. The fact that the tricicleros themselves took responsibility for running the meetings seemed to encourage a deep sense of identification among prospective members.

The major theme of the meetings was repeated over and over again: "People need to be taught that they need other people in order to live." One of the first projects was taking a collection to pay for a stolen triciclo. Association leaders effectively supported solidarity group presidents in encouraging the groups to make loan payments. The Association is not a unique organization, as clubs and unions of various types are common in the Dominican Republic, but it does seem especially well adapted to carrying out the program goal of solidarity.

By April 1982, the board of directors was elected, representatives at each of the barrio-level weekly meetings were chosen, and the first draft of the internal regulations of the Association of Tricicleros was written by the leadership. There was considerable discussion among group members of the role the Association should take, and the consensus was that an emergency loan fund should be created--a common function of clubs and organizations in the countryside where most members came from, as well as in Santo Domingo. This meant, for example, that a decent funeral for Association members, their wives, or children could be provided and that there would be money for family emergencies--especially in case of sickness. Association leadership also agreed to visit members who were jailed.

A year and a half later, the Association's loan fund had grown considerably, strictly through contributions by members, and loans ranging from $5 to $25 were approved and disbursed. Also by September 1982, the Association had its own meeting place for which rent payments were covered by a $.10 entrance fee charged to program members.

The evolution of the Triciclero Association as an institution was evident. The first meetings of the Association were chaotic and disorganized. One member of the directorate after another got up on the back of an old flatbed truck and repeated the major themes of the program--the importance of prompt loan payback and mutual assistance. The other members milled about in the garage talking among themselves and seemingly paid little attention to the discussion. The DDF promoter was working at one side of the meeting room collecting the loan payments.

By September the meetings were being held in a clean, well-lighted room in the neighborhood. There was a table in the front of the room for the board of directors, and chairs were provided. The meeting followed a set agenda, and there was a time limit on the length of the meeting. Participation by all was encouraged, but those who wanted to participate had to put their name on a

list. Order was kept during the meetings, and a secretary recorded the decisions of the Association.

The Association serves as a forum for developing leadership skills, including public speaking, organizing, and financial management; for awakening the aspirations of community members, especially young people; and for diffusing values (education, savings, group responsibility, new business practices, conscientiousness). Through the Association of Tricicleros, the DDF has indirectly supported a forum for debate and discussion of issues --local and sometimes international--that have an impact on barrio residents, helping them effect their own development.

2.4 Measurement of Solidarity

As the PISCES team studied various forms of credit guarantee groups in the Phase I research, they observed that these groups served functions far broader than merely providing a convenient mechanism through which to extend credit. The enthusiasm of the group participants, the dedication and hard work of their leaders, and the wide-ranging concerns expressed in their collective meetings extended far beyond the need to merely administer loans.

From early in the program's history, an intensive effort was made to understand the potential "social spillovers" of organizing poor people into groups centered on their economic activities. It was thought that bringing people together by offering them something that was universally desired and needed--credit--would lead them to take a major initiative in promoting the program (which they did). It was also believed that receiving credit would be a concrete, immediately relevant first "project" of the nascent organization and that this would help create an organizational structure that would begin to address other issues (which it has).

2.4.1 Clients' Responses to Questionnaire on Group Solidarity

In the September 1982 questionnaire, solidarity group members and presidents were asked several questions to elicit information to use in measuring the impact of the concept of solidarity among program participants and the degree to which solidarity had been made concrete within the groups.

Commitment to Solidarity. Early in the interview, this question was asked:

Two people are talking. One says, "Solidarity groups and the Association are a good thing; one feels support from the group."

The other one says, "It's not worth the trouble. It would be better to take out a loan by myself."

Who do you agree with more?

Six in ten interviewed said they agreed with the first statement more than the second.[12] Reasons for preferring the group loan included solidarity with others (the category in which most of the responses clustered) and receiving help from other group members in paying the quotas. Those who preferred individual loans complained of the irresponsibility of some group members (most of the responses) and poor leadership (a few).

Another important indicator of interest in the program is a desire to take out a second loan. Most would like to (more than 8 in 10). More telling, as far as solidarity is concerned, is whether they would be willing to take out a second loan within the same group. Despite some problems, 74 percent would prefer to take out a loan with the same group, 24 percent with some members of the same group, and only 2 percent would prefer to take out their loan with another group.

Another gauge of solidarity is the degree of commitment of the leaders. Despite the problems, did the rewards of the more responsible role outweigh the difficulties? Overall, two-thirds said yes, they would be group presidents again, and one-third said no.

Participation in Program. The questionnaire included several questions that were used to determine how broad-based client participation was. Was active program participation limited only to a minority? Those interviewed gave these responses, indicating a solid base of client activity (many may have participated in more than one category of activities):

- -- Had recruited others for the program (52%)
- -- Attend the barrio-level meetings "always" or "frequently" (46%)
- -- Is in a group that meets "frequently" to share ideas and problems (33%)
- -- Is in a group that "helps each other out a lot" (33%)

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[12]Numbers of responses to open-ended questions are based on a constant analysis of responses. Quotes are taken directly from the interviews.

-- Has helped in the formation of new solidarity groups (18%)
-- Has been a president of a solidarity group (18%)

Additionally, the following percentages of solidarity group presidents report that their groups perform these activities:

-- Collect the loan quota (100%)
-- Advise each other on improving businesses (90%)
-- Recruit for the program (80%)
-- Help form new solidarity groups (70%)
-- Attend the weekly barrio-level meetings (65%)
-- Help out with a group member's business (45%)
-- Help pay the loan quota of a group member (30%)
-- Take trips or have parties (30%)
-- Have an emergency fund within the group (10%)

The fact that a large number of groups are actively recruiting members or forming new groups shows their commitment to the "movement" they are creating. The number of groups that provide business advice to each other or help out in a member's business underscores how the group mechanism encourages the exchange of information. Asked in another part of the questionnaire whether participation in the solidarity group and the Association had helped their businesses, 62 percent of the tricicleros and 52 percent of the working capital group members said "a lot." Only a quarter thought that the program had not helped their businesses at all.

One hope of the project was that participation in the activities of the solidarity group and the Association would lead program clients to take a more active role in the community. In general, the results showed an extremely low level of participation in any other type of organization, but the responses to the questionnaire showed an average 13 percent increase in participation in community improvement projects from the period before the loan to the 1982 study, indicating an important new orientation of group members to the community they live in.

2.4.2 The Program Coordinators' Assessment of Solidarity Within Groups

The development of solidarity within the program has not always been a smooth process, but the first months of the program were exciting, almost euphoric. All payments were on time, and the formation of new groups proceeded rapidly. Then payback problems began to occur. With so many pressing needs--a sick child, moneylenders who were more demanding in receiving their payment--repaying the loan to PRODEME became a secondary priority for many members. As repayment became a problem, divisiveness

emerged in the groups and the group presidents and coordinators had to spend more and more time pressuring members to pay.

To measure the effectiveness of the solidarity group mechanism, DDF program coordinators were asked to rate all the groups they worked with on a scale of 1 to 5: 1 = "has serious problems"; 2 = "has problems"; 3 = "average"; 4 = "better than average"; or 5 = "one of the best." Table 6 presents the rating results.

Table 6

Coordinators' Overall Rating of Solidarity Groups

Date Loan Received	Before the Loan	First Months of the Loan	September 1982
Tricicleros			
July-September 1981	4.92	4.31	2.22
October-November 1981	4.31	3.71	2.16
December 1981-March 1982	4.87	4.13	3.26
April-September 1982	4.50	4.00	3.72
Working Capital Groups			
All Periods	4.00	4.00	3.63
Average	4.52	4.03	3.00

Looked at over time, groups in all categories were rated between "one of the best" and "better than average" when they first received the loan, but groups who had had loans for 10 months or longer were rated on the average as "a group with problems." Groups with loans of less than 10 months' duration who had been exposed to the new program methodology that included training courses and more stringent qualifications for membership were rated between "average" and "better than average." Because of these changes in methodology, these newer groups did not have problems as severe as the groups assisted earlier.

From the perspective of these coordinators, what are the groups' strengths and weaknesses?

Positive Aspects of the Groups

-- Seventy-one percent of the groups are considered to have strong leaders.

-- The coordinators rated half the solidarity groups they worked with as having good solidarity.

-- Mutual support is an important effect of the solidarity groups: members help each other informally in various ways--(e.g., by giving advice on where to buy merchandise at low cost or which streets are the best to work on, or by lending money), making their groups more than just loan-collecting entities. Seventy-seven percent of the groups are given either a high or intermediate rating on this point.

-- One-third of the groups meet among themselves frequently (at times other than their weekly barrio-level or Association meetings) to share ideas and problems; one-fifth of the groups meet from time to time.

-- Overall, one-fifth of the solidarity groups are active in the barrio-level meetings held weekly in six locations in the city. Another fifth of the groups were rated as inactive.

Negative Aspects of the Groups

-- Almost all have had one or more late payments.

-- In one-third of the triciclero groups it has been necessary to either repossess a triciclo or remove a member and give his triciclo to a new member who then takes over the debt.

-- In one-third of all the groups there are major divisions.

-- A problem representing serious consequences to the program is selling or pawning triciclos. Once the triciclos are sold the members have little interest in paying their loans, and once they are pawned they can not be used to generate income. In one-quarter of the triciclo groups, one or more members have sold or pawned their triciclo.

-- One-quarter of all the groups were rated as having ineffective leadership.

-- In 28 percent of the groups individual payments for the loans have been arranged for one or more group members,

rather than collective payment--a serious violation of the solidarity concept.

At the end of the interview, the coordinators were asked whether the group, with the membership it now had, should be a candidate for a second loan. They answered that 57 percent of the groups would be good second loan candidates.

2.5 Impact on Income

One fundamental goal of the program was to determine whether a loan received within the framework of a supportive group environment would lead to increased income. For this purpose, income-level data collected when the loan recipients entered the program were compared with income levels when they were interviewed.

Before presenting the results, however, they should be placed in the context of the Dominican economy. In a healthy economy, increases in business income could be attributed as much to an expanding market as to a loan program. Similarly, declining or stable business income may reflect in part a contracting market and a declining economy, in which case a loan program may shield its beneficiaries from an even greater decrease in income. Since 1980 the Dominican economy has been in a period of recession, and the income figures of this study should therefore be seen against this backdrop.

To determine to what degree the declining Dominican economy in the last 2 years has affected the street economy, recipients were asked three questions: (1) Has the economic situation in the country made it harder or easier to earn more? (2) Have your costs increased or decreased? (3) Have your sales increased or decreased? These were the results:

- -- Eighty-eight percent of the tricicleros and 73 percent of the working capital group members agreed that economic conditions made it difficult to earn more.
- -- Ninety-seven percent of the tricicleros and 91 percent of the working capital group members agreed that the cost for the items they are selling is higher now.
- -- Sixty-seven percent of the tricicleros and 52 percent of the working capital group members report that they are selling more now but that because of rising costs, a majority are earning less now than when they entered the program.

The random sample of groups representing 120 program beneficiaries showed that income had decreased by 11 percent.[13] This finding corresponds fairly closely to the loan recipients' perception of whether they are earning more now than before. Of the tricicleros, 44 percent perceive they are making more money than when they entered the program, 47 percent believe they are earning less, and 3 percent believe they are earning the same. For the working capital groups these percentages were 57 percent earning more, 32 percent earning less, and 5 percent earning the same.

That the aggregate income had decreased between loan disbursal and September 1982 was surprising, as the April 1982 study of the first 42 tricicleros showed that average income had increased from $7.91 to $12.82 per day, or 62 percent.

Despite the overall decrease in income for the tricicleros and working capital recipients studied in September, are members of the program better off than they would have been if they had not joined the program? For the tricicleros the answer is clearly yes. Once they own their triciclo, their annual net earnings will increase by the amount of their yearly rental fees, or $468 (16 percent). Even if the triciclo is sold, the $200 that it will bring could help cover a major family emergency, obviating the need to use moneylenders.

Additionally, some tricicleros are cutting operating costs in other ways: 17 percent keep their triciclos at home, saving $.20 a day in garage fees. Keeping their triciclos at home means they can work later and on Sundays. Also, 46 percent of the tricicleros report that they are working more hours now than when they entered the program. Tricicleros report being able to ride further and faster with the new tricycles, making it possible to expand their markets. Finally, lending for working capital among themselves will lessen the need to borrow at high interest from moneylenders. Because of the program, tricicleros are cutting costs and selling more despite lower overall income; without the program their income would have declined even further.

For the working capital recipients the issue is less clear. For many, working capital tends to be used up rather than reinvested, and when this occurs they are no longer able to purchase

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[13]The program coordinators believe that the decrease in income is more apparent than real. They explain it this way: "They overrepresent their income when they enter the program to get accepted, and they under-represent it now to make a case for not paying the loan." Another problem is that the figures may be inaccurate because the recipients keep no books or records and must rely solely on memory.

merchandise in bulk and keep prices down. To cover these extra costs they often turn to moneylenders, causing expenses to snowball. Sequential loans with lower interest rates might help these business owners reduce expenses, although they would not necessarily increase sales in this time of general scarcity.

Changes in participants' income need to be researched further, but it is probably safe to say that in the first year after the loans are paid back, more new income will be generated than the value of the loans themselves. For the tricicleros these benefits should continue for several years if the triciclos are not sold. If a triciclo lasts only 5 years (a conservative estimate), the savings in rental fees alone will total $2,340. If the other cost-cutting benefits of owning a triciclo are added, the total new income generated as a result of the loan should be even higher.

2.6 Clients' Evaluations and Recommendations for the Project

2.6.1 The Loan Recipients' Overall Project Evaluation

The recommendations for improvements made in this report are based to a considerable extent on the clients' suggestions, many of which were elicited through the questionnaire. Several of the questions required the recipients to give their overall evaluation of the program: What did they like and not like about the program in general?

1. What do you like best about the program?

In analyzing the responses to this question, it is striking that the achievements brought about by the beneficiaries themselves--the solidarity with other group members and the emergency loan fund of the Association--rate higher than the loan, when added together (see Table 7).

These responses were typical:

The loan

-- "I've been able to get my own triciclo."
-- "The possibility of getting more loans."
-- "Because we, as heads of families, can better earn a living."

Solidarity

-- "Now we are 300 men united together, and we have a choice."
-- "No one had helped us tricicleros before; no one knows us but the Foundation; and you have put your faith in us."

-- "If I get sick I have friends who will help me."
-- "There is solidarity; we are a family that is united."

Emergency loan fund
-- "With this loan fund we can solve our problems when we have a need."
-- "We can take out a loan when we are sick."

The orientation given by the coordinators
-- "The coordinators treat us like people."
-- "One gets awakened (despierta)."

Table 7

What Respondents Liked Best About the Program

Response	Percentage
The Loan	42
Solidarity	25
The Emergency Fund	20
Training by DDF Staff	7
Everything	6

2. What don't you like about the program?

When asked what they did not like about the program (see Table 8), respondents were as likely to be critical of the way some loan recipients had participated in the program as of the program itself.

In their own words, these are the types of answers they gave:

The irresponsibility of some group members
-- "I don't like paying for members who are irresponsible; everyone should be responsible for himself and no one else."
-- "Our president left the group and the rest of us are becoming disenchanted."
-- "At first they formed groups and loaned money to people who weren't really trustworthy."

The delay in receiving the loans
-- "It took too long to get the loans. We were desperate."
-- "All the time I was waiting for the loan I had to rent a triciclo."

The way the loans were made, or the loan terms
-- "The loan is too small; it's too small of a base to get started."
-- "There is too much pressure to pay."
-- "Those who planned the program didn't talk much to the tricicleros. We tricicleros know our own reality."

Table 8

What Respondents Liked Least About the Program

Response	Percentage
Like everything	36
Irresponsibility of some group members	25
Long delay in receiving the loans	13
Emergency loan fund isn't functioning yet	7
Way the loan payments are made, or the loan terms	6
Other responses	12

These criticisms of the solidarity group component of the PRODEME project point to critical areas which will be addressed in the recommendations section: ways of ensuring higher loan payback and of making the program more flexible and efficient.

2.6.2 Additional Services Clients Think the Program Should Provide

The questionnaire was also used to determine what new services the loan recipients would like the program to offer. Clients were asked to rank five possibilities: (1) a savings and loan cooperative, (2) a place to buy merchandise at low cost, (3) small working capital loans, (4) a class or course, or (5) social functions. They were to select the service that would be most important to them and the one that would be second in importance. The need expressed most commonly by the loan recipients was for additional sources of institutionalized capital, either through

small working capital loans or a savings and loan cooperative. These two categories represent 57 percent of the first and second priority responses. In another part of the questionnaire, 65 percent agreed that the program should provide small working capital loans.

Small Working Capital Loans. Since the provision of small working capital loans would represent a new departure for the program, it should be explained more fully.

The long payback period--52 weekly payments--is a problem for many clients. If one considers that virtually none had experience with business loans that lasted more than a week, 1 year appeared interminable. Research on similar solidarity-type group programs in Madras, India and in San Salvador, El Salvador showed three basic differences: initial loans were much smaller, loan payback periods were often 2 months or less, and approval for second loans, once the first loan had been successfully paid, was rapid and virtually automatic. Whereas the DDF promoters found themselves spending half their time trying to collect on late loan payments, the programs in Madras and San Salvador enjoyed payback rates of well over 90 percent, promoters spent most of their time forming and training new groups, and their administrative costs were comparatively low.

To further define the clients' need for additional small loans for working capital, they were first asked if they were still using the working capital provided by the program. At the time of the interview, 55 percent of the tricicleros (who had received $21 along with their tricicleros) and 79 percent of the working capital loan recipients (who had received $233) were still using the working capital provided them from the loan. Not surprisingly, once the working capital was used, they began to turn again to informal sources of capital such as moneylenders, family or friends, or businesses to which they sold. Currently, a quarter of the loan recipients are using informal credit sources--40 percent of the tricicleros and 13 percent of the working capital loan recipients.

Loans from informal sources of credit are almost exclusively daily (47 percent) or weekly (43 percent). The amounts borrowed are so small (averaging between $15 and $30) that any significant expansion of the business is difficult, and interest rates are so high (20 percent daily or weekly being very common) that they severely cut into profits.

How much working capital would they like to receive from the program? The terms and amounts suggested by the beneficiaries are presented in Table 9. The amount suggested is only slightly larger than the loans commonly being secured from moneylenders, but the repayment periods suggested are almost all longer. Even

if the program charged 4 percent a month for these loans, this would be only one-fifth the lowest current monthly interest rate, one-tenth a good weekly interest rate, and one-twenty-fifth a good daily interest rate. Interest charges, which sometimes cut daily earnings by 20 percent, would become a negligible cost.

Table 9

Terms and Amounts of Working Capital Loans Suggested by Clients

Payback Period	Responses	Median Amount
Daily	1%	$25
Weekly	9%	$20
Monthly	21%	$35
Over a Month	68%	$65

Second Loans. Respondents were also asked whether they were interested in a second loan from the project (with terms similar to the first loan); more than 80 percent answered yes. How would this loan be used, and how much money would be needed?

Sixty percent of the respondents would improve the businesses they have, and 40 percent would start new businesses. Only one-third of the tricicleros, as compared with a full three-quarters of the working capital recipients, are interested in further improvement in their present businesses. For the tricicleros, once a triciclo is owned and one has enough working capital to buy merchandise, little further investment is possible.

The amount requested for the new loan is generally modest; one-quarter want less than the first loan ($233); one-third want $233-500; one-fifth want $500-900; and one-quarter want $1,000 or more.

2.7 Program Changes to Date and Recommendations

The Dominican Development Foundation is to be commended on the success of the solidarity group component of the project. In 30 months, 343 solidarity groups with close to 2,000 members have been financed with loans averaging $233. The program has been recognized as innovative by donors and has received funding from USAID, the Inter-American Foundation, Appropriate Technology International, and local Dominican sources. The local USAID Mission, the first funder of the project, was cautious in the beginning but is now an enthusiastic supporter. Despite the undeniable successes, however, improvements in program methodology and administration are still needed.

Some program improvements have already occurred. For example, as early as April 1982, a careful evaluation of the program made by the DDF resulted in several changes, including the addition of mandatory training courses and more time spent with groups to ensure that their members knew each other well and came from the same neighborhood. Also, program coordinators insisted that solidarity groups attend Association meetings before the loan was given. If they did not attend, it was reasoned, they would be unlikely to have enough cohesion to pay their loans. In their assessment of the overall quality of solidarity groups, the coordinators rated those formed after these changes were made far higher than those formed in the early days of the program.

Several steps were also taken to cut the time necessary to process loan applications. A special loan committee within the DDF serves the solidarity groups and the smallest micro-enterprises. Also, PRODEME now has its own credit analyst and does not have to depend on the credit analyst for other DDF programs, thus eliminating another bottleneck. The board members' approval procedure has been shortened, and PRODEME has become a separate division within the Foundation, providing much needed autonomy.

The program was made considerably more efficient by these changes, but delays in loan approval and disbursement seriously jeopardize program efficiency. An average of 60-90 days are required to get a project approved. Another 30-60 days are needed to issue a check. A similar program in San Salvador[14] was able to complete the loan process in less than a month. The solidarity group coordinators believe they could process many more loan proposals if administrative procedures were more streamlined. The program could serve more clients and reduce the costs per loan. Administrative costs averaged 28 percent whereas

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[14]See PISCES Studies, PRIDECO/FEDECCREDITO Project, pp. 165-192.

the interest rate was 24 percent, implying a subsidy of $65 for an average $1,497 loan to a solidarity group averaging 6.4 members.[15]

2.7.1 Payback

Between April and September 1982, payback had dropped from 80 percent to 67 percent, despite the DDF's efforts to improve the program. The problem was discussed at length with DDF staff and beneficiaries, and it was concluded that there was little incentive for solidarity group members to pay their loans other than their moral commitment to the program. Coordinators complained that they could not get the backing of the Foundation to repossess triciclos or to take other measures when serious late payment problems arose. They noted that in the few instances when triciclos had been repossessed, repayment rates went up remarkably in the following weeks. Another cause of low payback that was suggested was that only one second loan had been given at that date. Why should the clients pay off their loan when there was little possibility of getting a second loan and so many other urgent needs to be met?

It was decided that to improve the late payment problem and respond to clients' needs, PRODEME needed to take three measures:

1. Define policy on late payments clearly and make repossession easier for coordinators. For example, the triciclo should be repossessed after 8 weeks' default, with the group's approval.

2. Grant second loans as quickly as possible after the first loans are paid. This would provide an incentive for prompt payment.

3. Explore the possibility of short-term working capital loans.

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[15]The administrative costs for the loan were calculated by determining the total loan months to date (the number of months each loan had been administered). This figure was divided by the total administrative cost and multiplied by 12 (the loan payback period). Actually, given the large number of overdue loans, the program may have to bear the administrative costs of a loan for more than 12 months.

2.7.2 Most Recent Changes

Between September 1982 and September 1983, when the last evaluation visit was made, several changes had occurred. Their effectiveness is demonstrated by an increase in the payback rate to 78 percent among the newer groups and 68 percent among the older groups. Among these changes were the following:

-- Second loans were given to various groups. (The lack of a second loan was a disincentive to paying the first.)

-- Shorter term, smaller working capital loans of 6, 8 and 10 months were made. The smallest loan was for $83 for 6 months.

-- The Foundation is encouraging coordinators to be much stricter about loan repayment. In September 1983 the coordinators, aided by the leadership of the Association, repossessed the triciclos of those who had the greatest repayment problems. This is helping to rebuild the image of the DDF as an agency that considers program beneficiaries capable of paying back their loans.

-- Finally, the staff of the solidarity group component is providing regular assistance to the Dominican Association of Tricicleros, an essential step if this organization is to grow and remain strong.

These changes have been positive, and many business owners have been helped. But further changes need to be made, especially in getting loans out faster and increasing the number of new loans each promoter is expected to handle each month. The goal could easily be 40 new loans per month. It was half that in September 1983.

3. THE MICRO-ENTERPRISE COMPONENT

3.1 The Importance of Micro-Enterprises in the Urban Economy

Before the PRODEME program began, a feasibility study financed by the USAID Mission in the Dominican Republic was carried out to determine the characteristics of the potential beneficiaries of the micro-enterprise component of the program--very small-scale businesses with a fixed location. Although these businesses are considerably larger than those owned by the tricicleros, market-stall holders, and cottage artisans assisted by the solidarity group component described in Section 2, they

are still considered part of the informal economic sector and are characterized by lack of access to institutionalized credit and poor management practices.

The importance of these tiny businesses in the urban economy is overwhelming. A door-to-door survey carried out in four of the barrios of Santo Domingo with a large concentration of industrial and commercial activity and in the six principal secondary cities of the country identified 9,424 enterprises. Of these, 82 percent or 7,668 were "micro-businesses" with fewer than six employees and $8,300 total investment. Of the businesses identified, 56 percent were commerces, 26 percent were services, and 18 percent were manufacturers.

The detailed findings of this study can be found in the report by Stephen Gross which was cited in Section 1. It was important to determine, however, if the businesses assisted by PRODEME were significantly larger than those typical of the sector. Was the program selecting only the largest and best developed enterprises?

Apparently not. The businesses studied in depth are 60 percent the size of the businesses of the program in terms of monthly costs for raw materials, monthly sales, and number of employees. Although the businesses of the program are somewhat larger than the average businesses of the study, they are by no means the largest.

3.2 Project Impact

3.2.1 Comparison of the Controls and the Businesses Assisted by PRODEME

To see if the progress of the businesses assisted intensively by PRODEME with management training and loans was attributable to the program or would have occurred without it, businesses receiving loans were compared to a control group. The control group had made contact with the program and fit the size and investment limitations of the program but, after receiving a few visits from the program coordinators, decided they did not want to join. The control group was created by examining the nonparticipant businesses listed in the DDF files and selecting businesses similar to those of the program participants in terms

of type of enterprise, size, and approximate time the first contact with the program was made.[16]

The success of the businesses assisted intensively by the program was then compared with the control group along six measures of business success, and the difference was substantial (see Table 10). The assisted businesses outperformed the controls by 29.2 percent.

Subtracting the changes in the control group from the changes in the businesses assisted intensively, net change, or the change attributable to the program over a year, was estimated as follows:

-- Total investment in the business: net change +29.7%, or $1,261 per business

-- Total investment in machinery and equipment: net change +20.4%, or $450 per business

-- Monthly sales: net change +23.1%, or $359 per business

-- Monthly cost for raw materials: net change -.19%, or -$5 per business

-- Aggregate value: net change +16.1%, or $157 per business

-- Full-time equivalent employment: net change +63.8%, or an additional 1.4 per business.

The net impact of the project over a year for the 101 businesses assisted by the program as of the date of the study is $127,361 in new investment, of which $45,450 is for new machinery and equipment. The new investment and the working capital provided by the loan along with management assistance was translated into a yearly increase of $435,108 in sales and 141 full-time equivalent jobs paying an average of $115 per month. The amount of new salaries is greater than the total value of the loans. If to this is added the increase in the owners' income of an estimated $57,270 a year (a 27-percent increase) and the possibility that some of the jobs of those employed before will be stabilized and that many of the new jobs created will last for more than 1

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[16]Of the control group of 24, three businesses (13 percent) had failed and were not included in the analysis. That no business in the program has failed is in itself an important indication of the success of the program.

Table 10

Comparison of Characteristics of Businesses Intensively Assisted and Controls (between 6 months and 1 year from first contact)

Variables	Assisted Businesses			Controls		
	First Contact	September 1982	Percent Change	First Contact	September 1982	Percent Change
Total Investment	$4,244	$5,839	37.6	$5,057	$5,391	6.6
Value of Machinery & Equipment	$2,203	$3,028	37.5	$2,596	$2,971	14.4
Monthly Sales	$1,553	$1,862	19.9	$1,000	$950	-5.0
Monthly Costs for Raw Materials	$586	$611	4.3	$288	$318	10.4
Aggregate Value[a]	$977	$1,029	5.3	$712	$607	-14.7
Number of Full-Time Equivalent Employees	2.21	3.77	70.6	2.23	2.38	6.7
Average	--	--	29.2	--	--	3.1

[a]Aggregate value is sales less the cost of raw material and is considered to be a simple, reliable measure of overall business change.

year, then this program has proved itself in terms of increasing income and creating jobs.[17]

3.2.2 Comparison of the Assisted Businesses With Each Other

In the analysis of the data on the impact of the program, the sample of businesses intensively assisted by the program was divided into four categories of 12 businesses each: (1) those whose aggregate value had increased 96 percent or more, (2) those whose aggregate value had increased from 15 percent to 95 percent, (3) those whose change in aggregate value was only slight (+14 percent to -14 percent), and (4) those whose aggregate value had decreased more than 15 percent. These four groups of enterprises were compared according to the following criteria:

-- Degree of business success: Along what dimensions did change in the businesses occur?

-- Perceived degree of business success: How were the changes in these businesses perceived by PRODEME coordinators and the clients themselves?

-- Program inputs: Was the amount of the loans and management assistance equivalent for all groups? Was this perception congruent with the numerical indicators?

-- Adoption of the management techniques suggested by the coordinator: To what degree were new techniques in bookkeeping, marketing, management of employees, and overall organization of production adopted?

-- Personal characteristics of the owners of the businesses: Were owners of the most successful businesses different than business owners in the other categories?

One might assume that "degree of business success" (both numerical and perceived) would be related to the amount of "program inputs," "the adoption of management techniques," and the "personal characteristics of the owners." To what degree were these factors actually related?

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[17]An additional 110 loans have been given out since these data were collected, so the impact of the program to date may be considerably greater. For example, the increase in total investment since the beginning of the program would be $266,071, yearly sales would have increased by $908,988, and full-time equivalent employment by 295, if the rates of increase for the businesses recently assisted were equal to those for businesses assisted earlier.

Degree of Business Success. The most successful businesses, those whose aggregate value had increased 95 percent or more, outperformed the rest of the assisted businesses on almost every indicator of business success. This 25 percent of the program participants was able to translate its investment in machinery and other equipment into large increases in sales, employment, profits, and personal income (see Table 11).[18]

Perception of Degree of Success. The perception of overall trends in business change by the PRODEME coordinators and the business owners themselves corresponds closely to the numerical indicators (see Table 12). Although all the categories of businesses were rated about the same by the coordinators on degree of expansion, the most successful businesses had fewer problems. On this measure, the most successful businesses rate "better than most," while the others rate between "neither good nor bad" and "has problems." From the perspective of the beneficiaries, the owners of the most successful businesses believe that they are close to "much better than when they started," and the rest were rated by themselves as "a little better."

Program Inputs. It might be expected that the differences in degree of success were due to the more successful businesses having received more management assistance or larger loans. This was not the case: the program inputs for each of the four groups were virtually identical in terms of the size of loan and the number of visits by program coordinators (see Table 13).

Adoption of Management Advice. There was, however, considerable difference in the rate of adoption of the business advice of the coordinators. On every indicator, the most successful businesses now have better management practices than the rest of the businesses assisted. The difference is particularly notable when the least successful businesses are compared with the most successful groups (see Table 14).

Personal Characteristics and Level of Experience. What might explain the superior performance and the increased adoption of management techniques of the top group? The answer may be the characteristics of the business owners themselves (see Table 15). The owners of the businesses most successful in terms of

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[18]This successful group, when it entered the program, was considerably smaller than the other businesses, so the percentage increase was based on a lower starting point. The businesses that showed the greatest percentage change over time essentially advanced to the level of the other assisted businesses.

Table 11

Indicators of Success for Assisted Businesses
(amount and percentage change)

Categories	Most Successful (aggregate value 96%+)		Next Two Categories (aggregate value +95% to -14%)		Unsuccessful (aggregate value less than -14%)	
	$	%	$	%	$	%
Total Investment	3,577	36	4,895	25	3,723	34
Investment Machinery & Equipment	2,605	32	2,367	38	1,611	45
Monthly Sales	802	154	1,559	4	2,177	-38
Monthly Costs of Raw Materials	359	92	593	-15	720	-4
Aggregate Value	442	205	966	18	1,456	-55
Monthly Salaries	212	168	300	23	220	27
Monthly Gross Profit	181	260	740	11	972	-53
Monthly Personal Income	172	59	180	26	172	-11
Monthly Net Profits	282	46	444	-14	712	-70
Total Employed (full-time equivalent)	2.2	132	2.35	54	1.8	56

Table 12

Coordinators' Perceptions of Success of Assisted Businesses

Evaluation	Most Successful (aggregate value 96%+)	Next Two Categories (aggregate value 95% to -14%)	Unsuccessful (aggregate value less than 14%)
Evaluation of Coordinator			
One of the best (5); Has serious problems (1)	3.8	3.4	2.6
Has expanded a lot (5); Is on verge of failure (1)	4.2	4.2	4.0
Owner's Perception			
Things are much better now (5); Things are much worse now (1)	4.5	3.7	3.9

Table 13

Program Inputs for Assisted Businesses

Program Input	Most Successful (aggregate value 96%+)	Next Two Categories (aggregate value 95% to -14%)	Unsuccessful (aggregate value less than -14%)
Size of Loan	$1,809	$1,885	$2,096
Visits From Coordinator Before Loan	18	16	15
Visits From Coordinator After Loan	17	15	17
Courses	1.0	1.0	0.4

Table 14

Adoption of Management Advice by Assisted Businesses
(evaluation of coordinators)

Evaluation of Coordinators	Most Successful (aggregate value 96%+)		Next Two Categories (aggregate value 95% to -14%)		Unsuccessful (aggregate value less than -14%)	
Item	First Contact	Sept. 1982	First Contact	Sept. 1982	First Contact	Sept. 1982
Bookkeeping	0.6	2.8	0.5	2.5	1.1	1.1
Marketing	1.9	2.8	1.8	2.7	1.4	1.7
Management of Employees	2.8	3.6	2.2	2.6	2.1	2.8
Organization of Production	1.9	3.4	1.5	2.8	1.8	2.4
Average	1.8	3.2	1.5	2.7	1.6	2.0

Note: 0=none, 1=deficient, 2=worse than average, 3=neither good nor bad, 4=better than average, 5=excellent.

Table 15

Personal Characteristics of Business Owners

Characteristic	Most Successful (aggregate value 96%+)	Next Two Categories (aggregate value 95% to -14%)	Unsuccessful (aggregate value less than -14%)
Age	33	39.5	41
Male	91%	68%	92%
Dependents	4	4.5	7
Years of Education	11	10	9.1
Years of Experience	12	15.5	16
Business Sole Source of Owner's Income	89%	61%	75%
Years Business has Existed	4.5	7.9	6.6

increased aggregate value, are younger and better educated than others assisted by the program, and their businesses are more likely to be the sole source of the owners' income. These more successful business owners, paradoxically, tend to have less experience--although they are by no means inexperienced--and their businesses have been in existence for fewer years. Their businesses are also considerably smaller than the other businesses assisted by the program.

Based as it is on only a few cases, this analysis is inadequate for developing a profile of businesses that should or should not be assisted by a micro-enterprise program. It does, however, suggest some parameters. It may be that the clients with whom a program is most likely to have success will tend to be younger and better educated and will have a business that has proved its viability for 4 or 5 years, yet is smaller than those common in the community. Faced with growing families and rising expectations, these business owners may be convinced that it is worthwhile to expand significantly. They may be at a kind of turning point in their experience as entrepreneurs, ready to adopt the management tools provided by the program and willing to change.

3.2.3 Changes in Businesses During the Period of Management Assistance Before the Loan Is Granted

All the businesses assisted by the program were studied at three points: when they first entered the program, when the loan proposal was developed after an average of 16 visits from the program coordinators, and when the study was completed. With this information, the changes attributable to the management assistance visits before the loan was granted could be determined.

Changes that occurred before the loan made up a remarkably large percentage of the total change. Encouraged and oriented by the PRODEME coordinators, and with the prospect of a loan close at hand, the program's clients invested in machinery and equipment, and sales and gross profits increased considerably (see Table 16).

The adoption of the business management suggestions made by the PRODEME coordinators occurred mainly before the loan was made. Since the loan, little additional progress in business management approaches has occurred, even though the almost weekly visits from the PRODEME coordinators continued (see Table 17).

Table 16

Percentage Change in Assisted Businesses Attributable to Management Assistance

Variable	Increase: First Contact to Time of Study (September 1982)	Total Change Occurring Before the Loan
Total Investment	30	17
Machinery & Equipment	27	56
Sales	31	52
Aggregate Value	46	61
Employment	74	8
Salaries	60	18
Gross Profits	57	70

Table 17

Level of Adoption of Management Suggestions

Variable	First Contact	Date of Loan	September 1982
Bookkeeping	0.7	3.3	2.2
Marketing	1.7	2.5	2.4
Managing Employees	2.3	2.9	2.9
Organizing Production	1.7	2.9	2.9
Average	1.6	2.9	2.6

Note: 0=none, 1=deficient, 2=worse than average, 3=neither good nor bad, 4=better than average, 5=excellent.

In the areas of marketing, management of employees, and the overall organization of production, the gains made up to the granting of the loan were maintained. In the essential area of bookkeeping, the quality of the records kept has fallen somewhat since the loans were granted (see Table 18). This is true of businesses at every level of success.

Since keeping books was a requirement of the loan, there was a strong incentive to adopt a bookkeeping system. After the loan was granted, the business owners' commitment dropped off. Keeping good records was a major theme in the courses and the almost weekly exchanges between PRODEME coordinators and business owners, but keeping good business records was often seen by the participants as too difficult, too much work or, possibly, not very important.

Table 18

Quality of Bookkeeping Practices

Aggregate Value of Business	First Contact	Date of Loan	September 1982
96%+	0.6	3.7	2.8
80% to 19%	0.6	3.5	2.6
14% to -14%	0.4	3.0	2.3
Less than -14%	1.1	2.8	1.1

Note: 0=none, 1=deficient, 2=worse than average, 3=neither good nor bad, 4=better than average, 5=excellent.

A major debate among small enterprise development practitioners is whether the cost of one-on-one assistance and management courses is worth the results. Many feel it is enough simply to extend credit. This analysis showed that the businesses assisted by the program progressed considerably in terms of investment, sales and gross profits, as well as management practices, during the period before loan disbursement when they were receiving only management assistance. In this case at least, credit was not the only factor determining business success.

3.2.4 Characteristics of the Employees of Micro-Enterprises

A justification of micro-enterprise projects is that they create employment at low cost, but what kind of employment do they create, and for how long? The PRODEME program has shown that a new job can be created for each $1,376 in credit extended. But are these jobs in any way comparable to the jobs created in the "formal sector" that may cost anywhere from $10,000 to $20,000 or more in long-term investment? The first question to answer is whether jobs in the informal sector provide an adequate income.[19]

Salaries. The average full-time equivalent wage for workers in businesses assisted by the program is $115, higher than the minimum wage in the Dominican Republic ($104 per month) but without the social benefits of employment in the formal sector. Slightly over half of the workers (53 percent) are making less than the minimum wage, calculated on the basis of full-time employment (see Table 19).[20]

Table 19

Salary Levels of Employees in Assisted Businesses

Monthly Full-Time Salaries	Percentage of Employees
$50 or less	13
$51-82	18
$83-104	22
$105-165	17
$166+	31

[19]The distinction may be somewhat academic since it assumes that a choice is possible (i.e., that the jobs are available in larger modern enterprises).

[20]For example, the income of a worker employed one-quarter time was multiplied by four.

Salary is closely related to experience. While 50 percent or more of those earning under $104 have no previous related experience, this percentage drops to 27 percent of those earning from $105-165 a month and to 38 percent of those earning over $166. Over 50 percent of those making $166 or more a month have 5 years of experience or more, and only 12 percent of those who earn under $104 have had this much experience.[21]

Younger workers who are learning a trade tend to be paid less than the minimum wage; once they are trained, they earn considerably more than the minimum wage. All of those 14 years old or younger and 77 percent of those 15- to 19- years old earn under $104 a month (see Table 20). By age 25 nearly three-quarters are earning over $104 a month and nearly half are making $166 or more.

Table 20

Percentage of Employees Earning Less Than or More Than $105 Monthly, by Age Group

Salary	14 or Younger	15-19	20-24	25-34	35-44	45 or Older
$105 or Less	100	77	44	27	17	20
More Than $105	0	23	46	73	83	80

It is important to note that the business owners do not earn a great deal more than their employees. The average business owner earns $223 a month after receiving the loan, which should allay concern among those who criticize the assistance of small enterprises by saying that only the owners benefit. The low wages of those who are just learning a trade are compensated for by the fact that, as they gain more experience, they can realistically expect to earn considerably more.

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[21]The employees of micro-enterprises are predominantly male (89 percent). The difference in salary levels between the sexes is not striking. Sixty-two percent of the females earn less than minimum wage ($104), compared to 51 percent of the males.

Duration of Employment. One concern expressed by many of those interested in assisting informal sector enterprises is that once the business owner receives working capital, there will be a sharp upturn in employment, only to be followed a few months later by a reduction of the work force to the original level. The issue to be resolved is whether the working capital will be used up quickly or will be turned over several times to maintain an increased level of business activity.

Results to date are encouraging. Eight in ten of those employed before the loan was given are still working. Nine in ten of those hired after the loan was given are still working. Of those who left, 44 percent kept their jobs 7 months or longer after the loan was granted, and the rest kept their jobs for a shorter period.[22]

Skills Learned Through Micro-Business Employment. One justification for financing micro-enterprises and thus creating new jobs is that the young workers will learn new trade and entrepreneurial skills. Considerable trade skill development has occurred in this program: nearly three-quarters say they have learned to run a machine they did not know how to use before or to make or repair a product. As could be expected, 80 percent of those making under $166 a month report they have learned something new in their employment; 60 percent of those making $166 or more say they have learned something new.

Of those who said they have learned something new, 8 percent said they had learned to use a machine, 20 percent said they had learned to repair cars, machines, electrical appliances, and the like, and 56 percent said they had learned to make clothes, furniture, shoes, handicrafts, or other items. The rest said they learned "other things."

Micro-businesses in the informal sector are the means by which most youths are trained in job skills. The relevance of these skills to starting one's own business is shown in the small percentage (11 percent) of workers over 35. After a decade of intensive training and savings, these workers start their own shops or go on to work in larger businesses.

Characteristics of Micro-Enterprise Employees. The employees of micro-enterprises tend to be young--the largest

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[22]Overall, 63 percent of the employees are working full-time, and 13 percent are working close to full-time (three-quarter time). Another 15 percent are working half-time, and 9 percent are working one-quarter time. There is no strong relationship between the number of hours worked and income per hour.

category is from 15 to 19 years of age, and only 11 percent are over 35 (see Table 21). The young workers are often apprentices. Only one-fifth of the employees are related to the owners; at this level of established enterprises, the owner is much more likely to hire people outside the family.

Table 21

Age of Micro-Enterprise Employees

Age	Percentage
14 or Younger	5
15-19	34
20-24	29
25-34	23
35-44	6
45 or Older	5

To sum up, the jobs in the informal sector are created at low cost. These jobs are not "marginal" in terms of wages--on the average these workers earn more than the minimum wage in the Dominican Republic. Also, there is little evidence to date that these jobs will be short term, but more research is needed to determine this with any degree of certainty. Finally, informal enterprise employment is a training ground for learning trade skills and entrepreneurship. This is demonstrated by the fact that there are few workers over 35 in these shops, and that many of the owners started their businesses after spending a decade or more learning their trade in similar shops.

3.3 Participants' Evaluations of the Program

Both the loan recipients and the control group were asked to evaluate the micro-enterprise component of the PRODEME program: What did they most like? What aspect of the program caused them the most problems? What would they like changed?

1. What did they like best about the program?

What they liked most about the program was the loan (40 percent). They also felt that "the loan terms are comfortable" (25 percent) and that these terms "permit a person to pay according to his ability without so many requirements." They

continually emphasized that "the program is better than the moneylenders." The courses provided by the program also received a high rating (30 percent) because "you learn to control your business," and "management assistance is what guarantees that a business will progress." Occasionally they mentioned that "the program gives employment to the poor."

2. What did they like least about the program?

Of the total, 15 percent said they liked everything about the program. The rest commented openly and frankly about the problems they had, referring principally to three aspects:

1. The purchase order (46 percent)[23]
2. The slowness of receiving the loan (14 percent)
3. The terms of the loan (21 percent)

These comments were typical:

-- "I had to purchase what I needed at a higher price because the loan arrived late. By then I couldn't get what I wanted and the quality was lower."

-- "Taking so long to get the money affects my ability to get a good price."

-- "I wasn't able to do the work that I wanted, and the prices went up."

-- "The purchase order shows the program doesn't have confidence in the micro-entrepreneurs."

-- "The purchase order causes me to lose money and limits my possibilities for success."

-- "With the purchase order, one can't buy at the lowest price, and you have to buy everything at once. If sales aren't good, your business can go under."

An analysis made by PRODEME shows that program clients lose at least 10 percent of the value of their loans by having to use

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[23]With the purchase order, the business owner must go to a store and receive a quote on the cost of what he wants to buy. The owner receives the merchandise, and the DDF pays the store owner directly. In this way the DDF ensures that the money is used for business purposes instead of being diverted to other uses. The negative side is that the business owner is restricted in the number of stores from which to choose, and the store owner must wait a long time for a deal to be closed and to receive a check from the Foundation. Therefore prices tend to be considerably higher.

the purchase order. If to that is added the lack of flexibility in making purchases that it implies, the purchase order imposes a considerable burden on the program's clients.

3. What changes would they like to have instituted?
What changes were suggested by the program participants to improve the program? Not surprisingly, the most frequent suggestion was to abolish the purchase order (38 percent). One respondent put it this way: "You should eliminate the purchase orders and have faith in the loan guarantees. If you don't trust in the guarantees, why do you ask for them?"

Another major problem mentioned was the loan terms (21 percent); for example, as one recipient said, "The loan quotas should be smaller and the loans should be given for a longer period of time." The rest (14 percent) complained about the time PRODEME takes to get loans into the hands of the beneficiaries. The areas in which the PRODEME clients would like the program to change reinforce the recommendations made in the next section.

3.4 Conclusions, Problems, and Recommendations

3.4.1 Conclusions

The micro-enterprise component of the PRODEME program has proved to be an effective way of assisting small enterprises in Santo Domingo. The program has avoided the tendency of similar projects in other countries to work with the largest and most sophisticated micro-enterprises; the enterprises the program works with are similar to the "average" micro-enterprise identified in the feasibility study.

The PRODEME micro-enterprise component package of one-on-one management assistance, loans, and courses has led to significant results. The assisted businesses outperform the control groups on every measure of business success. An average of 1.4 new full-time equivalent jobs have been created for each business assisted, and the salaries for these new jobs will exceed the value of the loans in less than a year. Many existing jobs were probably stabilized as well. Another source of income related to the program, that of the business owners, went up 27 percent. It is significant that this has all been accomplished during a period of sharp decline in the Dominican economy.

In a breakdown of the micro-businesses assisted by the program, one-quarter made truly substantial progress, increasing their aggregate value nearly twofold; one-quarter made modest but substantial progress; one-quarter remained more or less the same as when they entered the program; and the aggregate value of the

one-quarter fell considerably. Why were the levels of success so different?

In profiling the most successful businesses, it was found that success was not related to the amount of the loan or the amount of management assistance; program inputs were virtually identical for all four groups. What was different about the most successful business owners is the way they used the program inputs. They expanded aggressively, turning their working capital over several times, increasing production, hiring new workers, and purchasing new machinery and equipment. They were also more likely to adopt the management suggestions made by the coordinators.

One reason for the differences among the groups may be that the most successful business owners tended to join PRODEME at a critical stage in their evolution as entrepreneurs. They are generally younger and better educated than the other business owners, their businesses are newer, and, having proved that their businesses have been viable over 4 or 5 years, they are highly motivated to expand. The PRODEME program happened to provide the management assistance and the capital at an appropriate point in their experience.

Finally, an analysis was made of the employees of the businesses to determine whether the jobs being created were marginal. This does not appear to be the case. The average monthly salary ($115) is above the minimum wage in the Dominican Republic ($104 a month). Most of those in the program earning less than $104 are under 19 years of age and are learning a trade; by age 25, nearly 75 percent are earning more than $104 and nearly 50 percent are earning over $166 a month. It is encouraging that 80 percent of those working before the loan are still working.

The study also showed that micro-businesses serve as training schools for learning trades and entrepreneurial skills. Most said that they had learned how to use a machine or to repair or make something since they started work. That only 11 percent of the employees are 35 years of age or older indicates that by that age many probably left to start their own shops or move into formal sector jobs.

3.4.2 Problems

The program undoubtedly has had a positive effect on many business owners. The 1982 evaluation, however, identified several aspects of the program that needed to be improved if it were to serve its clients better. The comments by the project beneficiaries mirrored many of these concerns:

-- The purchase order system caused loan recipients to lose much of their flexibility in purchasing the raw materials and merchandise they needed.

-- The long delays in getting the loan into the hands of the clients caused many problems. It took 30 to 60 days after the loan was approved to disburse it. It often took a month or more of repeated visits to micro-businesses to prepare the loan proposal.

-- Loan terms were deemed too short and weekly payments too large for many of the recipients, given the sharp decline of the Dominican economy.

Another problem was the high cost of the micro-enterprise component of the project. It cost 44 percent of the value of the loan to administer the loan and provide management assistance--almost twice the cost of the solidarity group component (which was 28 percent). Finally, this component of the program was plagued by a large and increasing loan repayment problem; 4 pesos of each 10 pesos that should have been paid back had not come in.

3.4.3 Recommendations

In 1982 it was suggested that the DDF undertake a step-by-step, experimental approach to change the administration of the program and the assistance methodology in order to lower administrative costs and obtain a better payback rate. Suggestions were made in five major areas:

1. Since the purchase order is a major area of concern to project beneficiaries and loans are already guaranteed by cosigners and property, the elimination of the purchase orders should be considered.

2. Ways need to be found to simplify the loan application procedure. Loan applicants reported that repeated visits for more information during loan proposal preparation are troublesome. Whether so much information is necessary for judging a business' eligibility is questionable.

3. Loan terms should be adjusted somewhat to reflect the conditions of the Dominican economy.

4. Providing more management assistance through courses rather than through the almost weekly visits should be emphasized. Weekly visits are expensive and the courses have had high acceptance among the beneficiaries.

5. Ways to speed the process of loan disbursal need to be developed.

These changes, it was suggested, would help regain the enthusiasm and commitment of the PRODEME micro-enterprise clients, as they were all requested frequently by the beneficiaries themselves. They would also tend to lower administrative costs.

Other recommendations that were suggested were these:

-- Developing a micro-business owners' association that could take on some of the responsibility for ensuring payback and for training

-- Reacting more quickly to late payments

-- Making smaller initial loans to establish the reliability of clients

By the time of the last visit to the program in September 1983, significant progress had been made in the following areas.

1. Simplifying the process of approving a loan and providing followup.

-- The number of visits to micro-enterprises before a loan is approved has been reduced from an average of 16 visits to 8.

-- The documentation required to complete a loan request has been simplified considerably. The analysis of break-even profit and loss and the exhaustive analysis of costs were eliminated because it was realized that these calculations had little relevance for businesses at this level.

-- The number of visits to micro-businesses after the loan was given was reduced. Loan recipients were placed in three categories: those who had "high" management skills (25 percent), those who had "low" management skills (20 percent), and those whose skills were considered "average" (55 percent). Those in the first two categories were given little assistance (once every 2 weeks to 1 month)--the "high" category because their books were always up-to-date, and the "low" category because "it wasn't worth the effort." The others receive visits from the promoters nearly every week.

2. Reflecting the needs and desires of the clients

-- The use of the purchase order was reduced. Now in many cases the client receives a purchase order for part of the total amount, a check to a store for another part, and a check in the client's name for the rest. With this flexibility the micro-entrepreneur can purchase what is needed at a much lower rate.

-- Short-term working capital loans have been extended on an experimental basis. Before, all the loans had to be paid back in 1-2 years (although, at times, they could be paid back in 3-6 months). Many times this "extra liquidity" was wasted, causing problems later. To ensure that the micro-business owners had a "line of credit" open to them, the coordinators began the loan approval process 2 months ahead of time so that the check would be ready when the previous loan was cancelled.

3. Lowering the late payment rate

-- There is now more emphasis on collecting late payments. Several loans have gone to the legal department.

-- The simplified loan application procedures, the reduction in use of the purchase order, the increased use of courses to provide management assistance, and the possibility of receiving a second loan have created a more positive attitude among the clients, making repayment more likely.

-- The promoters now have more expertise and select better candidates to receive loans. They have learned through experience that repayment is more likely from clients who have the clearest plans at the beginning of the process and who have the required data ready when the promoter asks for it. "Good people" are not necessarily those who will pay their loans on time.

4. CONCLUDING COMMENT

The PRODEME experience has taught much about several aspects of assisting very small-scale economic enterprises:

-- The validity of a credit guarantee or solidarity group mechanism for guaranteeing loans

-- The ways this group mechanism can, under the right circumstances, assume a social as well as economic role

-- The employment and income impact of assistance to slightly larger businesses averaging two employees

-- The characteristics of the successful enterprise

-- The fact that the jobs created in micro-enterprises are not marginal but are, within the context of the local economy, as good an opportunity for making an income as the other options available

There have been problems in the ability of the program to meet the needs of its clients; it is to DDF's credit that project methodology has evolved to meet these needs more effectively. There is, however, much that needs to be done so that the program can responsibly assist a larger number of clients at lower cost and with greater efficiency.

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CHAPTER TWO

INTRODUCTION TO AFRICA CASE STUDIES

Doug Hellinger and Fred O'Regan

1. INTRODUCTION TO THE PISCES AFRICA COMPONENT

The Africa component of Phase II of the Program for Investment in the Small Capital Enterprise Sector (PISCES) was carried out by The Development Group for Alternative Policies (The Development GAP) between July 1980 and September 1984. Originally a 3-year project, it was extended in order to permit additional monitoring of projects developed under its rubric. As designed, two projects were supported and studied under PISCES II: the Small Business Scheme (SBS) of the National Christian Council of Kenya (NCCK) and the Income- and Employment-Generation Program of the Coptic Evangelical Organization for Social Services (CEOSS) in Egypt. An attempt was made to arrange funding for a third income-generation project in Zimbabwe, but this did not materialize. Assistance was provided, however, under PISCES in the development of two larger programs in Kenya and Egypt which presently retail Agency for International Development (AID) funds to local organizations operating in this area. A final PISCES activity was the organization of a workshop in Nairobi bringing together organizations from throughout Africa which support income generation among the poor.

2. TRANSITION FROM PISCES PHASE I

The PISCES Phase II action-research project grew directly out of Phase I. The first phase was an exploratory study to examine and assess the various program methodologies of nine income- and employment-generation projects which directly reached and assisted the very poor in urban and peri-urban areas in Africa. For the most part, these projects were carried out by private, autonomous development institutions with dedicated, indigenous staff. The principal objective of the research was to abstract elements of structure and process which seemed to be related to effectiveness in assisting people at this economic level.

Above all, most of the programs identified exhibited a strong social orientation. They emphasized increasing income among the poor as crucial to immediate survival and the attainment of individual and family security. The economic objectives were viewed as means toward greater ends, such as increased self-reliance, enhanced feelings of individual self-worth, and greater

community awareness and control over development. These goals reflect a realization on the part of the institutions involved that their clients at this extreme level of poverty in Africa face many problems in addition to low income and that they had to be addressed simultaneously. It is for this reason that a number of these programs delivered a wide range of social services in conjunction with their business assistance.

The programs that managed this in an effective manner did so through a system of direct outreach by community development workers into local communities. It was found that this decentralized approach aided the promotion of the program among the poor, as well as the client selection process, by facilitating the assessment of the level of peoples' needs and the feasibility of their business projects. It also usually increased the level of beneficiary participation in the selection of new program areas, or at least the responsiveness of program staff to the interests of their clientele. Finally, in order to reach greater numbers of people, particularly the very poor and, more particularly, very poor women, these programs tended to stress the organization, development, and support of group enterprises.

In providing management assistance to both individuals and groups, these programs provided the inputs necessary for either enterprise formation or improvement and stabilization, rather than for the generation of rapid enterprise growth. Hence, the assistance focused on the attainment of "adequacy" in bookkeeping, inventory control, and marketing. For example, most of the programs helped with the establishment of a simple accounting system which allows a client to understand the basics of financial management. Typically facing problems of low product quality, overcompetition, and static local demand, clients were often advised to diversify their product line or to move into a new trade altogether, while program staff helped with some up-front demand analysis and some marketing intervention of their own. Most programs were found to build on the existing skills of adult clients in their business locales, while some set up work-related training courses for youth.

While financial assistance constituted an essential element of most of the programs identified, in no case was it found to be in itself a sufficient means of assistance. In most cases it was found that credit was part of a comprehensive package of enterprise support, delivered only after the clients were considered to have attained an adequate managerial capacity. Program staff also exercised relatively strict control over the use of the credit extended so that it would actually be used for the designed business purpose and not to meet personal and family needs, however pressing those might be. Perhaps the most salient characteristic of the credit programs examined, however, was the flexibility they displayed in credit terms and policies so as to be able to serve extremely poor clients. Collateral requirements

were usually satisfied simply by personal or group guarantees, and loan sizes and terms were typically adjusted to ensure that clients could afford to make scheduled monthly repayments.

After identifying commonalities among these programs and abstracting methodologies that appeared to be related to effectiveness in assisting the poor self-employed, the next step was to identify, support, and study programs that incorporated the essential elements of structure and process. These projects would be closely monitored over time in order to understand the type, range, order, and intensity of inputs needed on a day-to-day basis and to pass on this knowledge to AID for future programming purposes. One such project was to be identified before the end of Phase I of PISCES, a second in Phase II. Both were to be monitored over a 3-year period after receiving funding from AID.

This process had some major flaws. Chief among them was the need to get local USAID Mission support. Because most Missions gave priority to rural development at that time, this requirement eliminated most African countries, and a number of good projects, from consideration. In those countries in which AID gave the go-ahead to project development--Kenya and Egypt--long delays in the approval process cut into the time set aside for monitoring and caused other problems as well. In Kenya, the approval of NCCK's Small Business Scheme took 1 year; as this was followed by a 6-month project startup period and a year's project operation which yielded limited information, extensive monitoring could not be conducted until 18 months into Phase II. The situation was worse in Egypt, where USAID and Egyptian Government approval of CEOSS's project was not completed until 2 years after the project proposal was submitted early in Phase II. The only other AID Mission to subsequently show interest in supporting a PISCES project was that in Zimbabwe, and bureaucratic problems emerged there as well.

3. PROJECT DEVELOPMENT ISSUES IN KENYA

3.1 The NCCK Experience

Project development began in Kenya in 1979. The first contact with NCCK was made by the consultants in April of that year as part of PISCES Phase I research. Although no promises of financial assistance could be made at that time, NCCK consented to a more in-depth study of the program in subsequent months because of its interest in having a third-party analysis of its small-business activities. This agreement, however, was made on the understanding that the consultants would carry out the study without interfering in project activities and that they would not

take up an inordinate amount of staff time. The consultants returned to Nairobi in July 1979 and spent roughly 3 weeks examining the SBS scheme in Nairobi and the urban program generally in both Nairobi and three secondary cities. Discussions were also held with NCCK on the possible development of a project to be considered for funding by USAID. These meetings with staff, together with the information emerging from the case study, formed an excellent basis for detailing the upgrading and expansion needs of the SBS. With the assistance of the consultants, NCCK drafted an initial project-design document to be submitted to AID.

At the same time, discussions were held with the program director of USAID/Kenya, who expressed interest in the project. The consultants were told, however, that the Mission office with responsibility in this area was already overburdened administratively and was therefore reluctant to administer another project and, in any case, that neither the Mission nor the Africa Bureau in Washington had available any Operational Program Grant funds for private voluntary organizations (PVOs) for the remainder of the fiscal year. The only routes open to project funding were, therefore, either through the normal bilateral funding channel (which, in requiring both intensive review in Nairobi and Washington and Congressional preapproval, normally takes about 2 years) or through some source of central funds in AID/Washington.

The consultants worked with the PISCES project director to locate central funding for the project. The Africa Bureau's Accelerated Impact Program (AIP) was identified as such a source. Despite the fact that the outlook for project approval through the AIP was problematic due to its urban focus, this route was pursued because it appeared to be the only possible means of acquiring funding for the project in the short term. At the same time, the AID Mission in Kenya was assured that all activities relating to NCCK project development and followup, including assisting NCCK in putting its materials in a form consistent with AID's normal format, would be carried out by the consultants. Unburdened by any additional project backstopping responsibilities, at least in the project development stage, Mission staff expressed a willingness to formally submit a proposal to Washington that met with its prior approval.

An additional trip to Nairobi was made in February 1980 in order to help NCCK prepare the final proposal. The PISCES project manager and the AIP coordinator took the interim step of submitting for Congressional approval a preproposal figure of $260,000 before the project was approved in Washington; otherwise, funding would not have been available for that fiscal year. The proposal was completed and submitted to USAID/Kenya for review and subsequent submission to the Africa Bureau in Washington. Although seemingly a straightforward process, it

took approximately 4 months for the project to be submitted to Washington and reviewed by the AIP project-review committee. USAID/Kenya was then directed to incorporate additional information in a final project document. Within a month, the final proposal was returned to Washington and the project approved.

A new person in USAID/Kenya was then assigned to undertake a "pre-award survey" of NCCK. This work, which unfortunately duplicated much of the work already done by the consultants in the NCCK case study and a general financial audit carried out by the Nairobi office of one of the United Kingdom's most prestigious accounting firms, took approximately 2 months to complete. This being accomplished, discussions began on the finalization of a project agreement.

These discussions coincided with a stopover in Nairobi in August 1980 by the consultants, who acted in an intermediary capacity and assisted NCCK in interpreting AID administrative and financial reporting requirements. Throughout this negotiating process, which took place intermittently over a 10-day period, NCCK demonstrated, in the consultants' opinion, an exceptional amount of patience and flexibility. The organization had already undergone a rather detailed study, both of itself and its urban program, and had consented to submit the project to a comprehensive monitoring process under PISCES. USAID/Kenya did manage to cause an expression of frustration from NCCK by sending a letter to the office of Kenya's Vice President notifying it of the project and seeking pro forma clearance. Early on in discussions with the consultants, NCCK's General Secretary had stated clearly his organization's policy of maintaining independence from government in project planning and implementation, as this was considered crucial to maintaining the autonomy and flexibility needed to be effective as a private development organization. The problem, from its standpoint, was not that the Government would interfere with the grant; rather, it was that NCCK did not want to establish any precedent whereby a government would be in a position to check off on its grants and, thereby, their project activities.

After additional minor delays in drawing up the final legal language, the project agreement was signed in November 1980. By this time, 14 months had passed since the initial submission of a project proposal to AID in Kenya and Washington. NCCK had submitted itself to two case-study and two project-development visits by the consultants; a lengthy pre-award survey; a 6-month waiting period during proposal review without receiving any indication of the proposal's status; and a series of negotiations leading to a final grant agreement, during which it yielded on a number of administrative points although it did not consider this to be in its best interests.

3.2 Lessons Learned From the NCCK Project Development Experience

The Kenya experience suggests that there are major problems to be faced in getting a project of this type to the funding stage within AID. In the critical project-development stage, the problems were at least twofold. First, the project-development process took over 1 year despite the fact that it was carried out under the most accelerated route available, had the technical support of both the consultants and the Office of Urban Development, and was viewed favorably by all but one of the approximately 25 AID staff persons involved in the process at one time or another. PISCES-type projects necessarily involve highly innovative and independent organizations that attempt to foster and maintain local community initiatives and thus cannot spend an inordinate amount of time on administrative matters surrounding project development. In the NCCK case, the consultants were at one time concerned that NCCK might lose interest or seek other sources of funding for the project because of lengthy bureaucratic delays. In the end, this did not happen for a number of apparent reasons, including the rapport which developed between NCCK and the consultants (who promised all along to assist in locating other funding sources if AID did not approve the project).

The second problem concerns the relatively tight administrative and financial requirements imposed by AID in both the project-development and -implementation processes. Despite the fact that the consultants' initial fears concerning an administrative overburdening of NCCK turned out not to be justified, it must again be kept in mind that by African standards, NCCK is a quite sophisticated non-governmental organization (NGO) and intermediary assistance on budgetary and administrative matters was provided by the consultants. Given the example of the NCCK project-development process, it is difficult to see how AID could effectively support PISCES-type projects of administratively less sophisticated NGOs under current procedures. In fact, aware of the limitations of the current project-development system, the consultants ruled out the development of a number of potentially viable projects of less developed implementing organizations.

These project-development problems within AID cannot simply be blamed on project staff, as almost all personnel carried out their responsibilities without major delays. Rather, the problem appears to lie in the project-development system itself. The number of distinct steps that must be undertaken to fund a project--ranging from the submission of preproject notification for Congressional approval to the numerous communications between the field and Washington on project document review--renders the system both burdensome and time consuming. This is compounded by the number of offices and personnel involved in the project development and review process. In attempting to locate an

appropriate funding mechanism for the project, the consultants had to address the different substantive and procedural concerns of USAID/Kenya, the Office of Urban Development, the East African Division of the Africa Bureau, and the staff and review committee of the Accelerated Impact Program. Although all of these entities proved to be supportive, the consultants found themselves "beginning from the beginning" at numerous junctures and continually having to answer new questions being raised.

These problems may be inherent in attempts to introduce small innovative projects into the AID system, and they appear to contribute to the lack of interest many project officers have in such projects. Workload and administrative complexity do not appear to significantly decrease with project size, and innovation does not appear to be singled out for reward. This situation was found not only in Kenya but also within the five other USAID Missions in Africa which were approached for the purpose of project development. It therefore appears to be far easier for project officers to continue to develop larger projects through normal government channels than to pursue the development and support of smaller projects of alternative organizations, as neither the outreach capability of local Missions nor the necessary staff incentives are currently in place to do so.

It is quite clear that, although both the Mission and AID staff in Washington eventually appeared to recognize the importance of the NCCK project they were supporting, and despite the project's conformity to the Congressional mandate to reach and assist the poorest of the poor and the necessity of assisting such flexible autonomous organizations, the Small Business Scheme (and the CEOSS project, for that matter) would not have been assisted by AID without the intermediary role played by the consultants. Therefore, if the decision is made to expand the provision of income-generation assistance to this level of the population as an integral aspect of AID operations in Africa, the NCCK experience suggests that certain steps be taken to overcome constraints within the AID bureaucracy and the limited outreach capability of the local Missions. First, a core team of specialized staff should be given the responsibility of providing intermediary assistance in project development. Second, a central funding mechanism should be made available for such projects. Third, intermediary structures could be established in particular countries to channel AID resources to NGO programs. These actions, while not the only options available, would directly address the critical need to quickly and efficiently establish assistance relationships between implementing organizations and local USAID Missions.

In fact, the consultants recommended the pursuit of the third option in Kenya and helped design an intermediary mechanism for the support of income-generation projects for the Mission. USAID/Kenya had developed a fairly extensive portfolio of such

projects (principally through their affiliation with American PVOs) and decided to incorporate NGO activity in this sector as a component of a larger rural-enterprise project under design. A request was made to secure the services of a three-person team under PISCES to assess the performance of the five PVOs, including NCCK, being funded by the Mission, to determine the absorptive capacity and upgrading needs of their programs, and to carry out a social soundness analysis of the entire proposed rural-enterprise project. This team, which was complemented by a group of four Kenyans funded by the Ford Foundation, found the projects in question essentially sound and cost effective, but also in need of managerial and technical upgrading. It therefore recommended that, while significant resources should be allocated to NGO activities within the rural-enterprise project, an intermediary structure should also be set up to attend to the upgrading needs of these specific organizations and to channel financial resources to them. Such a unit was established in July 1984, with US$4.5 million in grant funds and technical expertise made available to local PVOs involved in income generation among the poor.

4. PROJECT DEVELOPMENT ISSUES IN EGYPT

Similarly, in Egypt, the PISCES consultants were asked to develop an umbrella project for the funding of small local organizations in Cairo, in addition to its work with CEOSS, to develop, support, and monitor a distinct income-generation project. The work in Egypt began with a 2-week visit, approved by the USAID Mission, to explore project-development possibilities. The original objective was to identify and assess distinct community-based development organizations which had established direct outreach and promotional links to the very poor and which delivered income-generation assistance of one form or another.

Preliminary investigation revealed that there existed a number of such organizations in Egypt, and the first field report presented the grant-making possibilities in both the public and private development sectors. The USAID Mission, however, was not in a position to retail a number of small grants to Egyptian PVOs (no Egyptian PVOs were registered with the Mission), so discussion arose regarding the identification or creation of an intermediary entity which could act as a conduit for the delivery of AID support to local, indigenous PVO efforts aimed at income and employment generation. It was then decided that the consultants would develop two distinct local-level project possibilities for Mission review and also present a proposal for an intermediary assistance mechanism. While an income-generation project did not develop with the Cooperative Housing Foundation in the Cairo area, the CEOSS multidimensional income-generation program eventually was supported by the Mission as a distinct project through Catholic Relief Services (CRS).

As for the intermediary assistance mechanism, a series of discussions were held with representatives of public and private Egyptian entities to identify an indigenous institution that could recognize the upgrading and expansion needs of local organizations and either deliver or facilitate the delivery of a diverse array of inputs. To deliver such assistance quickly and efficiently such an entity had to be flexible and competently staffed and have sufficient institutional autonomy to enable it to make its own assistance decisions and to follow up on them. While the representatives of these institutions were supportive of the idea of strengthening local assistance efforts through private, community-based organizations, none of them was staffed or mandated to provide a comprehensive package of assistance in an integrated fashion to these local groups. This was particularly true in regard to delivering technical assistance to these organizations for upgrading their services.

This being the case, work then focused on feasibility of creating an independent Egyptian entity, perhaps through a consortium of U.S. and Egyptian organizations, for the delivery of grants and technical assistance. It was agreed upon with the Mission that this entity would also have responsibility for the review and selection of organizations and subprojects that would receive AID support. In addition, it was decided that it would be headed by an Egyptian staff director and that, ideally, it would eventually spin off a private Egyptian organization to directly assist projects in this sector. Based upon these discussions and in recognition of some of the institutional limitations involved, the consultants recommended that a small, experimental unit be established, that it begin to assist a modest number of local efforts, and that it evaluate the impact of the various types of assistance that it delivered so that it could effectively expand its work and resource base over time. The Mission accepted the basic concept, functions, and structure of the proposed project unit as set forth by the consultants, but immediately and dramatically increased its proposed size and scope and folded it into a large urban project that was put out for contract bid.

The CEOSS project was developed in conjunction with the consultants and CRS and submitted through the latter to AID in April 1981 at the same time the Cooperative Housing Foundation and intermediary entity projects were submitted. This relatively small, four-component project took about 1 year to get the necessary approvals from both USAID/Egypt and AID/Washington and another to get clearances at the different levels of the Egyptian Government. The grant agreement was finally signed in May 1983, by which time CEOSS had restructured its organization, reassigned staff, and made various other commitments. It explains, in part, the slow startup of the AID-sponsored activities over the past year.

5. OTHER ATTEMPTS AT PROJECT DEVELOPMENT

Although only two Africa (or Middle East) projects were required under PISCES and both the NCCK and CEOSS projects had at least tacit Mission approval by early 1981, the consultants were interested in arranging support for other good organizations and projects elsewhere on the continent. Accordingly, when an opportunity presented itself, two field trips were made to Zimbabwe to work toward project development. On the first trip, The Development GAP consultant, with Mission approval, met with over 12 local organizations, mostly PVOs, which had interest and experience in developing income-generation projects. These organizations included Voluntary Organizations in Community Enterprise (VOICE), Christian Care, Sylveira House, the Zimbabwe Women's Bureau, the Adult Literacy Organization of Zimbabwe (ALOZ), the Jairos Jiri Organization, and the Zimbabwe Project, as well as the Ministry of Industry, the Ministry of Finance and Planning, and the Ministry of Community Development and Women's Affairs. A report was issued following the visit which outlined the strong project-development possibilities found among these organizations. Given the interest and capabilities of a number of groups in this area, one recommendation made in the report was that consideration be given to an umbrella-type project, preferably managed by an existing intermediary organization.

A second PISCES visit was approved by the Mission and made by two Development GAP staff in March 1982 for the purpose of specifically defining a potential ground-level project. More in-depth discussions were held with the groups previously cited, and four organizations were highlighted in terms of their comparative capacity to implement. These were ALOZ, the Zimbabwe Women's Bureau, the Hlekweni Institute, and Sylveira House. From this point on, however, the Mission, despite its continued interest in this sector, provided little support or encouragement to further project development under PISCES. Difficulties in funding NGO activities within an Economic Support Fund program and in engaging in a program with the close involvement of AID/Washington were set forth as the reasons for this change of heart.

Subsequently, a Development GAP staff member played a major role working with the Ministry of Community Development and Women's Affairs to design a National Community Development Trust Fund (CDTF). Since the CDTF, as one of its major functions, was to provide capital and technical assistance to local projects, both the consultants and the Ministry saw the opportunity and advantage of tying the program into the PISCES network so that the PISCES team could provide monitoring services. USAID/Zimbabwe, however, again citing a preference for significant Mission control over projects (a nonissue in Kenya and Egypt to date), would not sanction the relationship. As a result, no further

PISCES efforts were pursued in Zimbabwe, although four Zimbabwean NGOs were represented at the PISCES workshop in Nairobi in February 1984.

Problems with getting local USAID Mission approval, first for investigating project possibilities and then for the rapid funding of the projects themselves, clearly limited the contribution that could have been made under PISCES II. As it quickly became clear that generalizations based on even very detailed learning from only two projects in a region would have limited value, the Africa consultants attempted to interest Mission staff in the PISCES work not only in Zimbabwe, but in countries like Zambia and Swaziland as well. Broadening the scope of the project became even more important when it became apparent that there would be major delays in the approval of the CEOSS project in Egypt and, hence, limited project information to assess within the course of PISCES II. Unfortunately, little interest was found in these Missions. As a result, the cost effectiveness of the project in Africa was quite low compared with what it could have been. On the one hand, a significant amount of time was put into project identification work that bore no fruit. On the other, another one or two projects could have been monitored at only marginally greater expense, as the costs of international travel and developing an across-program monitoring system could have been spread over these projects as well.

6. THE ROLE OF THE CONSULTANTS

The role of the consultants was a multifaceted one and worthy of some examination. Functions included obtaining USAID/Mission clearance to work in the urban income-generation area in particular countries; identifying strong, appropriate projects for AID funding; assisting, where necessary and requested, in the design of projects; developing project proposals; helping to work projects through the AID review and approval system; playing an intermediary role between AID and local organizations, particularly on administrative matters; playing as limited a role as possible in the actual implementation of projects; intensive, ongoing project monitoring; providing input into project evaluation; and, as a matter of responsibility and commitment, helping organizations to attain continued funding for successful operations.

The process of obtaining Mission permission was frustrating, that of facilitating project approval tremendously time consuming. It is clear, though, that, at least in the case of the NCCK project, approval would have taken twice as long without the consultants' continual intervention and their involvement in writing the project proposals to meet AID's requirements. Project identification, however, was quite straightforward, as it

drew on the consultants' experience in assessing the commitment and capabilities of local development organizations, and there were a number of organizations in Africa that had moved from community development into income-generation activities and were providing a broad array of services to the very poor. As was the case with the project-approval process, the consultants played a key role in working out satisfactory administrative relationships between local NGOs and AID, and in conjunction with CRS in the case of Egypt. The evaluation functions of the consultants were, by design, quite limited, while an ongoing effort has been made to inform other donors of the activities identified under PISCES as being worthy of support. On balance, the consultants played an important role in carrying out the above functions which, except for project identification, were largely administrative in nature and quite time and resource consuming due largely to AID bureaucracy.

Still to be discussed are the consultants' roles in project design, implementation, and monitoring. PISCES/Africa was carried out in the belief that outside agents should be responsive, rather than directive, toward good indigenous development organizations working closely with the poor. The work in Africa was also based on the understanding that direct intervention in project design and implementation would compromise the objectivity of the consultants in project monitoring and would limit learning about effective assistance programs and approaches that can best be carried out by African organizations. In the event, some limited assistance was provided in project design in both Kenya and Egypt. Both NCCK and CEOSS had small income-generation projects already in place that had the basic program elements that had been identified as important in PISCES I. Both organizations had already been considering an expansion of their respective projects. Through dialogue, the consultants provided assistance to NCCK in designing a geographic project expansion and gave help to CEOSS in structuring its program diversification, and then played the major role in preparing the respective proposals for AID funding.

This modified hands-off posture was carried forward from the design to the implementation stage. The consultants were not contracted to help implement projects or to provide technical assistance. Furthermore, even if the local organizations had wanted the assistance of the consultants, serious conflict-of-interest questions would have been raised by writing such involvement into the grant proposal. In any event, neither NCCK nor CEOSS requested such help--both were provided with resources with which to contract local sources of assistance--and very little was provided in the course of the two long-term relationships. To have participated actively in project implementation would have made objective project monitoring and reporting very difficult, as a project's impact would have reflected in part upon the consultants' capabilities; as it was, responsibility for

project selection already compromised objectivity to a certain degree.

A case could be made, however, for the consultants attending to certain pressing program needs in the course of carrying out their monitoring functions. To have assisted NCCK, for example, in tightening up its credit administration system (weakened due to frequent management turnover) may have clouded the issue of the ability of social development agencies to run credit programs, but it probably would have increased the numbers of poor people receiving enterprise support. The consultants had a close relationship with NCCK (as well as with CEOSS), and it was difficult to draw the line. In this case, some suggestions were made to the staff in the course of collecting monitoring information, but no further help was requested or given.

Also in the case of NCCK, the consultants played a more direct, though unintended role in facilitating intraprogram communications and learning. This was a by-product of the monitoring work that was carried out twice a year. Spread out over six project sites and without a permanent manager in Nairobi during the first 3 years, the Small Business Scheme lacked coordination in this area. The field staff came to trust the consultants and were forthcoming with detailed program information and recommendations that they were unable to have effectively incorporated into operations in headquarters. This information was transmitted to Nairobi during the monitoring process and was included in the consultants' reports, which were reviewed by the entire program staff. There is no doubt that there would have been little field feedback within the program had it not been for the consultants, but it appears that permanent management is now in place to facilitate this in the future.

Project monitoring became the major task for the consultants after the early stages of Phase II. A monitoring instrument was developed, reviewed by the implementing organizations, modified in both cases, and then used for both learning and program purposes. Both NCCK and CEOSS, which combined the forms with its own similar data collection sheets, have used the instrument to collect baseline information on their clients, assistance rendered, business performance, and impact on program beneficiaries. As described in the NCCK case study, the consultants subsequently analyzed the data collected every 6 months to determine significant relationships between project inputs and client performance; a similar analysis was not possible in the case of CEOSS because only very limited information had been collected by that organization and most of that had not yet been transmitted to CRS for translation and compilation purposes.

In addition to the regular visits to the project sites and conversations with project staff and selected clients, this information collection was complemented in both cases by studies

carried out by persons better acquainted with the social milieu in which the projects were implemented. In Egypt, two Americans with extensive experience working in that country--Diane de Treville and Steve Silcox--were contracted to write short reports on the CEOSS project and project area. In Kenya, NCCK staff (Kadzo Kogo) and an independent consultant (Jane Kirui) completed a social impact assessment of the Small Business Scheme, surveying and interviewing individual and group clients in the various project sites.

The two case studies that follow have emerged from this 3-year monitoring effort. The vastly different depths of the studies reflect the fact that the NCCK project in Kenya has been operating with AID funds almost three times longer than the CEOSS project in Egypt and has yielded much more extensive information. Although the CEOSS experience has in no way contradicted any of the findings of the NCCK case, the lack of any real impact data from Egypt does not make it credible to present an integrated conclusion for the PISCES II Africa component. Detailed learning about effective program methodologies--the heart of the PISCES exercise--must therefore be drawn from the NCCK study alone because the CEOSS case is more descriptive than analytical. Both projects, however, have been successful in reaching and assisting the very poor in their struggle for survival and serve as models for those who are interested in promoting income generation in a socially relevant and responsible manner.

CHAPTER THREE

THE SMALL BUSINESS SCHEME OF THE NATIONAL COUNCIL OF CHURCHES OF KENYA (NCCK)

by Douglas Hellinger with Fred O'Regan,
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1. THE CONTEXT

Kenya has experienced tremendous urban migration since the early 1960s, its urban areas growing at an annual rate of 7.5 percent in recent years. Nairobi, one of the largest cities in East Africa, has become a classic example of urban dualism, with sophisticated commercial and industrial sectors, on the one hand, and sprawling squatter-settlement slums, on the other. The Mathare Valley and Kovokosho, where many from Mathare Valley have recently relocated, together have a population of over 250,000. The settlements of Kawangware, Kibera, and Kangemi have a combined population of more than 100,000. On a smaller scale, secondary cities such as Mombasa and Kisumu are experiencing similar urban problems. In the words of the National Council of Churches of Kenya (NCCK),

> Kenya like any other developing country is experiencing rapid changes in the society. The changes have brought about social problems which were never faced by the traditional society. This is especially true in the major towns where one finds a multitude of school leavers frustrated by unemployment, old people isolated from their families, couples whose marriages are under strain and destitute families living in poverty. These problems are increasingly alarming from year to year.

Against this background and that of projected annual overall population growth rates exceeding 4 percent and consequent projected annual urban and peri-urban population growth rates approaching 10 percent, the Republic of Kenya Development Plan 1979-1983 cited the expansion of employment opportunities as one of its highest priorities. Formal and informal earning opportunities, however, have not kept up with employment demand. As of 1978, it was estimated that the formal and informal enterprise sectors each employed only about a half million workers out of a total labor force of six million. Although the manufacturing sector has performed better than the economy as a whole, the sector is tiny, representing only 13 percent of GDP in 1980. Wage employment in manufacturing in 1981 involved only 173,000

persons.[1] Manufacturing wage employment has grown at 5.7 percent since 1974, constantly below the growth rate of manufacturing output (8.4 percent in the first decade since Independence; 6.2 percent since 1974).

Overall wage employment is growing at an average annual rate of only 3.4 percent (1974-1980), while the labor force has increased its growth rate to 4.1 percent. It is estimated that employment in the modern sector of the economy may grow by the year 2000 to 3.9 million, and this will leave a remaining labor force of 11.8 million to find employment outside the modern sector.

Juxtaposing the projected dramatic increase in the supply of labor against limited absorptive capacities in agriculture and in the so-called modern sector, the Plan identifies the informal and labor-intensive small-scale enterprise sector as a viable option for filling the employment gap:

> The rate of growth [of the informal sector] is substantial and the incomes earned on the average exceed the minimum wage by a very substantial amount. These activities are important income-earning opportunities and sources of entrepreneurial talent. So long as they are conducted in safe and sanitary conditions, they will be encouraged and assisted.

Of a total urban population of 5.85 million, 2.34 million Kenyans are engaged in informal-sector activity, and entry into this sector is increasing by 7 percent annually. Such activity has been quite vibrant by African standards. As such, it has been the object of much research and was the focal point of the International Labour Office's well-known identification of the informal artisan as a legitimate "target" of development aid. Kenya's public development assistance programs, however, have not expanded sufficiently to address the problems of the urban informal sector. With the notable exceptions of the urban Village Polytechnics and fairly recent housing projects supported by the World Bank and USAID, assistance to the urban poor has come from the private development sector and has been mostly church-related. Very little has been done to help very small, labor-intensive enterprises in urban areas.

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[1]Government of Kenya, Economic Survey, 1982.

2. NCCK AND ITS URBAN COMMUNITY IMPROVEMENT PROGRAM

The National Christian Council of Kenya, recently renamed the National Council of Churches of Kenya, is currently carrying out the first income-generation project developed in Africa under USAID's Program for Investment in the Small Capital Enterprise Sector (PISCES). NCCK's program was the subject of a detailed case study undertaken at the outset of PISCES and presented in PISCES Phase I Case Studies: Africa. Some of the following description of the institution is drawn from that study.

NCCK is a constituent organization representing about 40 distinct member churches and private, mostly religious associations within Kenya. The purposes of NCCK are both ecclesiastical and developmental. The Council is noted for speaking out on major moral and social issues, such as the refugee problems of East Africa and interethnic rivalry in Kenya. The development assistance functions of NCCK are far-reaching. One of its most significant development roles is that of a conduit of private, mostly church-related, international funds to local communities and representative organizations. NCCK also delivers a broad range of technical, managerial, planning, and training services to development projects and service programs of its own. These are organized under various departments, including the Department of Rural Development, the Urban Community Improvement Program, the Village Polytechnic Support Program, the Department of Education and Training, and the Cottage Industries (handicrafts) Program. A large non-governmental organization, NCCK has over 300 employees and an annual operating budget of roughly 22 million Kenyan shillings (K Sh).

It is also considered the nation's pioneer agency in urban development, having established its Urban Community Improvement Program (UCIP) in 1969. Today, UCIP is one of its larger, better known, and most important programs, with a staff of approximately 40 and an operating budget of K Sh4.5 million. Its goal is to upgrade the quality of every aspect of life of the very poor in the urban-squatter and peri-urban communities not reached by conventional assistance programs. The program began in Nairobi's Mathare Valley squatter settlement and then expanded to the secondary cities in the mid-1970s, when community workers were placed in Mombasa, Kisumu, Kakamega, Nakuru, Eldoret, and Nyeri.

All NCCK/UCIP clients are extremely poor. Over 75 percent of the beneficiaries are women with, on average, 6.5 dependents. In addition, the vast majority of clients are illiterate and face myriad social problems, including abandonment, alcoholism, high morbidity, rampant petty crime, and police harassment. The Mathare Valley was chosen as the initial site for assistance because of its extreme poverty (per capita income estimates ranged from US$13 to US$20 per month), its lack of essential

services and infrastructure (despite its close proximity to the city center), and its particular social characteristics (NCCK has estimated that 80 percent of the adult population is female, with an average of six children each). The average incomes of clients in Nairobi at the time they come into contact with the program is roughly US$15.50 per month.

While the beneficiary populations served in the secondary cities also incorporate a diverse mixture of tribes from throughout the nation, they differ from UCIP clients in Nairobi in other respects. The squatter settlements that have arisen in these areas are more sparsely populated and are located mostly on the rural outskirts of the towns themselves. The residents of these communities are essentially traditional, rural people, the majority of whom continue, to the extent possible, to practice subsistence agriculture while seeking to increase the cash incomes upon which they have become more and more dependent. Secondary-city clients' incomes are somewhat lower than those in Nairobi, being estimated at US$11 to US$13 per month.

NCCK's approach in all areas of development is to identify unmet needs among the poor, begin organizing communities around these needs, initiate service delivery, and then advocate the adoption and expansion of the new program by the public sector. As far as UCIP is concerned, all assistance activities revolve around the core activities of its social workers and community organizers. Generally, action is not taken until the social workers have been able to informally survey, or assess, the needs of the people and organize the community. Community organization is carried out through the process of community meetings, which are always coordinated with the local chief and subchief and carried out in consultation with the local District Officer and/or the local Community Development Officer.

Initially, the NCCK social worker helps organize groups and assists them in determining their most pressing social and economic problems, as well as possible solutions. A decision is then made on how to attack the major problem, or problems, immediately facing the community. Subsequently, people from the various communities (Mathare Valley, for example, is organized into nine villages) will approach the social workers with requests for assistance on specific local problems. Once the latter decides that the number of requests reflects a community problem, a community meeting is called and the group decision-making process is utilized again to decide upon the action that should be taken.

It was in this fashion that UCIP developed a comprehensive community development program with service components in the areas of self-help housing, child care and nutrition, adult literacy, preventive health, group formation, and small-business assistance. One of the principal necessities which surfaced in almost all instances was the need to find income-earning oppor-

tunities. In dealing with this problem, NCCK addressed the issue of unemployment, which it found to be a root cause of much of the suffering in urban areas. Since the majority of the people who migrate from the rural areas are illiterate and have very little formal skills training, they are unable to find worthwhile work. They end up living in slums where housing is the cheapest and can afford neither nutritious food nor school fees for their children.

While there are many skilled and semiskilled artisans residing in slums like the Mathare Valley, the actual beneficiary population of the urban program in most cases is below this skill level. The majority are women and youths who, for the most part, have had neither the training nor the traditional apprenticeship opportunities which would provide them the necessary skills to compete in the informal sector. This population group is clearly distinct in character from the urban, self-employed artisans assisted in other African development programs.

It is with this in mind that in the early 1970s social workers began to encourage the formation of groups in which young and old were taught such trades as traditional handicraft production and dressmaking. After training, they were expected to form cooperatives or find employment in established firms. At the same time, NCCK set up a series of handicraft production workshops, which are now administered by the Cottage Industries Program rather than by UCIP. As the training and organizational assistance proved insufficient for the creation of new enterprises, UCIP social workers tried to convince formal enterprise programs to provide assistance. The attempt proved unsuccessful.

3. ESTABLISHMENT OF THE SMALL BUSINESS SCHEME

Wanting to make a greater impact in this area, NCCK established its own Small Business Scheme (SBS) in 1975. The program was designed to provide management and financial assistance to small-scale enterprises in the urban and peri-urban informal sectors of Nairobi. The management assistance component of the SBS was initiated after the completion of an assessment of the needs of the intended beneficiaries. A survey carried out by NCCK when the program began revealed that the beneficiaries usually identified the lack of money and adequate facilities as their major problems. However, it was discovered that a lack of management know-how was also an important problem facing most of the enterprises. NCCK therefore employed a full-time small-business administrator, who, in collaboration with officers from the Government's Cooperative Development Department, provided technical advice and expertise to these people. A small revolving loan fund totaling about US$10,000 was also tapped to make small loans to individual and group enterprises.

UCIP's social workers began to recommend clients in Nairobi for the SBS program on the basis of their need, reliability, and accessibility to NCCK staff. Most had no regular employment or salary and perhaps US$70 in cash on hand. The average income of the clients who responded to the survey was US$36 per month, with incomes ranging from US$16 to US$80. Individual entrepreneurs were found at both ends of the income spectrum but had higher average incomes than group members. The average number of dependents per client--both group members and individual entrepreneurs--was 6.5 people. Hence, the program was clearly reaching the poorest and least skilled segment of the urban population. These clients--for the most part at the rock bottom of the economic ladder in Nairobi--were far more concerned with their own survival and that of their dependents than with enterprise growth in itself.

Within this incipient program, SBS loans were made at a 3.5-percent annual interest rate. At the time, NCCK considered this to be the maximum it could charge retailers, who usually worked on a 10-15 percent markup, and still allow them a fair profit. The markups of these businesses were often limited by Government controls on certain basic commodities, and, operating at low volume, this placed them at a great disadvantage. After a 2- or 3-month grace period, monthly payments were required, with clients making payments directly to the NCCK/UCIP central office. The amortization period granted the borrower was determined by the size of the loan, type of business, size of enterprise, and volume of sales. Larger clients got as much as 2½ years to repay loans for the purchase of inventory or tools, while very poor clients dealing in low volume were given as little as 3 months.

Combined lending in 1977 and 1978 amounted to 20 loans totaling US$8,599. Sixteen individuals, including tailors, shoe repairers, and a variety of retailers, accounted for 68 percent of the total, with loans ranging from US$67 to US$934; average loan size was US$366. Four groups--butchers, charcoal producers, second-hand-clothes retailers, and handicraft producers--received the remaining loan capital during this period. NCCK lent three groups with a total of 21 members a total of US$1,400, while providing the largest group (162 members) US$1,333 worth of financing. For the most part, repayment was regular during this period.

Although the program proved to be quite helpful to clients in the Nairobi area who would otherwise not have received such assistance, it had some real limitations. The SBS did not operate in the secondary cities, where UCIP social workers and the Cottage Industries program were helping a number of groups develop the potential for growth as small-scale enterprises. Second, even in Nairobi the SBS lacked sufficient technical personnel to provide assistance and proper followup. Most clients surveyed believed they had made some advances in the areas of

management and bookkeeping, but it was clear that they needed more assistance in these areas, as well as marketing assistance.

4. EXPANSION OF THE SMALL BUSINESS SCHEME

As the social workers in the cities other than Nairobi continued to call for management and financial assistance for their clients, the decision was made to seek funding from AID to technically upgrade the program and expand it to all of the secondary cities in which UCIP operated. This coincided with the second phase of the PISCES project, which called for the identification, financing, and monitoring of field demonstration projects from which lessons about program methodology could be learned. The field research undertaken in Africa as part of PISCES Phase I had yielded some tentative conclusions about the program elements that need to be in place in order to effectively reach and assist the very poor in the informal sector. NCCK, as an institution, and the Small Business Scheme, within the context of its Urban Community Improvement Program, incorporated many of those elements, making the SBS a candidate for assistance within PISCES Phase II. After a year's grant review and approval process, AID helped finance a 3-year expansion of the SBS in late 1980. NCCK, in turn, allowed the PISCES consultants to co-monitor the progress of the project so that both parties could learn which approaches and techniques proved to be effective.

AID provided NCCK with US$275,000 (approximately K Sh2 million in 1980) to hire four new technical extension agents (known as small-business promoters--SBPs--or advisers) to cover the Nairobi, Mombasa, Kisumu/Kakamega, and Nakuru/Eldoret areas and to expand its revolving loan fund to a total of US$110,000 by 1982. These funds, designed to cover 65 percent of total program costs, were also intended for the purchase of vehicles and fuel for the field staff and the hiring of local consultants to provide needed technical assistance. To effectively incorporate these new components into the overall program, the plan called for the new small-business promoters to provide backup business advisory services to the social workers in each of the cities, expand program outreach, coordinate the delivery and collection of loan funds, and deliver basic managerial and accounting assistance to individual and group enterprises. Consistent with the program's ongoing operations in Nairobi, these extension agents would work directly with their social-work counterparts, receiving referrals from the latter as clients were continually identified. They would also assist in the organization of work groups, in addition to coordinating the flow of credits and delivering on-site technical assistance. Qualifications for extension agents included a B.A., or equivalent, in business administration or economics.

The key to the program's expansion was the ongoing integration of the employment component with UCIP's broader community development program. This was the basis upon which the SBS was chosen as a PISCES-supported project. Also a factor in the decision was the wide array of assistance to be provided to enterprises by the SBPs, paralleling in many cases the types of assistance that surfaced in PISCES Phase I research as being important to helping clients at this level. This projected assistance included advice on the purchase of stocks and raw materials, the costing of production inputs and the pricing of products for sale, establishment of simple bookkeeping systems, locating in profitable marketing sites, establishment of new marketing channels, and establishment and management of group enterprises. In addition, the program's credit terms and conditions (e.g., interest rates, pay-back periods, guarantees), were designed to be flexible to facilitate reaching and serving the truly poor.

Although the Small Business Scheme was ongoing at the time of the grant agreement, the program was put more or less on hold during the project-development process with AID. After approval of the project in Washington, the former SBS Coordinator was moved to another program, thus making way for the anticipated reorganization of the SBS. The former Coordinator had been splitting his time between UCIP and the Cottage Industries program, and the decision was made to move him to the latter on a full-time basis and hire a new, full-time coordinator (as budgeted in the AID grant) to oversee the expansion of the SBS. As soon as the grant agreement was signed, the NCCK administration set in motion two processes: the recruitment of staff and the reconstruction and expansion of the SBS advisory committee.

4.1 Project Staffing

The agency advertised immediately for the post of project coordinator for the SBS, requiring for the position a B.S. degree in business or a related field, at least 2 years of relevant experience, and a demonstrated commitment to working with the poor. Roughly 60 applications were received, reviewed, and rated by the UCIP Administrator and three members of the advisory committee. Five candidates were interviewed, and Mr. Geoffrey Njue, a business school graduate, was selected because he had performed research on the problems and prospects of informal-sector enterprises at the university level and had worked in an administrative capacity for approximately 2 years with the Nairobi City Council (which, among other responsibilities, is in charge of squatter community upgrading and new housing development). The interview committee was also impressed by the fact that Mr. Njue had a background in accounting and could therefore administer the loan program with little difficulty.

Mr. Njue began in January 1981 and immediately began to recruit the small-business advisers and to reformulate loan policies and lending practices. Advertising for the small-business-adviser positions followed the same route as that for the coordinator, the requirements being an "A" level (junior-college level) education in a business-related field and 2 years of professional experience, preferably in an assistance capacity to the poor. Over 160 applications were received for the four positions, and three candidates, rated as best qualified by the UCIP Administrator and SBS Coordinator, were interviewed for each position. The interviews were conducted by two members of the advisory committee, the Small Business Coordinator, the UCIP Administrator, and the General Secretary. The interviews began with the question of what the candidates understood by the term "small business" and what type of assistance they believed such businesses needed. The interviews also allowed the committee to judge how well the candidate would fit in with other staff in terms of values and expectations and how well the candidate would relate to the particular client population in question. The committee was able to determine, from accent and clan name, where the candidates were from and what their ethnic affiliation was, but these factors did not have an impact on decision-making, as evidenced by the fact that two of the candidates finally hired were from the region in question and the other two were not.

As an example of the care with which NCCK selects staff, the staff and committee members involved were not satisfied with the candidates for Nairobi and Mombasa and decided to reexamine the applications of other candidates and, if necessary, readvertise for these positions (which they eventually did). This decision was made with full knowledge that the program's implementation could be set back by up to 3 months. But, as the committee explained, it felt the backbone of the agency was its staff and that in entering into a new and somewhat experimental area of activity to which it attached great importance, it did not want to take chances.

By July 1981, all four promoters had been hired. They had either "O" or "A" level education certificates in business, plus an average of 5 years of prior experience in the business world. Their skills, however, varied considerably, producing a somewhat diversified program. Some had more background in management, others in marketing. All had some background in accounting, as this was thought to be the most crucial assistance area. None, on the other hand, had previous experience directly assisting enterprises, because it was extremely difficult to locate people with such experience in Kenya, especially at NCCK's salary levels. For the money, NCCK recruited an excellent field staff. The only weak link turned out to be in Nairobi, where the SBP, hired on NCCK counterpart funds, did not do the job expected of him. The Mombasa SBP was the only promoter to leave the program before 1984, salary level being one of a number of factors in his

separation from NCCK. Two SBS coordinators also have left for better paying jobs, causing major problems for the program, which are discussed later.

4.2 Staff Training

Once all its SBS staff were in place, UCIP conducted a 2-week staff training course in Nairobi for all those involved in the income-generation effort. The training was undertaken to (1) familiarize all staff with the goals and procedures of the project, (2) introduce the social-work staff to assistance practices in the small-scale enterprise sector, (3) provide a refresher course to the business advisers on economic-assistance techniques while introducing them to social and community-assistance practices, and (4) lay a basis for ongoing coordination among the social workers and the SBS promoters. The training was conducted by Kenyan specialists drawn from the University of Nairobi and the private sector. The course covered the major areas of study relevant to this sector, with an emphasis upon bookkeeping, business economics, management (both production and financial), and marketing. The format of the training consisted of 1 week of seminars, organized along somewhat academic lines, followed by 1 week of fieldwork consisting mainly of visits to existing NCCK small-business clients and larger small enterprises being assisted by Kenya Industrial Estates.

The rather academic approach embodied in the first week of training, which is common to most African-designed and -initiated training programs of this type, was seen as the most viable method of introducing social workers to the field of enterprise development. A concentration on the education of the social workers was deemed necessary for two reasons. First, UCIP community staff throughout the country had been engaged in the formation of income-generating groups among clients since the mid-1970s and had increasingly called for some basic training for themselves in enterprise assistance. Second, since the social workers were to be directly involved in, at the very least, program outreach, client selection, and followup aspects of the small-business program, such training was now thought to be essential.

Because the small-business promoters were already knowledgeable of business practices and a priority was placed on establishing a working relationship between the SBPs and their respective social worker counterparts, the training was arranged so that lectures on the various topics were followed by working sessions during which exercises were given and problems presented for solutions. The promoters worked with their counterparts in sessions dealing with the opening and maintaining of a cashbook and with other aspects of enterprise management and marketing.

Two afternoon sessions were also spent on interviewing techniques, with the social workers taking the lead in role-playing exercises designed to familiarize the small-business promoters with appropriate techniques for establishing trusting relationships with clients. Particular emphasis was placed on sensitivity in dealing with women, since the majority of clients of UCIP were female and all of the business advisers were male.

From all accounts, the training course was a success, with the majority of the participants calling for further training in the future. The social workers did not gain specific technical expertise in the enterprise area, but the training did give them greater familiarity with the language and practices of business and considerably enhanced their understanding of the work of the advisers. Two of the social workers mentioned that they wished they had had such training previously because it would have enhanced their work with local women's production groups.

The training program brought out some differences in perspective and approach between the business promoters and the social workers. For example, in discussions on the level of clientele to be reached by the program, the social workers most often started from the premise that the poorest or neediest clients should be given priority in selection, while the SBPs more often approached the subject from the perspective of the relative economic feasibility of a given enterprise. In general, as would be expected, it was noticeable to all involved that the promoters, through their training, tended to assume a "harder," more business-like view toward clients and the assistance process, while the social workers held to the position that the primary goal of the program was not enterprise growth in itself but rather providing assistance to the very poor in increasing their economic security. These discussions commonly concluded, however, with the understanding that both sides were seeking the same goal from different directions and that, while the social focus of the program must be kept intact, it was vitally important to "treat business as business" regardless of the economic level of the clients.

Despite their business backgrounds and initial program training, the SBPs still suffered from the lack of direct technical-assistance experience when they undertook their assignments. Over the next 2 years, the need emerged to upgrade the level of locally extended management assistance in some instances, as well as to improve the overall level of credit analysis and review. The promoters themselves called for more business training. Budget constraints and management problems delayed the planning of any specialized workshops, however, that would be broad enough to cover their respective weaknesses but sufficiently detailed to be of practical use in the field.

5. PROGRAM MANAGEMENT

Program administration and management has been a trouble spot for NCCK and the Small Business Scheme almost from the outset. The program is administered centrally through UCIP, with all reporting, financial activities, and management centered in Nairobi. The SBS is a difficult program to coordinate, however, since it is geographically dispersed, covering six sites spread throughout the country. Strong central management has therefore been a necessity. At first, it appeared that the initial SBS Coordinator had achieved control of the operation, while allowing the staff in the different sites to creatively develop distinctive approaches to outreach, promotion, and assistance delivery. This seemed to be consistent with the decentralized nature of the UCIP program itself and was understandable, given the particular orientation of the small-business promoters, the nature of the local UCIP operation, and the type of economic and commercial activity in the different towns.

As time went on, however, cracks emerged in the administrative system. There were a series of problems, not least of which was the frequent turnover in the key coordinator position. Since the program's inception, there have been four coordinators in Nairobi. Mr. Njue left in mid-1982, citing an opportunity for a higher paying job elsewhere. A similar reason was given by Francis Kihiko, a strong administrator and a former NCCK staff member, when he resigned as the program's second permanent coordinator in mid-1983 after 6 months on the job. Between the terms of these two coordinators, Theuri Mugo was brought in to Nairobi from his Mombasa SBP post on a temporary basis for a difficult few months.

These changes and shocks to the program exacerbated an already weak administrative system that required full-time attention for its development. Although decentralization had appeared to have advantages, the program began to suffer from a lack of consistency in such things as client selection and assistance methodology in the various sites. Without proper centralization of loan information in headquarters, promoters could manage their local loan portfolios in accordance with the established regional lending ceilings, but they could not respond to additional lending opportunities created by underlending in other sites or bureaucratic delays in Nairobi. The rate of arrearage among borrowers increased sharply, particularly in Nairobi and Mombasa, as a weakening of the credit supervision and collection process in the field was not recognized by program management. And morale suffered in the sites, as Nairobi provided little feedback and there were too many delays in the approval and disbursement of loans and the provision of the resources needed for effective field operations.

Mr. Kihiko's major objective when he took over in early 1983 was to establish greater program control and consistency across the board while still relying upon the field for new initiatives and ideas. His decentralized management style and his experience in program administration, particularly within NCCK, boded well for a successful tackling of the major administrative tasks before him. He wanted to improve the centralization and analysis of loan and monitoring information and establish an effective in-house learning system and clearer policy guidelines in such areas as loan size, interest rate, and client selection criteria. In addition, he sought improved, continual contact with the field, greater efficiency in the loan approval and disbursement process, modifications in lending ceilings, and greater supervision regarding loan collection. With Kihiko's resignation, progress in these areas was set back once again.

His replacement, M.M. Chege, was hired in October 1983. He appears to combine the best attributes of his predecessors--knowledgeable about small business, a good administrator, and commitment to the task. Along with a change in staff in Mombasa, his presence has already lifted the morale of the SBS team, resulting in a cohesiveness that was quite observable at the PISCES/Africa Income-Generation Workshop in February 1984. A number of changes are also being considered to streamline the credit extension and collection system. This is necessary because of the poor coordination between the record-keeping operations of UCIP and the Accounts Department. The irregular information flows between the two offices have resulted in major problems in the administration of the credit program (see Section 7.3).

The SBS has, in fact, recruited its own accountant in an effort to overcome these problems and to sever its dependency on NCCK's Accounts Department. Financial constraints have prevented the SBS from actually employing the accountant, however, and this position will only be filled when future program funding is secured. Once this is done, a new system will be established, using a ledger card for each client, who will be sent monthly statements. While the NCCK leadership wishes to tighten, rather than loosen, financial control from Nairobi (through the collection of all payments and receipts from the project sites) in light of recent financial irregularities in the local Nairobi and Mombasa offices, it is also contemplating the suggestion that loan repayments be made to the branch offices of a major Kenyan bank.

As to overall program administration, NCCK has performed well in its relationship with USAID. It was originally feared that AID's monthly reporting system, requiring specific line itemization, would be overly burdensome for an organization financed principally by donors who operate cash-forward, drawdown systems and require only two financial reports per year. To the

contrary, UCIP has submitted its voucher and reporting forms in a prompt manner, demonstrating sound administrative procedures in the process. This monthly cash system, however, has forced NCCK's accounting office to give UCIP priority over other programs in monthly closing statements. This is done so that vouchers can be promptly forwarded to the local USAID Mission and an adequate cash flow maintained. As this procedure has been specially designed to satisfy AID's reporting requirements and could not be duplicated for any significant number of programs, NCCK would prefer to see AID place its cash-vouchering and reconciliation system on a quarterly basis.

6. PROGRAM SITE ACTIVITIES

A program is only as strong as its personnel, and this has certainly been true of the SBS field operations. Although hampered by erratic support from Nairobi headquarters and other local constraints, the teams in some of the sites have performed relatively well. UCIP has implicitly judged local performance by a series of criteria. These include (1) assisting very poor clients, (2) working with an increasing number of group enterprises, (3) achieving local lending targets, (4) helping clients establish simple bookkeeping systems, (5) delivering other management assistance to a client at least once a month, (6) demonstrating the impact of family and other personal problems on client performance, (7) increasing client profits and family income, (8) improving family and community relationships and individual self-confidence, (9) maintaining a high rate of loan repayment, (10) integrating the SBS into UCIP operations, and (11) collecting regular and reliable data on clients and program inputs.

6.1 Field Site Experience

According to these criteria, the program has clearly been weakest in the city of Nairobi. For accounting purposes, this segment of the program is not included by NCCK in the Small Business Scheme because it is financed by a European donor. It does constitute, however, the counterpart obligation of the Council to AID under the terms of the agreement between the two parties and hence has been included in the process of periodic monitoring and program review. The problem is that the local SBP for Nairobi has not done a thorough or consistent job. As these deficiencies extend to the area of data collection, they have necessitated the exclusion of Nairobi data in the analysis of information on program clients.

The Nairobi promoter was the only one of the advisers to inherit SBS clients (from the former program Coordinator). His

major task at the outset was to familiarize himself both with existing clients and the relatively large number of other UCIP staff working in Nairobi. He chose to start off with clients who were grouped in one section of the Mathare Valley on the outskirts of the city and who were all referred by one social worker; he helped these clients open cashbooks in preparation for working-capital loans. Since then, the program in Nairobi has developed weaknesses in almost every area. While some 68 individuals received loans during 1981-1982, more than double the projected number, little followup assistance or supervision was given to these clients. In addition, almost one-quarter of the 1981-1982 loan capital was granted to four individuals (all in 1981 and only 18 percent of the capital has been repaid); without these loans, the SBP would have met only half of his lending quota in terms of total volume. Furthermore, no groups were assisted in the region that was allocated over K Sh200,000 to finance some 16 group projects during that period.

The Small Business Scheme did suffer some uncontrollable setbacks in the capital over the last half of 1982. First, the coup attempt in August of that year caused many customers (and some enterprises themselves) to flee, causing profits to drop by some 20 percent, according to a SBP check of books and physical stock. Fires in Mathare Valley also wiped out a number of clients, most of whom are trying to rebound, some with NCCK help. The general recession also made things difficult. Still, most clients were building up stock again by December and were reportedly increasing their incomes once more. Claims by the promoter that clients were increasing their profits on average from 35 to 85 percent since receiving their loans, depending upon their trade, seemed high and were difficult to confirm.

A high rate of arrearage in Nairobi, however, is well documented and is one of many factors that has put the program in that city on hold. While lending targets in good part continue to be met--40 individual but no group loans were approved during the first half of 1983--communications with headquarters has been nonexistent, integration with the work of the social workers and UCIP activities has been similarly lacking, client and loan size continue to be relatively large, management assistance and loan supervision have not been forthcoming, and data collection has been unreliable at best. Number of loans is not in itself what NCCK is after; much more is involved than just getting loans out.

Hence, changes are being made in program operations in Nairobi. The SBS has hired a new promoter, the first woman for that position, and she has recommended four group loans. These loans, totaling K Sh406,000, are awaiting final approval and funds for disbursement. Presently she is unable to tend to more than Nairobi's 98 individual clients, but it is anticipated that she will double that figure if and when future funding enables the purchase of a car to enhance her mobility.

Meanwhile, the program has been strongest in the western towns of Nakuru, Eldoret, Kisumu, and Kakamega. From the start, the SBP for Nakuru and Eldoret has concentrated on providing credit and bookkeeping and other management assistance to market women and other individuals. He has been successful in teaching his clients the use of the cashbook and has focused their attention on improving the marketing of their products, including, where necessary, changing their trade areas because of a lack of local demand. To help alleviate the problem of overcompetition in the Nakuru market, he worked early on to get contracts for vendors with local hotels and advised others to relocate. These inputs were made before the first credits were disbursed, but the problems clearly persist today. The problem of overcompetition among market women, particularly vegetable retailers, will not be solved by granting the advantage of working-capital loans to a select handful of clients. Recognizing this, the promoter has cut back on his lending to such retailers, while considering other approaches like the joint purchasing of stock.

To date, almost all lending in Nakuru and Eldoret has been to individual clients. A legacy of cooperative failures in the Nakuru region and limited organizing work carried out by UCIP in Eldoret are responsible for the disappointing record. The SBP has assisted groups in establishing management systems, in locating assistance to form production cooperatives, and in enterprise startup in general, but there have been few groups prepared enough to effectively utilize a loan for business activities. Nevertheless, the Nakuru/Eldoret program has probably been the strongest in terms of the quality and intensity of the assistance delivered to clients, the supervision of loans, and the quality of data collection.

The SBS has also been effective in Kisumu and Kakamega. Group lending is far more advanced in that region, with the social workers carrying out effective organizing and educational work and the local SBP following up with management assistance and credit. Upon his arrival in the area in April 1981, the promoter asked the individual and group clients to whom he had been referred by the social workers to answer a questionnaire. The survey covered the history of the enterprise, bookkeeping practices, the education level and business experience of participants, cash on hand, specific business problems, and the types of assistance the participants felt were necessary. Information from the eight group and three individual enterprises questioned indicated that only two businesses maintained accounting systems that were sound enough to define profits, all of the enterprises were capital short, and marketing problems were usually the chief concern. Based on these findings, Mr. Onsomu adopted an assistance strategy consisting of the teaching of bookkeeping to groups and individuals, the extension of marketing advice (on product choice, shop location, and sales promotion), and the provision of loans. Group sessions on maintaining cashbooks were

initiated immediately for all interested clients, and these courses were followed by site visits during which the books were checked and advice on marketing provided.

On the other hand, as in Nairobi, the program has had its problems in Mombasa. This is unfortunate because it was quite avoidable. The SBS promoter for that city, who was the last to be hired in July 1981, was a very qualified choice and his UCIP counterpart was one of that program's most experienced social workers. The latter had already organized a number of groups among poor women and, having long been a major advocate of the expansion of the SBS, had a full work program laid out for the SBP upon his arrival.

The promoter began his assignment by working both with work groups, mostly in the more rurally structured settlements around Mombasa, and with individuals in the downtown area. He assisted one group in setting up their books in preparation for applying for a loan and also extended marketing advice. Another early group, which did not need additional capital, received accounting advice, while the social worker continued to train the group's leadership in cooperative organization and management. The promoter's work with individual enterprises in the early stages focused on the delivery of assistance to dressmakers in downtown Mombasa who survived by doing piecework for Asian-owned garment companies. These companies supply materials on credit and are able to pay workers at a miserably low rate since they control the garment trade in the city. Many of the women earn less than K Sh25 (US$2.75) for a full day's work. The SBS staff therefore decided to assist various women to produce their own garments and sell directly to stores.

Despite this positive start, the program developed various problems in Mombasa, starting with the limited financing actually extended to group enterprises. This would have been understandable if group development had been weak in this area, but, to the contrary, NCCK and other organizations had been active in group work in Mombasa for years and NCCK had expected the SBP to assist and finance 10 or 12 of these groups by the end of 1982. The promoter had arranged a loan for only one group of 15 women by the end of that year, utilizing only 7 percent of the capital allocated for that purpose. During the first half of 1983, only one other group project was referred to Nairobi for financing.

By October of that year, the first SBP for Mombasa was gone. His performance in this area, however, was not the reason for his demise. In fact, he had become active in developing group projects by mid-1983 and had extended financial and management assistance to an acceptable number of clients, given the amount of time that he was stationed in Mombasa. The real problems began in mid-1982 when he was called to Nairobi by UCIP to replace the first SBS Coordinator on an interim basis. The former found it

difficult to get back to his site to monitor clients during this period and, when things did not work out in Nairobi and he was replaced by Mr. Kihiko, he did not demonstrate the same commitment to task that he had previously displayed. The pace of work slowed, as did the rate of loan repayment. Due to a lack of proper loan supervision--caused first by the absence of the promoter (and a fixed time and place to make monthly payments) and then by his demoralization--borrowers got out of the habit of repaying on a regular basis. Monitoring and financial records were not kept well.

It was time for a change, and the selection of a replacement has led to some improvement in the program. Organized and with a strong technical background gained through running his own business, the new SBP has been increasing the rate of lending and attempting to pick up the loan collection process. In actuality, while he has expanded group lending by financing these women's groups since the beginning of 1984, he exceeded his lending budget by mid-year (by financing clients prepared by his predecessor) and has had to curtail his credit activities. Loan collection, particularly among 1981-1982 recipients, remains problematic; the hope is that defaults will not exceed 50 percent.

The situation in Mombasa should continue to improve if the SBP's relationship with the new social worker can be worked out. Their coordination has been lacking, in part because of the latter's busy schedule with other, nonbusiness clients and in part because of the absence of common transport. A car would be extremely helpful, especially in enabling them to jointly visit the growing number of clients on the outskirts of Mombasa. It seems, however, that this problem will only be completely rectified when the SBS has its own full-time social worker.

To give the field staff its due, they were all given a difficult job. They overcame some early problems, not the least of which were the differences in personalities and approach between the small-business promoters, on the one hand, and the social workers, on the other. In doing so, they demonstrated that it is possible to run a small-business program while keeping a social orientation by introducing technical staff into a community development program. Differences in philosophy and approaches to development at local levels surfaced in the program during initial staff training, especially around the issues of short-term financial versus longer-term social gains among clients and client selection. In terms of operating style, the promoters tended to be more technically minded and direct, the social workers more indirect and client-centered. This all changed in time, in most of the sites, because of both the integrated training program and, even more, the new perceptions of clients gained through the field workers' close working relationships with their respective local counterparts. The SBPs outside

Nairobi came to appreciate the need to reach very poor clients, as well as the importance of their underlying personal and family problems.

6.2 Field Constraints

Today, as mentioned above in the case of Mombasa, the major constraint on field effectiveness is the actual physical inability of the social workers and promoters to work more closely together in their respective sites. Many clients are still referred to the SBPs by the social workers, and those who directly contact the promoters are interviewed by the former in any event, but the overall burden of UCIP responsibilities has severely limited the time that the social workers can spend working on the SBS itself. Like their SBP counterparts, the social workers tried to visit SBS clients at least once a month, but this has proved to be very difficult, as business clients already consume over half of their time. Full-time SBS social workers are probably needed in all the sites, especially as the program will be emphasizing group lending in the future.

The lack of adequate transport is also a major problem common to all the sites. With the purchase of motorbikes in 1982, the SBPs outside Nairobi were able to increase their client load and, to a certain extent, intensify their assistance. Just as important, it has allowed for the servicing of clients in peri-urban and even somewhat rural areas. Many clients simply were not reachable by public transport, and it took supreme effort and commitment by the SBPs to reach many others. Eventually, outreach would have been limited to centrally located enterprises, which clearly would have been unfortunate, since many of the poorest enterprises are forbidden by the authorities to operate in central locations.

The bikes have caused their own problems, however. Without them, the SBPs, like their social worker counterparts, were forced to travel by bus or foot to visit clients, thereby furthering the integration of the SBS into the UCIP community development and social-work approach. Now the social workers are unable to visit clients with the promoters and must travel to places on their own. In the longer term, this threatens to undermine the strong working staff relationships in the various sites. Because of the frequency with which social problems underlie business difficulties, it is important that the social workers be able to deal with family matters while the SBPs review the books and other business details. Without this coordination, the SBS could well evolve into a rather conventional small-scale-enterprise project with little social emphasis, an occurrence that NCCK did not envisage at the outset. Another transport-related consideration is that the use of motorbikes is often infeasible

during the rainy season, and at times dangerous on certain intercity roads year-round. Accordingly, the entire field staff would prefer a four-wheel vehicle for the teams in each of the program regions in order to increase program range, efficiency, and coordination.

Another major problem facing the SBPs is the amount of time they need to devote to paperwork. This has severely cut into their capacity to visit clients for purposes of client selection, the delivery of technical assistance and, when necessary, loan collection. Even the most diligent promoter could not effectively achieve the maximum program goal of six clients visited every working day under existing circumstances. Reaching 60 or 80 per month is perhaps the best that can be expected. Therefore, in addition to having full-time social workers assigned to the program, the SBS needs to have a collection clerk and perhaps a typist in each of the sites. This could increase SBP outreach by 30 percent. Clerks would not only handle most of the paperwork, but, by establishing a regular location for loan repayment, would also diminish the need to pursue nonpaying clients. More screened referrals would come in through the social workers, and the promoters would also have more time to work with clients before extending loans as an effective way of screening out bad borrowers. With this type of support, the SBPs, particularly if their responsibilities are limited to one city in each instance, should be able to increase their client capacity considerably. On the other hand, should NCCK contract with a bank to collect loan repayments at its branch offices, additional SBS personnel may not be necessary.

7. THE SMALL BUSINESS SCHEME CREDIT PROGRAM

7.1 Client Selection

NCCK established from the beginning an interesting and effective client-selection process for its Small Business Scheme. In order to ensure that the program retained its social focus and continued to serve the level of clientele traditionally reached by UCIP, it was mandated that all clients be at least interviewed, if not referred, by the social workers in each community. To guarantee that this took place, all group and individual loan applications reaching Nairobi had to be signed by both a social worker and a small-business promoter. Each application also had to be accompanied by a feasibility profile of the enterprise written by the SBP. The understanding was that the many existing UCIP clients without access to credit would be guaranteed participation in the lending program before the program expanded to other borrowers.

This process has been operating well. Potential business clients already within UCIP are known to the social workers and are hence referred directly to the promoters. The SBPs make one or two site visits and consider both the general feasibility of the enterprise and the client's willingness to accept managerial advice before making their decision on whether to recommend further assistance and determining the client's true requirements. However, whereas many, if not most, of the referrals in 1981 came from the social workers to the SBPs, the growing reputation of the program over the past 2 years has resulted in a great increase in external referrals from churches, program clients, and other sources to both SBPs and social workers. Those who make contact with the SBS for the first time through the local SBP are referred to the social worker for an interview aimed at determining need, character, and family background. This has also served as an immediate screening, or self-deselection, process, as more established entrepreneurs tend to avoid such an interview. The promoters believe that, after a couple of years of experience, they have also greatly improved their ability to screen out bad credit risks but would like to have the luxury that additional resources would provide to spend more time assessing clients.

Clients judged by the social worker and the SBP to qualify in terms of both need and general enterprise feasibility are usually given loan applications. At the outset of the program, the ratio of people not given forms to those receiving them was 3:1 due to the fact that established entrepreneurs heard of the program and inquired about loans. Now that the program is better known, that ratio is down somewhat. Upon examining the form that had been utilized previously in Nairobi, the first SBS Coordinator found it unduly long and complex, and produced a simplified version which was less than half the original length. It contained questions on (1) the social background of the client (e.g., number of dependents, family income); (2) the enterprise (e.g., type of enterprise, asset level, gross sales); and (3) the proposed use of the loan and its recommended size and amortization schedule. The regional SBPs assisted clients in completing these forms, where necessary. It soon became apparent that the applications did not provide sufficient information on the financial position of enterprises. The form was therefore altered again, to elicit more detailed information on the enterprise's sales and expenditure position, the intended use of loan funds, and the projected financial performance of the enterprise after the loan. Without such information, it simply was not possible to make judicious decisions on loans.

7.2 Policy and Loan Committees

Many of the decisions relating to client selection, as well as to lending terms and conditions, were made with the participation of the National Task Force Committee (NTFC), established in 1981 to help set program policies. The original committee, organized by the first SBS Coordinator, included five government officials from various relevant departments and offices at the national and municipal level; representatives from three non-governmental institutions, including the Department of Business at the University of Nairobi; and the General Secretary, UCIP Director, and SBS Coordinator from NCCK. This committee, currently being revamped by the current Coordinator, soon took on the major responsibility for loan review and approval, only to decide, upon the suggestion of the field staff, to decentralize most of this responsibility to four regional committees in each of the geographic areas of program operation.

These regional committees, composed of local government and private-sector representatives (including at least one commercial banker) were established in early 1982 to streamline the decision-making process on loan requests. This has been only partially achieved. Until quite recently, all credit requests of K Sh3,000 or under were approved locally, and, with the regional committees each meeting about three times a year, loan approval itself was at least a regular, if not continual, process. Applications are presented in person by the local SBP and social worker, who are called upon to explain or defend difficult proposals. Committee meetings have also been used in some sites for discussions about the setting of local program policy. Subjects have included the convening of more client workshops, the need to hold loan-review meetings on an ongoing basis, and the necessity of requesting from Nairobi the authority to approve loans of up to K Sh6,000 locally.

This last request to the NTFC, which was approved in early 1984, was made necessary by two factors. One, inflation over the past 3 years has so reduced the value of a K Sh2,000-3,000 loan as to make it useful only to the smallest of retailers in limited trade areas. Second, and perhaps more important, loans of over K Sh3,000 had been perpetually caught in the bottleneck of the Nairobi bureaucracy--in this case, the irregularity with which the NTFC meets. The regional committees and the promoters themselves have been caught in a bind: they cannot recommend the extension of more credits than their respective annual regional lending ceilings allow, but long delays in the review and approval (and the occasional rejection) of requests of over K Sh3,000 by the NTFC after initial local approval inevitably leaves the program far behind in drawdowns on its credit fund. The increase in local approvals to a K Sh6,000 ceiling should alleviate the situation in the case of almost all individual loans, although it does little to expedite the reviews and approval of group loans.

7.3 Problems of Bureaucracy

The problem is exacerbated by the long delays in the actual disbursement of credits approved locally or in Nairobi. In order to maintain financial control over the program, NCCK firmly centralized the disbursement of loans, which means that, rather than retaining collected client payments locally for relending purposes, these funds must be sent to Nairobi to be recirculated. Consequently, after local loan approval, all paperwork (approved application forms, repayment schedules, and letters of agreement) must be submitted to the program Coordinator in Nairobi who, in turn, arranges files and reporting mechanisms for each client and then requisitions loan funds from the central accounting office. Checks are then issued to the SBS promoters, who deliver them in person to clients. This cumbersome administrative process can take up to 6 months. The main bottleneck appears to be the collection by the Coordinator of all loan agreements and committee approvals and the forwarding of all paperwork to an extremely busy central accounting office which is not geared to credit administration.

In short, the SBS loan program has suffered from an overly bureaucratized, highly centralized administrative and financial system that has severely slowed the process of extending credits. Recent experience in most of the program sites is that it still can take 6 months or longer after local loan approval to get loan capital from Nairobi out to clients. The National Task Force Committee met only once in 1983, and, when little is done in Nairobi, large deficits in lending result. With action still pending in the capital, regional committees were often reluctant to be very active in the loan approval process. In Nakuru, for example, the local committee chose to approve only four loans totaling K Sh12,000 and recommend another four totaling K Sh18,500 to the NTFC in June 1983 even though 34 qualified clients had applied for K Sh146,000 in the preceding few months. Previously, the program's artificial lending ceilings had caused a backlog of qualified clients in almost all program regions. In the Kisumu/Kakamega area, for example, project requests from 48 qualified applicants from 1981 and 1982 could not be forwarded to Nairobi. Even worse, a number of loans approved in early 1982 in Nakuru, Kakamega, and Mombasa still had not been received by clients in those sites over a year later. A similar problem also emerged in Eldoret, where six clients had loans approved locally in November 1982 and two others had their larger credit requests approved shortly afterwards by the NTFC, but months later no checks had yet been received. Such large backlogs in credit extension have been extremely frustrating to the SBPs and their clients, who need financing as soon as possible.

While the lack of a permanent coordinator for a few months was another major cause of the delays, it is also true that the basic administrative system has not been working properly. The separate processes within UCIP and the accounts department appear to function well, but the total number of steps required to process any financial requests through UCIP, accounts, administration, and back again has led to bureaucratic problems. Another bottleneck is created by the fact that NCCK now sends vouchers and draws down on AID funds after loan expenditures have been made. This is contrary to NCCK's normal operating style, so some items for payment are flagged and delayed by NCCK. When there was a breakdown in the system, no one had sufficient knowledge of the process to resolve the problem. An additional staff person was to be hired to work for accounts, but this person would be located within UCIP, with responsibility for managing the Small Business Scheme and tracking requests for disbursements; however no one has not yet been hired for this position.

While it is difficult to determine the relationship, if any, between program structure and management and client performance, the impact on program performance generally of the SBS administrative system is quite clear. Most significantly, the ongoing delays in the loan review, approval, and disbursement process are largely responsible for the fact that less than 50 percent of allocated loan funds had been disbursed by mid-1983, greatly exacerbating a problem that started with the delay of the startup of the 3-year lending program until mid-1981. Furthermore, the bureaucracy in Nairobi has also delayed at times the payment of expense floats and mileage claims submitted by the small-business promoters, undermining the latter's flexibility, morale, and, hence, effectiveness. Likewise, their clients, because of the long delays in the disbursement of their loans, lose trust in them and faith in their ability to help them and thus begin to take their advice less seriously.

The small-business promoters feel that the changes in the system have to be of a fundamental nature. Beyond the question of the further decentralization of the loan approval process, they believe that the process has to be a year-round, ongoing one. This might entail monthly advisory committee meetings in each site and giving greater authority to these committees. Committee members and the SBPs are closer to, and more knowledgeable about, the prospective borrowers, and, if they are not to be given full control of the local loan portfolio, then they should at least be represented at the NTFC meetings. These meetings would be held whenever the regional committees had a package of loans ready for review (the bylaws presently call for the NTFC to meet four times a year and it did meet three times during the first half of 1984). The relevant SBP, in his capacity as secretary to his committee, and perhaps in conjunction with the committee chairperson, would present the region's cases and answer questions. This would make the entire process more timely, more

relevant, more cohesive, and more fluid. Regional representation on the NTFC (if it were to be continued) could also be an option.

In the meantime, while these specific proposals are under consideration in Nairobi, the new SBS Coordinator will be attempting to improve the general management of the program. This includes (1) establishing a new administrative and finance system within the Accounts Department; (2) using this system to control lending programs and accelerate the disbursement of loan and expense monies; (3) collecting data forms and other information from the field to analyze, synthesize, and extract lessons in order to make necessary program and policy changes; and (4) increasing field supervision, upgrading staff skills, and exchanging views and information with field staff.

7.4 Loan Size, Terms, and Conditions

These have been issues since the beginning of the project. Above all, NCCK, along with the other parties to the project development process, has debated the issue of the appropriate interest rate to charge SBS borrowers. AID has consistently pushed for lending at or close to commercial rates. NCCK, mindful of its status as a social agency and its extremely poor clientele, has resisted commercial-rate lending. As an initial compromise, the original project agreement between the two organizations called for lending at NCCK's interest rate of 3.5 percent, with NCCK given the option of charging more established, second-time borrowers 8.5 percent on longer term loans. Later in 1981, the interest rate issue was discussed within the National Task Force Committee, with consideration given to the position that experimental lending at somewhat higher rates, perhaps with extended amortization periods in order to lower monthly repayment costs, would enhance the project's ability to attract future funding from international donors. Subsequently, the Task Force decided to establish a temporary annual rate of 5 percent on all loans (to be charged on the declining balance), with flexible grace and repayment periods to be determined on a case-by-case basis.

By mid-1982 it was becoming evident that many of the program's poor clients could absorb, utilize, and repay loans successfully. It was decided at that point that, if borrowers were able to maintain significant increases in income, interest rates should be raised again to slow the decapitalization of the revolving loan and to allow for a spreading of the loan capital to a greater number of clients. It was understood, however, that any changes in the terms and conditions set on lending to such clients had to take into account the need to help them build up business capital and should not overtax their ability to make monthly loan repayments. While it was true that the return on

many of these investments was such that the borrowers could theoretically pay positive interest rates, in reality non-business expenses usually were making it difficult enough to build a capital base in the enterprise. With the program's experimental stage nearing its end, a rise in the interest rate to 8 or 10 percent, allowing for flexibility particularly in the case of very poor first-time borrowers in certain trades, was discussed at NCCK. At the same time, a majority of clients surveyed expressed the view that they could pay such rates. At the end of 1983, an increase to 8 percent for all loans was approved by the SBS National Task Force, regardless of client status or previous borrowing history; the new policy was implemented at the start of 1984.

The record is not yet in on client performance or ability to repay under the new interest-rate structure, but it appears that paying such rates is within the capacity of most. The experience to date, however, has served to raise four key questions relating to the setting of interest rates in a program such as this one. First, a social development agency like NCCK must be allowed by donors to feel its own way in this area, as it has both an intimate knowledge and the trust of the communities and client populations that it serves. Through the process of making incremental increases in the interest rate during the experimental stage of the SBS, NCCK has demonstrated to program beneficiaries that it can take on more characteristics of a lending agency without sacrificing its concern for their general welfare.

Second, applying low interest rates to this level of the population does not in itself appear to cause distortions in the use of loan funds, as there is little evidence to suggest that the program's borrowers draw regularly on other sources of local credit, relend their loan monies at higher rates, or invest unduly in capital rather than labor. Third, flexibility will continue to be needed in the application of interest rates in some instances to help the very poor build up capital in their enterprises, rather than assisting them through outright grant assistance. Finally, flexibility will also have to be exercised in the establishment of payback periods for clients in order to keep monthly payments at affordable levels despite increases in interest rates. Typical loans of 12 months' duration may have to be increased in some cases.

Such flexibility would allow for the granting of larger loans, something that clients have been requesting for some time. Although average loan size was originally projected at US$277 for individuals and US$160 for group members (based upon early SBS experience concerning what was economically feasible), the typical loan has been well below these two levels. As inflation increased, average individual loans in the western towns dropped in value from a six-site average of US$190 to only slightly above US$150; Nairobi and Mombasa credits maintained

this early program average. Group members at first were receiving on average only half the projected amount, and the value of such credits has eroded by another 50 percent. A survey of 92 individual borrowers from all program sites indicates that almost 40 percent had received K Sh2,000 or less from the SBS and that K Sh3,000 well over 80 percent were extended loans under the K Sh3,000 local-approval ceiling. In contrast, about 80 percent of these borrowers requested loans of over K Sh3000, and 75 percent of those surveyed believed the money they received was inadequate for their purposes.

Clearly, the severely reduced purchasing power of the typical SBS loan, caused not only by the high overall rate of inflation in Kenya during the years of program operation but also by the even greater price increases in some basic commodities, makes an increase in average loan size imperative. Those involved in trades with fixed costs and prices are confronted with the further problem of small margins and the need for larger stock turnover to make sufficient income for their families. The recent lifting of the regional approval ceilings to K Sh6,000 was a good start in improving the situation. The small-business promoters would like to see the maximum loan size established at K Sh15,000, K Sh5,000 higher than the social workers' preference, but Nairobi understands that making this the official policy would create a tendency to lend to larger and less poor business people. In fact, the low regional loan ceilings until recently in effect have helped to screen out more well-to-do entrepreneurs who could not be bothered with such small sums. On the other hand, there is agreement that group credits must be increased significantly in size from the typical K Sh10,000-20,000 loan in order to better serve a membership of 20 or more people.

In order to ensure that the truly poor are beneficiaries under the SBS, fixed collateral requirements have been waived for all applicants as an important feature of the program. Three third-party co-signers acceptable to the SBPs are required of individual applicants. Groups may collectively guarantee repayment. Despite repayment problems, little pressure, particularly legal, has been placed on guarantors; this leniency may soon change, however.

7.5 Lending Program to Date

Consistent with the retail and service nature of the enterprises involved, most of NCCK's lending has been for working-capital purposes. Less than 3 percent of program loans have been given to help with capital improvement, since most clients run small retailing concerns with little need for building improvement, while a few have been extended for the purchase of tools and equipment, such as carpentry tools and

sewing machines. The vast majority, however, have been used to expand--and, to a much lesser extent, establish--businesses through the purchase of produce, materials, and other stock.

The record on project lending has been mixed. The greatest success in reaching lending targets has been achieved in the Kisumu/Kakamega region, where 39 individual loans and 13 group loans had been extended or approved through 1983. Preproject projections called for 28 and 13 loans, respectively, and K Sh233,000 in total lending over 3 years. This spending total, as well as the group loan target, was achieved when five new group loans totaling some K Sh75,000 were approved at the end of 1983. By mid-1984, lending in the region had reached US$281,200 for 68 clients.

The Nakuru/Eldoret region has also done well in total lending, passing K Sh200,000 in loans disbursed or approved through less than 3 years of program operation; a number of loan requests were not approved until early 1984 because of the failure of the regional committee to meet in December 1983 as scheduled. However, the region's SBP was able to lend more than K Sh150,000 during the first half of 1984, thereby exhausting his project budget. Unfortunately, it has been extremely difficult to find cohesive group enterprises, and the local project was thus adjusted to put all available resources into some 89 individual and partnership businesses.

Strict lending ceilings and bureaucratic delays in Nairobi headquarters greatly limited lending in both regions. In the Kisumu/Kakamega area, for example, only 28 percent of credit applicants have received loans, and many who did not were considered qualified and are still on a waiting list. Overall, in all six project sites including Nairobi, loans have been made to approximately 20 percent of the applicants.

The greatest disappointments have come in the larger cities of Nairobi and Mombasa. In the former, lending was close to target into late 1982, although none of the projected 26 group enterprise projects was financed. After that, overall lending fell off, as differences between the SBP and headquarters staff became more pronounced. One hundred individual clients were financed by the end of 1983, but, 2½ years into the program, only 63 percent of locally allocated loan funds had been committed.

Likewise, greater things were expected in Mombasa, as the promoter there also had but one city to cover and the advantage of a strong urban and peri-urban UCIP operation. Unfortunately, 1981 lending was low because of the late hiring of the local promoter, lending in 1982 was limited by the SBP's assignment to Nairobi and in 1983 by his disaffection and final departure from the program. As a result, only 25 individual loans and one-quarter of total allocated funds had been disbursed through 1983.

Only one of the projected 18 group loans had been made, although six others were under consideration at year's end. By mid-1984, however, the new SBP for Mombasa had made four more group loans and had also extended credits to another 30 individual clients, thereby utilizing all the funds available to him.

In summary, 36 percent of the loan capital allocated to the 3-year program remained in early 1984, slightly over 2½ years into program operation. Some 253 individual and 14 group loans had been made or approved, but it was clear that the number of group loans could have been greater (particularly in Mombasa) and that the total number of credits would have been higher (in the western cities) if lending ceilings and bureaucratic delays had been eliminated. Many of these problems, which came to a head in 1983, were overcome in good part during 1984, although the additional 100 or so loans made later that year went primarily to individuals. The NTFC will probably be revamped if it fails to keep scheduled meetings, as it did twice in 1983. A strong, full-time coordinator gives the program the continuity and stability it had not had since its first year of operation. And staff changes effected in Mombasa in late 1983 and in Nairobi in mid-1984 have improved performance in those two key sites in several areas including group lending.

7.6 Loan Collection and Repayment

Both loan collection and, to a greater extent, loan repayment have been problem areas in the Small Business Scheme. When the program was expanded to the secondary cities, the original idea was to have all clients make monthly payments directly to Nairobi by postal order. The decision was taken in part to ensure that from the beginning a strong, centrally controlled loan-administration system be in place, with the expectation that innovations in loan disbursements and administrative decentralization would come later. In the meantime, the small-business promoters would not have to act as loan collectors or as accountants. In practice, however, it turned out that the payments were collected by the SBPs, who are required to give numbered receipts to clients and make regular payments by postal order to Nairobi. To avoid this extra expense and layer of bureaucracy, the regional committees have recommended using local bank accounts for the deposit and re-utilization of credit reflows, but Nairobi has always refused to allow local disbursement of loan funds.

Flaws in the loan supervision and collection system, particularly in Mombasa and Nairobi, have contributed to major problems in loan repayment. Some serious questions about the management of the SBS (weakened by the lack of continuity in the coordinator's position) are raised by the poor oversight of the

business promoters, who in a couple of cases have been extremely lax in client supervision and followup. This laxity has been at the root of the repayment problem in the two major cities. A bad selection of the SBP for Nairobi was followed by almost no supervision until it was too late; by that time, the selection of poor credit risks and the lack of sufficient followup had created a disastrous arrearage problem. In Mombasa, the absence of the SBP for 6 months and his subsequent performance upon returning created similar problems. Some clients waited in vain for the promoter to pick up their payments during his scheduled monthly visits to their business premises in the latter half of 1982, while others went to the local NCCK office to make their monthly payments only to be told to place their money in a bank account until the regional promoter returned. Given pressing family problems, this rarely occurred, and most clients fell far behind in meeting their loan obligations.

Family and personal problems have undermined timely repayment in all the program sites. These include not only marital, health, or other crises, but also the common need to postpone payments to pay fees to keep children in school or to pay accumulated rent. It is also not surprising that many clients fall into arrears rather than give up their newly acquired and slightly higher standard of living. In the four western towns of Nakuru, Eldoret, Kisumu, and Kakamega, the situation has been kept under control by consistent staff followup and a policy of flexibility applied to those clients who fall into arrears. A severe economic recession, which has hit informal-sector retailers very hard, and a high rate of inflation have made things more difficult, however. Add to all the other problems in Nairobi the fires that closed down numerous businesses there and the exodus of many potential customers from the areas of the city hard hit by the August 1982 coup attempt, and it is clear why the SBS has had so much difficulty in the capital. Theft has also been a problem in some of the program sites. Still, the two major factors to which respondents to a NCCK survey attributed their being in arrears were the lack of sufficient business profits to cover needs or preferences and the need to pay school fees.

While over 85 percent of the early SBS clients were making loan repayments on time through the first year of the program, things started to change during the second half of 1982. This coincided with the coup attempt in Nairobi and the absence of the SBP in Mombasa. By April 1983, 60 percent of Mombasa borrowers were over 6 months late with payments, while 40 percent of Nairobi clients were over 2 months behind and half of those were at least 5 months late. Less than a third of the borrowers in the other sites were more than 2 months behind in their repayments. In all, 37.5 percent of the loans made in 1981 and 1982 were in arrears 3 months or more in early 1983.

At the end of 1983, the situation was even worse in Mombasa and Nairobi, precipitating changes in the two regional SBP posts.

The Mombasa SBP resigned in October and was replaced 2 months later; the Nairobi promoter was not relieved of his position until well into 1984. The changes were necessary because, among other problems, Mombasa borrowers (of which there were only 19 in 1981-1982) had only repaid, on average, 35 percent of their loans, while only 23 percent of the K Sh174,500 loan capital extended in Nairobi during that time had been repaid. In fairness, 19 percent of this latter portfolio was lost in fires in Mathare Valley and another 4 percent was lost through theft. On the other hand, this left over 50 percent of the capital outstanding without explanation. Given the fact that eight borrowers disappeared after receiving their loans and that four early borrowers had repaid less than 20 percent of the K Sh40,000 extended to them, it was decided that, as in Mombasa, the situation was not under control. Twenty-four borrowers were recommended for prosecution by the SBS, but the NTFC considered this inappropriate action for a church organization until all other remedies, including approaches by the new SBPs, had been pursued.

Because of the problems with staff in these two sites, it is hard to determine to what extent the difficulties with loan repayment in both places reflect the complexities of working in dense, urban slum areas. Certainly in a place like Matnare Valley, where crime is rampant and people can disappear without a trace, they have to be considered a major factor--one which might only be addressed through careful client selection, close credit supervision, and flexibility in loan rescheduling. In Mombasa, these factors have come less into play, and the relatively few clients are usually well known by the UCIP staff.

Similarly, the program in the smaller cities of Nakuru, Eldoret, Kisumu, and Kakamega has not suffered from such problems. It has also benefited from the effectiveness and continuity of the work of dedicated staff. Consequently, the record in these towns has improved over time and, given the level of clientele, looks quite strong, particularly when compared with the repayment rates in more conventional, commercial-bank programs.

Twenty-one of the 25 Nakuru/Eldoret clients who borrowed from the program in 1981 had on average repaid two-thirds of their credit obligation within the stipulated loan period. Over half of the 1981 borrowers had completed their repayments by late 1983, and that percentage had reached 78 percent by early 1984. As some of these loans had payback periods of 18 or 24 months, there was little concern that the rest would not eventually be collected, except for 10 percent of the portfolio which would be written off as bad debt. Likewise, 44 percent of the loan capital extended to new clients in April 1982 had been repaid by the end of that year, and 60 percent of the 12-month loans had been collected; two-thirds of the 1982 borrowers were 2 months behind or less in their payments, which is quite good considering the

other economic demands upon them. In all, 57 percent of the 1981-1982 loan capital and 52 percent of the 1981-1982 borrowers were paid up by 1984, and only five clients written off as bad debts and three others recommended for prosecution were expected to pay back less than their total loans. Total projected repayment was 75 percent.

In the Kisumu/Kakamega region, 62 percent of the K Sh116,000 loaned to individual and group clients in 1981-1982 had been repaid by the end of the following year. By mid-1984, 80 percent of the 1981 portfolio and 65 percent of the slightly larger 1982 loan volume had been repaid. Although five individual clients were doing extremely poorly in repaying due principally to health or family problems, no bad debts were anticipated. Only one of the seven groups receiving loans in the region during 1981 and 1982 had fallen badly behind in its payments, despite the fact that some were not yet generating much income; pride and peer pressure appear to be the reasons. Four of the five 1981 borrowers had repaid at least two-thirds of their obligations by late 1983. Virtually no defaults were anticipated from among the first-year clients, but NCCK expects bad debts among the following year's clientele to reach 17 percent. Five of the individual clients receiving loans in 1982 have had serious problems in repaying due principally to health or family problems. While the groups funded in 1981 are doing well, NCCK expects each of its 1982 client groups to have problems repaying at least a portion of their loans because of the inadequacy of the income that they have been generating.

In order to correct the problems in the system, NCCK has made some changes and is considering others. Chief among these is the hiring of new small-business promoters for Nairobi and Mombasa, who will be concentrating first on loan supervision and collection. Only with intensive client followup in the future can these promoters keep the situation under control and deal with their poor borrowers with the necessary flexibility. NCCK has learned to remain flexible with clients of good intent, and the two SBPs in the four western towns have successfully put this into practice, permitting many clients to eventually repay their loans in full. Good client selection is also imperative, and the 3 years of experience gained by the SBS in this area, particularly in the west, should be of benefit to the entire program in the future. The record to date shows that women and more established businesses are the best credit risks, but it is clear that the program managers want to continue to provide financing to poor men and new endeavors, as well.

To make reform in this and other areas, some changes had to be made in staffing patterns. The promoters would like to see their responsibilities limited to one city each and to have enough other support staff added to be able to handle necessary tasks in a proper manner. They have learned that 2 months of

client review to establish client character is required for consistently good client selection, but they currently cannot devote that much time to this function. Likewise, where they are stretched between two towns, they cannot always get to all the borrowers on schedule, and, as a result, money is diverted by clients, excuses are made, and monthly repayments begin to lag. The same result often occurs once SBP client supervision becomes less frequent 6 months or so after loan extension. The addition of a collection clerk in each site or an appropriate arrangement with a bank would provide clients with a permanent place to make their payments and would provide the program with the ability to pursue nonpayers.

Finally, and just as important, NCCK is committed to strengthening its centralized record keeping of outstanding SBS loans. Individualized records will be established for every borrower, and a central ledger developed for each site. Statements showing the outstanding balance for each client will be sent out monthly to the SBPs for their verification. They, in turn, will send a list of payees, with supporting documentation, to headquarters every 2 weeks along with the money collected. The SBPs, or local clerks, might also be required to put all collected payments directly into the local post-office savings or bank account that is used to transfer funds to NCCK in the capital if a bank is not given full responsibility for collection. The accountant that the SBS plans to hire will provide the program coordinator with monthly lists of payments and outstanding loans.

8. NONFINANCIAL ASSISTANCE

As discussed earlier, the Small Business Scheme was expanded from a small program limited to Nairobi to a multitown effort throughout Kenya when the social workers in the various sites found that they could not provide the assistance increasingly demanded by clients for their income-generating activities. Loans could be extended to the secondary cities through existing staff, but technical personnel were required to attend to the management and marketing problems of these enterprises, in addition to providing the assistance needed in enterprise startup and the use of credit. In order to attend to the possible needs of what was expected to be a broad range of very marginal businesses, UCIP hired business promoters with accounting backgrounds and general management knowledge and placed them in the responsive posture of addressing the particular weaknesses that emerged in each case. In short, there was no preset formula for assistance, although, from previous experience, UCIP felt that the teaching of basic adequacy in bookkeeping and help in making marketing linkages and overcoming licensing problems would be extended to many clients.

The offering of a broad range of assistance also allowed NCCK and the consultants the opportunity to determine the relative importance of each type of assistance to the enterprises, as well as the most effective nature of that assistance. Assistance was originally broken down into 10 categories for monitoring purposes. They were credit education, credit supervision, bookkeeping, procurement, stock control, marketing, production management, technical/technological, licensing, and organizational assistance.

Categorized as such, the assistance received by borrowers in the five sites other than Nairobi has been basically of a similar nature. The three major areas of concentration have been the use of credit (credit education and supervision), procurement and stock control, and bookkeeping. In the four western towns, the promoters have spent over one-third of their field time emphasizing proper credit use and one-quarter concentrating on proper procurement and stock-control techniques. The first promoter in Mombasa spend two-thirds of his time on these two areas, although with the emphasis essentially reversed. There has been a greater disparity in the amount of bookkeeping assistance given, with the promoter in Nakuru/Eldoret giving this area much greater attention than his counterparts.

Overall, the typical client in the five sites receives 90 percent of her or his assistance in these three major areas: credit use (35 percent), accounting and procurement (29 percent), and stock control(26 percent). Licensing, marketing, and production-related assistance, which constitute the remainder of the help extended to individual borrowers, have been steadily diminished since the early stages of the program, as the SBPs began to focus more on what they saw as the critical enterprise areas. Interestingly, the type of assistance received has varied very little among major trade areas and ethnic groups and between female and male clients.

8.1 Credit Management

The concern on the part of the program's small-business promoters that many, if not most, of the clients at this level would initially need help in using credit for the proper purpose, as well as in subsequently reinvesting returns and setting aside funds for repayment purposes, led them all to concentrate on this area. In providing credit education, the promoters discuss with clients the general purpose of credit and the use of their loans to make a profit, and also help establish bank accounts for depositing funds. Credit supervision, on the other hand, appears to consist mainly of loan collection. The fact that the percentage of time devoted by SBPs to providing credit management assistance was found to be negatively associated with client performance can

be interpreted as confirming the importance of this function, with assistance serving as a proxy for a lack of client competence in this area (see Section 12.4).

8.2 Accounting Assistance

Assistance in bookkeeping has continued to be the major type of business advice given to clients by the SBPs. All the promoters explain how to use the cashbook, with the expectation that at least an exercise book will be kept, with entries made for every transaction. Literate family members or friends help with this when necessary, as most SBS clients are low-literate or totally illiterate. A few clients are taught only how to physically separate their receipts. Among SBC clients who use cashbooks, it is not uncommon for SBPs to actually transfer the entries, teaching clients and their families in the process. There are many cases, however, of clients or family members keeping good, clear cashbooks themselves (and even in a few cases of their learning to keep a ledger and balance their books). This is particularly true in the Nakuru/Eldoret area, where a lot of time had apparently been put into such training. Whereas 90 percent of that region's clients had not been maintaining business records before entering the program, some 40 percent of regional borrowers were doing so in late 1983, while another 20 percent were making single transaction entries and most of the others had learned to physically separate business from personal monies.

In other regions, more clients failed to keep cashbooks, but, by and large, the intensity of assistance in bookkeeping appears to be paying off. Most clients begin to keep an exercise book upon receiving a loan, and it is estimated that about two-thirds progress to cashbooks of one sort or another. Of that number, perhaps half keep such books regularly and adequately enough to be of assistance in understanding and improving their enterprises. A recent survey of 92 program clients from all six sites showed these estimates to be fairly accurate. It indicated that 64 (70 percent) of those clients kept records of some sort, with 39 keeping complete cashbooks. Four kept journals, seven kept daily sales records, four kept purchases books, and five kept ledgers, while a few others kept rather unstructured records.

Many clients, however, do not continue to keep books through the duration of the loan, much less after the loan has been repaid. In fact, it is estimated that less than a third of the borrowers in Nakuru and Eldoret maintain books for more than a few months. Typically, daily records of purchases and sales are kept because the promoter strongly urges it and because there is a literate child, spouse, or friend to give a hand; the promoter

helps out with the monthly balance. But, in time, with daily assistance and SBP visits becoming less regular, illiterate clients usually stop keeping such records and may even begin to keep false records.

The significance of teaching accounting techniques does not lie, however, in the mindless maintenance of records. Teaching bookkeeping, the promoters have found, is necessary because it develops in clients a financial understanding of their enterprises, a sense of profit and loss. It makes them better managers, helping them separate personal from business money and improving their understanding of purchasing, selling, and setting prices. Teaching accounting is designed above all to develop analytical ability and build basic enterprise capacity. Of course the ideal is for clients to continue to maintain books, because it is then much easier to advise them. Recognizing a monthly loss makes possible a discussion about cutting expenses, for example, while an awareness that business capital is being used for family purposes makes clients concentrate more on budgeting such things as school fees. Although it has been found that the ability of the SBP to determine how the business is doing and adequately judge its progress is most critical during the first 6 months of a loan, access to enterprise information also becomes necessary in determining the optimum size and terms of a new loan.

Further evidence of the importance of bookkeeping assistance, at least in this program, is found in the analysis of program data, which shows it to be positively associated with client performance. It was found that those keeping cashbooks had a significant edge in performance over those who did not, and, since most clients did not keep books before entering the program, it could be assumed that the assistance that provided the impetus for them to begin to do so was very helpful to their businesses. It would be fair to say that, whereas most of the clients were very poor and ran their businesses with little sense of their business income when they entered the program, most now know how much they are earning and need to set aside for various purposes. When they first receive their loans, they regularly set aside money for their monthly repayments (except when confronted with severe personal problems or with particular seasonal needs, such as the paying of school fees early in the year), they can now better incorporate transportation and other business costs into their calculations, and, in many cases, they have some sense of how much of the balance is being used for family expenditures.

8.3 Procurement, Stock Control, and Marketing Assistance

With the many fruit and vegetable, maize, charcoal, and other small retailers counted among the program's clients, pro-

curement and stock control receive particular attention. While most of these retailers have a very good idea of where to buy their stock, some advice has been forthcoming on how to factor in transportation costs, find alternative sources of supply, and buy in bulk to cut costs. Buying on credit also becomes possible when loans have allowed for greater size and regularity of purchase. Advice on stock control is probably more important in most instances, as both understocking and tying up capital need to be avoided. Clients are taught to neither overpurchase, particularly in the case of fresh produce sellers, nor underpurchase, in order to keep turnover high and have sufficient stock for regular customers. Assistance in these two areas was found to be positively associated with client performance. That is, client performance improves as a greater percentage of time is spent by the SBP on this subject. Two of the promoters also reported a positive response on the part of beneficiaries to this assistance. In the Nakuru/Eldoret region, the promoter has reported that a reduction in overstocking among his clients has resulted in a parallel reduction in stock losses and that greater profits have been made through the proper stocking of required commodities.

Some of the assistance regarding stock is considered by the SBPs to fall in the category of marketing advice, and, in fact, these areas do tend to overlap in the case of retailers. The emphasis on maintaining a certain stock level, diversifying stock, and improving product appearance and display is also part of the marketing advice offered by the promoters to many of their clients. Product diversification is strongly suggested, particularly to vegetable retailers, in order to attract greater numbers of customers. The promoters usually recommend stocking nonperishables like various types of beans, grains, and perhaps some nonfood items. Sometimes the best advice they can give is to gradually, if not immediately, move out of certain lines altogether where there exists overcompetition. On the other hand, produce, charcoal, and other essentials seem to be the safest bet when catering to essentially poor customers in time of economic downturn.

Somewhat surprisingly, however, marketing advice has not turned out to be as important an input as was originally envisaged in this program. The fact is that the clients, most of them retailers, know enough about their customers and where to locate their premises to keep themselves in business. As clients know their markets very well, they do not need much help in this area, except perhaps in procuring contracts for such things as school uniforms. SBS management questions this, however, as well as the lack of emphasis placed on marketing by most of the SBPs. Accordingly, future training will be aimed at strengthening the promoters' competence in this area.

8.4 Licensing, Legal, and Other Advocacy Assistance

Licensing, like police harassment, is one of the most commonly cited problems of small enterprises. In Kenya, where all municipalities independently set their fees, the problem of licensing can bring a very small business to the edge of disaster. Difficulties range from the extreme in Mombasa to the almost nonexistent in Nakuru. In the latter, the mayor has established flexible standards, and clients are able to handle legal permits and fees themselves. In the former, on the other hand, there has been a drastic increase in fees, particularly for small shops and tailors, who are now being asked to pay as much as K Sh800-1,500 annually. As most very small businesses, particularly NCCK clients, cannot pay such large amounts, especially in one lump sum early in the year, new business starts and ongoing concerns are both endangered. In the Kisumu/Kakamega area, large fees applied to particular business lines began cutting into the purchasing power of loans by 1983. One obvious, but not totally satisfactory, answer would be to raise the size of SBS loans, and this, in fact, is part of the reason for raising the regional-approval ceiling to K Sh6,000.

As NCCK requires its clients to have a license before a loan can be disbursed (they cannot be in the position, vis-a-vis the government, of lending to illegal enterprises), it sent a letter in the early stages of the program to all appropriate municipal authorities and ministries opposing these fees. It stated that these charges could literally ruin the vast majority of its clients and sought their repeal. This type of advocacy is a critically important function which NCCK has historically performed very well. The agency is known and respected by local and national government agencies, and it is well experienced at dealing with the public sector.

Beyond this first initiative, however, no NCCK policy has emerged on the issue. Because licensing fees are a municipal matter, the individual SBPs are left to argue, on a case-by-case basis or as part of an ongoing dialogue, with municipal clerks that very high fees (as a means of raising general revenue) will kill tiny enterprises among the poor. NCCK staff have helped to get permits for individuals and groups from municipal authorities in Nairobi, Kisumu, and Kakamega, but have had little success regarding fees. The regional SBP for Mombasa, through correspondence with local government, effected only minor changes, mainly for the disabled, although he has had some success in cutting the size of fee increases in some individual cases. The recent success of the hawkers' association in Nairobi in having projected fee increases reduced has inspired the SBPs to continue to work to help their clients in the same way. Advocacy in general remains an important area for the promoters and, where necessary, they continue to involve themselves in such matters as inspection

standards, police harassment, and securing permanent premises, in addition to the issue of licensing fees.

8.5 Other Business Assistance

Whereas advice on credit management is a major aspect of the promoters' work, assistance in purely technical or technological areas or in production management has been rather insignificant. This is due to the fact that very few of the SBS clients are involved directly in production. However, the SBPs have devoted quite a bit of time in working with group enterprises on organizational matters and helping to establish business discipline. This did not always show statistically, however, because it was often registered as procurement or accounting assistance.

Finally, social-work assistance, although not technically of a business nature, may be the most important help clients receive within the program. As personal or family problems appear to underlie many of the business difficulties at this level, frequent visits by the social worker can save an otherwise failing enterprise. Marital problems are cited as being particularly troublesome, but drinking, depression, pregnancies, health problems, and other financial pressures also demand attention. Just as importantly, clients require visits for psychological reasons. Generally they are very proud to be increasingly self-reliant and are appreciative of the NCCK program, and reinforcement from the social workers and SBPs appears to help business discipline and energy.

8.6 The Delivery of Assistance

The NCCK staff has gradually been coming to the conclusion that the system of delivery of assistance is as important as the nature of the assistance itself. One of the major problems confronted by all the SBPs is reaching and following up on the growing number of potential clients requesting help. Working with individual clients on a one-to-one basis is clearly insufficient under such circumstances. The SBPs try to make at least one visit per month to each client, but some require two or three visits ranging from 15 minutes to 3 hours each. In any event, regular visits are difficult to sustain after 6 months, as new borrowers enter the program.

Since three of the four promoters have had only mixed success in increasing the number of group clients, they have increasingly turned to seminars and workshops to deliver assistance simultaneously to large numbers of people. One of the first seminars was held in Nairobi in 1982, and, although it went

generally well, there were client complaints about it not being specific enough. The three SBPs based in Nakuru, Kisumu, and Mombasa all were involved in seminars in 1983, usually in conjunction with other organizations. For instance, the SBP in Mombasa taught 22 group leaders bookkeeping and general management at a World Education seminar in April, while the Nakuru SBP brought in experts from the Ministry of Commerce and Industry and the Kenya Institute of Business Training in July to advise 30 clients in management, procurement, stocking, bookkeeping, display, and marketing; this July seminar was also used to educate clients about the seriousness of defaulting on loans. A longer, 5-day seminar in November, co-sponsored with the same Ministry, taught a wide range of subjects to 36 participants, half of whom were SBS clients. The promoter in Kisumu participated in four seminars and also organized a number of client meetings to discuss the program and get recommendations and other feedback. One of the recommendations that NCCK received from a number of clients through a survey it conducted was that more seminars be held to help them improve their management capabilities. Likewise, all the promoters have been requesting an enlarged workshop budget from headquarters in Nairobi. In the event, at least one seminar was held during 1984 in each of the six cities covered by the program.

There are many advantages to seminars. In addition to facilitating the reaching of more clients, they also fill the assistance gap left when the frequency of site visits falls off after 6 months or so as is often the case. In any event, the promoters have found that there is a limit to the number of visits they can make to individual clients without boring them with the same advice over and over again; in this regard, it is effective to have outside speakers address a seminar group. A third advantage is that workshops enable clients to share their experiences and learn from one another, and it has been found that clients will indeed identify and solve problems together. In addition, such meetings can serve as forums for discussion between clients and program staff through which program policies and management can be explained, clients can express their needs to the SBS and thus instill a measure of beneficiary participation in the program, and solutions to major program problems can be found. They also permit clients an opportunity to organize so that they are able to act increasingly on their own to effect changes in matters affecting them, such as licensing laws; the first steps were taken in this direction in Mombasa before the departure of the first SBP there. Finally, seminars can be an effective means for generating client responsibility for loan repayment and for facilitating loan collection. All in all, it is believed that regular workshops in each site may be a necessary assistance complement, if not the best delivery system, for helping individual clients in a program like the SBS. Group leaders could also be invited, but SBPs believe that there should also be separate workshops for all group members. Most clients

have little trouble getting away for a day's seminar, and transportation and other workshop expenses are minimal if carried out on a regional basis.

9. PROGRAM CLIENTS: INDIVIDUALS

9.1 Characteristics of Clients

Over the past 3 years, the Small Business Scheme has been very successful in achieving one of its major objectives: to reach and assist very poor clients to become self-reliant and increase their sense of self-worth. The program was designed to help the poor feed and care for their families and to solidify group action, not necessarily to turn small concerns into prospering businesses. Not surprisingly, then, and thanks to an effective interview and selection process that screens out (or discourages) more established entrepreneurs, only a few of the SBS's clients cannot be considered poor by most definitions, and the majority of the others have been very, very needy. Monthly incomes of business operators entering the program are usually in the K Sh100-250 range.

The typical client of the Small Business Scheme is a middle-aged female, between 30 and 50 years of age, possessing little or no education and living in an urban slum area with anywhere from 5 to 14 dependents. The individual clients in Kisumu and Eldoret have been almost exclusively of this description, while two-thirds of the individual clients in Nakuru and Mombasa have also been women, mainly in this age bracket. The Kakamega and the larger Nairobi portfolios are made up fairly evenly of male and female clients, which, in the Nairobi case, may in part explain a relatively higher income and asset level of beneficiaries. Lately, however, male applications have risen sharply to constitute 60 percent of the total, so the sex percentage breakdown may also be changing over time.

An analysis carried out in late 1983 of some 50 individual clients in Nakuru, Eldoret, Kisumu, Kakamega, and Mombasa gives a greater sense of the size and level of the clients assisted by the SBS. Female clients, who make up over 70 percent of the borrowers outside Nairobi, tend to run smaller operations than do their male counterparts in the secondary cities. While beginning assets range from zero to K Sh9,000 or US$667 (averaging US$250 in Nairobi, US$150 in Mombasa, and US$50 in the west, excluding liabilities), the average for women is only US$90 compared with US$117 for men. These operations are essentially tiny retail concerns carried on at a subsistence level and, somewhat surprisingly, it has been found (at least in Nakuru/Eldoret) that most of their operators rely entirely on them for their survival. The

larger size of the male-run enterprises may be due to the fact that they make up the greater share of the limited manufacturing businesses assisted at this level by NCCK. Interestingly, men do no better than women in the operation of their respective businesses, and the asset level of a business at the time a loan is made also does not appear to be a significant factor in its total performance.

These and other client characteristics underscore the fact that the NCCK project is not geared to the support of business entrepreneurs. Rather, it is designed to help people stabilize their economic condition at a level as close to self-reliance as possible. Not surprisingly, a survey of over a third of the program's individual clients revealed that only 14 percent started their businesses out of a desire to be self-employed. Another 12 percent chose to leave formal employment because of low, unsatisfactory wages, while most of the rest could not find formal employment or were for some other reason in a situation of extreme poverty. Over 60 percent were fully unemployed, and another 10 percent were either casual workers or, to a lesser extent, school leavers. Put another way, almost two-thirds of the SBS clients polled did not have a regular source of income before starting their businesses, and most of the remaining third had lived on inadequate incomes, often supplemented by relatives.

The following are among the other client characteristics that emerged either from client surveys or from project monitoring:

-- Kikuyus, Luhyas, and Luos have been fairly equal recipients of loans outside Nairobi (and ethnic affiliation does not appear to be a major factor in client performance).

-- Over 80 percent of clients are Christians.

-- Over 70 percent are married and another 25 percent have been married in the past.

-- About 75 percent attended primary school and 5 percent or so went 2 years further; the rest never attended school.

-- Some 60 percent live with at least seven other people in the same household.

-- About half of all businesses were established before the expansion of the SBS, and many of these had at least a 5-year track record before entering the program.

-- The other half is made up of very new businesses, some of which (13 percent in the western towns) received SBS

startup assistance, and these have not fared as well as the older concerns.

-- Those businesses that were not established through SBS financing usually drew exclusively on personal savings or friends' support for their startup capital.

9.2 Trades of Individual Clients

Program lending has been heavily focused on petty retailers, reflecting not so much a bias in that direction as the fact that over 80 percent of UCIP clients and roughly 75 percent of the SBS clients (outside Nairobi) through 1983 were poor women. Petty retailing, along with beer brewing and other micro-service activities, is one of the few trades--even in the informal sector--open to women who lack both capital and economically competitive skills. As programs which deal with the "bottom end" of the informal sector must necessarily focus in large part on women, the SBS will in all probability continue to direct a high percentage of its support into the retail trades. The major problem with this is the severe overcompetition which exists among small retailing concerns, particularly among market women. In addition to addressing this problem by trying to group people in more collective-type enterprises, NCCK advises clients to move into trade areas with better marketing possibilities.

Accordingly, there has been a slight shift in lending among retail trades, as SBS staff have adjusted to local realities over time. Food retailers of all kinds constituted almost two-thirds of early loan recipients, but by early 1983, a year later, they made up only 55 percent, a level that was maintained through that year. The greatest drop came among fruit and vegetable retailers, who attracted 36 percent of early program lending but only 20 percent of the 219 total loans actually extended through 1983. Other produce dealers, such as fish sellers, actually doubled their small share of the lending during that time span, while small restaurants, food kiosks (including tea kiosks), and stores remained constant with about a one-quarter share of program borrowing. By the end of 1983, provisional stores and grocery shops had received almost as many loans as fruit and vegetable retailers.

Other retailers who have attracted increased attention are charcoal and paraffin sellers, who jointly now receive 10 percent of all loans. The rest of the clients are made up predominantly of producers. Tailors and seamstresses, along with some second-hand clothes retailers, have consistently received about 25 percent of extended credits, while shoemakers and shoe repairers together get about 5 percent. Carpenters and crafts producers get another 3 percent, and two loans have been extended to urban

farmers engaged in agriculture, poultry keeping, and animal feed production. Finally, credits have also been extended to such diverse clients as a mattress and pillow maker, a watch repairman, a seller of household utensils, and a fabricator of steel products.

A breakdown of individual loans by trade area is presented in Table 1.

Table 1

Small Business Scheme Loans, by Trade Area Through 1983

Trade Areas Financed	Number of Loans	Percentage of Loans
Fruit and Vegetable Retailers	43	20
Fish and Other Produce Wholesalers and Retailers	20	9
Small Restaurants and Kiosks	17	8
Provision Stores and Groceries	41	19
Charcoal and Paraffin Sellers	21	9
Tailors, Seamstresses, Second-Hand Clothiers	55	25
Shoemaking and Repair	11	5
Carpentry and Crafts	5	2
Agriculture and Livestock	2	1
Miscellaneous	4	2

10. PROGRAM CLIENTS: GROUPS

10.1 Problems With Group Lending

Since its inception, UCIP has emphasized strongly the formation of work groups among clients. The SBS has followed up on UCIP's promotional work by extending managerial, marketing, and credit assistance to organized groups and by making group lending a major program objective. Unfortunately, the rather conventional orientation of the SBPs and the inexperience of the groups functioning in the six cities have limited such lending except in Kisumu and Kakamega. Only 16 group projects had been approved for financing by mid-1984, although several others were still under consideration in Mombasa; 70 group loans had been projected

for the 3-year period--26 in Nairobi, 18 in Mombasa, 13 in Nakuru/Eldoret, and 13 in Kisumu/Kakamega. Only in the last region have group lending targets been met.

Faced with the prospect of trying to reach hundreds of individual businesses with limited staff resources, most of the small-business promoters soon became advocates of increasing such lending. They recognized that the small size of the SBS staff and loan fund made the maximization of group activities the only realistic way for a program such as this to reach meaningful numbers of clients. They also found, however, that most of the existing groups in their regions were significantly below enterprise level, technically and managerially, and therefore not ready to use loans effectively. Product diversification, particularly out of handcrafts, was found to be a necessity in many instances, as was the development of group leadership and cohesiveness. The Kisumu/Kakamega SBP has taken some risks with groups in his region, but his counterpart in Nakuru has been faced with a situation in which group organization is particularly weak. The one place where extensive group strengthening had been accomplished was Mombasa, but the work of UCIP, Tototo Home Industry (another project of NCCK), and World Education (an American PVO) unfortunately was not built upon by the first Mombasa SBP after he returned from Nairobi.

Group formation and development can take a long time. Ethnic diversity has not usually been an obstacle, but a lack of a sense of permanence may deprive urban groups of a necessary cohesiveness. Many groups have also been haphazardly formed and, lacking strong leadership and managerial and administrative skills, are not cohesive enough to properly control credit and achieve enterprise success. Thus, there needs to be a general upgrading of the capacity of group borrowers. The SBPs assist the social workers, who have been involved with the organization of most of the groups, by visiting the groups and providing managerial assistance. All groups receiving loans also receive bookkeeping assistance from the promoters, and members are usually given advice on stocking and general business management. Most have kept daily records, mainly cashbooks and daily purchase and sales books, although a couple have kept books on a monthly basis.

In addition to such on-site assistance (and perhaps some staff training and staff additions to strengthen this area), client workshops are seen as key to promoting group development. The staffs in all the sites believe that seminars are required to deal with the lack of leadership, cohesiveness, management skills, and bookkeeping, as well as for the formation and promotion of groups. Tototo and World Education have organized several such workshops in Mombasa, trained group organizers, and assisted groups in designing and marketing their products. Early in 1983 they held a 2-week training seminar for the coordinators

of 22 local groups. The small-business promoter for Mombasa was invited to participate and gave lectures on business accounting and financial management, particularly the keeping of purchase and sales books and budgeting. Other subjects covered at the seminar were group management, leadership, and motivation. Similar workshops have begun to be held in the other sites, as well.

Another problem with the group lending component of the program ironically has emerged from one of its strengths. Many of the groups with which UCIP works carry out their economic activities both collectively and individually. They often divide an SBS loan into subloans to their members, who may be traders in dry fish, sour milk, charcoal, maize, or other commodities. Part of the profit generated then may be contributed to a central group fund that includes loan repayments, and may be used for group projects or as support for members in emergency situations. If such internal mechanisms worked effectively, such groups would provide a conduit for reaching and assisting individual endeavors while also enhancing group development. However, many individuals do not want to form groups, in part because they see that the loans (and the profits they generate) allocated by the groups to individual members are usually much smaller than those they could receive on their own. This may be due more to a miscalculation by NCCK of what is an adequate loan size for a group than to any intrinsic limitations of groups themselves. A typical K Sh12,000 (US$900) loan spread among some 20 members leaves these petty traders with less than US$45 each for their own businesses, or about one-third the amount extended directly by the SBS to the typical individual retail borrower. It also severely limits the amount members can contribute back to the group account reserved for central functions.

10.2 Regional Lending

Of the eight group loans actually made through 1983, seven were extended in the Kisumu/Kakamega area. Furthermore, the five newly approved group credits in 1984 were also made in that region. This places that regional team on target for original group lending projections, the only one even close to achieving success in this area. Promoter commitment to lending targets, active social worker assistance to groups, and the absence of historical and cultural constraints on group organizing and cohesiveness seem to be responsible for this. The credit recipients, including two of the recent approvals, are presented in Table 2.

By the end of 1983, despite extensive group organizing by other parties in the Mombasa region, only one loan had been made to a group there. The problem lay most probably in the lack of a

Table 2

Kismu/Kakamega Group Loans, 1981-1984

Group	Area	W	M	Economic Activities	Loan	Other Assistance	Performance	Problems
Jijenge Women's Group	Kakamega	20	5	Knitting, embroidery	1982: K Sh10,398 to purchase materials	Advice to buy in bulk, expand market, and keep books/records	Responded well to advice; keep good records. Sales and net income increased. Behind in repayment.	Misused loan to build inadequate kiosk. Competition, stock control, overinvestment in kiosk. Need to improve stock.
Imara Women's Group	Kakamega	12	0	Embroidery, handcrafts	1982: K Sh6,163 for group purchasing and other purposes	Separating income, cashbook, increasing stock, improving product, expanding market, licensing	Much improved. Sales and net income up significantly. On time with payments.	
Orongo Women's Group	Kisumu	27	2	Retailing of fish, vegetables, flour, maize, and sour milk	1981: K Sh21,550 for trading purposes	Advice to market in a permanent closer location; to avoid understocking; and to open savings account; taught cashbook	Net income almost doubled before dropping; loan repayment lagging.	Higher than expected expenditure on shop construction, tying up their capital.
Kinda Group	Kisumu	13	3	Retailing of fish, beans, flour, and vegetables	1981: K Sh11,494 to increase stock	Taught to purchase in bulk but to avoid overstocking and produce spoiling; encouraged weak members to be more active	Group economically at same level, but members' situations improved; some are behind in repayment of subloans.	Inflation and small size of subloans keep members' stocks and income down; school expenses for those with many children exacerbate situation.
Flamingo Women's Group	Kisumu	16	2	Retailing of fish, clothes, maize, flour, salt, rice	1982: K Sh10,398 to increase stock	Management assistance; attempt to strengthen leadership; encouraged to sell outside group shop	Currently out of business. Those selling in group shop did poorly. Shop lost money. Some returned to rural areas.	Leadership problems, misappropriation of funds. Elderly, illiterate kept no books; no administrative capability; possible demolition of some houses due to new housing scheme.
Miruti Women's Group	Kisumu	43	0	Fishing and growing vegetables for sale to schools and in markets	1982: K Sh15,594 to increase catch, buy net, and complete boat	Principally in accounting: separating personal and business income, keeping cashbook; finding new marketing outlets	Good leadership, record keeping, repayment. Group projects tripled. Building third boat and purchasing irrigation pump.	Low price for fish squeezes profit margin. Problems with bookkeeping corrected.
Jionse Women's Group	Kakamega	25	0	Charcoal	K Sh16,200 to open a charcoal stove in town	Advice in purchasing management, planning, and reinvestment		
Huruma Women's Group	Kisumu	46	0	Handcrafts; retailing of vegetables, maize, rice, beans, fruits, flour, and clothes	1984: K Sh21,600 to expand the range of products sold	Help in purchasing, storage, management, and increasing market outlets for handcrafts		Lack of funds to build for rental purposes on purchased plot.
Chae gi wadu Women's Group	Kisumu	12	0	Retailing of flour, maize	1984: K Sh16,200 to buy sacks of maize	Advice in purchasing, management, planning, and reinvestment		Needs funds to plant trees and build for rental purposes.
Kunya Youth Group	Kisumu	15	19	Tinsmith, carpentry, sewing, knitting, vegetable growing	1984: K Sh2[illegible],600 for tools and materials	Teachers working with youth. Assistance in bookkeeping, purchasing, management, and technical upgrading in production		Trying to acquire plot for workshop.
Jitetee Women's Group	Kisumu	30	0	Knitting, embroidery	1981: K Sh10,775 1984: K Sh27,000	Advice in purchasing, planning, and management		

continual presence by the small-business promoter and his consequent lack of attention to this aspect of the program. Progress was subsequently made to rectify this situation, and by mid-1984 three other groups had received loans. Like the Maweni Women's Group, which received the first loan in 1981, these groups are multipurpose and are using these loans and the profits generated from their use to finance a variety of activities.

The Maweni group provides a good example of how a well-prepared group can build on initial activities and move on to other income-producing and social development endeavors. The group was formed by some 21 very poor, predominantly Muslim women retailers who came together in 1977 with the help of an NCCK social worker to pool their resources. After a period of inactivity due to the lack of management and leadership, the group in a sense reconstituted itself in 1981 with managerial assistance from the SBP. Later that year, a loan of K Sh10,000 was made to the group so that the members could begin selling charcoal and firewood, both in demand in the community. From the profits from this business and some fundraising, the women have been constructing a multipurpose building to serve as a meeting place, a cooperative shop or tailoring school (to create a capacity to generate more income), a nursery, and a seminar hall for handcraft training, adult literacy classes, and lectures on family planning, child health, and related issues. The SBP continues to work with them in the areas of management and administration. Today, there are 15 members, aged 25-60, who are unskilled and illiterate, the majority being widows, divorcees, or unmarried mothers, while the married ones have husbands who are either unemployed or depend upon casual work for a living.

The other Mombasa groups now prepared to accept financing from the project are also quite diverse in their activities. The Kirudi Women's Group, for example, deals mainly in handcrafts, in addition to conducting a water project and some social development projects. The Pangani Women's Group concentrates on farming, while running the bakery that NCCK is financing. The Imade Gede Women's Group is operating a grocery store. The three groups have memberships of 40, 36, and 30, respectively.

The problem of a general lack of trust in cooperative or group mechanisms continues to plague group work in the Nakuru area, while NCCK staff has been slow to organize groups in Eldoret. Four groups have emerged in the region, but the two or three that are considered by NCCK to have attained a certain level of maturity were not yet in a position to apply for a loan. Rather, a couple of groups, including the Nakuru Handcraft Cooperative Society, have been advised to apply for a group-work grant to purchase materials and further develop the viability of their projects, with a view toward extending credits to them in the future.

Progress with group lending has also been slow in the Nairobi area. Although a dozen groups, incorporating over 300 members, have been identified as potential recipients of credit, none has been funded. The previous regional promoter felt that only four had attained a level of organization and cohesiveness that warranted taking their project applications to the National Task Force Committee. These have not received consideration from the Committee, however, because the funds remaining in NCCK's project account are insufficient.

Overall, the typical group in the Small Business Scheme has about 30 members, of which 90 percent are women. Most leadership positions are also held by women. Members average about 37 years of age, many are elderly, and most have almost no real skills. They are involved not only in group activities but also in their own individual retailing efforts, selling fish, fruits, vegetables, old clothes, charcoal, and firewood, among other things, although some are carrying on handcraft activities. Group activities may be organized in a variety of ways. A fishmongering group utilizes a division of labor, with some purchasing fish, others selling locally, and still others transporting and marketing them to other locations on a rotating basis. Elsewhere, a handful of members take weekly shifts utilizing common bakery facilities to make bread both for the group and for themselves to sell. In other groups, members take turns carrying out various group functions.

Most of the groups are struggling, although most seem to be able to help members to generate monthly incomes in the K Sh200-400 range, and about half are able to keep up fairly well with loan repayments. One group is generating about K Sh4,000 (US$300) per month, but, overall, groups have generated less income per member than have individual businesses. Profits that are derived from group activities are either distributed to members on a weekly to quarterly basis or are kept in an account at a bank or with the treasurer. Most of the groups reported facing severe competition in their locales, and only two felt that they were successful or at least competitive.

Although the SBS has been unable--due to inadequate loan size, the inexperience of most of the groups, overcompetition, or other factors--to help most groups generate sufficient additional income for their members, it does seem to have been successful in increasing group, and sometimes community, cohesion. Almost all groups have utilized community meetings to explain their intentions and recruit interested people. They then encourage individual cash contributions--which have complemented SBS loans in almost all instances--and/or contributions of time. Once underway, these income-generating efforts have members working more closely together, and the limited returns from these endeavors have been distributed very fairly. A survey of a handful of groups also revealed that with even moderate success they

reach out to help other needy people, such as relatives, and also try to increase their membership over time.

While the viability of these group enterprises still needs to be proven and increases in loan size and level of management assistance need to be made by NCCK, there is no doubt that there has to be a greater concentration on groups if the program is going to reach significant numbers of the very poor and needy. By mid-1984, the SBS was able to reach over 350 people in 16 groups with financing and many more with just management assistance. This compares with some 368 individual borrowers, despite the fact that the program has overemphasized individual lending in all but the Kisumu/Kakamega region. Both the field staff and the program leadership are aware of the need to shift lending more in line with original projections and cite the following additional reasons for doing so:

1. After an intensive preparatory period, groups become a more efficient vehicle for followup assistance in terms of people helped per SBP and social worker visit, thus easing the client load for staff.

2. Groups are much more open to essential nonfinancial assistance unrelated to credit than are individuals.

3. In many groups, individual economic activities can be reached, in addition to assisting group endeavors.

4. Groups tend to contribute more to the broader community welfare in terms of assisting the very needy, through Harambee and similar activities.

5. Loans, or the possibility of financial assistance, can increase the cohesiveness of relatively weak groups.

6. Grouping enhances the feeling of belonging and permits skills specialization and the sharing of skills, thus allowing for the inclusion of the very needy and initially less entrepreneurial (particularly women).

7. Well-organized groups exist in rural areas that can serve as the nucleus of an increasingly rural-focused program.

8. Groups can be prepared for eventual government financing in programs not available to individuals.

9. Organized groups and associations may be the only effective mechanisms to empower this population to bring about changes in the policies and regulations that adversely affect them.

11. PROGRAM MONITORING

The purpose of PISCES from the beginning has been to determine what approaches--to program structure, program management, and assistance methodologies--are most effective in reaching and assisting the very poor in the informal sector in the area of income generation. Program monitoring, conducted jointly by NCCK and the PISCES consultants, consisted of periodic reviews of program records in Nairobi; the collection, review, and subsequent statistical analysis of client and assistance data in the field; observations by the program's small-business promoters and social workers; discussions with some of the program's clients in the program sites; and a comprehensive social impact assessment of the program consisting of a client survey and interviews.

In establishing a monitoring system for NCCK and any other PISCES projects subsequently developed in Africa, the decision was made to design data-collection instruments in such a way that they could fulfill the needs of PISCES while also being used as part of the local organization's normal, day-to-day information-collection processes. With this in mind, the consultants designed prototype instruments which could later be adapted for use by the SBS Coordinator, the small-business promoters, and the social workers.

After the prototype forms were approved for use by the UCIP Administrator in September 1981, the PISCES consultants and the SBS Coordinator visited all project sites to explain how the forms could be used and to gain feedback on what changes the field staff wanted to see made on them. Back in Nairobi, with NCCK senior staff, this feedback was incorporated into the final design of the forms, which were then distributed to staff by NCCK, along with detailed directions on their use.

Because a basic purpose of the PISCES monitoring was to determine the effectiveness of particular assistance methodologies, an attempt was made to measure individual client progress in relation to specific assistance inputs and their delivery. For this purpose, each small-business promoter maintained two forms on each client. The first, the Business Input Form, was used to summarize assistance inputs (e.g., the specific type, as well as the nature and intensity, of the delivery of marketing assistance) made over a 6-month period. The second form, the Business Data Form, was used to record client enterprise progress over the same period. In this way, the SBP and the PISCES consultants had a continuing record of the inputs and methods used by NCCK and the changes in client performance, all of this being updated at 6-month intervals. In addition to the forms kept by the SBPs, the social workers utilized Social Data Forms, while Regional Six-Month Reporting Forms were used to synthesize aggregate business-related and social data on clients every 6 months.

These data were particularly helpful in the analysis of the program's individual clients, the lending program, and the program of nonfinancial assistance. After 2 years of program operation, fairly reliable data on a sufficient number of individual clients had been collected in the various sites to allow an initial analysis of program input-output relationships. The personal and business characteristics, assistance and credit received, and business performance of some 50 clients in Nakuru, Eldoret, Kisumu, Kakamega, and Mombasa were analyzed. They were selected purely on the basis of the reliability and sufficiency of their data; clients in Nairobi were not included in the study because of poor record keeping. Six months later (at the end of 1983) a more comprehensive analysis was carried out of updated records of the same 50 clients, plus an additional 35 from outside Nairobi.

Four standard types of analysis were employed. These were chi square, rank order correlation, "t" test, and analysis of variance. While a number of statistically significant relationships emerged from this analysis, there were three sets of concerns relating to the data utilized: (1) the unreliability of collected data; (2) the insufficiency of available data on project and client variables; and (3) the insufficiency (or nonexistence) of data on other, equally salient variables. More specifically, questions existed concerning the accuracy of some of the data supplied by the small-business promoters, particularly in Mombasa and certainly in Nairobi.

To the extent that the reliability of data is questionable, the reliability of conclusions drawn from the analysis of that information is also questionable. Additionally, because insufficient data were used in the analysis, some potentially significant relationships might have gone unnoticed due to too small a sample size. Finally, other important data (on the social situation of clients, for example) were simply lacking. This has obvious consequences for the depth of the analysis. The two analyses did yield consistent information, however, and hence some important, albeit tentative, findings for PISCES research and NCCK programming purposes.

To assess the social impact of the project and also to deepen the statistical research and analysis carried out by the SBPs and the PISCES consultants, NCCK's UCIP office, in conjunction with local consultants, produced a social impact assessment. The objectives of the study as set out in the terms of reference were as follows:

1. To determine the amount of additional income generated by loan recipients, the use of additional income, and whether the sex of the loan recipient had any influence on investment decisions

2. To establish whether client businesses facilitated or promoted better relationships at the family, group, and community level

3. To establish whether program costs per client were lower when working with groups, and whether group enterprises help raise individual incomes more than do individual businesses

4. To determine what significant changes had accrued to individuals, groups, and communities as a result of these businesses

5. To identify any region-specific cultural/social differences among the clients in the various sites

Four research assistants were recruited and trained in Nairobi, and open- and close-ended questionnaires were designed, pretested, and modified. The questionnaires were prepared both for client interviews and client workshops. It was decided that all 158 individual entrepreneurs who had received loans up to that point in 1983, as well as 24 members from eight groups financed by NCCK, would be interviewed rather than a random sample. Due to logistical problems, however, only 92 interviews of individuals were carried out: 30 in Nairobi, 10 in Mombasa, 24 in Nakuru, 5 in Kakamega, 13 in Kisumu, and 10 in Eldoret. Three officeholders or other representatives of five different groups were also interviewed. Either the small-business promoter or the social worker accompanied or directed the research assistants to the interviewees' premises in each site.

Workshops were then organized in all the sites with the assistance of the SBPs and the social workers to get further qualitative data and to enable individuals who had not been interviewed to express their views, as well as to get collective views on the program. Some 42 people attended the workshop in Kisumu, 27 in Nakuru, 14 in Kakamega, 13 in Nairobi, and 9 in Mombasa.

As was the case with the ongoing monitoring exercise, the information collected during this social impact assessment was not as complete as had been hoped for. The study, however, did yield new data and perspectives, confirmed other information obtained elsewhere, and enhanced learning and cohesion within the UCIP and SBS staffs. Together with the other elements of the monitoring system, it provided the consultants with sufficient material with which to confidently analyze the extent, nature, and causes of the program's impact.

12. PROGRAM IMPACT

In order to maximize learning for future SBS (and other income-generation projects) programming purposes, the joint monitoring carried out by the consultants and NCCK was designed to determine the impact of various program inputs, methods, and client characteristics on client and program performance. The broad range of clients (male and female, various ethnic groups, individuals and groups, retailers and manufacturers), inputs (credit, management assistance, social-work assistance), and contexts (six urban sites) included in this multifaceted effort facilitated the analysis. On the output side, sufficient reliable information was collected to draw some tentative conclusions and permit occasional insights about (1) enterprise performance, in terms of sales and profits; (2) changes in client incomes and job opportunities; (3) impact on the family; and (4) impact on the community.

12.1 Economic Impact

Enterprise performance has been fairly consistent throughout the project period and across the program sites. Despite some problems with record keeping during the first year of the project, it was possible to estimate that the program's first clients--particularly vegetable and dry-goods retailers--were able to increase their net incomes some 10 to 20 percent after the investment of their loan funds into the purchase of stock and the generation of increased sales. After an initial period, however, a leveling off of income was generally noted, as clients tended to utilize much of their gains for family consumption rather than for reinvestment.

This pattern continued as new clients entered the program. A look at a larger number of borrowers 14 months into the project revealed a 37-percent average increase in sales and a 30-percent increase in net income. However, once the initial loan effect on stock buildup and turnover and sales increases was lost through increasing household use of business capital, profits tended to drop sharply, although not necessarily to original levels. For instance, about one-third of the clients in Nakuru suffered such a decline, and two or three of them, also suffering from personal or family problems, had to temporarily cease operations. On the other hand, while many clients were forced to divert funds due to pressing family need or personal emergency, some borrowers were able to maintain their initial advances and even continue to grow.

Although this pattern continued with 1982 and 1983 borrowers, an analysis of those clients' records reveals more hopeful signs in terms of initial profits generated. There have been a few clients who, due to a variety of business and personal reasons, have not been able to make good use of their loans, but the rest, in almost all cases, have enjoyed an increase in business income. Some 20 clients (on whom there are complete and accurate records) who received loans in 1982 increased their net incomes over 70 percent during the first 6-month period, followed generally by a slight drop in income. Of 65 individual borrowers from 1981 to 1983 responding to the NCCK survey, close to 80 percent reported increases in their profit margins of between 10 and 50 percent, while the rest increased their incomes by 60-90 percent. It was not determined, however, whether these gains were sustained over time. The SBP for Kisumu and Kakamega reported an average 38-percent increase in net profits in 1983 for all his borrowers, among whom 60 percent increased both sales and income. The 40 percent who experienced negative or no growth typically were hit hard by increased family responsibilities, illness, and other personal problems that sometimes forced them to close down their businesses.

Clearly, a major question which arises when assisting very poor individual clients is the level to which they must grow, in terms of income generated, to sustain periodic setbacks to their businesses. With a very high marginal propensity to consume and personal and family setbacks totally out of proportion in scope to the size of their enterprises, this population group cannot become self-reliant without some help in building up sufficient business capital and establishing a monthly income stream and level of personal savings that can cover most of the expenses that arise.

It appears that some mix of subsidized inputs and certainly some flexibility in loan repayment are required, along with prolonged credit education, to get clients to an income level of about K Sh800 per month to reach economic self-reliance. A 1983 estimate showed that a K Sh300-350 monthly income left the typical borrower with little for business reinvestment after loan repayment and the paying of annual school fees. A K Sh600 a month net income and a K Sh125 a month loan payment left a client and family with K Sh475, of which K Sh200 went toward food, while transport costs, school fees, clothes, and other household requirements competed with the need for business capital for the remaining K Sh275. These other monthly expenses were estimated to be in the K Sh100-200 range, with additional emergency or extraordinary expenditures possibly averaging another K Sh100-200 per month. Accordingly, a business would have to generate about K Sh800 in monthly net income for its operator in order to cover all anticipated expenses, including the larger monthly loan obligation it would take on by accepting a larger, more appropriate loan.

Through 1983, SBS borrowers from 1981 and 1982 with beginning assets averaging K Sh1,300 and loans averaging K Sh2,000 had on average attained a monthly income of about K Sh738. These did not include Nairobi clients or those who had to shut down their businesses. In Nakuru, where clients are the poorest, increased sales pushed up incomes, which then fell and, on average, leveled off somewhat above the average program entry figure of K Sh400 per month when stock levels and sales dropped. Through 1982, clients in Kisumu with ongoing businesses were bringing in between K Sh300 and K Sh1,200 per month, but, in some cases, this was not much above what they were earning before they received NCCK assistance. Kakamega borrowers seemed to be doing somewhat better, earning K Sh500-700 per month. Two shoeshiners, in fact, tripled their profits to K Sh60 per day by moving into shoe repair, and one was able to clear K Sh90 per day whenever he made three pairs of shoes. There have been some problems in Mombasa, with at least a couple of petty grocers closing down, but most borrowers were earning enough to cover school fees and improve the family diet. Not untypical was a dressmaker whose income went up from K Sh300 to K Sh700 per month. A beggar who opened a small restaurant with his wife outside a factory saw his K Sh300 per month profit disappear when the factory workers were laid off, but then it rose again to over K Sh600 per month.

While those with larger loans do not necessarily do better, it was observed in the Kisumu/Kakamega region that the size of a loan does seem to put a cap on the amount of profits that can be generated. Loans of K Sh1,500 or less, for example, have a hard time generating more than K Sh600 per month in an otherwise low-capitalized business. Clients receiving larger loans in Mombasa and generating K Sh3,000 per month in sales were able to earn about K Sh900 per month. Overall, through the first 2½ years of the program, the more established, less seasonal businesses in trades like carpentry, tailoring, grocery and provision stores, and charcoal selling, which tended to get more of the loans in the K Sh2,500-5,000 range, were able to reach the higher profit level.

In addition to generating income among the poor, the SBS has helped to create a number of new jobs. Of the 78 loans extended to individuals and partnerships in Nakuru and Eldoret, 15 were for starting new businesses. In addition, 25 new jobs were created through the expansion of these and existing businesses, bringing total job generation in the area to 40. Likewise, 25 jobs have been created in the Kisumu/Kakamega region, six through the establishment of new enterprises; group employment creation is not included in this calculation. An analysis of the records through 1983 of 85 individual clients in those four sites, as well as Mombasa, shows that about two new people have been hired for every five established enterprises assisted; 50 percent of these jobs have been created in one-third of the businesses analyzed. In a survey incorporating all six sites, one-quarter of

the 92 individuals interviewed said they employed at least one other person full-time.

12.2 Impact on the Family

Steady work and an improved income stream have had a positive impact on the welfare of families and family relationships and have provided a psychological lift to most of the clients as well. Living standards in almost all cases have risen, and families are being pulled closer together. With income up, more money is available for household consumption, and social workers have noted marked improvements in health and nutritional levels. There has been an overall reduction in the frequency of illness caused largely by improper eating. Regular meals are now eaten by the entire family, and it is not unusual to have meat once or twice a week. Clients are also becoming more financially self-reliant--a major objective of the program--as demonstrated by the ability of most to pay school fees and buy school uniforms for their children. A few of the more successful clients are able to buy additional clothes for the family, add on to their homes (for family or rental purposes), and even put some capital into the cultivation of a small plot.

Although most clients interviewed would or could not itemize to any significant degree the uses of the income derived from their businesses, they did indicate that priority areas were food, education, health, and clothing. Transport and shelter were also mentioned, as was the need to help close relatives, but little information was forthcoming on the extent of personal savings. The one area in which a fairly strong estimate could be made from client responses was food consumption. It was estimated that the average SBS client was spending K Sh300 per month on food, indicating that more food was being consumed than before. Somewhat surprisingly, females and males have made similar investment decisions in placing immediate and extended family needs first. When it comes to longer term goals, however, men tend to emphasize business and personal advancement, while women continue to emphasize family improvements, characterized by saving for the education of their children.

There are other than economic reasons for improvements in the health and welfare of clients and their families. When the Small Business Scheme was expanded, a major objective of NCCK was to increase the sense of individual self-worth among those with whom it worked. The staff knew that grants, handouts, and free services help sustain people and their families, but that these people had to become increasingly self-reliant to gain additional self-respect. Through SBS assistance, including regular visits by the small-business promoters and the social workers, these clients feel less destitute and more like part of their com-

munities, providing those communities with needed goods and services. Consequently, the social workers have found that their SBS clients take their advice more seriously on such matters as health, nutrition, cleanliness, personal appearance, child care, and family planning--concerns identifiable to clients as directly related to business success or failure. As pointed out earlier, SBS field staff consistently point to illness, pregnancy, depression, and marital problems as chief causes of enterprise failure.

Family relationships have also improved along with enterprise advancement. Whereas there was some original concern that husbands would resent their wives' economic success, quite the opposite has turned out to be the case. Where men formerly did not spend much time with their families, the new active economic role of their respective wives is providing them with an incentive to stay around the home. The need to run the kiosks while their wives are cooking dinner, regular meals on the table every night, and increased respect for their wives keep husbands at home more in the evenings and decreases their expenditures on alcohol. All the social workers have noted that this has markedly improved marital relationships in their sites. Most clients discuss business matters with their families, and the majority of those surveyed reported that their immediate families, as well as their more distant relatives, were happy with the progress of their businesses. This may be due to the fact that 60 percent of these clients live with at least eight other people in their homes, and the same percentage assist their relatives by sending cash, paying for education, paying rent, or some other means. Finally, children have become involved in many of the businesses, making bookkeeping entries and helping to run kiosks when they come home from school, so the program is additionally serving to expose young Kenyans to a business environment.

12.3 Impact on the Community

The program's impact on communities is more difficult to determine. In some sites, clients are rather scattered, so there can be no concentrated economic effect on well-defined communities. Some clients have joined community organizations, and groups, particularly, have tried to help some of the more unfortunate in their areas; four of the five groups surveyed reported that members had initiated activities to help beggars. Groups can form the core of a community itself, and a number of them in this program have initiated health, nutrition, and adult education services in their locales. In some instances, another major benefit of the program has been increased community access to goods and services. Better stocked vegetable retailers, small stores, charcoal sellers, and other businesses can save neighbors

long trips and transport costs to the center of town or other markets.

A problem that the program must avoid, and which probably will be discussed internally at NCCK, is the financing of businesses to the point that clients move to other sites, leaving their communities without the goods and services on which they have come to rely. It must also avoid displacing other poor business operators by concentrating on the success of a few more established competitors. Although this problem has not yet arisen, NCCK is sensitive to the real possibility of displacement. It raises the question of how long it should stay involved in helping a particular business grow through repeated lending. So far, only a couple of second loans have been made to clients, although an additional 40 requests are pending. Ideally, banking institutions will pick up the financing of proven low-risk borrowers but, although about 30 percent of SBS client borrowers keep their savings in a bank, it is clear that both the program and its clients will have to grow significantly before these institutions will become active in their communities.

12.4 Key Factors in Enterprise and Program Performance

In order to determine what factors have been responsible for the performance of these individual businesses, information collected through the program's monitoring system was analyzed. Of the 85 clients included in the study, 62 were women, about half had established their businesses before 1980, and about equal numbers had received SBS loans in 1981 and 1982. The breakdown by town and by trade is fairly reflective of that of the program clientele as a whole, except that no Nairobi clients were included (due to inaccurate record keeping) and close to 50 percent traded in fruits and vegetables.

Client and enterprise characteristics, however, were not found to be major factors in business performance. Ethnic affiliation, for example, does not appear at this time to be a determinant of relative success or failure. While a statistically significant relationship was in fact established between both male clients and those with more established businesses (prior to 1980) and amount of enterprise income generated, it is also true that such clientele on average started off with more than their female and less established counterparts upon entering the program. Furthermore, positive significant relationships were also established between these clients and larger loan size, and, while loan size was not shown to be definitively linked with success, it has been observed that it tends to put a cap on enterprise growth, at least in the short term. Men tend to be in more highly capitalized trades, such as tailoring and carpentry, which, at least in the case of tailoring, not only had greater

assets than other businesses, but also had been granted larger loans than other borrowers.

Further evidence that women fare no worse than men, given their level of capital and borrowing, is that they (along with older businesses, it should be noted) repay their loans at a better rate than do their male counterparts. This relationship, like those above, was established as statistically significant. Not surprisingly, those who did generate higher incomes, as well as male clients (who tended to have larger assets, receive larger loans, and earn more through their businesses), hired more people than their counterparts, according to the data analysis.

As for enterprise types, none was found to be positively or negatively associated with success in terms of income. Charcoal sellers were found to repay at a faster rate than others and have been observed as doing particularly well in the Nakuru/Eldoret region, but government restrictions have hurt their trade in Mombasa. Conversely, fruit and vegetable retailing was identified by the Mombasa SBP in 1983 as the strongest trade in the area, while the Nakuru promoter sharply cut back on his lending to such retailers because of their relatively poor performance due largely to overcompetition. Other trades might have a greater likelihood of yielding greater and more steady returns, but they can also require a higher level of capital than that available to the very poor. Provision stores provide an example of such a business, as they need a significant level of capitalization to compensate for low profit margins. In short, no trade appears to guarantee success any more than any other.

The factors that do appear to have a significant impact on business performance are certain types of nonfinancial assistance provided by SBS staff. Procurement and stock-control assistance, for example, is positively associated with enterprise performance. As the percentage of time devoted to stock control and procurement increases when working with a particular client, so does client income. A relationship also exists between the keeping of a cashbook and performance, with business discipline in this area positively associated with higher income generation. It was found that over 60 percent of the borrowers outside Nairobi kept books for at least a few months and they were among the groups with the best repayment record. It is interesting that those who do not keep cashbooks receive more credit education, an area negatively associated with business performance; apparently, such assistance serves as a proxy for client illiteracy, low skill level, or some other unanalyzed factor. Of equal note is the fact that marketing assistance was not found to be a key factor in enterprise success, although it is possible that certain elements of such assistance were classified under stock management and display.

In summary, program impact has been positive in regard to reaching the very poor and supporting their activities aimed at

increased economic self-reliance, moderate but at times rather limited in helping clients to raise their incomes and create new employment opportunities, and quite positive in improving the quality of family life of individual borrowers. (More could be accomplished--and determined--in all these areas if group lending were expanded to close to original projections.) The program's integrated and decentralized structure and its staffing patterns must be credited in good part with its success in consistently reaching the poor, as conventional small-business lending programs start with a more established clientele and, if anything, tend to move slowly up the income scale. Enterprise success by individual clients apparently can be attributed to a lending program with flexible terms and conditions (with the need to moderately increase loan size), combined with early assistance in bookkeeping, procurement and stock control to improve enterprise discipline, and management in general. Social worker attention not only contributes to enterprise advancement by lessening personal and family problems that undermine a business, but it also contributes, along with increased family income, to the numerous cases of healthier, happier, more cohesive families.

13. SUMMARY AND CONCLUSIONS

NCCK's Small Business Scheme represents an attempt by a social development agency to respond to the needs and demands of the urban poor for assistance in increasing their incomes and economic self-reliance. Over the past 3 years, NCCK has sought to achieve this through an expanded and flexible program of financial and management assistance integrated into an existing outreach system of social workers working with the urban poor in six program sites. The record to date is mixed. The program can claim major successes, but it has also suffered some very troublesome and, at times, debilitating problems. Conversely, while the SBS has fallen far short in achieving some of its goals, it has managed to establish a basic viability and a structure upon which to build and improve in the future. It has learned, as have the consultants, from the program's mistakes and its achievements, and present and future adjustments will reflect a superior program design.

Above all, and despite all its problems, NCCK has demonstrated that a small-business program, properly designed, can serve the truly poor and that the very poor self-employed can utilize credit and other assistance effectively to improve their standard of living. The SBS is distinct from conventional programs in a variety of ways. It does not seek out local entrepreneurs to support, nor does it attempt to turn its individual and group clients into prosperous, expanding businesses. Its goal is less ambitious but more difficult: it seeks to help poor, usually illiterate, sometimes disabled, principally female, and

at times totally inexperienced business operators to increase and then stabilize their incomes and improve the quality of their family life. This it has in good part achieved.

The program structure and the work of the social workers have been key to the success achieved. Although the small-business promoters feel they could use more time to review program applicants and that some bad credit risks have been financed, the process of having the social workers interview all would-be borrowers has ensured that almost all clients (outside Nairobi, at least) are very poor and that most are of good character. In addition to sensitizing their SBP counterparts to the importance of working with the truly poor (within groups, where feasible), these community workers have also made the promoters aware of the importance of attending to the underlying social problems that undermine many businesses; the SBPs now want full-time social workers to work with them, as well as four-wheel vehicles to get them to clients as a team. The personal attention paid to clients has raised their self-esteem and, in many instances, helped them overcome depression and disarray brought on by overwhelming personal and family setbacks. Incomes have gone up and, in most cases, stabilized at a level which permits regular meals, the paying of school fees, and other improvements in standard of living. Families are happier and more cohesive, and clients are utilizing other UCIP services. Finally and perhaps most important, the future of their children has been made at least marginally brighter through better nutrition, longer education, and exposure to their parents' businesses.

Within this basically sound program design and structure there have been failures, but these have been countered by relative successes elsewhere which point to the need to modify, not redesign, the whole system. Management assistance and client followup have been close to nonexistent in Nairobi, but they have been excellent in Nakuru. Loan repayment has been very weak in Nairobi and Mombasa, but quite good, considering the clientele and their problems, in the four western towns. The level of group lending has been disappointing in Mombasa, where extensive preparatory work had already been done, but consistent with program projections in the Kisumu/Kakamega region. These disparities have led to changes in two of the SBP positions and calls for more promoter training and greater logistical and staff support in the sites to facilitate client supervision, regular loan collection, and expanded group work. They also have necessitated a tightening up of credit monitoring and administration in NCCK headquarters, a step more likely to be taken now that a new coordinator appears to be firmly in place.

The one problem area that could be intrinsic to a decentralized, social development program such as this is credit and financial administration. One would like to think that with a permanent coordinator now on the job, the component parts of the

program could be pulled together. So far, failures in too many areas call into question the ability of headquarters to do just that. Three coordinators to date have been unable to monitor loan extension and repayments in any consistent fashion, to get the National Task Force Committee to meet regularly, to coordinate records with the Accounts Department, or to enforce a regular system of loan collection for all the sites. Nor, for that matter, have they been able to always get expense disbursements out to the field on time, to effectively collect and analyze field data for purposes of program learning, or to coordinate the sharing and improvement of assistance approaches among regions. The effect has been a deteriorating record of arrearage in two regions, underlending in most of the sites, a long list of clients awaiting loan approval or disbursement, and an often demoralized staff. Staff morale is now improved with the piecing together of a new SBS team and with salaries raised to more realistic levels, but improvements in other areas have yet to materialize.

13.1 Program Learning

In the meantime, changes are being made in the assistance provided to clients based on program experience to date. Some of the key things NCCK has learned include the following:

1. Clients of very low income, having a very high marginal propensity to consume (particularly to increase family nutrition and pay school fees), usually begin tapping business capital for other purposes soon after profits go up, thus diminishing their business returns over time.

2. These clients also tend to suffer personal and family crises out of normal proportion to business income.

3. Such clients have to be helped to raise their monthly incomes and personal savings to a level at which they can regularly cover their normal and extraordinary expenditures and maintain a reasonable standard of living.

4. To do so, average loan size must be raised by more than 50 percent into the US$215-430 range for individuals and closer to US$2,000 (K Sh30,000) or so for groups.

5. Interest rates can be raised at least into the 8-10 percent range for most borrowers, but this must be accompanied at times by longer payback periods and flexibility in rescheduling the obligations of clients of good intent suffering from personal, family, or business crises.

6. A permanent place and time have to be provided to clients for making their loan repayments or they will invariably utilize the money for other, nonbusiness purposes.

7. Repayment problems can also be reduced through a combination of increased client income, social-worker assistance in overcoming family problems and budgeting for upcoming expenditures, more SBP time spent on preloan client selection and assistance, and approved credit education and supervision.

8. In addition to advice on the use of credit, assistance should also be provided on keeping simple books and in the areas of procurement and stock control to improve the business performance of petty retailers and small producers.

9. The keeping of cashbooks, or simpler exercise books, even for a few months, appears to improve business discipline and a sense of profit and loss, as well as the ability of the small-business promoter to better understand and assist the enterprise.

10. Teaching the proper volume, variety, and display of stock appears to be essential when dealing with very poor retailers.

11. Assistance may often be best delivered to individuals through their groups or through a series of seminars, as such mechanisms facilitate client sharing of knowledge.

12. Groups, however, need extensive preparation before they are ready to deal with credit, thus requiring extensive organizational and management assistance from the social workers and SBPs.

13. Although no trade areas have stood out as better than any others, most groups have to diversify their activities, particularly away from crafts production, and many individuals, facing overcompetition, such as fruit and vegetable retailers, need to be directed into new trades.

14. Above all, underlying personal and family problems must be attended to, particularly with female clients carrying heavy family responsibilities, or business performance could well be undermined.

13.2 Improved Approaches

Based on what has been learned to date from this attempt to assist the very poor to generate greater incomes within the context of a decentralized, community-based program, the SBS staff and the PISCES consultants recommend that different approaches be taken in a half dozen areas than those which have been utilized within the SBS over the past 3 years. The areas include the staffing process, the client assistance process, work with enterprise groups, the system of client followup, the credit administration system, and overall program management.

Staff has to be carefully selected, not only on the basis of technical qualifications and knowledge, but also on a judgment of the potential to understand the importance of nonbusiness factors and to form a commitment to the social development process. The SBS has shown that such an evolution can take place, given appropriate training and staff integration. It has also shown, in the Nairobi region, however, what a disaster poor staff selection can be. Just as important as choosing good staff is keeping and developing them, and NCCK's program is also no exception in this regard. While a strong social development organization can usually attract good, committed personnel on the basis of the institution's purpose rather than high pay, overall compensation must be kept competitive, with frequent adjustments for inflation. A program cannot afford a lack of continuity in key positions, as evidenced by the impact on the SBS of the departure of two coordinators for better paying jobs. In addition to fair salaries, staff can be motivated by intermittent retraining and exchange visits with counterparts in other regions.

As far as client assistance is concerned, it is clear that an integration of assistance directed at the business and at the family is essential when dealing with clients of extremely low income. This means regular, joint visits to clients by technical and social-work personnel. Seminars and workshops are an effective way to continue to reach an increasing client load, particularly after clients are helped individually and intensively for 6 months. These seminars allow for increased sharing among clients and for their feedback to and participation in the program, as well as an opportunity to reach scattered program beneficiaries with family health, nutrition, and other important information. Extension staff need to be flexible and responsive to diverse client needs and trained in key assistance areas as their importance to the program emerges; the carrying out of simple marketing research to be able to recommend new trades and proper product diversification to clients is one such area recently identified by SBS promoters. Finally, financial assistance has to be at a high enough level to provide clients with the capitalization necessary to achieve a significant measure of self-reliance; interest rates and amortization periods need to be

adjusted accordingly. On the other hand, small initial loans, like those in the SBS, do allow business promoters to learn quite a bit about the performance and problems of their clientele.

Group enterprises need to be encouraged in order to reach large numbers of people, to minimize program costs, and to allow the truly poor to assist each other in running their businesses and generating critical income. A high level of investment needs to be made, however, in order to make such attempts worthwnile. Pre-enterprise and pre-loan group development is a long-term process, and so is the extension of organizational and management assistance necessary to bring a group to the point of enterprise maturity. Similarly, the financial investment must be sufficient to generate enough income for all of the group's members, in both their group and individual activities.

In addition to reaching and assisting individual and group clients, a cohesive system of client followup needs to be established. This cannot be done without the proper resources. These include proper transport for team supervision visits, full-time program social workers to attend only to business clients, collection clerks to relieve business promoters of the responsibilities for repayment collection and the pursuit of non-payers, and typists to free field staff of office responsibilities. Having more complete teams with the proper logistical support in each program site allows for better screening and preparation of prospective borrowers, greater program outreach (including to groups), and more intensive client assistance and supervision. If the business promoter's responsibilities are limited to one town and if a specific place and date are set for monthly client repayments, many potential arrearage and default problems can be avoided. In addition, guarantors should be interviewed by program staff and a systematic method for dealing with defaulters, including legal action, must be established.

Essential to program success is a program's credit administration system. This organizational component did not receive sufficient attention from NCCK in program design or from the consultants in preproject analysis. The problems that have developed point to three essential elements in programs of this type: a tight, centralized system which monitors loan extension, aging, repayments, and arrearage; effective coordination among the responsible departments and committees in headquarters that facilitates rather than hinders the approval and disbursement of loans; and a decentralization of credit approval and, perhaps, disbursement to the field to increase efficiency and local knowledge of clients.

Loan committees at all levels must meet on a frequent and regular basis to prevent a credit backlog. If a national committee is deemed necessary for control purposes, local committees should retain authority over most loan approval, or local repre-

sentatives should be present at regular national-level meetings to answer relevant questions, advocate needed policy changes, and ensure prompt action. If centralized disbursement of funds is considered necessary for similar reasons, local bank or other deposit accounts should be used to regularly transfer funds to headquarters, along with attendant records on client loan repayments. This information and that residing in the program and accounts departments on loan extensions should then be used regularly to establish new levels of capital availability to facilitate accurate loan scheduling and targeting. Immediate feedback to the field of this information in the form of new regional lending ceilings would in turn eliminate artificial constraints placed on local lending. In short, while there is a risk to decentralization in terms of a loss of control, administrative centralization can prove to be a disaster without the necessary efficiency and coordination.

The same can be said for program management in general. The program coordinator needs to pull together the program's component parts--visiting the field regularly, supervising staff performance, collecting program data, synthesizing that information, instituting necessary training programs and changes in assistance methodologies, working out modifications in the lending programs with the appropriate committees, arranging seminars and workshops, and keeping the purely business and the community and social development aspects of the program integrated. Two-way communication has to be kept open between the field and headquarters to keep staff morale high and maintain a flow of new ideas into the program.

13.3 The Future

Staff morale in NCCK's Small Business Scheme is higher now than it has been at any time since the program's expansion 3 years ago. This is the result of the strengthening of the SBS team over the past year. The coordinator's position has now been permanently filled and is in capable hands. Every program goes through its growing pains, and staff problems during this experimental stage are not unusual. The fact that a strong replacement has been found for the SBP post in Mombasa and that a change has now finally been made in that position in Nairobi places the SBS on a sound footing for the future. Full-time SBS social workers, additional field support staff, and, most important, a revamped credit administration system would complete a program revitalization that would propel the SBS toward achieving its original mandate.

Due to the many problems which persisted through 1983, particularly in Mombasa and Nairobi, program spending was some 6 months behind schedule. Some savings were made in salary and

related expenditures, while program lending continued behind original projections. For these and other reasons, the NCCK-USAID grant agreement was extended through June 1984 without further commitment of funds. As it now completes the experimental stage of the program, NCCK has demonstrated that it has put the structures in place to reach very poor people with credit and other assistance in a constructive way but, due to management problems, is not in a position to undertake a rapid expansion of its program. An annual increase of 10 percent or so in real terms would be more in line with its capabilities. Only a rapid increase in the rate of group lending and the addition of full-time social workers to help effect this would support a larger expansion at this point. By lending to a dozen group enterprises and some 30 individuals, however, each regional SBS team could assist 250-300 people in a year at only marginally greater expense than it would take to provide assistance to the probable maximum capacity of 100 individual clients per regional site.

A greater concentration on groups would also add another dimension to the program by taking staff beyond the urban and peri-urban areas and into rural communities. There has already been a natural move toward assisting poor clients in the areas surrounding the six program cities. Many of NCCK's social-work clients live in peri-urban areas, and word of the assistance they have received has spread locally. Some staff have begun responding to requests coming from further out, reasoning that increased income-earning possibilities in the cities have to be balanced with assistance to the rural areas to curb migration and maintain stability in rural life. The desire to work more with groups should accelerate this process. Whereas groups tend to be difficult to help organize and keep together in urban areas, rurally they are usually cohesive and require limited up-front preparation for loans. Such groups, however, will need ongoing attention and assistance attendant to loan use, and the regional staffs will need access to better transportation.

In conclusion, the Small Business Scheme, for all its problems, has already made an important contribution. It has demonstrated that programs operating at this level can be oriented to help truly poor people put more food on the table, become less reliant on handouts, work in close collaboration with others, including family members, and build up their own and their children's capacity to run a business and carry out other activities. This is no small accomplishment given the fact that the program has received little external technical assistance and is serving clients with little to no business or credit experience.

CHAPTER FOUR

THE INCOME- AND EMPLOYMENT-GENERATION PROGRAM OF THE COPTIC EVANGELICAL ORGANIZATION FOR SOCIAL SERVICES (CEOSS) MINIA, EGYPT

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1. EGYPT: THE CONTEXT

In a country as densely populated as Egypt, the village, with as many as 20,000 or 30,000 people, is often as large as the towns or even the secondary cities of many other countries. And, like the cities of the developing world, these villages have undergone a series of major changes over the past 30 years. Some of the most important ones are increasing outmigration, attendant labor shortages, increasing monetization and diversification of local village economies, growing diversification of employment, changes in the makeup of the extended family, an increasing role of women as economic providers, and the development of local government institutions.

Outmigration represents perhaps the greatest single factor in recent dislocations in the social and economic fabric of rural Egypt. Besides creating some shortages in the agricultural sector and contributing to the trend toward increasing farm mechanization, this phenomenon has created new wage and class structures in rural areas. People who have for generations been landless or nearly landless and living a subsistence existence are suddenly bringing home money from abroad that allows their families to purchase enough land to build a house and to buy consumer goods. One effect has been to drive up land prices considerably and to put pressure on daily wage rates in the village.

Furthermore, the topsy-turvy way in which this influx of money has reformulated social ties has created a dynamic between the traditionally well-to-do classes and these "nouveau riche" that will take time to resolve. Many villages have new sections where rows of houses are being built by this latter group. Meanwhile, the middle-level bureaucrats--the very level to which this newly monied class formerly aspired--have been left behind, having salaries of perhaps 40 Egyptian pounds (£E) per month, making it impossible for them to compete economically with the newly rich. They are now considered the "new poor."

Other changes have also caused some to look for new or additional income-earning opportunities. Over the past decade, for instance, transformations in the Egyptian economy and in

transportation facilities have encouraged farmers to move away from traditional crops and into those bringing higher cash returns. As the rural economy becomes more highly monetized, farmers are increasingly in need of more cash and no longer rely on such basic subsistence crops as wheat, corn, sugar cane, and fava beans to satisfy the majority of their needs. Accordingly, cash crops, such as grapes, soybeans, and vegetables, which serve urban markets, are becoming increasingly important. This movement into a monetized economy creates a situation in which members of the extended family are working in an increasingly wide variety of occupations.

With increasing inflation and an increasing desire for household goods, women in particular are under pressure to earn more money. They have always had a significant role in earning money for household expenditures in Egypt, primarily through the sale of dairy and poultry products. However, one of the negative by-products of the recent development of rural areas has been the alienation of women from these traditional sources of income as these activities become absorbed into the large, formal development projects controlled by men. Women frequently remain involved in the work associated with these larger projects--while they are also expected to continue to provide money for household necessities--but now all their income sources are being directly controlled by their husbands.

While these women and local government workers are looking for ways to supplement family income, the poorest of Egypt's rural poor--the disabled and elderly single individuals--and young new entrants into the workforce unable to find employment in agriculture also are seeking ways to support themselves. Some have moved into small, self-employed activities ranging from cottage or household industries to handcraft production and petty retailing. Such activities make up the lower rungs of an informal sector that has been traditionally large in Egypt but not well-defined or understood.

At the same time, there is a growing need for more skilled workers in rural areas. Plumbing and electrical skills, for example, are far more needed in the villages than they were previously. Local government-sponsored training programs have facilitated the transition into these employment areas. Also, over the past 8 years, local village councils have been reorganized to provide both greater autonomy and greater amounts of money for local development. Today, both appointed and elected village councils, each representing a cluster of two to seven villages, sponsor a variety of projects that focus on such activities as cattle fattening, beekeeping, poultry raising, carpentry, and sewing. The need, however, is greater than the government units are able to meet.

2. ORGANIZATIONAL BACKGROUND

The Coptic Evangelical Organization for Social Services (CEOSS) is a well-known and highly regarded Egyptian private development organization. It was founded in 1953 by the Synod of the Nile, a Presbyterian Egyptian congregation not linked to the Orthodox Coptic Church. One hundred of the Organization's staff of 250 work in its Community Development Program, 60 of these as professionals and 40 as support staff. The majority of staff work in Minia Governorate, where over 80 villages have received CEOSS assistance. Minia's population contains the majority of Egypt's Evangelical Copts, but CEOSS serves both Christians and Muslims.

2.1 Operational Methodology

During almost 30 years of development work, CEOSS has evolved an assistance methodology based upon comprehensive community development and self-reliance. Upon the invitation of community leaders, the organization begins a process of needs assessment within the community (through limited surveys and community meetings) and then acts as a catalyst, helping local residents to initiate social and economic improvement projects in response to expressed needs. In support of community undertakings, CEOSS delivers social services (in such areas as preventive health, family planning, literacy, leadership training, and skills training); managerial and technical assistance (in areas such as agriculture, animal husbandry, and enterprise development); and limited financial assistance.

Financial assistance is channeled to social projects, such as health clinics and nursery schools, as well as to economic projects, such as consumer and agricultural cooperatives and community enterprises. In the latter case, the financial assistance may be in the form of grants or loans, depending on the specific purpose of the activity.

The basic approach of CEOSS is to deliver comprehensive assistance in a limited number of communities, helping them to initiate and maintain their own programs and projects and then to move to other sites while providing more limited followup support to those villages which have already received direct services. CEOSS intensively assists about seven villages at any one time, while continuing to deliver more generalized services in roughly 45 additional village-level sites.

2.2 Program Structure

To accommodate this diverse service delivery, CEOSS has adopted a decentralized program structure. The basis of this structure consists of community workers, who are generalists trained by the organization and assigned to live in a village for up to 5 years. Housing for CEOSS personnel is provided by the communities. These staff are responsible for outreach, needs assessment, program planning, and basic service delivery. They are backed up by more technically specialized, centrally based personnel who deliver technical assistance at the local level through the outreach and promotional structure established by the community-based staff. Currently, the ratio of community-based staff to administrative and technical personnel is roughly three to one--that is, about 60 field staff and 20 or so technical and supervisory staff.

Most professional personnel have at least a bachelor's level education. The majority of supervisory staff (i.e., heads of central programs) have a master's level education in either community development or technical fields such as engineering or architecture; many of these degrees were earned in Canada or the United States. All supervisory staff started out as CEOSS community workers. In fact, the General Secretary of the program, Rev. Samuel Habib, was the first CEOSS community-extension worker. This pattern of staffing from the bottom up is viewed by the organization as essential to the maintenance of the community-based emphasis of the entire program. Although staff salaries reflect those of the public sector (averaging £E100 a month for community staff, but with additional pension, housing, and medical benefits) and are therefore quite low by commercial, private-sector standards, CEOSS has had little difficulty recruiting professional personnel. This is primarily due to the high degree of operational latitude afforded the young professional staff by the democratic working environment.

Although decentralized, the work of the organization is highly integrated. All CEOSS staff meet in El Minia every Monday to assess current work and to coordinate assistance inputs in the various communities. Additionally, a comprehensive evaluation session involving both staff and outside experts and lasting up to 1 week is held each June. As a result of these ongoing sessions, current assistance efforts--including both local organizing and central service delivery--are modified and new programs and projects initiated. In this way, the entire program evolves in response to continuing feedback on local community needs (both social and economic) and to ongoing technical analysis and evaluation.

The community development structure of CEOSS has recently been changed to one that allows its work to be community-based

and thus responsive rather than program-based and more directive. This structure, operated in Minia by Nabil Samuel, is made up of four departments, two of which are run by Samuel himself--the Local Development Department and the Service Department. The former, in particular, relates to a separate structure of village programs that involves field staff at varying degrees of intensity.

In addition to the offices in Minia and a small administrative and planning unit in Cairo, the organization runs a training facility and agricultural development center at Itsa, 20 kilometers from El Minia. The Itsa center is an old estate which has a large villa that can accommodate up to 35 persons for short-term training programs, and 10 acres of land which are used for agricultural experimentation and the breeding of chickens and honey bees which are distributed to local villages as part of local programs. There are three or four agricultural staff at the center, including an extension agent who travels to surrounding villages for different agricultural programs. Other staff at Itsa are involved in the various training programs discussed later.

2.3 CEOSS Village Operations

Key to CEOSS's operations is its method of differentiating the nature of its activities within the various villages in which it works. One of its ultimate aims is to assist in the formation of village committees which can eventually take over many of the program's administrative functions. This represents a new approach in Egypt, particularly with committees including nongovernment, public-sector, lay, and religious representatives. To help develop self-reliant villages, CEOSS staff work first in two other categories of villages.

Partnership villages are those in which CEOSS has full-time staff living and working. At any one time, there are usually seven such villages. To become a partnership village, village leaders must request assistance from CEOSS. Following a period of appraisal by CEOSS staff, the village may be incorporated into the program. The residential CEOSS staff in each village is composed of from four to six young men and women, aged 18-25. Their salaries are slightly above that of a government employee, and they generally have a university degree. They are, on the whole, not specialized in development work. CEOSS provides them with a month of training at the Itsa training center before they are assigned to villages, where they are provided housing by their hosts. These village workers are highly motivated and dedicated, but more appropriate and extensive initial and ongoing training may be called for. Also occasionally present in the partnership villages are the CEOSS village coordinators, who are the heads of

unit programs. They oversee the combination of unit programs set up in each village for which they are responsible and also work with the residential staff in carrying out the different projects.

As a central goal of CEOSS is to create a cadre of local leaders who can take over the village development program when CEOSS ceases its work in a village, a Leadership Development Unit has been organized at the Itsa Training Center to help train 20-40 local leaders in each of the CEOSS partnership villages. There are programs for village mayors and elders, women, and youth leaders, among others. Subjects include literacy, family planning, small activities, and general development. The largest number of local leaders are enrolled in the literacy program.

Followup villages are those in which CEOSS has already worked on a partnership basis and now receive followup technical assistance. Instead of spreading itself thin as it used to in attending to some 86 villages, CEOSS now follows up intensely with a maximum of 15 villages; it is presently involved with 10. Followup coordinators are each responsible for several followup villages, their linkage at the village level being with local leaders. Specialists from outside CEOSS, known as occasional participants, visit villages to advise and make presentations in such areas as midwifery and animal care.

Self-reliant villages, of which there are 20, are those with no CEOSS staff. Community leaders and groups within the communities occasionally call upon CEOSS for advice, training, and materials related to particular projects. While village committees are supposed to emerge partly through the training at the Leadership Development Unit, religious leaders familiar with CEOSS activities seem often to take the lead at the present time.

2.4 Integrating Support for Local Economic Activities

New programs and services have been introduced by CEOSS through the structure and according to the methodology outlined above. They are based on an analysis of community needs and requests for assistance and reflect an understanding by the organization of the process of change taking place in Egyptian villages. For instance, CEOSS responded to the transition to cash-crop production by giving courses in basic agricultural production. It has also been active in stimulating the development of such animal projects as cattle fattening and poultry raising, as well as beekeeping, since this is another general area to which farmers have been attracted to meet cash demands. More recently, the need of women, youth, and the truly poor and destitute for off-farm, income-generating opportunities and of villages for improved infrastructure and technical skills has moved CEOSS to help fill these gaps as well.

3. DEVELOPMENT OF THE CEOSS INCOME- AND EMPLOYMENT-GENERATION PROGRAM

CEOSS's off-farm income-generation program is divided into four distinct projects. The oldest and largest is the Loans for Development Project, designed to assist very poor people initiate or improve their individual trades. Two relatively new endeavors are the Community-Owned Projects and the fledgling Group Enterprises Project. The fourth is a newly expanded training program, covering a handful of trades, for both young men and women. The intended cumulative impact is to increase income and job opportunities among poor people and groups, while meeting community needs.

The program will be carried out by CEOSS in a total of 26 villages in nine districts--six districts in Minia Governorate and three in Assiut Governorate. The list of intended sites presented in Table 1 may be expanded by one or two per year during the life of the program.

Until May 1983, the three operating components of this program were financed by CEOSS and European sources. Now, after significant bureaucratic delay in gaining final grant approval, USAID will be covering close to 70 percent of the program's 3-year budget of £E373,660 (approximately US$535,000). Half of AID's financing is directed to CEOSS's loan office to make credit available to participants in the enterprise components of the program; graduates from the training programs can also draw on this fund to help finance new endeavors they are undertaking.

4. THE LOANS FOR DEVELOPMENT PROJECT

The purpose of this project is to assist the very poorest of the self-employed or potentially self-employed in local Minia and Assiut communities. The project reaches extremely poor vendors and others engaged in petty trades and services, as well as the totally unemployed whose incomes are below £E20 per month and may be as low as the £E5 provided through Government social pensions. Originally, most of the beneficiaries were very poor women, many of whom were widows or divorcees without families to support them. Recently, however, there has been a greater number of men among the borrowers. These include youths recently graduated from a CEOSS training program, and former government workers (or their families). Earning incomes of £E25-35 per month at a time when returning migrants have saved large sums of money, this latter group, composed largely of men, has now entered the lower economic classes of their respective communities. CEOSS continues, however, to focus considerable attention on poor women.

Table 1

Intended Sites for the CEOSS Income- and Employment-Generation Program

Village	District	Governorate
El Aghana	Abu Tieg	Minia
Deir El Basha	Malawi	Minia
Deir Abou Hanss	Malawi	Minia
Ebshadaat	Malawi	Minia
El Roda	Malawi	Minia
Manshaat Kamel	Malawi	Minia
Nazlet Rouman	Malawi	Minia
Herz	Malawi	Minia
El Bayadeyah	Malawi	Minia
Manhri	Abou Korkass	Minia
El Sanarya	Bani Mazar	Minia
Halwa	Bani Mazar	Minia
El Nasserya	Bani Mazar	Minia
Abou Gelbane	Bani Mazar	Minia
Bani Ghani	Samalout	Minia
Dakouf	Samalout	Minia
Sharouna	Magagah	Minia
Gezirat El Sharouna	Magagah	Minia
El Kom El Akhdar	Magagah	Minia
Deir El Gavnouss	Magagah	Minia
El Ezba	Assiut	Assiut
Beni Adeyat	Assiut	Assiut
Shakalkil	Assiut	Assiut
El Gawly	Mafalout	Assiut
Kom Poweha	Dariout	Assiut
Dariout El Sherif	Dariout	Assiut

As the project was originally designed in the late 1970s, potential clients were either contacted by CEOSS workers in the communities or were referred to the organization by someone in their community who knew of the program. The outreach worker began to work with the client to examine the economic feasibility of the person's enterprise and to recommend methods of improvement. One CEOSS technical person, skilled in business management and engineering, served as a backup and was brought in to advise on a case-by-case basis. This assistance to the client ranged from advice on relocation, if necessary, to help in establishing simple accounting procedures (often beginning simply with a physical separation of income into different "accounts") as preparation for utilizing credit.

For clients with no tangible economic activity, a low-skilled enterprise activity, such as cigarette or vegetable selling, was sought. In some cases, CEOSS introduced simple ideas and/or machinery among a number of clients, such as, for example, a manual skimming and churning machine which separates cream from milk for sale and which has been found to be quite successful. In all such cases, CEOSS field workers, with assistance from the technical expert, based their enterprise-promotion activity on an analysis of perceived local demand for various goods and services not being adequately supplied locally.

Promotional and advisory services were followed by the extension of loans which were given in-kind in the form of equipment, such as sewing machines and milk separators, or basic inventory, such as vegetables and clothing. In the latter case, CEOSS personnel accompanied the client to the supplier to ensure that appropriate purchases were made. The idea behind the in-kind lending was to ensure that the loans were used for business-related purposes. The size of the loan, the interest rate charged, and the repayment schedule were determined on a case-by-case basis according to the monthly gross income expected to accrue to the client.

Once the purposes and terms of the loan were agreed to, a simple loan proposal statement was drawn up with the client, who had to get two reputable people within the community to co-sign as guarantors. The signed proposal was then forwarded to the head of the CEOSS economic program unit, who authorized the loan. When the money was released, a field worker accompanied the loan recipient to make the required purchase and then made monthly reports on loan repayments.

4.1 Early Record

During 1980, the first year of program operations, 15 loans were extended to individuals. The average loan size was £E75, with the maximum allowable loan set at £E150. Most loans were amortized over an 18-month period, and thus the average monthly repayment by clients was about £E4.14. The default rate was reported to be less than 5 percent. For the most part, this low rate of default was due to the close supervision over loan repayment exercised by CEOSS community staff, who continue to provide followup assistance to all clients, and to CEOSS' firm belief that even the very poor should repay loans in order to heighten both their entrepreneurial awareness and their self-esteem. It should be added, however, that in some cases where repayment was steady, the last few payments by an individual were forgiven. Even with this partial grant policy, however, 90 percent of the capital lent by the project early on was recovered; the 10 percent lost also includes loan defaults.

CEOSS staff in charge of monitoring the economic progress of clients reported that results in the early stages of the project were encouraging, given the difficulty inherent in working with the very poorest and least skilled segment of society. In some cases, especially those in which a client established an enterprise and began generating cash income for the first time, increases in income were reported to have ranged as high as 400 percent. In most cases (i.e., those involving already established enterprises of one type or another), income gains were far less spectacular, but greater stability in production, sales and, consequently, incomes was also achieved. In general, CEOSS estimated that the average increase in income after 1 year of assistance among its active clients was between £E4.00 and £E8.00 per month, or roughly 25 percent of total previous income.

4.2 Project Expansion

After this initial phase of the project, CEOSS wished to both expand and technically upgrade its Loans for Development project. It wanted to expand the program's outreach and upgrade its level of management and technical assistance by hiring an additional staff person with a background in business or economics and previous experience in grassroots development. The person was to be in charge of small-scale enterprise activities, serve as the primary business adviser (as well as trainer) to both the CEOSS field staff and, on an as-needed basis, to client enterprises, and administer the revolving loan fund. Decisions on loan approvals would remain with the head of the economic unit.

It was thought that with the enhanced technical capacity afforded by an additional person for small-scale enterprise activities, CEOSS would be able to significantly expand its lending program. This expansion was planned to consist of (1) an increase in the number of loans to an average of 100 per year over 3 years and (2) an increase in loan size to an average of £E150 over the same period. Both the number and size of loans made up to that point had been kept low due to a shortage of capital and did not reflect client needs. For example, CEOSS wanted to gradually increase the size of loans to allow for the purchase of a broader range of higher quality tools, equipment, and stock.

To keep monthly payments on larger loans affordable to clients at this low-income level, CEOSS decided to lengthen repayment periods. Loans now carry up to a 2-month grace period and a payback period of 10-30 months. The specific terms and conditions of each loan--including loan size, amortization schedule, and interest charges--continued to be determined on a case-by-case basis according to the client's capital needs, current

income, and project earnings. This flexibility in determining individual credit terms was, and still is, viewed by CEOSS as essential to the success of the program, and it felt that it was important to maintain its traditional reliance upon staff judgments of client repayment capabilities.

Regarding interest or administrative charges on loans, the organization's senior staff realized that they had to begin to move in the direction of protecting loan capital through charges to clients. They decided to establish interest charges on a differential basis, given the extremely poor people involved in the project. Accordingly, interest on new loans also was determined on a case-by-case basis, ranging from 0 percent for the very poorest clients, such as those forming an enterprise for the first time, up to 4-6 percent a year for more established clients and second-time borrowers. As CEOSS staff were not confident that clients at this economic level could absorb interest rates higher than 6 percent, they wanted to monitor this differential lending program over a 3-year period before deciding whether to institute higher rates in the future.

The Loans for Development project expanded steadily during 1981-1982 with the help of financing from European sources. Sixty beneficiaries were reached in 1981 and another 90 the following year. These 90 encompassed the very poor in 18 villages: 50 percent were women and most of these were widows or divorcees. Client crafts and trades included sewing, various types of food selling, utensil making, groceries, wool selling, tinsmithery, animal raising, milk separating, shoemaking, cloth selling, and carpentry, among others. Fifteen of the poorest clients received grants totaling £E235, while loans totaling £E6440 were extended to the other 75 clients, for an average of about £E85 per loan.

Even though USAID money was not available for major program expansion until mid-1983, CEOSS reported a rapid increase in the number of loans in the first half of that year, thanks to the continued availability of credit funds provided primarily by EZE, a German nongovernmental organization. It thus achieved its 3-year lending target of 230 project credits. About 70 of these loans were used to purchase sewing machines, 15 to buy carpentry kits, 15 for grocers' scales, about 15 for milk separators, and 10 each for equipment and materials for shoemakers and preparers of food. The remainder of the credits went primarily to food retailers and animal raisers. Some typical clients included the following:

-- A grocer in a town of about 20,000 was doing poorly liquefying sugar cane with a bad machine. He received a CEOSS £E80 loan to make candy, diversified into food dishes made by his wife, paid off the first loan in 18 months, received a second to stock a new grocery, and is now doing very well.

-- A rugmaker in a village of 2,000 received a CEOSS loan of £E100 to purchase wool to replace old cloth materials and is now clearing about £E20 per rug, or £E80 per month.

-- A woman whose janitor husband wanted to supplement family income received a CEOSS £E175 loan to buy dry goods to open a grocery in her home. She repays £E8 per month and adds £E10 to a monthly £E25 salary, improving family diet.

-- A fruit and vegetable retailer received a CEOSS £E70 loan to purchase produce daily in a town 1 hour from her village and is now selling in front of her house.

4.3 USAID-Financed Operations

After 2 years of delays, the Catholic Relief Services (CRS)/CEOSS grant agreement with AID--with about £E20,000 allocated to run Loans for Development, plus a total credit operation of some £E132,000--was finally signed in May 1981. Unfortunately, by that time CEOSS and its field staff had already filled their summer schedules with 3 months of evaluation meetings, holidays, training sessions, and other commitments. Hence only 14 loans were made in the third quarter of 1983, and most of these were extended to male graduates of a CEOSS carpentry training course. A dozen apprentice carpenters, aged 17-25, received £E100 loans to purchase carpentry kits for their own independent work; repayment terms were £E10 per month. The other two loans went to women. One was a housewife with four children who received £E175 from CEOSS (£E8 per month repayments) to buy groceries and vegetables to sell in the market to supplement her husband's £E25 monthly salary. The other was a widow with three children, who was given an £E200 loan (£E10 per month repayments) to start making and selling bean sandwiches.

The fourth quarter saw no change in the reduced portfolio of borrowers nor in the new orientation toward funding the activities of men. Of the 14 new clients receiving loans during this period, only four were women, two of them widows. Borrowers were between 26 and 65 years of age and averaged just short of 40. Almost all had children, averaging three each. Few had regular sources of income, and the five who did brought in only between £E35 and £E60 per month.

The 14 loan recipients are located in nine different villages in Minia Governorate. The credits they received averaged £E160 apiece, which represents an appreciable increase over previous lending. Most of the smaller loans, in the £E30-75 range, continued to go to women, principally to start fruit and vege-

table vending businesses. Other relatively small credits were extended for the purchase of goats. The larger loans were principally for tools and equipment. Two tailors purchased sewing machines, a skilled government employee purchased a carpentry kit with which to manufacture doors and windows, a seasonal worker purchased a camel for transporting goods, a small landholder purchased a milk separator, and another man bought a deep freeze for his new refreshment stand. All the loans were extended in December 1983 for anywhere from 10 to 30 months, with grace periods of 1 or 2 months. Also based on client income and project ability to pay was the administrative charge levied on clients in lieu of an interest charge; 7 of the 12 borrowers paid a fee of between 1 and 4 percent. Training is also being provided by the CEOSS program coordinator/loan officer, who provides clients with help in management, accounting, pricing, marketing, and instruction in the use of credit to generate a sustained source of income.

The continued slow pace of lending during 1983 was due both to the demands of CEOSS's organizational restructuring and to the close attention paid to improving feasibility analyses of clients' projects to be financed with USAID funds. During 1984 CEOSS was able to begin extending credits more rapidly. Over the first 8 months of the year, CEOSS made 55 loans, bringing the 15-month program total to 83, still short of its goal of 100 for the first year of operations with USAID funds. During that same 8-month period, however, loan volume increased from £E3,800 to over £E16,000, thus bypassing the original annual lending target of £E15,000, albeit in a slightly longer period of time.

4.4 Client Selection and Assistance Methodology

The assistance process has been refined through the years, but it still begins with the field staff in the villages informing people of the project's services and searching for those goods and services most needed by a particular village. After simple loan requests are discussed in-house, the field staff return to the villages to help qualified applicants fill out questionnaires which ask for both socioeconomic information on the client and project information to help determine project feasibility. Among the personal data requested are the amount and sources of family income, the reasons for wanting to change or supplement those sources, and the existence of any underlying family problems, in addition to basic questions on age, family size, housing situation, and the like. Information designed to help determine project feasibility includes the following:

1. Type of activity

2. Purpose of loan

3. Loan size requested

4. Individual contribution

5. Project implementation plan

6. Expected income (commercial viability)

7. Technical viability (assessment) of project

8. Number of village competitors

9. Constraints facing project and how to overcome them

10. Skills level and upgrading (training) needs

11. Other assistance needed

12. Assistance plan: how and who will deliver

Product marketability is determined through an assessment of its necessity and acceptance in the community and area in which the client is working.

In the early stages of the program, final decisions regarding loan approval and other assistance needs was made by Arafat Rafat, who ran the Economic Rehabilitation Division of th Services Department, in conjunction with those involved in the three village programs organized under the Local Development Department. Before moving over to another assignment, Rafat trained the staff that would be running the Loans for Developmen operations. Now Bahee Tadrus, the program's coordinator/loan officer, along with his village field staff, makes the key decisions, although CEOSS is now referring proposals it considers feasible to the village committees for a final determination of the appropriateness of the applicant and the project.

As head of the entire community development section of CEOSS, Nabil Samuel continues to oversee the loan process. As a practical matter, however, Samuel has begun to delegate far more authority than he did during the program's formative months and involves himself in day-to-day matters only when problems arise. This has helped to speed up the lending process and has freed hi to focus on longer term programmatic planning.

While Samuel's preparation of his loan officer and field staff has sped up the decentralization process, he has yet to find an experienced trainer who can spend the time necessary to develop staff skills in project feasibility and impact analysis. Two good candidates have been identified in recent months, but both in the end were unable to accept the position. CEOSS continues the search and may contract with a Cairo training insti-

tute as a last resort. If this training were effectively carried out, it would increase the confidence in the decisions of loan officers and other staff and allow for greater experimentation and risk taking in loan approval.

In October 1983, CEOSS held a 1-week intensive course for its community workers on income-generation and employment programs as an integral part of its general community development program. The emphasis was on the selection of appropriate and effective assistance methodologies, but detailed instruction on such topics as simple accounting methods, budgeting, and identification of suitable marketing channels was left for a seminar for project staff, which was delayed until January 1985. Client assistance has not concentrated much on bookkeeping to date, and it is felt that it is in this area, as well as marketing, that greater effort is needed. Some clients already keep books, while others refuse to consider doing so, which CEOSS considers understandable and acceptable for very small loans. CEOSS is still attempting to develop an appropriate bookkeeping method for clients who must keep written records.

Most clients do need marketing help in the broadest sense--that is, product choice, diversification, presentation, and pricing, along with sales location and client identification--so the program coordinator/loan officer is being trained to study the market, judge the competition, help clients to set a price that is profitable but just, teach them to learn from others, and identify and produce for new customers. He is also being trained to further assist clients in the procurement of materials and equipment, proper stocking, the use of profits, and general enterprise management. Equally important, he is being taught how to observe clients and their movements, how to communicate with them, and how to keep records of what they are saying.

4.5 Project Status

Following a period of overcautiousness on CEOSS's part in utilizing USAID funds, program activity has been gradually expanding. Although repayment rates were reported to be high during the first phase of program expansion carried out under the EZE grant, Nabil Samuel, in overseeing the entire Minia operation and its finances, placed a priority on establishing effective loan-review and followup processes. He sacrificed program growth in the short term while staff upgrading was pursued. The results, in terms of repayment, continue to be positive, with only 3 percent of the loans presently overdue.

In the meantime, CEOSS has found that the project to date has had a moderate economic and a significant psychological impact on its clients. Although it is difficult to judge accurately

over such a short period of time, it is estimated that profits on average are up one-third, to about £E12 per month, among the more recent borrowers. Just as important, clients feel less dependent on CEOSS and, with a greater sense of self-worth, feel they can actually achieve something through hard work.

5. COMMUNITY-OWNED PROJECTS

As part of its overall community development effort, CEOSS makes available to local communities financial and technical assistance for the establishment of viable community-owned service and production enterprises. The program is carried out on a purely responsive basis. The village development committee (a leadership committee consisting of both formal and traditional leaders elected by communities as a result of CEOSS organizing and leadership training) identifies a needed local enterprise, such as a bakery, begins to mobilize local resources, and approaches CEOSS for assistance. Applications are channeled to the organization's community workers.

A CEOSS technician works with the local community worker to carry out a feasibility analysis of the enterprise in question. This process entails an examination of the local demand for the good(s) or service(s) to be provided; the cost and availability of local tools, equipment, materials, and higher level technical expertise that may be needed; and the general financial and technical capacity of the community itself to initiate and maintain the enterprise. Once this initial analysis is completed and CEOSS staff are persuaded that the enterprise is necessary and feasible, an assistance plan is adopted.

Followup assistance provided to these ventures can take various forms. It usually involves technical assistance in building design and construction, management assistance for the organization of the enterprise, and limited, on-site technical training for the workers in the enterprise (usually provided through the acquisition of the services of specialists). CEOSS also provides complementary financial assistance--usually in-kind in the form of tools, equipment, and construction materials. Until recently, these inputs were provided on a grant basis. Their value does not exceed 40 percent of the costs of a project and is only given after the community's matching share is in place and the project has been physically initiated through community self-help efforts. The community workers coordinate this process and the arranging and provision of the inputs. The enterprises are owned by the communities themselves, with local residents receiving shares in return for their contributions toward the startup costs, and are managed by the village development committees.

During the 3-year 1980-1982 period, approximately 50 such community enterprises received technical and financial assistance from CEOSS's village coordinators and from outside technicians, based on plans developed jointly by CEOSS and each community. The types of ventures supported include consumer cooperatives, poultry-raising schemes, bakeries, and small handicraft industries, but most of the endeavors would be considered more social or infrastructural in nature (e.g., schools, water projects, dispensaries, sanitation projects). In fact, CEOSS divides projects into three categories: economic/agricultural, which include such things as shared water pumps, as well as poultry houses and bakeries; health; and education. Using EZE money, CEOSS had been actively trying to assist projects in some 100 villages, but CEOSS has recently decided to slow down the program's expansion in order to be able to provide adequate funding to each project; it has raised its funding ceiling from ŁE3,000 to ŁE10,000 per project. The program is available both to villages which have CEOSS field staff and to those that do not, although for obvious reasons a greater number of projects have arisen in communities which house CEOSS workers. The program has received a number of requests for assistance from groups of people who wish to start their own enterprise, but CEOSS has decided to finance all group enterprises within a separate project.

The vast majority of enterprises promoted through CEOSS assistance are reported to be functioning well, with only two failures recorded to date. Regarding increases in employment and incomes generated through these ventures, senior staff estimate that on an average, 7 to 10 jobs are created by each investment, with average incomes of ŁE40 per month. These figures pertain, as well, to the approximately 40 projects narrowly defined as noneconomic in nature; for example, the number of permanent teaching positions created by the construction of a school. CEOSS defines success in regard to community-owned projects as the ability of communities to identify their needs and to work out solutions with a high level of participation at all levels.

As most of the community enterprises assisted have proven to be viable, CEOSS expressed interest in expanding the project through the initiation of a loan--as opposed to a grant--program for future enterprise development. With further financing available from EZE, it has budgeted ŁE54,000 in financial assistance over the 3 years beginning mid-1983, with 80 percent of this capital to be channeled as loans. These loans to community enterprises carry a 6-percent annual interest rate and, on average, are amortized over 3 years after a 6-month grace period. The first two projects financed after June 1983 with these funds--which act as a counterpart to the USAID funds, which financed the other three components of the income-generation program--were a bakery, receiving an ŁE750 loan, and a tractor purchased by a village agricultural society with a CEOSS ŁE5,500

credit. They and the next six community-owned enterprises subsequently funded all are doing well. CEOSS field staff are responsible for making the monthly collections from the village development committees, which guarantee repayment of the loans. To manage this increase in volume, CEOSS will hire an additional management-assistance person with a background in business or economics.

6. GROUP ENTERPRISE PROJECT

While working in support of community-owned projects in the Minia area, CEOSS became interested in establishing a lending and management-assistance scheme for private group enterprises which are not connected to village development committees. In setting up a loan program for such enterprises, CEOSS is initiating a project for which there is high demand in Minia. In 1980 the organization received over 30 requests for assistance from groups which wished to form collective enterprises in areas such as handcraft production, transportation, poultry raising, construction, and metal working. Most of these groups consisted of young people, many of whom had some technical skills and previous job experience but only limited managerial experience and no startup capital. The idea behind the program, therefore, was to make available a management-assistance person to help these groups form enterprises (either as cooperatives or worker-owned enterprises) and to assist them in establishing accounting procedures (in preparation for the utilization of credit), in selecting appropriate raw materials and equipment, and in marketing their goods and services.

In addition, CEOSS has established a £E60,000 revolving loan fund for these group enterprises. Loans from this fund were projected to average between £E1,800 and £E2,000 in size and to be made to groups with between 10 and 20 members, all of whom would co-sign to guarantee repayment. As with the community enterprise program, these loans carry 6-percent annual interest rates, up to 6-month grace periods and 2-3 year repayment schedules. The credits are extended mainly for the purchase of tools, equipment, and raw materials, and, as with the other program components, will also be extended mainly on an in-kind basis. This program has a £E5,900 administrative budget and its own loan officer, Gamal Zacharia. Zacharia, who also coordinates CEOSS's vocational training program, had until recently coordinated the program of community-owned projects.

CEOSS, in trying to stay away from financing family ventures and those of individuals who have formed groups only for loan purposes, has been slow to get the project off the ground. It would prefer to support endeavors by groups of unrelated people, particularly the new poor of Minia and Assiut--the low-paid

bureaucrats whose social and economic status is dropping due to the return of workers from abroad with large remittances. Until now, the organization has been purely responsive, waiting for groups to come to its staff with proposals. In the near future, however, it will begin to initiate the organization of groups, in some instances by bringing together people who are requesting individual assistance (say, for chicken raising). The idea is to allow for the sharing of experiences and responsibilities and to foster cooperation and community service rather than individualism. In the meantime, some individual producers have organized on their own into groups.

In any case, before providing financing for a project, CEOSS staff is responsible for training group members (in bookkeeping, pricing, marketing, and the like), judging the feasibility of the endeavor and the ability of the group to keep it together, and making sure that it has access to technical assistance, from outside sources or locally if necessary. Subsequently, the staff is charged with project followup and with overseeing loan repayment.

In addition, staff are responsible for helping groups that are undertaking an enterprise to obtain necessary licenses and register as a company with the appropriate ministries. Difficulties in this particular area have contributed to keeping the project from getting off the ground. A group bakery project was the first to be put forward, but ran into bureaucratic snags. Five other groups, with between 5 and 20 members, also requested support. One applied for a £E1,000 loan to purchase a water pump. A second was planning to establish a fruit and vegetable business which would require startup capital of £E4,500. Another required £E4,000 to purchase stock and set up a cattle-fattening project. A fourth group was undertaking a new poultry-raising scheme, and a fifth needed a loan for a carpentry shop. All of these requests, as well as two others, have been rejected, as CEOSS determined that they had been organized only for the purpose of securing loans.

During the first half of 1984, CEOSS made its first three loans to group enterprises. It lent £E2,000 to a five-person group that had been urged by the community to open a shop to sell cooked beans, a commodity that had been identified as a priority as a result of CEOSS's nutrition education program. Two poultry groups have also received £E3,000 each, and CEOSS has subsequently lent both an additional £E1,000. All the loans have been made at 6-percent interest, with the first to be repaid over 3 years following a 2-month grace period and the latter to be amortized over 18 months after a grace period of 6 months.

7. VOCATIONAL SKILLS TRAINING

To meet local needs for increased income and technical skills, CEOSS has made skills training an increasingly major activity, receiving over £E62,000 from USAID to help diversify and expand its program over a 3-year period. Given the generally perceived weakness of traditional skills training in Egypt, CEOSS's basic approach in this area is to concentrate on "work-related" training. This means placing trainees in a real-job atmosphere and having them produce goods of marketable quality as soon as possible. This method, which matches trainees with skilled craftsmen in a structured apprenticeship system for much of their training, has been found in a number of studies to be quite effective in terms of skill development. It is also cost-effective, since trainee products can be marketed to offset training costs. Just as importantly, this training component has been designed not only to give graduates income-earning skills, but also to meet the service and product demands of the villages in the Minia area. Finally, the complementarity of CEOSS training activities to local government or village council programs facilitates their acceptance and possibilities for expansion.

7.1 Carpentry

CEOSS laid the groundwork for this approach to training in its woodworking courses. In 1980, the organization established a woodworking shop at its Itsa center. The shop is staffed with six skilled carpenters, or craftsmen, who produce, among other things, hives for the CEOSS beekeeping project and finished furniture. Roughly £E20,000 was invested in the workshop, which contains both simple manual tools and more sophisticated, electrically powered equipment. CEOSS uses wooden-based table saws, which cost less than half the price of the metal-based types.

The following year, CEOSS recruited a training director for the carpentry program, along with 15 poor, male trainees from different villages within Minia. These participants were selected according to criteria which are still in effect today. Among them is an interest in learning, real personal need due to a family background of poverty and a lack of education, a basic skill level, and a willingness to stay in one's village after training. Another implicit criterion is residency in Minia, as CEOSS has not yet constructed sufficient housing facilities at the Itsa center. After a youth applies, a CEOSS staff member visits him to help fill out a questionnaire and conduct an interview. If the person is accepted, a monitoring form is set up to track the marketability of items produced during training and the

relevance of that training. At first, trainees paid a very small monthly fee of about £E10 per month, but received payment for work produced and sold, which came out to about £E1.00 per day. Now they pay a £E5.00 monthly registration fee and receive a 75 piaster per diem to ensure course attendance.

Like those that followed them, the first group of trainees started with a 2-month course on woodworking theory, during which they learned the basics about wood and machinery. Then, after 6 months of training with hand tools under the guidance of the training director, the trainees were assigned to work in subgroups with the shop's craftsmen. This work-related aspect of the training is organized and managed by the director, as well.

The 15 graduated in November 1982, although five continued with training to further upgrade their skills. Presently, virtually all are gainfully employed: ten are engaged in carpentry in their villages, one in Cairo, three work in CEOSS's production unit, and another is traveling in the Gulf states. From CEOSS they received a kit of carpentry tools worth approximately £E300 each. The original idea was to extend 2-year loans to training graduates (at 6-percent with 6-month grace periods) to cover the entire cost of the kits. It was felt, however, that £E100 was the most that they could afford to repay, so until now that is all that has been extended in the form of a loan. These loans currently are drawn from the Loans for Development fund.

A second full-scale, 1-year carpentry class, this one with 12 trainees, was initiated in June 1983. USAID grant funds allowed for the upgrading of the training and a specialization in the manufacture of furniture. After the trainees were taught forming, measuring, and repairing skills, they produced a variety of household items, including clothes racks, bathroom stools, and tables. A few of the more advanced trainees were selected to enter a more specialized course in making windows and doors, a growing community need, at CEOSS's furniture factory at Itsa. These and the furniture items made in the regular course will be used in a new school being constructed in a nearby village; other furniture is sold in local markets and on contract to Cairo kindergartens.

Those who did not stay on at Itsa went back to their villages to practice their trade, as was the intent of the program. Tool kits were given to each, and they incurred an obligation to repay a portion of their cost, or £E100, over a 2-3 year period. Almost all the graduates leaving the center have found sufficient work for themselves, although occasionally outside their respective villages, and earn at least £E5.00 per day. They have already acquired elementary bookkeeping, contracting, and other business-related skills as part of their training program, and they receive followup assistance from CEOSS's carpentry trainer and help in finding jobs from CEOSS's village personnel back

home. Another carpentry course is about to begin, and its graduates will be required to repay CEOSS in full over 3 years for the tool kits they are given.

7.2 Other Training Courses

CEOSS recently has moved into new skills areas in response to community needs. It seriously considered courses in palm-leaf work, but its local needs analysis pointed to more practical courses instead. Electrical work, plumbing, and construction painting were chosen due to a lack of trained local people in these areas. In 1982, 10 people were trained for 2 months in construction painting, and another 10 for 3 months in electrical work and fittings. All of the 1982 painting graduates received tool kits (through the Loans for Development fund) with which to start work in their respective villages and, like their carpenter counterparts, did find such work. In 1983, a plumbing course had to be sacrificed for the second consecutive year due to lack of space. CEOSS is currently considering construction of a second level on the training building at Itsa to overcome this problem; this would enable it to train three or four groups simultaneously and increase its capacity from 30 to 45. A third 3-month electrical training course was initiated in June 1984 with seven trainees, and another construction painting course, for nine youths, began in mid-July; preparations for this latter course included public village announcements, curriculum development, and the screening of applicants. CEOSS estimates that the average income earned by its graduates in these three trades is about £E3 per day. The electricians are now required to repay CEOSS in full for their £E30 tool kits within 6 months, and the graduates of the construction painting course must pay the £E70 value of their tools over 7 months.

The oldest CEOSS training course, and the only one focusing on women, is sewing. During the period 1977-1981, four courses were offered involving a total of more than 100 women and girls from CEOSS villages. The fifth and latest course, in 1983, produced some 30 graduates. The training has been conducted as a 2-month (approximately 300-380 hours) residential course specifically designed to give village women sufficient skills to increase their income by sewing for others. Trainees were selected from applicant pools which have grown consistently since the program began. Records indicate that all participants have completed the course and, with two exceptions, are utilizing their new skills for income-generating purposes. All graduates receive a manual sewing machine and various materials. The cost of the program per trainee has climbed from approximately £E250 to £E350 (including machine costs) since it began. Applicants are required to pay a portion of the cost, based on family income. Those unable to pay their assessed cost are given loans against the cost of the sewing machine.

There are now two types of sewing courses. Those offered in the partnership villages are combined with lessons in home economics, health, and other subjects; residential trainees can purchase their machines on credit after completing their training. The other course, now offered at the training center at Itsa, also draws primarily on women from partnership villages. Those women who live at the center during training pay at least a percentage of their tuition and receive a sewing machine. The course, which runs 5½ days per week, qualifies the participants to sew professionally when they return to their villages. Like carpentry, sewing is an important and needed craft in rural Egypt. Since professional skill in this area can generate income for women (though less than in the other trades discussed above)--as the countryside moves into the monetized economy and people have more money to spend on such things as clothing--CEOSS hopes that these courses will give their female participants some control over their income sources once again.

8. PROGRAM MONITORING

A monitoring system has been established to track and learn from the progress of this multifaceted program. It builds on the information system already utilized by CEOSS, which includes the background and project information forms utilized for applicant screening. It also draws on the monitoring system developed for the National Christian Council of Kenya's (NCCK's) Small Business Scheme in Kenya, as well as on the information system of Catholic Relief Services (CRS), the conduit for funds between USAID and CEOSS in Egypt. Because field staff were not adequately prepared, CEOSS's system did not begin functioning until the third quarter of 1984.

CEOSS requires that staff file quarterly progress reports on clients throughout, and 6 months beyond, their respective loan periods. Four types of information are included. Assistance data are composed of a record of the type delivered--basically the same list used by NCCK, but separating out the areas of equipment maintenance and calling social assistance "ethical" support--and who delivers it. Financial information is kept on gross and net income, expenses, and the use of profits, the last divided into the three categories of business reinvestment, increases in family consumption (ordinary and emergency), and loan repayment. Social impact on the individual, the family, and the community is also recorded, although it is not clear what exactly is assessed except for health levels and family and other social relations. Finally, economic impact in regard to employment generated, wages paid, and other businesses initiated is also measured.

Although the client and project baseline data have been recorded in various forms for all four program components and it is expected that the monitoring information will also be collected on all clients, little or none of this information has been getting to CRS in Cairo for processing and program learning purposes. CRS staff, for its part, were not making regular trips to Minia to facilitate this information transfer and had not developed a data base. CEOSS had been perhaps overly concerned that the information be completely accurate before submitting it, and CRS had sought to place an intern, a young American woman, in one of the villages in which CEOSS works from March through June 1984 to help facilitate the information flow. For cultural reasons, however, the plan was deemed inappropriate.

In September, CEOSS prepared its first 3-month report for submission to CRS. It included a narrative account of the program, a financial report, socioeconomic profiles on new clients, and social and economic impact statements. CRS will translate this and subsequent reports into English and enter the information in its computer.

9. SUMMARY AND CONCLUSIONS

As NCCK has done in Kenya, CEOSS has built an income-generation component into a well established and effective community development scheme in a number of sites. Also like its Kenyan counterpart, however, CEOSS has had limited experience in managing enterprise programs with credit components. This lack of experience is reflected in a slowness of program progress rather than in any particular project problem to date.

The organization appears to have been rather overcautious in its lending to both individuals and groups, particularly those with whom it had limited previous contact. This is reflected in the fact that no group enterprise loans were made until 1984 and that individual lending is behind program projections, although much of the delay was due to the demands of CEOSS's organizational restructuring. Concerned about keeping default and arrearage rates down to an acceptable level and not making mistakes in the loan approval process, Nabil Samuel, head of the overall community development section of CEOSS, did not delegate full authority to his loan officers until well into 1984. His belief that these officers needed more training in economic analysis and projections, as well as his own involvement in the loan approval process, tended to slow down the overall lending process. While the loan officers still require additional preparation, Samuel had developed sufficient confidence in them to essentially remove himself from this process during the course of 1984.

While loan activity had increased, CEOSS understands that it must further train its loan officers and other field staff in project feasibility and impact analysis. The development of a short manual describing the procedures and methodologies in these areas is part of this upgrading; CEOSS has produced a draft and expected to have the plan in operation by the end of 1984. Staff training would allow for more confidence to be placed in the judgments and decisions of staff and permit the more creative inputs of the CEOSS Income- and Employment-Generation Program to fully emerge. While the organization's innovative and multidimensional program design is instructive to those seeking to assist the truly poor to increase their incomes within the context of their own communities, it is only through a thorough assessment of an expanded program's impact and methodologies that significant learning will take place.

CHAPTER FIVE

MAKING A LIVING: MICRO-BUSINESSES AND THE BANCO POPULAR Y DE DESARROLLO COMUNAL SAN JOSE, COSTA RICA

by Jeffrey Ashe with Nancy Moritz de Morales,
Angela Ulibaru and Marjorie Lilly

1. INTRODUCTION

The Popular Community Development Bank (Banco Popular y de Desarrollo Comunal) was established in Costa Rica in 1969. Its mandate is to provide access to capital for the workers of Costa Rica, and it is capitalized through a 1-percent levy on the salaries of all workers. These funds are placed in a savings account that can be withdrawn at the end of the year. The Board of Directors includes members representing government workers, labor, small businesses, teachers, and community organizations. Since there is a strong commitment to extending credit to the poorest, the Board and the bank management were receptive to the idea of opening a line of credit to the informal sector. Prior to the project, the bank loaned to small industries and for low-cost housing, but had never worked with the tiny informal sector businesses that were the target group for the Program for Investment in the Small Capital Enterprise Sector (PISCES).

After a feasibility study was completed[1] and the Aid to Urban Enterprises Through a Solidarity Guarantee (EUS) project was developed, USAID/Costa Rica granted $65,000 to finance the revolving loan fund. As its counterpart, the Banco Popular provided a project director, an accountant to keep track of the loans, a secretary, and some access to transportation. The Institute for Social Assistance (IMAS), a quasi-governmental welfare agency, provided transportation and three social workers who served as project promoters. Their costs were covered by the AID-funded Urban Development Program of the Costa Rican Government.

After an extensive process of selecting a project director, training the staff, and creating a new internal regulation that

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[1]Jeffrey Ashe, Nancy Moritz de Morales, and Angela Ulibaru, Making a Living in the Poor Barrios of San Jose, Costa Rica: A Study of the Informal Sector (Cambridge, Mass.: ACCION International/AITEC, 1982).

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would integrate the project's activities into the bank, EUS started extending credit in October 1982. By the end of October 1983, loans averaging $247 had been granted to 83 solidarity groups with 447 members (63 percent male and 37 percent female), to be paid back in weekly installments over a year. An interest rate of 21.5 percent on a declining balance was charged, which was projected to cover program administrative costs within 2 years (indeed, the cost of Banco Popular's staff counterpart to the project was covered by the end of the first year).

These loans were extended as follows:

-- Twenty-seven percent went to street vendors.

-- Thirty-five percent went to the owners of very small stores--usually fruit stands, tiny restaurants, and the like.

-- Thirty-four percent went to micro-industries and services, most frequently shoemakers and seamstresses.

-- Four percent went to businesses in other categories.

No outside technical assistance was provided, except for the periodic visits of the PISCES evaluator. The smooth functioning of the EUS unit after the personnel were trained and administrative systems were set up shows that this type of project can be replicated, provided there is good leadership and a strong institutional commitment. USAID/Costa Rica has shown a high degree of interest in the project and is considering the expansion of the solidarity group concept to other banks in the secondary cities.

2. THE COSTA RICAN ECONOMY

If the economic conditions of a country are improving, informal sector businesses will prosper to some degree without outside assistance. Under worsening conditions, a major accomplishment might be to stabilize businesses with little expectation of their growth or expansion. At the time that the project was active, the Costa Rican economy was in a period of decline.

In mid-1980, the effects of years of excessive borrowing and negative trade balances sparked a serious economic crisis. At that time the national banking system admitted that dollar reserves were in the red, and a gradual devaluation of the Costa Rican currency, the colon (¢) began, climaxing at a level of about 750 percent by mid-1981. Scarcity of dollars led to a forced decrease in imports, which in turn fueled the economic

recession. At the same time, local prices soared as a result of the devaluation of the colon. A prepared-food vendor made these comments:

> "A while ago business was good, but now that everything is so expensive, it's harder for people to spend money, and then you also have to raise prices. Besides, my clients are people with few resources in the first place, and have to limit what they buy."
>
> Interviewer: "Have the prices for your raw materials gone up very much?"
>
> "Yes, prices are three times more than they were 4 months ago."

Higher prices resulted in lower consumption levels, a deepened recession, and increased unemployment. Those who managed to retain their salaried jobs suffered a severe loss in buying power due to the price increases, while Government-controlled wage increases remained moderate.

2.1 Employment

The economic crisis in Costa Rica caused unemployment and underemployment to rise dramatically, especially in San Jose. Unemployment more than doubled in the metropolitan area, from 5.0 percent in mid-1980 to 11.3 percent in mid-1982. "Visible underemployment" (the term used for working less than 47 hours per week) rose from 12.9 percent to 21.3 percent, and "invisible underemployment" (working over 47 hours a week for less than minimum wage) more than tripled, from 6.7 percent to 21.3 percent. As of July 1982, more than half (53.9 percent) of the workers in San Jose were affected by some type of employment problem--whether unemployment, fewer working hours, or working long hours for less than minimum wage. In a severely contracted labor market, people are obliged to accept almost any job.

2.2 Poverty

In a country traditionally known for its ample middle class, the economic crisis led to an alarming increase in the number of families whose per capita incomes placed them at the level of extreme poverty.

Between July 1980 and July 1982, while the consumer price index increased by about 273 percent, the average salary increased by only 164 percent, resulting in a drastic decrease in

the real wage. Thus, the buying power of middle and lower class salaried workers was lowered by about 40 percent (see Table 1).

The seriousness of this loss in buying power is demonstrated in Table 2, which indicates that by July 1982, the average salary did not even provide enough money to buy a minimum-cost nutritionally adequate diet for a family of six.

Table 1

Changes in Average Real Salary July 1980, 1981, 1982

Date	Average Nominal Salary[a]	Consumer Price Index[b]	Average Real Salary	Salary Index
July 1980	₡1,983	100	₡1,983	100
July 1981	₡2,301	137	₡1,680	85
July 1982	₡3,255	273	₡1,193	60

[a]Ministry of Work and Social Security, and Bureau of Census and Statistics.
[b]Bureau of Census and Statistics.

Table 2

Changes in the Cost of the Basic Food Basket in Comparison With the Average Salary

Date	Basic Food Basket as % of Average Salary	% of Average Salary Left for Other Expenses
July 1980	59	41
July 1981	64	36
July 1982	111	-11

Source: Global Social Department of the Ministry of Planning and Economic Policies.

In July 1982, 37 percent of Costa Rica's families' monthly per capita incomes did not even cover the cost of the basic food basket (extreme poverty), and the incomes of another 11 percent made it very difficult to afford this food basket and still meet their other basic needs. In other words, 48 percent of the nation's families were classified as poor, compared with only 27 percent in July 1980 (see Table 3).

A result of the economic crisis has been a slow but steady increase in the importance of the urban informal sector as a source of employment and income. The Costa Rican Government's July Household Surveys indicate that the percentage of self-employed workers in the employed work force increased between 1980 and 1982, while the relative prominence of salaried workers during the same period decreased (see Table 4).

Although the proportion of poor families is higher among the self-employed (41 percent) than among salaried workers (34 percent), the self-employed worker is in a favorable position in a highly inflationary situation because prices can be raised to cover increased production costs, whereas the incomes of salaried workers are tied to their wages.

While becoming a micro-business owner is a matter of preference for many, it may also serve as an "employment of last resort" for some who cannot find a job elsewhere. There are very low capital requirements for these businesses (with a few dollars of merchandise, a vendor can start selling on a street corner), and great ease of entry (a small shop is started on the verandah, the back yard, or in a corner of a room).

3. THE INFORMAL SECTOR IN SAN JOSE

3.1 Introduction

It was at the time of these extreme economic difficulties that the study for the Banco Popular was carried out to explore the feasibility of a direct assistance program to the informal

Table 3

Family Poverty Level, July 1980 and 1982
(percentages)

Poverty Level	1980	1982
Extremely Poor	18	37
Poor	9	11
Nonpoor	73	52

Source: Ministry of Work and Social Security, and Bureau of the Census.

Table 4

Occupational Categories of the Employed Population in San Jose, July 1980, 1981, 1982
(percentages)

Date	Salaried Workers	Self-Employed	Owners	Unsalaried Family Workers
July 1980	81	11	6	2
July 1981	80	13	4	2
July 1982	79	14	6	2

Source: Ministry of Work and Social Security, and Bureau of the Census.

sector. Early in 1981, a team of interviewers[2] visited poor barrios and slums in the metropolitan area of San Jose.[3] They visited 2,841 houses and in a brief study identified 358 owners of small businesses (1 in every 8 houses).

Later, in July and August of that year, an in-depth study was made of 298 of these businesses to determine the following:

-- The types of businesses that existed in very poor barrios

-- The income level of the business owners' families

-- The characteristics of business owners

-- The condition, amount of equipment, and the employment capacity of the businesses

-- The special characteristics of female micro-business owners

-- The income and expenses of these businesses and the extent of their record keeping

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[2]The study was designed by Jeffrey Ashe, ACCION/AITEC, and Jose Luis Vega Carballo, consultant to the study. The fieldwork was supervised by Victor Borge, consultant and supervisor of field work. The interviewers were loaned to the study by the Urban Development Program (Programa de Desarrollo Urbano) of the Costa Rican Government. The study and the design of the assistance program were undertaken in close collaboration and under the supervision of the PISCES Project Commission of the Board of Directors of the Banco Popular (Jose Miguel Yglesias, President, Renan Morera, Jose Luis Gonzalez, Rodrigo Fallas, and Horacio Quesada). Horacio Quesada, assisted by Marielos Aguilar of the Department of Plans and Projects within the Planning Division of the bank, was responsible for carrying out the recommendations of the commission. (A complete version of this study, Making a Living in the Poor Barrios of Costa Rica: A Study of the Informal Sector, which includes tables and case studies, is available for $4.50 from ACCION International: 1385 Cambridge Street, Cambridge, MA, 02139, USA.)

[3]Including La Uruca, Virilla, Purral, Maiguetia, Maria Auxiliadora, Sagrada Familia, Chapulines, Copey, San Lorenzo, Cristo Rey, El Progreso, Concepcion, Alajuelita, Pueblo Nuevo, Cuba, La Libertad, Tugurios Echnaci, La Lia, San Juan de Dios, La Paz, Calle Blancos, San Roque, Calle Fallas, Cucbres, Lotes Mongito, and La Tabla.

-- The job satisfaction of the owners and their perception of present and future sales

-- Their prior experience with credit

-- Their desire to participate in a credit program

-- Their plans for using the credit they might receive

The most important findings of the investigation are summarized in the following sections.

3.2 Characteristics of Micro-Businesses and Their Owners

3.2.1 Types of Businesses

Almost a third of the business owners surveyed in San Jose are street vendors--sellers of clothes, fruit and vegetables, and prepared food, and collectors of bottles and old newspapers and cardboard. The other two-thirds have a fixed location, most frequently inside the house or in a stall or shop next to the house.

Of the businesses with a fixed location, 6 in every 10 are industries dedicated principally to the preparation of food for sale, the manufacture of clothing and shoes, and other artisan activities. The rest are commerces (28 percent), usually very small general stores or vegetable stands, and services (12 percent), (mostly repair services, e.g., appliances, shoes, furniture, and cars).

3.2.2 Income Level of the Business Owners' Families

An analysis of family income of business owners was made to see if the project would be assisting the truly needy. The conclusion was made that not all of these families are poor. There is an enormous variation in family income, from those who earn so little they do not have enough to purchase adequate food to those in the lower strata of the middle class. Sixteen percent do not have enough income to buy the basic basket of food[4] (compared to 37 percent for Costa Rica as a whole) and another 23 percent do not have enough income to buy the basic basket of food

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[4]The measurement of poverty is based on the price of a basket of basic food, a measure determined by the Government as the minimum requirement for good nutrition.

if the purchase of other essential items such as housing and clothing are taken into consideration (compared to 11 percent for Costa Rica as a whole). Another 15 percent earn enough to cover these essential costs plus a small reserve, and 46 percent are, compared to the rest, better off. Thus, approximately half of the families of the owners of these businesses can be considered poor. If the project consistently assisted the smallest businesses in the sector, then it would be reaching the target population of the PISCES project.

The case for reaching micro-businesses owned by women is a stronger one, however. About a third of the owners of micro-businesses are women. Their businesses are typically extensions of the traditional tasks of women, such as making and selling food and clothing, weaving, or making stuffed animals. Of the women who worked outside the house before starting their businesses, most had been maids and usually decided to change jobs so they could take care of their children and keep up their own houses. Of those who had been housewives, most started their business either to provide an income for their families after they were separated or widowed or to supplement their husbands' low incomes.

Of the 100 businesses in the survey that were owned by women, 28 provided the only source of income for their families. Of these 28, nearly half did not earn enough to purchase the standard basket of food, and another third did not have enough to purchase the standard basket of food if other costs were considered. In general, the businesses of women were much smaller than those owned by men.

3.2.3 Importance for Family Income

If the proceeds from these micro-businesses were not important for family income, an assistance program would be of little use in alleviating the poverty of the beneficiaries. The study indicated, however, that ¢7 of every ¢10 of income in the families of the business owners are derived from these activities, so an assistance effort would have an important impact. In 51 percent of the families, the business is the only source of family income; for another 22 percent, it is the most important source of income (more than half of family income); in only 27 percent is business income considered an "additional source of income" (less than half of family income).

3.2.4 Characteristics of Micro-Business Owners

The following are characteristic of micro-business owners in a poor barrio in the metropolitan area:

-- Two in three are men.

-- Seven in ten are heads of families.

-- They are not very young: 75 percent are 30 years or older; 42 percent are 40 years or older.

-- They are not well educated: 50 percent have not completed their primary education, and 26 percent have no more than a primary education.

-- They are not recent immigrants: 86 percent have lived 10 years or more in the metropolitan area of San Jose, and 9 percent have lived there between 4 and 9 years.

-- They have an average of 12 years of experience working as micro-business owners.

This study shows the stability of the businesses currently in operation. The average business started 7½ years ago. Only 2 percent have been in existence for less than a year and, therefore, do not meet the requirement for participating in the project. About half (48 percent) have been in existence more than 5 years.

3.2.5 Employment Generation

These businesses are important for generating employment because they are so common throughout the poor barrios of San Jose, not because of the number employed per business. Each employs, on average, 1.5 people. In the 298 businesses surveyed, 146 people, other than the owners, are working. The owner works alone in 65 percent of them, two work together in 26 percent, and only 9 percent employ three or more people.

More nonowners work part-time (91) than full-time (55). Of the nonowners, 90 are family members (27 receiving pay and 63 receiving no pay) and only 56 are employees from outside the family. This shows the importance of the family input into these businesses.

The owners put in very long hours--an average of 53 hours per week. Those who work the longest are the owners of small grocery stores and other commerces with a fixed location, who

work an average of 72 hours. A seamstress explains her long hours this way:

> "The seamstress has always been a slave. For a seamstress, there are no fiestas, no Sundays, no holidays--not even Christmas or New Year. I work like a madman during the holidays--sewing constantly, pressured by the customers who have to have their clothes by such and such a day...."
>
> Interviewer: "Have you thought of accepting fewer clients and spending more time with your family?"
>
> "Sure, but it's impossible. For a few days it might work out, but very soon the customers would begin to resent it and complain. Also, I'd start needing money for this or that, and have to work more and more, and the vicious cycle of working day and night would begin all over again."

3.2.6 Income and Expenses

Very few micro-business owners keep any kind of records of income and expenses. Thirteen percent have a book in which they note expenses and sales, and 2 percent have an accounting system. The rest keep no records or keep records in their heads. For this reason the data which follow should generally be treated as estimates.

In the majority (53 percent) of cases, monthly expenses are less than $150, in 33 percent they are between $150 and $500, and in 14 percent they are $500 or more. The average monthly net income,[5] on the other hand, is $109 each month. For the businesses whose owners are women, income averages only $65, while for the men, it averages $131. The majority of the businesses that were studied (57 percent) have an income of between $50 and $150 per month, and another 19 percent have an income of less than $50 per month. Only 8 percent have incomes greater than $250 per month.

In general, the owners of these businesses are making more money than factory hands and service workers in the formal sector whose monthly average salaries in July 1981 were $85 and $76,

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[5]Gross sales minus expenses.

respectively. Furthermore, the average incomes from these businesses are much better than the $70 monthly average of salaried workers in agriculture.[6]

3.2.7 Job Satisfaction

More than half (55 percent) of the owners of these businesses had had another occupation before becoming micro-entrepreneurs. Generally, they worked as peons or employees in construction work, agriculture, or as maids. They said that they had changed their occupation to make more money or to be able to work for themselves.

The great majority (96 percent) said they were satisfied working in their own business and were not currently seeking employment in the "formal sector."

3.2.8 Summary of Characteristics

The characteristics just described showed that these business owners were potential clients of the Banco Popular's credit program. The average owner had many years of experience in this type of work, the business had survived good and bad times, and, in general, the owner was content with the work. Few micro-business owners were seeking employment in the formal sector. On the other hand, they were short on many things, such as space, equipment, employees, and working capital.

3.3 The Owners' Credit Experience and Desire To Participate in the Credit Program

The first part of the study revealed the characteristics of informal sector businesses, but questions remained: would the business owners of the study be good clients of an assistance program; would they even be interested in participating?

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[6]Ministry of Work and Social Security, Encuesta de Hogares, Empleo y Desempleo, July 1981.

3.3.1 Prior Credit Experience

It was important to gauge the extent of credit experience of business owners for two reasons: (1) to see if they were already receiving assistance from some other source of credit (was there a need for an alternative credit source?) and (2) to find out how much credit they were interested in receiving.

Most owners of these businesses had very little experience with credit--77 percent had never used credit for their businesses. Only 18 of 298 businesses studied had received loans from banks, and only 8 had received loans from private moneylenders. Only nine had used these loans to start a new business. Virtually all these businesses started with the investment of resources the owner had accumulated in some other way.

3.3.2 Interest in Receiving Loans

Despite having had very little experience with credit, these business owners expressed great interest in receiving a loan. A total of 83 percent said they would like a loan, 11 percent said no, and 6 percent did not answer.

The variation in the amount requested was large, ranging from $25 to $6,650. Those who earned more than $125 a month from their businesses requested loans averaging $964, and those who earned less requested an average of $485. Those who requested the least were the owners of small household industries, such as seamstresses and makers of empanadas, who in most cases are women. Of the businesses owned by women, 89 were in the category of those who earned less than $125 a month, and only 11 were in the category of those earning $125 a month or more.

The average amount of credit men requested ($768) was almost double that which women requested ($398). Moreover, within the category of industries with income under $125--the only group with women in the majority--women requested an average loan of only $276 compared with the $661 requested by men. The interest of women in receiving a loan, as well as their willingness to pay the 24-percent yearly interest rate and join a solidarity group, was equal to that of men, if not slightly higher.

The owners of these businesses did not request a subsidized interest rate. Of the total, 72.5 percent said that they would be willing to pay 24 percent annual interest, 5 percent said that they would not be willing to pay that much, and 22.5 percent said they did not know. Charging a commercial interest rate was considered essential if the program was to cover its administrative costs and the losses caused by loan nonrepayment.

3.3.3 Uses of the Loan

Each person interested in a loan was asked how it would be used. The purchase of raw materials or merchandise was most frequently mentioned (87 percent), and one in three wanted a loan to repair, expand, or purchase a fixed location. Only eight spoke of the desire to receive a loan to start a new business, the majority of these being street vendors who wanted to establish a fixed commercial business.[7] More specifically, the following information was elicited:

-- Those who cook food for sale most often wanted to purchase raw materials (e.g., sugar, corn) or improve their shops.

-- The seamstresses needed to purchase more cloth and other materials needed for sewing. Some wanted to purchase a domestic or industrial sewing machine. Others wanted to improve their workplace or establish a small stand or store to display and sell the clothing that they made.

-- Those who repaired shoes wanted to purchase sewing machines for shoes, leather and other materials, and handtools.

-- Owners of small stores wanted to purchase more merchandise, improve their stores, and purchase refrigeration equipment.

-- Street vendors who sell clothing wanted to increase their stock.

-- Street vendors of fruit and vegetables wanted to purchase more fruit and vegetables. Several needed to purchase or to repair carts; two wanted to set up a business with a fixed locale.

Some specific comments follow.

-- A vegetable seller

"It would be good if I could keep myself stocked the way I like. But the problem is I don't have enough money for that. For example, I can only buy one sack of potatoes at a time, and these are sold very quickly. But

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[7]These percentages add up to more than 100 percent because in some cases the business owners mentioned more than one possible use for their loan.

then I can't go get another sack, because the trip to the wholesale market costs more than I'd earn from a whole sack of potatoes. Usually what I do is go two times a week to the wholesalers' market and bring back just what I have money to buy....

"You see that pick-up truck out there? Well, that belongs to my husband, but it doesn't have a motor. We would need about $125 to fix the motor for it. If we did that, then later in the day I could work transporting other things."

-- A doll maker

"What I would do is buy enough raw material in advance to be able to make a lot of stuffed dolls. Since things get more expensive every day, I could buy a lot of raw materials at a good price, and then sell my dolls at a good price also."

-- A scrap collector

"I've thought I'd like to buy a little truck and be a middleman between the sellers and collectors of paper, bottles, and scrap metal. I'd also like to start a business cutting bottles and making glasses some day. But this is just a dream for me."

3.3.4 Possibility of Expanding Their Markets and Employment

The owners of these businesses were generally optimistic about the possibility of increasing their sales upon receiving a loan despite economic conditions that at the time of the interviews had stabilized at a very low level. When asked, "In case you were able to increase the size of your business, do you think that there would be a sufficient demand and an adequate market?," only 1 percent said no, 40 percent said yes, and 59 percent said they did not know. Those who said yes mentioned the following:

-- They had good clients and a large demand.

-- There was not much competition in their barrio.

-- With a greater variety of merchandise, they could attract new clients.

-- With a loan, they could sell at cheaper prices.

Furthermore, when they were asked if they would need more employees if their business expanded, the response indicated that

a total of 132 new people might be hired in these 298 small businesses. Sixty percent of these would be full-time workers, 25 percent would be part-time, and the remaining 15 percent would work without pay (family members in most cases).

3.3.5 Willingness To Join a Solidarity Group

Most of the business owners said that they were interested in receiving a loan, that they had plans for how to use this loan, and that, generally speaking, they were willing to pay a 24-percent interest rate to get it. To find out if they were willing to join a solidarity group to receive a loan, each person interviewed was read the following paragraph:

> The Banco Popular is studying the possibility of lending money to very small businesses, such as yours. Given that it is very difficult to get co-signers, these loans will be guaranteed by a group of five to eight owners of businesses like yours. Each member of the group will be the co-signer of the loans for the rest. Would you like to participate?

Of the total, 49 percent said yes, 39 percent said no, and 12 percent did not know. Those that had the smallest businesses were slightly more disposed to join the solidarity group. However, the differences in attitude between the owners of the larger and smaller businesses was not appreciable, indicating that this mechanism would serve equally well for both groups. Of all the groups, the street vendors had the most interest in joining a solidarity group, perhaps reflecting the fact that they had more direct contact with each other in the streets and would therefore be able to form groups more easily. Those who answered yes, they wanted to join a group, said:

- "It's difficult for a poor person to find anybody that is willing to co-sign for them."
- "It's good to try to help oneself."
- "It's good because you don't have to comply with a lot of requirements."
- "Yes, but only if there is some assistance from the program and trustworthy people that will join the group."

Those who answered no said:

- "There will always be some who won't pay, leaving the others to pay by themselves."

-- "Given the economic situation, it's very possible that some of these businesses will go bankrupt."

3.4 Summary and Recommendations

The study indicated the large number of micro-businesses in the poor neighborhoods and slums of the metropolitan area of San Jose (one in every eight houses). Many of the families who own these businesses could be considered truly poor: 4 in 10 did not have enough income even to purchase the basic basket of food if other basic necessities were considered. The study also showed that, on average, 70 percent of family income was derived from these businesses.

The data demonstrate the stability and longevity of both businesses with a fixed location and those of street vendors. It is significant that the business owners were not planning to leave their businesses and search for employment in the formal sector. Their commitment to their businesses and their determination to see them progress are reflected in the long hours they work and in the fact that almost all of the owners invested their own scarce resources to start them up.

According to the study, many business owners would like to receive credit but had little access to it, and they usually have clear-cut plans for how they would use a loan if they were to receive one. They expressed a need for working capital to buy more merchandise, raw materials, or equipment or to increase their number of employees or the size of their workplace. Half of the business owners are willing to join the solidarity group in order to receive this loan.

These findings were reviewed by the Banco Popular and they were considered sufficiently positive to support the creation of a unit within the Bank to assist informal sector businesses.

4. THE EUS PROJECT

The Banco Popular project in Costa Rica works exclusively in San Jose, an urban area with an expanding internal market. Promotional efforts were concentrated in the poorest neighborhoods, often recently established squatter settlements. EUS does not reach the most destitute. The program works with the owners of existing businesses who share the characteristics of the "entrepreneurial group" more than the "pre-entrepreneurial group," even though many are street food vendors or bottle collectors. Owners average 11 years of experience in this line of work before they apply for credit.

Income levels of project beneficiaries were slightly higher than the average for Costa Rica when they first made contact with EUS but somewhat lower than the average informal sector business owner. In Costa Rica, 48 percent of the population is "extremely poor" or "poor," indicating they have just enough income to cover their basic food needs; of the beneficiaries, only 40 percent are in these two categories compared to 39 percent in the informal sector (see Table 5). For the businesses owned by women-headed households, however, this percentage is 63 percent. It is in the "above low income" category that the difference between the informal sector study and the project is most notable--46 percent for the study population and 32 percent for the project beneficiaries. This shows that EUS is concentrating its resources on the poorer business owners.

Table 5

Poverty Levels for Study Population and Project Beneficiaries (percentages)

Poverty Level	All Costa Rica	Study	Project
Extremely Poor	37	16	17
Poor	11	23	23
Low Income	35	15	28
Above Low Income	17	46	32

Note: Extremely poor = Income insufficient to cover basic food needs.
Poor = Can cover basic food needs.
Low = Can cover basic food needs plus other minimal needs.
Above low = Can meet ongoing needs.

The average beneficiary of the project has 5.3 years of education, is 38 years old, and lives in a household with five members; the business represents 51 percent of total family income. The average number of wage earners per family is 1.9. In 39 percent of the households, the business owner is the only one working in the family; in 47 percent there is one additional worker; and in 14 percent, two additional workers or more. Business owners work an average of 10 hours a day, 6 days a week; slightly under one-fifth work less than 8 hours a day. Of the total beneficiaries, 63 percent are men and 37 percent are women.

Not surprisingly, women are concentrated in street commerces and fixed commerces and have a much less important role in industries.

Table 6 shows the types of activities in which the EUS clients were engaged.

Table 6

Business Activities of EUS Clients

Activity	No. of Beneficiaries
Selling Fruits and Vegetables	121
Making and Selling Clothes	118
Making, Repairing, and Selling Shoes and Leather Goods	47
Making and Repairing Other Items	39
Small Commerces	30
Artisans	16
Selling Prepared Food	13
Small Industries	6
Other Activities	57
Total	447

Given the setting and the nature of the enterprises, it was decided that EUS would do the following:

-- Attempt to reach the largest number of businesses at the lowest possible cost

-- Emphasize expanding sales of products oriented toward the local market

-- Limit its services to credit, management, and organizational assistance, and not attempt to meet all the clients' needs

The basic assumption is that the clients of EUS are skilled business people, within the context of the street economy, even though these activities--such as bottle collecting and selling vegetables from a rickety cart--might appear marginal and their owners "subemployed." The following assumptions were also made:

-- Business skills are greater than the size of the businesses, so that expansion is possible with more capital and, only secondarily, management assistance.

-- The owners have feasible plans for expanding their businesses, and the project provides resources so they can put these plans into effect.

-- The business owner has an intimate knowledge of how to find raw materials and merchandise, change these into a salable product, and find clients, so marketing and production need not be direct concerns of the project staff.

Therefore it was decided to focus efforts on what a bank-based project could do relatively simply--extend credit and some minimal management and organizational assistance, and let clients use these inputs to shape their businesses as they saw fit.

4.1 Methodology

Given the setting, the level of beneficiaries, and the characteristics of the micro-entrepreneurs identified in the feasibility study, it was decided to use the solidarity group approach exclusively in Costa Rica. A major innovation was to use the solidarity groups for the micro-industries as well as the smaller vendors and single-person cottage artisan manufacturers, because in the feasibility study, the owners of these slightly larger businesses expressed as high an interest in the solidarity group concept as did the vendors. Also it was felt that the project would be far simpler to manage if there were only one type of loan to grant and administer.

In the EUS project, as in the Dominican project, mutual assistance is stressed along with business development. Each solidarity group is made up of a self-selected association of from five to eight micro-business owners who join together to qualify for a loan. The business owners, tapping into the networks of friendship and other relationships in the community, take a major responsibility for project implementation in the following areas:

1. Promotion. The concept that you can receive loans at a fraction of the moneylenders' rate is easy to understand and

explain. Once the project started, it found quick acceptance among the micro-business owners, even though the Banco Popular had no previous outreach in the poor communities. After the initial visits, the project was self-promoting, and an average of five solidarity groups organized by the beneficiaries arrived at the EUS office every week.

2. Selection and group formation. The group members, and not the project staff, are responsible for forming solidarity groups. This not only lessens the cost of promotion, but places responsibility on the members of the group. The solidarity groups tend to select well: of the 83 groups, only 7 had serious payback problems; the rest always paid back on time or were only slightly behind in their payments.

3. Payment. The groups also have an active role in loan repayment. The group leader is responsible for making collections from the members, and he or she makes the payment at the Banco Popular. Transaction costs to the bank and to the clients are reduced because the bank tracks only one loan to the group, and the group delegates repayment to the leader, saving each member 2 or 3 hours each week.

4.2 Administration

To attend the 447 who had already received loans and those who were at various stages in the loan granting process, there is a director, a secretary, a bookkeeper who keeps track of loan payments from each individual in the group, and three women promoters detailed to the program by the Institute for Social Assistance (IMAS), a semi-autonomous Government agency. The unit is efficiently run, and all who work there show great dedication and commitment to their work. They appear to be working close to full capacity.

The number of personnel is appropriate to the current scale of effort, given the type of assistance provided. The loan-granting process is very thorough, and an average of 2 months passes between the first contact the group makes with the program and the time the loan is granted.

The process follows this sequence:

1. The group forms itself.

2. They visit the EUS office and an appointment is made to explain the program.

3. They come to the bank to receive an explanation of the program, which lasts at least 2 hours.

4. Ideally, socioeconomic studies are done at the homes of each of the group members.

5. Investment plans are made for each group member, with each business owner providing a detailed breakdown on the cost of each item and the selling price.

6. The group is taught simple bookkeeping.

7. The loans are approved by a committee made up of the unit director and the director of the credit unit in the bank (virtually no group has been turned down for a loan).

8. The loan is granted.

9. Followup visits continue.

This intense approach is rather costly, yet the good payback rates and increased income indicate that the system is functioning. After 6 months of program operation, late payments were only 12 percent of the total amount due to date. Of the 61 groups at that time, 5 had severe late payment problems, 3 more had considerable late payment problems, 9 had slight repayment problems, and 47 were up to date on their payments.

5. PROJECT IMPACT

Two studies of the EUS project were carried out, the first 6 months after the project began and the second 6 months later. A random sample of approximately one-third of the solidarity groups assisted by the project was selected for the first study and the same individuals were interviewed 6 months later. The structured questionnaires were complemented with open-ended interviews of project staff and beneficiaries and the in-depth case studies carried out by Angela Ulibaru.

This report measures project impact according to the following criteria:

-- Increases in income (median income is 145 percent higher and average increase is 240 percent higher after 1 year of project operation)

-- Increases in employment (119 new full-time and 48 part-time jobs have been created)

-- Increases in savings (60 percent have augmented their initial $1 savings account, with the average account containing $58)

-- Improvements in record keeping (a 51-percent increase in record keeping among beneficiaries).

This report also examines beneficiaries' use of the loan, their interest in ongoing credit assistance, and their assessments of the solidarity group mechanism and overall program functioning. Recommendations are suggested for program expansion and for more effective Banco Popular/project coordination.

5.1 Income and Employment

The most significant impact of the EUS program has been the sharp increase in business income between the period the credit application was made and the date the interview was completed. Overall, median income is 145 percent higher now, having increased from $102 a month to $250 a month (see Table 7). Average income increased from $92 to $313 (240 percent), but this figure is deceptive because of the outstanding progress made by a handful of clients.

Table 7

Monthly Average and Median Net Business Income Before Loan and at the Date of Last Study

Type of Business	Income at Application		Income at Interview		Percentage Change	
	Average	Median	Average	Median	Average	Median
Street Commerce	$76	$82	$236	$251	211%	206%
Fixed Commerce	$91	$81	$317	$296	248%	266%
Industries & Services	$107	$122	$379	$231	254%	106%
Average	$92	$102	$313	$250	240%	145%

Note: Net income = gross income less all expenses; does not include a salary for the owner, although it does cover the salaries of any workers.

Only 8 percent of the clients perceived that they were making the same or less money than before they received the loan.

Forty-eight percent said they were earning a little more, 25 percent twice as much, and 18 percent believed they had more than doubled their income. Seventy-six percent perceived that family income had increased because of increased business activity.

It is significant that the percentage of "extremely poor" beneficiaries (those who do not earn even enough to provide a nutritious diet for their families) was reduced from 17 percent to 8 percent of the beneficiaries; the percentage of those who were "very poor" (with enough money to purchase enough food for an adequate diet) was reduced from 23 percent to 11 percent; the percentage of those who were "low income" (with enough income to cover food and basic necessities) was reduced from 28 percent to 18 percent; and the percentage of those with "higher income" (sufficient to cover basic services with some reserve) increased from 32 percent to 63 percent.

As a result of the EUS program, there was also an important (and unexpected) increase in employment. For the 447 businesses assisted, 119 new full-time and 48 part-time jobs were created. Virtually all of these new jobs were created in the industries and services category, underscoring once again that if employment generation is a goal of the project, projects must include these businesses.

This EUS client tells how the program has affected his income level:

> The loan saved us from bankcruptcy. If it weren't for this money we would be farmhands. The opportunity was so good that we've already recovered what we invested several times over. The business has grown so much that we've contracted two extra boys outside of our family, and aside from that, we have made a lot of improvements in the house.

5.2 Increases in Savings

An important goal of the project was to increase savings. With more savings, business owners could avoid financial disaster in cases of family emergencies, and might eventually save enough to take care of their working capital needs. As a requirement for receiving a loan, a minimum bank account of less than $1 was opened for each loan recipient. Six in ten have deposited extra money in their accounts, and the average account contains $58 to date (see Table 8).

Table 8

Amount in Loan Recipients' Savings Accounts

Amount	Percentage of Recipients
Less than $23	63
$23 to $70	14
$70 to $116	5
$116 or more	18
Average Account: $58	

The program has also enabled loan recipients to increase their savings as a result of a decreased reliance on credit from suppliers and moneylenders. These informal credit sources are now replaced by the low interest loan. Previously, these businesses had had virtually no contact with institutional sources of credit; only 3 percent had used bank credit for their businesses before the loan. Before the loan, 19 percent of the business owners used informal credit sources; this percentage has now decreased to 5 percent (see Table 9). Interest on loans from moneylenders and suppliers tended to be high, whereas family and friends did not charge interest on loans (see Table 10).

One interesting result of the Costa Rica project is the frequent incidence of families sharing loans. An individual solidarity group member may share a loan with a relative to help with existing businesses or to start up a business, or several family members may decide to form their own solidarity group. In one of the case studies (see Sample Interviews in Appendix) a father explains how his son shared his loan with him:

> Actually, the loan was initially for Eduardo. I was afraid to ask for a loan because of the interest payments, but thank God I have a good son. Of the ₡10,000 that Eduardo got he gave me ₡8,000, and the rest he invested in fruit for his business in the barrios of La Sagrada Familia, La Cañada, Cuba, and Los Pinos, like me.

In addition to saving on interest rates, loan recipients may also save by purchasing their goods from suppliers of their choice once they have adequate working capital. Many suppliers do not charge interest, but their prices are very high for prod-

ucts purchased on credit. In the exchange, vendors receive merchandise from the suppliers and pay for it after they have made their sales. Possible savings through using suppliers paid on a cash basis might be explored in more depth in other projects.

Table 9

Use of Informal Credit Sources Before and After Group Loan (percentages)

Type of Business	Before Loan	After Loan	Source	
			Friend or Relative	Supplier or Moneylender
Street Commerce	30	7	38	63
Fixed Commerce	23	3	38	63
Industry & Services	9	3	33	67
Others	0	33	0	100
Average	19	5	35	65

Table 10

Interest Charged by Moneylenders and Suppliers

Number of Cases	Interest Charged
3	10% per week
1	15% per month
1	10% per month
1	5% per month
2	2.7% per month
3	0%

5.3 Record Keeping

As mentioned earlier, the feasibility study showed that only 15 percent of the respondents kept business records of any kind; this percentage for program participants is now 66 percent and reflects the efficacy of the training provided by the program's promoters. Of those who keep records, 59 percent do so almost daily, 22 percent "frequently," and 19 percent "occasionally."

5.4 Uses of the Loan

The EUS loans were to be used for working capital, to help the business owners expand their enterprises by enabling them to invest more freely in raw materials, merchandise, or machinery. This Costa Rican fruit vendor relates how her loan helped her expand her stock dramatically:

> "Before, we barely had enough to buy merchandise on a daily basis, but with the loan we can buy whole crops."
>
> Interviewer: "What do you mean?"
>
> "Well, some fruit sellers go to the orchards and buy future crops of mangos, guayabas, plums, etc."
>
> Interviewer: "How do they know what they're worth?"
>
> "Well, they go there when the fruit is small, do some figuring, and make a verbal offer to the owner. Later when the fruit is ripe they go and pay, and transport it bit by bit, so that it doesn't spoil or have to be refrigerated--it's there on the tree and they pick it as they need it."

Programs providing working capital must generate an increase in income significantly greater than the value of the loan provided. All of the EUS loan recipients received a loan of $247 for 1 year. Was this money used for business purposes or was it diverted to personal consumption? If some was used for personal consumption, how much of the money remained for business purposes? How much of the money is likely to remain when the loan is paid off?

Not surprisingly, given the level and type of businesses assisted, 80 percent of the average loan was used for merchandise or raw materials, and only 20 percent for improving the locale, equipment, or machinery. That more machinery or equipment was not purchased may be due to the large amount of capital needed to buy such items as compared to the relatively small loans offered

by EUS. Improvements in locale and the purchase of machinery and equipment made up an average of 35 percent of the loans to industries, but only 7 percent and 11 percent, respectively, of the loans to street commerces and fixed commerces.

Industries and services generally purchased equipment like refrigerators or sewing machines with their loans, and fixed commerces usually bought produce scales. Improvements of locale generally consisted of the construction or repair of stalls or shops.

One shoemaker tells how he used his EUS loan:

> First we bought more materials. They gave us the loan as Christmas was approaching and we expected to sell everything we made, and so it was. We also bought a machine for polishing, sharpening, and trimming, and even some new lasts.

Of those who received loans, 9 percent have used all their working capital, and an additional 8 percent have only a small amount of working capital remaining. Asked why they had used their working capital, 35 percent said they had invested their loan in someone else's business (usually that of a close relative), 35 percent used the loan to pay off debts, 24 percent diverted the money for personal uses, and 6 percent lost the money through robbery or bad luck.

Of those who still have working capital invested in their businesses, the average amount is $168 (or 68 percent) of the original $247, after an average of 4 months. Among those business owners with the lowest family incomes (under $140 a month), the average amount remaining is only $121 (see Table 11). For those with family incomes ranging from $140 to $233 a month, the amount remaining is $189, and for those whose family income is higher than $233 a month, the amount remaining is $198. This pattern indicates that the poorest families tend to divert loan money to nonbusiness purposes to a greater degree than the relatively wealthy families. There is also a significant relationship between the amount of working capital remaining and the type of business, with street commerces conserving the least and industries and services the most (see Table 12).

5.5 Interest in a Second Loan

The great majority of participants who received a first loan want a second one (91 percent). The average amount requested is 2½ times the size of the first loan ($233). This points to beneficiaries' confidence in the solidarity group mechanism as well as in their own ability to repay a larger loan. Table 13 pre-

sents the amounts requested and the percentage of requests for each amount.

Table 11

Average Working Capital Remaining by Family Income Level and Type of Business

Category	Working Capital Remaining
Monthly Family Income	
$233 or More	$198
$140 to $232	189
$139 or Less	121
Type of Business	
Street Commerce	151
Fixed Commerce	160
Industries & Services	190
Average	168

Table 12

Amount of Working Capital Remaining

Business Type	None	$233 or More	$232 to $163	$162 to $93	$92 or Less	No Info.
Street Commerce	7	22	30	30	7	4
Fixed Commerce	11	43	17	20	9	0
Industries & Services	3	53	15	12	12	6
Others	67	0	0	0	33	0

Table 13

Amount Requested for a Second Loan and Percentage of Requests

Amount Requested	Percentage of Requests
Undecided	4
$233-$349	12
$465-$581	44
$698-$814	20
$930-$1,047	29
$1,163	14
More Than $1,163	2

In almost all cases, second loans would be invested in the current businesses; only 12 percent wanted a loan to start a new business. The fact that 87 percent are involved in the same business as when they received the loan is indicative of the owners' commitment to the stability of these enterprises. Of those who changed businesses, most moved to other informal sector activities; a few took a salaried job or had become ill and were not able to work.

Of those who would start a new business with a second loan, the street vendors would open shops in a fixed location, the commerces in a fixed location would change their products, and those in industries would like to open small factories. These changes represent improvement or expansion of owners' businesses in most cases.

5.6 Impact of the Solidarity Aspect of the Project

5.6.1 Social Support Function

A major justification for delivering credit through solidarity groups is that the group, formed as a requirement for receiving credit, will come to serve social support functions. One of the questions high on the list of the evaluator's priorities was whether the concept of "solidarity" was an illusion of the program planners or whether it had substance that could be measured. It seems clear that the latter is the case, based on group leaders' assessments:

-- Seventy-nine percent of group members provide each other with advice on how to improve their businesses.

-- Seventy-four percent help out a member who cannot make a payment that week.

-- Fifty-three percent recruit other business owners for the program.

-- Forty-three percent have helped form new groups.

-- Sixteen percent have created a small emergency fund to help out in cases of payment problems or other household problems.

Among the individual members interviewed, three-quarters said they had explained the program to at least one other person, and one-third said they had helped form a new group. The group mechanism, then, has proved important for promoting the idea of the program, for helping group members who cannot make loan payments, and as a mechanism for exchanging advice on how to run businesses at this level. Solidarity is strong enough that in 8 out of 10 groups there is a desire to take out a second loan together.

It is interesting that owners of industries and services were considerably less involved in explaining the program to others (68 percent did so, according to the survey) and forming new groups (32 percent said they did this) than either category of commerces---fixed or ambulatory (an average of 82 percent of the owners of commerces explained the program to someone and 40 percent helped form a group). This may be because they tend to have less daily contact with their peers than the street vendors or market-stall holders do, and may indicate that programs targeting industries and services are somewhat less likely to be self-promoting.

The need to organize a group to receive credit for members' individual businesses has sparked an interest in mounting collective businesses in one-third of these groups. These ideas were typical:

-- "Five of us want to set up a small factory of kitchen implements and condiments."

-- "The two tinsmiths in our group are thinking of working together."

-- "We want to put our large loans together to start up a shop to service car batteries and to do carpentry jobs."

5.6.2 Group Versus Individual Loans

When asked whether they would prefer an individual or a group loan, 60 percent of those interviewed said they preferred receiving credit through a solidarity group. When asked why they preferred the group loan, over half mentioned the importance of solidarity: getting to know each other well and being collectively responsible, providing each other with mutual aid, and being able to enter into joint capital ventures. The rest said they like the group because this is the only way to get a loan, or because the mechanism made it easier to acquire a loan. These were typical opinions about group membership:

-- "There is more comradeship and mutual help. We get to know each other better."

-- "It's a great help to people like myself who otherwise would have no access to credit."

The majority of those who preferred individual loans said they would like to avoid problems and not have to worry about whether other people make their payments. A few said they could provide their own guarantees or collateral for a loan, so they did not need the group mechanism as a guarantor:

-- "I wouldn't have to worry about the payments of my fellow group members and would only have to deal with my own debt."

-- "If I had an individual loan I would have a better image, and be better known at the bank."

-- "I could put my machinery up as collateral."

If, however, the alternative was between a loan in a solidarity group and no loan at all, the answer was clear: 80 percent of those who wanted a second loan said they would take out a loan with their present group membership, 14 percent would take out a loan if some of the group members were removed, and 2 percent would leave their present group and join another.

For those who wished to stay with the same group, these comments were typical:

-- "This is a family group. The difficulties can be overcome more easily."

-- "We are very responsible, and there is a great deal of comradeship and desire to get ahead."

Those who wanted to continue only with some members of their group typically said, "I only feel at ease with some of the group

members; there are some here I'd rather not associate with." One person who wanted to change groups said this: "I'd look for different people. I've had problems with the present group members, and we've lost the friendship that united us before."

5.6.3 Leaders' Perspective

Close to 80 percent of the group leaders would be willing to continue as leaders for another loan. This is a promising sign for the continuity of the program and shows that a cadre of leaders is being created. Why would they put up with the hard work, inconvenience, and the need to pressure those who are late in their payments? Responses clustered in four areas: the group's confidence in them; the positive experience they've had; the chance to be of service; their assessment of themselves as good group leaders. In their own words:

-- "The group has confidence in me. The work is hard, but I'm willing to do it."

-- "The members of the group are responsible. I feel satisfied to see them get ahead."

The 20 percent who do not want to continue as group leaders complain of the heavy responsibility and the burden of having to make the payments: "It's too much responsibility and the worry makes me sick."

Leaders also complain of the time lost collecting payments, going to the bank to make payments, and, to a lesser degree, keeping the accounts straight. For example, "I live with constant worry that someone might miss a payment, and of losing a day of work when I have to go to the bank to pay."

But overall, leaders feel that the best aspect of being a group leader is the feeling of responsibility, the confidence that other members show them, and being able to help the group: "It's been a good experience; I've acquired more responsibility."

5.7 Beneficiaries' Assessment of the EUS Program

In general, it is fair to say that most of the EUS clients were positive, even enthusiastic, about the program. These were a few of their remarks:

-- "The personnel are very good and the program is great. It's the best thing that the bank could have tried."

-- "It's a blessing from God. The Bank is fulfilling the objective of helping the 'little guy.'"

-- "I really like the way the promoters organize the group and give us advice and encouragement to get ahead."

-- "Without this loan, I couldn't have worked this year."

-- "It wasn't difficult for us to get the credit.... They make few demands and the weekly payments are a good thing."

Asked to give an overall assessment of what they liked best about the program, the loan was rated overwhelmingly as most important. Interestingly, the training and orientation given by the promoters ranked very low, suggesting that training should be reevaluated or restructured. In their assessment of the program, the following areas were emphasized:

-- Forty-five percent mentioned the loan, because it allows one to work hard and get ahead and because, otherwise, there are no credit sources.

-- Sixteen percent mentioned the ease in acquiring the loan, with few formal requirements.

-- Eleven percent identified the qualities of personnel in the program.

-- Nine percent responded that they like everything. ("It's an excellent program.")

-- Eight percent appreciated most the solidarity group aspect, comradeship, and mutual aid.

-- Seven percent mentioned the facility of the payment system and the low interest rates.

-- Five percent cited the training and orientation given by the promoters.

What do beneficiaries like least about the program? The most significant answer to this question was that 77 of the 100 interviewed had no complaints about the project at all. Those who did comment on problems remarked most frequently about the payment system, the high interest rates, or the excessively short or long payback periods and the frequent or high weekly payments. Others did not like the obligation to form a group, or found that the loans were too small.

When recipients were asked how they would like to see the program changed or improved, the most significant responses were

to increase the size of the loans, to make various changes in the terms of the loan or in the loan program mechanism, and to receive more training from the program promoters:

-- Thirty-six percent would like the size of the loan to be increased.

-- Thirty-eight percent would change the terms of the loan: individual loans, less frequent payments, lower interest rates, direct payments to the Banco Popular, shorter payback periods, longer payback periods, have other group members make payments to the bank.

-- Nineteen percent would like to receive more training from promoters, continue with the same promoters, hold more meetings.

-- Seven percent would like other changes.

6. CONCLUSION

In its first months of operation, the EUS program in Costa Rica has resulted in astonishing increases in income among poor urban micro-entrepreneurs. Savings and record keeping have also increased significantly. Whether these achievements can be sustained and even replicated with future program expansion will be determined as the program continues to reach growing numbers of beneficiaries. Potential problems have been identified: diversion of loan funds into nonbusiness expenses, shrinking of the working capital investment, and repayment difficulties. But overall, the EUS program's successes promise to carry its good record to an even greater number of recipients with a greater variety of options for loan size, interest, and repayment conditions.

EUS has proved to be an excellent project. Staff morale is high, late payment rates are low, and interest charges are covering most of the costs of the Banco Popular personnel assigned to the project. The major problem that EUS has faced is a lack of high-level commmitment to the project on the part of the Banco Popular. Over the last year, EUS has not made loans to any new groups, but is simply reloaning the loan fund reflows to the already established solidarity groups.

APPENDIX

SAMPLE INTERVIEWS

These nine case studies express the impact of the EUS project far more eloquently than the statistical analysis of the questionnaires. Because it is important to understand the recipients' point of view in regard to the significance of these loans, the reader is urged to study these interviews closely.

The value of any development initiative lies in the ultimate use made of the assistance offered. What is most important is that the autonomy and skill mastery of the beneficiaries are increased, and it is clear from what the loan recipients themselves say that this has happened to a remarkable degree in the Banco Popular program. The project promotors, social workers from IMAS who had worked before with the same population in one-on-one activities, saw the impact of this project as far more significant than in any of the previous work they had done with this group.

The interviews were carried out by Angela Ulibaru, a Costa Rican journalist.

1. OLMAN AND EDUARDO: STREET VENDORS

Don Olman, leaning his large body against the door frame, rattled off the story of his troubled life to us.

Orphaned at age 3, by 5 he was already a street vendor selling fruits and vegetables with his father in the barrios of San Cayetano, Lomas de Ocloro, and Sabana Cementerio. When he was 12 he was already selling things by himself. Three years later he ran away from home and went to the Zona Sur to work as a laborer, hauling heavy bunches of bananas.

At 19, when the 1948 civil war in Costa Rica broke out, he married a young woman of 13, who taught him to read and write. On his wedding day, his total capital consisted of ¢.85--not even 1 colon. He went to a sawmill, made a cart, bought 200 oranges on credit, and sold them all. A few months later he had set up a dry cleaning place. His wife washed in the morning while he sold things in the street, and in the afternoons he ironed while she distributed the clothes. Later he left the dry cleaning business, still selling vegetables and fruits in the morning, and started working as a fare collector on a bus in the afternoon. That is how he raised six sons and one daughter--now all adults.

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For a few months he has been attending meetings of Alcoholics Anonymous to help combat his drinking problem, and has begun to improve. "I have progressed because of two things: one was that I've stopped drinking quaro [Costa Rican sugar-cane liquor], and the other was the break I got from the Banco Popular, who gave me a loan that helped me come out of the serious financial crisis I was going through."

He walked over to an enormous basket of avocados in the middle of the room. "I've always had business savvy, but what happens is that when you don't have money, you can't do anything. Look, I've bought several thousand green avocados to sell, some for my own store and others for my sons to sell in the streets. If I hadn't had money I couldn't have done any of this--right, Eduardo?"

Eduardo was his son, a tall, lean 23-year-old, recently married, who was sitting with us in the room. "Right...tell them how we were afraid at first to ask for a loan." The young man was overshadowed by the dynamic personality of his father and let him carry the conversation (which might better be termed a monologue).

"Yes," said Don Olman. "Actually, the loan was initially for Eduardo. I was afraid to ask for a loan because of the interest payments, but thank God I have a good son. Of the ₡10,000 that Eduardo got he gave me ₡8,000, and the rest he invested in fruit for his business in the barrios of La Sagrada Familia, La Cañada, Cuba, and Los Pinos, like me."

"And what have you done with the ₡8,000?"

"I bought a lot of fruit and vegetables, rented a little market stall, and recovered the money right away. I've got that money right now in my room. I got such a large profit and there were so many benefits that I've made a little Sacred Heart altar to offer thanks for them. The Banco Popular loan has saved me as it must have saved many other poor people like me."

It was evident from the look on Carlos Eduardo's face that he admired his father, who had raised his sons to be useful men in a barrio famous for its high rate of delinquency. Has he done much with the ₡2,000 he kept for himself?

"Well, not much," said Eduardo, "but I bought some fruit and vegetables that I very quickly sold, and I've reinvested that money several times. My father was really the one who benefited the most, though, because he needed it the most urgently. He was broke."

"Are you going to ask for another loan?"

"Of course!" interrupted Don Olman, who always led the conversation. "This time I'm going to work up the courage to ask for a loan for myself and for all my sons who have businesses. The Lord has guided me and I have to take advantage of all the opportunities he gives me."

"Don Olman, would it be possible to take a look at your business?"

"Of course! You're standing in front of it."

So we went into his little store, more than ever convinced that programs like EUS were worth the trouble.

2. MARIA DEL CARMEN AND RALF ALEXANDER PRICE: MAKERS OF PLUSH TOYS

In one of the most popular night clubs in San Jose, a show has just ended. The lights are turned on, and a man comes over to the tables to hawk his wares--plush bears, dolls, geese, dogs, and other toys. With a gentlemanly manner and an evident calling as a salesman, he quickly persuades his customers.

Twenty-one years ago, Maria del Carmen, a native of Golfito, married Ralf in Limon at age 13, never imagining how necessary it would be some day to have her own business. Necessary, because after they had had 16 children, Ralf, a fisher and seller of shrimp, was suddenly injured on the wharf one day--practically cut in half--and given up on by the doctors. But he survived.

He couldn't be a fisherman anymore, or a waiter (another occupation he had had). He remained hospitalized for 19 months. All this time, his wife Maria del Carmen, with the enormous responsibility of maintaining 16 children with no particular job skills, worked at whatever jobs were offered her. One day she showed an interest in some plush dolls a nun was making, and she enthusiastically taught Maria the craft. That was how their business began.

They told me all this the day I visited them in their house in Barrio Cuba, one of the barrios south of the capital. Their home had only three small rooms, one of them a kitchen, but it housed their huge family, augmented now by the arrival of a friend with seven children who had been abandoned by her husband.

"For 4 years after my husband's accident, when he was recuperating in the hospital, I taught him what I had learned about making plush toys. Pretty soon he was making them better than I was!" Maria de Carmen told us while giving her daughter a baby bottle.

Sitting on one of the family's three cots, Ralf smiled. "The student surpassed the teacher," he said.

"He certainly did," she laughed. "Since then we began to make dolls in large quantities--in my case, starting at 2:00 in the morning."

"Ralf, where do you sell your merchandise?"

"In the night clubs and first-class hotels. Tourists are my best customers. Sometimes a man will buy several dolls from me because the next day he's going to go home without having had a chance to buy anything he likes. The best customers are the ones on charter flights, who can take all the cargo they want. Some very good buyers are those from Curacao. I offer them my merchandise when they arrive and when they leave."

"Have you had any problems with American dollars?"

"Not until now. Since the government prohibited people from receiving dollars I've lost a lot of clients. [The Government of Costa Rica, because of abuses, has monopolized the management of the dollar exchange and severely punished those who buy or sell dollars outside the banks.] A few days ago I lost the sale of three dolls worth $3 each to a customer in the Soda Palace because of this. But you can't take risks, because the penalty for a first offense is paying a fine of ₡5,000."

While her husband talked, Maria listened closely. I asked her, "What did you do with the loan the Banco Popular gave you?"

"We bought a used sewing machine with ₡5,000 at a pawn shop. Some other materials, too. But the sewing machine hasn't been used yet--it's too complicated!"

"It's not so bad," Ralf argued. "It was a great opportunity at that price. New, it cost ₡28,000. Maria del Carmen is learning how to use it, but she would really like us to buy one with a straight stitch. I've been thinking of using the one we bought to make embroidered men and women's clothes. I'm thinking of opening a little shop in the near future."

"That's a good idea," I said. "But, to finish my question--what do you think of the Banco Popular loan, Ralf?"

"I think it's a very good program, to give loans to those who are poor and have no support. It's a program that will go down in history because of the good it does."

"Do you think that this loan is exactly what is needed?"

"Well, in my case, no, because I need a bigger one. The materials I use are extremely expensive and so with this loan I haven't accomplished very much. Apart from that, it was given to me in January and I would rather have it in December because that is a good month for this type of merchandise. That's what I thought was going to happen, because I had bought a lot of plastic eyes and noses in November, hoping to buy some plush with the loan. When they didn't give it to me on time I was left with the money invested in material I couldn't use."

"Then it's not as 'excellent' as you said it was a few minutes ago."

"Well, yes, but it would have been better if they had given it to me on time. In January I bought the sewing machine and the materials, and I sold all the finished products and recovered my money. And so when my mother suddenly got cancer, for a few months I had the money to give her the necessary care, and a little extra help besides."

"Yes, even the extra help," added Maria del Carmen. "My mother-in-law had a relapse afterwards. She lives in Limon but had to stay here in San Jose to recuperate, and since there wasn't any room in this house because of all the kids, Ralf paid for a room in a hotel in San Jose while she completed her treatment."

"Yes," said Ralf, "without this loan, and the profits I made from it, I would never have been able to help my mother!"

"Are you going to ask for a second loan?"

"Of course," they answered in unison.

And Maria added, "He wants us to buy a sewing machine with only one stitch so we can produce more and buy more materials."

He said, "We're also going to request the loan with high hopes of having everything ready for the Christmas season. God willing, we'll soon come out of this poverty."

He rose up quickly, perhaps to hide his tears at the thought of the possibility of a better life for his family. A few seconds later he returned with a glass of water and a little plate of platanos maduros (ripe plantains) for all of his visitors. He kept talking, showing us the things he and his wife had made, and his energy and vitality assured me that they were meant to succeed.

3. BERNARDO GONZALEZ: SHOEMAKER

While we stood knocking at the door whose sign read "BERNARDO GONZALEZ - SHOEMAKER," we could see, about a hundred yards up the street, the outline of a man with the tired walk of a 60-year-old who was carrying a small satchel in one hand and in the other a cluster of shoes like a bunch of bananas. As he approached we recognized him as the person that we had come looking for in barrio Cuba.

"Excuse me for being late. Please--after you."

I had been informed that Don Fernando was a man of few words, and was prepared to "pull them out with pliers," but to my surprise he turned out to be an affable and expressive man. Seated in the charming but small room of his house, he told us about his work experience.

"I've spent 40 years of my life making shoes. When I was 16 I lived in my home town of San Ramon de Alajuela, where I started my apprenticeship, making shoes for men, women, and children. I sewed them or nailed them. Actually, they were mostly nailed. Sewing machines had hardly started to be used in this country and were very expensive."

"Forty years ago the majority of Costa Rican campesinos went barefoot. Was this a problem for your business?"

"Well, no, because while it's true many people went barefoot, they also bought shoes to go to Mass on Sundays. I sold a lot of women's shoes and boots for men."

"Is business easier nowadays?"

"Yes and no. Now the materials are very expensive but as far as machinery goes it's easier."

"Do you have problems?"

"I had many before they gave me the loan, particularly because of the high cost of leather and lasts that had to be changed when fashions changed, and because of the lack of machinery. When they offered the loan to my two sons, my son-in-law, my wife and me, we knew that this was the solution. We accepted it and survived."

"What did you do with the money?"

"First we bought more materials. They gave us the loan as Christmas was approaching and we expected to sell everything we made, and so it was. We also bought a machine for polishing, sharpening, and trimming, and even some new lasts."

"What were the results of the loan?"

"The loan saved us from bankruptcy. If it weren't for this money we would be farmhands. The opportunity was so good that we've already recovered what we invested several times over. The business has grown so much that we've contracted two extra boys outside of our family, and aside from that, we have made a lot of improvements in the house."

"At this moment, how is the business?"

"In Costa Rica the worst months for shoemakers are January and July, and the better ones are the rest of the year. People need to be well shod in winter and they like to wear their new shoes at Christmastime."

"Are you going to ask for a new loan?"

"That's what we have planned. We're going to ask again as a family group."

"Don Bernardo, this money that you're earning so quickly, do you always reinvest it?"

"Well, the fact is we also save some of it. You have to be prepared for any adversity."

Just then someone knocked at the door. They asked for Don Bernardo, who excused himself to wait on a customer who needed two dozen pairs of men's shoes, of the quality he knew Don Bernardo and his family made.

4. ARABELLA: SELLER OF IMPORTED CLOTHING

One of the greatest passions of Costa Ricans is travel, for pleasure or for business. As their money has been so devalued recently, pleasure has become a second priority and business a first. Thousands of Costa Ricans travel, especially to Panama and Miami, to get men's and women's clothing which they resell in their country at a good profit. This has been done for so many years that customs officials in airports and at the borders are now well alerted, but the sly merchants merely thumb their nose at prohibitions and return with armloads of contraband merchandise. The customers wait for them with open arms, knowing that they are acquiring exclusive clothing at very good prices because no duty has been paid on them.

The subject of this interview was an expert clothes seller from Panama, named Arabella. Her husband was a mechanic, as are her two sons, two good-looking young men in their twenties.

Doña Arabella knows her business down to her fingertips because she has been at it for 15 years. We visited her in her house on the highway leading to Ciudad Satelite de Hatillo. When she received us she offered us hot chocolate with slices of cake on the side. She didn't drink with us because she was a Mormon.

"I prefer to spend my time doing large orders at the request of a customer. For example, when someone asks me for 20 pairs of a certain brand of pants, I buy them in Panama and they're sent to me at a village near the border. Actually, people will buy anything pretty because they buy a lot of clothing made here thinking it's foreign. I don't lie to them but if they don't ask me, I don't tell them."

"Your customers are mostly women?"

"Before, yes. Now, no. Men like to be in style as much as women do. For example, Chinese collars are in fashion now. Men are requesting heaps of them, and paying anything for them. Women are asking for Georgette blouses."

"Do you think these customers prefer clothes from you because of the styles you offer?"

"There are some like that, but primarily it's because I give them the advantage of paying in installments, not in cash as they would have to do in a store."

"Do you live entirely from this business?"

"I support myself with this money, and sometimes I help my husband when the need arises."

"Why did you ask for a loan from the Banco Popular?"

"It was more a matter of them offering it to me."

"Did you accept it immediately?"

"I thought about it first a lot. It wasn't that it would cost me a lot to pay it, but we are all mortal, and if I died, who would pay the loan? I don't want to leave a burden for my family."

"Has the loan been useful?"

"Yes, certainly. I bought one lot of clothes at a discount and sold them in December. Actually, the amount was very small--I needed five times more. But all in all I made a good profit."

"Are you going to accept another loan?"

"Of course. And I also have a few friends interested in asking for a loan as a group. But, to change the subject, how would you like to see some of my merchandise?"

"I'd love to."

She pulled out a valise from under the chair and started showing us some beautiful blouses, pants, petticoats, and shirts. Shrewdly noticing we were paying particular attention to an exquisite white blouse, she tried to convince us to buy it. The young social worker who was with me, Lorena, looked intently at it and said, "This isn't from Panama."

Doña Arabella laughed and winked: "No, it was made in Costa Rica. They make nice things here, but people don't appreciate them. If they think it's foreign they'll go nuts to buy it, but if they know it's made here, they won't appreciate it." We agreed with her, saying, "a prophet hath no honor in his own country."

5. HERNAN PADILLA: UPHOLSTERER

We found Don Hernan Padilla upholstering a car seat, industrious as a spider. He was poking the needle in and out of the imitation leather with the facility of someone very experienced with the material.

Don Hernan's house was built by him and his sons when, one day, without a home and practically on the street, they bought the tiny lot on a narrow dead-end street for ₡1,000. At first it was just a hut; later pieces of wood were added and then cement blocks, until the house arrived at its present state. In the garage his sons had established a business making iron grillwork, and inside, in the living room, among the household furniture, Don Hernan had his sewing machine and other tools needed for upholstering.

"Come in and have a seat," he said to us with the courtesy characteristic of the Costa Rican campesino whom the city has not changed. Small, thin, with quick hand movements, he looked at us with gentle eyes through his tortoiseshell glasses.

"So, you want to know what I've done with the money the Banco Popular loaned me. Well, it has multiplied so much that I don't know how many times I have recovered the loan."

"Did you use all of it in the shoemaking business?"

"No, no. A little here and a little there. You know, I've worked doing so many things, I could make a business of everything. When I was a little boy and later, as a teenager, I was a farmer in the town of Rosario de Desamparados, where I learned to drive a tractor. Then afterwards I became a shoemaker, and I have since become an upholsterer, using the same machine." He showed us an old sewing machine, on which he transformed vinyl and leather into car seats or chairs. Don Hernan continued: "Well, with this ₡10,000 they loaned me I spent ₡8,000 to buy vinyl at a discount, and in December I made four times what I spent. With this money I fixed my old car and also bought the top of a jeep Toyota that I sold for 10 times what I paid for it. I used part of this profit to buy bean seeds, which I planted and got a very good harvest from. So! I'm not going to tell you any more because you're going to think I have so much money that you won't loan me any more."

We all laughed at his caginess, so typical of the Costa Rican campesino, in not telling us the exact amount he made but rather saying he had made a profit two or three or five times. "Don Hernan, do you mean that you made so much money that you're not going to ask for any more?"

"No, never! Rather, I'm going to ask for another so I can do more business. Of course, I worry about getting sick and afterwards not having anything to pay with, but my 'Papa' God won't abandon me. What's more, I have two sons who make iron grillwork and who are also going to get a loan. Now we are thinking of asking as a group."

Don Hernan stopped his work and his conversation to call his sons Jorge Luis and Juan Carlos Padilla, who were hard at work soldering. The boys came in, greeted us, and while Doña Lourdes de Padilla, the wife of Don Hernan, offered us a delicious cup of coffee, the sons told us how they were going to use their future loans.

6. JUANA DAISY: LEATHER ARTISAN

In the poorest part of one of the poorest barrios of Costa Rica--in Sagrada Familia--I began a trek down slippery, steep steps, risking a fall into the river. I stopped in front of a house that seemed to be balanced on top of a little hill, knocked on the door, and was ushered into a room that was so dark it was difficult to see what was in it. When I was somewhat accustomed to the semi-darkness, I was surprised to see two boys, who must have had "cat's eyes," studying in a corner.

When my eyes were completely adjusted and I could distinguish all the objects in the room, I noticed dozens of elaborately worked leather belts on the wall. While I examined them my hostess entered, Juana Daisy, a Nicaraguan, who looked younger than her 35 years. Stocky, with lively green eyes and amicable, she gestured with broad hand movements to each of her five children to come over, and introduced them: the oldest was Jose Alberto, 17, and the youngest was only 1.

"I'm not introducing you to my husband, Jose Pastor," she joked, "because he's in Guanacaste trying to sell some belts and sandals."

"Juana Daisy, why does your husband go so far away? Is it hard to sell your things in San Jose?"

"Well, we make Costa Rican style leather belts, briefcases, sandals, and pocketbooks that have always sold well in the Mercado Central. We sell them at our stall there to tourists. Because they're talking so much about problems with Nicaragua these days, the tourists have diminished greatly, and our things don't sell. This is why we've had to look for another place to sell the merchandise."

"Up to now have you sold in the furthest zones?"

"No, my husband and I generally go to the border at Paso Canoas de Peñas Blancas and in Guanacaste, and in the Southern zone we have good customers."

"What are the biggest problems you have in your business?"

"The price of leather, no doubt about it. A little while ago we bought at ¢8 a foot, and now it costs ¢60 a foot."

"You must be exaggerating! Isn't there leather in this country?"

"Yes, but the chemicals for tanning leather are imported and therefore expensive. Besides, the price of belt buckles has also grown a lot."

"Has the loan from the Banco Popular helped you at all?"

"God bless very, very much whoever thought of making these loans. They gave one to my husband, my brother-in-law, and me in November, so that we had the chance to buy a lot of the raw materials to make briefcases, belts, and sandals to sell in December. With the profit we bought some machinery--a polisher and a trimmer. This helped us a lot.... But come on in, so you can take a look at our shop!"

We went into the rooms in back which were much lighter than the living room, and there we saw a very complete workshop. Everywhere there were sandals of all shapes and sizes, finely carved belts, variously colored satchels, and cute little book-bags for children. We saw three boys working busily, one nailing leather strips onto the sandals, another carving designs on the satchels, and the third one polishing.

Juana said, "Besides having benefited my husband and me, the loan has also created three new jobs, for Ricardo, Marvin, and Manuel--who, thanks to the profits from the loan, are working with us." Juana Daisy beamed.

7. FERNANDO AND DARIO ARAYA: CLOTHING MANUFACTURERS

Don Fernando Araya Arguedas and Dona Mery Madriz Araya were unhappy when their only daughter got married and left home at 18. But to their surprise, the next year God blessed them with a baby boy, Dario, who now in the couple's old age is their best support, not only spiritually, but also as the pillar of their small clothing industry, which is prospering and appears to have a bright future.

Don Fernando and Dario welcomed us in the doorway of their home-workshop located in the middle-class barrio called Ciudadela Kennedy. We entered into an ample and well-ventilated living room. We counted five sewing machines, a large table where they arranged the merchandise, and a smaller one for ironing and marking patterns. Hanging on the walls were pretty waterproof capes for children.

Don Fernando, with the characteristic courtesy of the older generation, offered us a seat in the entryway that served to receive visitors as well as customers. His son, always in motion, was moving away hundreds of pairs of pants that he was going to offer this afternoon to the Tienda La Gloria, the biggest store in the capital.

"For us, this is like a dream," Don Fernando said to us. "Just think, when Dario was little we sold clothes house to house, and now, thanks to God, the big dealers are calling us to make orders."

"Have you always made clothes?"

"Well, actually, the first job I had was as a tailor, but after I had a dry cleaning business and after that a bakery."

"How interesting. Do you know how to make criolla [Creole] pastries?"

"Of course! I know how to make biscuits, bizcotelas [biscuits with sugar icing], rolls, gatos [literally, 'cats'], cheesecakes, baked tamales, and many other things that were made in the bakeries in my day. I even made them a little while ago at home, but the price of electricity was prohibitive."

"Why did you leave the pastry business?"

"Because I've really always liked being a tailor better, so now I've returned to the clothing business. I am a native of Palmares de Alajuela and I was well known there for my work. Afterwards I came to San Jose and continued making all kinds of clothes."

"What kind of clothing is your specialty?"

"We have made coats for women and children, salt-and-pepper jackets, blue jeans, short and long pants, women's underwear, and now capes and running shorts."

"Why have you varied so much?"

"Because tastes vary. Styles come and go, and so do the kinds of clothing. Right now running shorts are all the rage. Sports clothes are also in style. As far as capes go, the rainy season has already arrived and in Costa Rica this line of business has been largely neglected. We feel as if we're sitting on a gold mine."

"Excuse me," said Dario, passing in front of us with a large number of running shorts he was bringing to a customer waiting in at the door. We waited until he was finished so we could talk to him.

"Dario, did the loan from the EUS program influence the business much?"

"So much so that I left the job that I had. I actually used to work at a jewelry shop in the day and did this at night. When I started getting a better income, I left the jewelry shop and began devoting myself to this."

"What kind of results have you had?"

"It's been amazing!" Dario said. "We've got so many orders to fill, my wife and my mother have become salaried workers, and we've contracted three other seamstresses besides. Can you believe it? With the money we got we bought eight secondhand sewing machine stands and three tops, plus the two we already

had, making five complete ones to work on. We are now thinking of buying others in the next few months."

"Did you buy any materials for making clothes?"

"Yes, a lot. Especially elastic, trim, thread, and fabrics. Fabric for running shorts was something we needed urgently. So we acquired whole bolts of satin, khaki, linen, quiana, and waterproof taffeta."

"What is the major advantage of the loan?"

"Before, we had to sell immediately in order to recover our investment. Now we can give ourselves the luxury of making a few demands because we are better off. Everything is organized and the business runs to perfection. Now we have excess customers, and, even with costs, we have enough."

"What is your judgment of the program?"

"I feel it is excellent; it is the best opportunity for small industries to get ahead. Thanks to the program we have made progress, and we know of others who feel the same way."

"What do you think should be improved in the loan disbursal process?"

"As you know, the loan is made to groups made up of different people. We would like them to give a loan to family groups--in this case my father, mother, my wife, and me. And besides that, we would like to pay in shorter installments."

The happy shouts of a baby suddenly interrupted our conversation. It was Dario's baby girl, just over 1 year old, showing us her delight in seeing her father as she entered the shop in her mother's arms. He introduced us to his 22-year-old wife Ana Iris who was holding another baby in her arms, too--little Dario, born just a week ago.

"How can I not thank the program for the loan they gave me! This has ensured the future of my children, because the business is improving day by day, and this guarantees a better way of life for my family."

8. BENJAMIN JARQUIN BOBES: SHOEMAKER

This visit was to a shoemaker in the barrio Cristo Rey, a neighborhood in the south of the city where for decades the best shoemakers in the country have lived and worked. We stopped our car in front of a house similar to the others on the block.

Seated on the stoop was the man we were about to interview--stocky, of medium height, and middle-aged. He got up quickly to welcome us.

"I've worked as a shoemaker for 25 years," was the first comment he made to us when he had seated us in his overstuffed chair in the living room--a well-kept living room whose principal decoration was a large fish tank with dozens of bright-colored fish.

"Does my fish tank surprise you?" he asked with a smile, and added, "Even poor people have good taste!"

I complimented him on the evident care that he took, and he said, "You're not going to believe me, but these fish live and eat thanks to the loan from the Banco Popular. Because it's such an expensive hobby I was thinking of getting rid of them, but with the business I did with the Banco Popular loan enough money started coming in to give me the luxury of having fish in the house."

"You say you've had good business with this loan. What did you invest it in?"

"I bought soles and a lot of leather, heels, and a lot of prefabricated materials. I still have barrels of some of these materials. Because they gave me the loan in October, sales were good in December."

"What kind of shoes do you make?"

"A little of everything, depending on the season. In summer, sandals and open shoes, and in winter, closed shoes. When it's school time we make shoes for school. Right now we're only making sandals."

"Are you having good sales?"

"No, it's very bad. We have a hundred pairs here, and my wife has walked around for 3 days trying to sell them but she hasn't been able to."

"Why is that?"

"Because the shoe stores don't want to pay anything for them, and I would rather not sell than be exploited."

"It's not because you sell them at high prices?"

"No. The other shoemakers sell at the same price. The problem is that thousands of contraband shoes from China have been introduced into the market, and they're being sold very cheaply. As you can understand, we can't compete with them."

"And the shoemakers? They haven't denounced this irregularity?"

"Yes, the union did, even to the point of confiscating some of them, but the contraband shoes are still coming into the country. I feel that without a doubt the shoemaking business in Costa Rica has been ruined."

"You wouldn't recommend to anyone that they make shoes?"

"At this period of time, no. I raised my 10 children with this business, but now everything is different. Of course, there remains the possibility of going to the provinces and borders to sell them, but it's a risk because sometimes the trips are fruitless."

"Are you thinking of asking for another loan from the Banco Popular?"

"No. For the shoemaking business, no. I have surplus materials, but I can't sell them. I told you, this business is ruined," he said sadly, turning to gaze at the fish--a sign that he didn't expect a good future for the fish, either.

9. ISABEL SOLERA: STREET VENDOR

To the west of Avenida Central, about 100 yards from the Hospital San Juan de Dios, 35-year-old Maria Isabel Solera was selling pieces of sliced or peeled fruit. "Doñita [little lady], the pineapple slices are very expensive," one customer chides her.

"No, joven [young man], at ₡3 it's cheap! The entire pineapple costs ₡25," she answered while giving him the change.

The young man grinned and walked away. By his looks--with a tie and white shirt--he must be an office worker who is getting some tropical fruit before going back to work. This is the type of customer Isabel usually has--one of the many public employees who frequent this area or one of the many factory workers who add fruit as a desert to the lunch they brought from home.

At 3:00 this morning Isabel rose and prepared lunch for her three children, aged 13, 12, and 2. After leaving them in the care of her neighbor, she left her house in Hatillo (a barrio south of the capital) and walked to the market called Borbon. By 4:30 a.m. she had already haggled with the truckers who bring vegetables and fruits to the markets, put her day's merchandise in a little cart, and started toward her business locale two blocks away.

There she arranged all the fresh plums, mangos, and sweet lemons in as appetizing a way as possible, knowing that to a customer, a good display is like honey to a bee. At this point we interrupted her, and as she had been advised beforehand of our visit, she didn't seem surprised. She kindly offered us a large box to sit on, but we refused because we told her we would rather talk while observing her at work.

"I don't have much merchandise today because I'm waiting for my husband who's coming from the Zona Sur with avocados and mangos," she told us.

"Have you always sold fruit?" we asked as our first question.

"I've done everything. In my home town Guacima de Alajuela I sold used clothes. After I got married, my husband and I traveled around all the rural area selling new clothes. We went to Rio Frio, Limon, La Fortuna, Parrita, Quepos, and Guanacaste. We sold mostly women's clothes and houseclothes."

"What made you change your business?"

"Well, the children were born and we couldn't carry them around with us, so we decided to sell things in the city. We sold clothes and pocketbooks, and for Christmas, cards and confetti. Also apples, grapes, and pears."

"When did you decide to devote yourself exclusively to selling fruit?"

"A couple of years ago. I almost died when my last daughter was born, so I had to do lighter work. I set up a fruit stand on Second Avenue in front of Pop's. Everything was fine until the police kicked me out and sent me here."

"Is this a bad place to be?"

"It was bad at first because business was slack, but it has since picked up. The Banco Popular loans gave us the break we needed. Before, we barely had enough to buy merchandise on a daily basis, but with the loan we can buy whole crops."

"What do you mean, 'whole crops'?"

"Well, some fruit sellers go to the orchards and buy future crops of mangos, guayabas, plums, etc."

"How do they know what they're worth?"

"Well, they go there when the fruit is small to do some figuring, and make a verbal offer to the owner. Later when the

fruit is ripe they go and pay, and transport it bit by bit, so that it doesn't spoil or have to be refrigerated. It's there on the tree and they pick it as they need it."

"And with the loan what crops do they buy?"

"Mangos and avocados in the Zona Sur, and plums in Santa Ana."

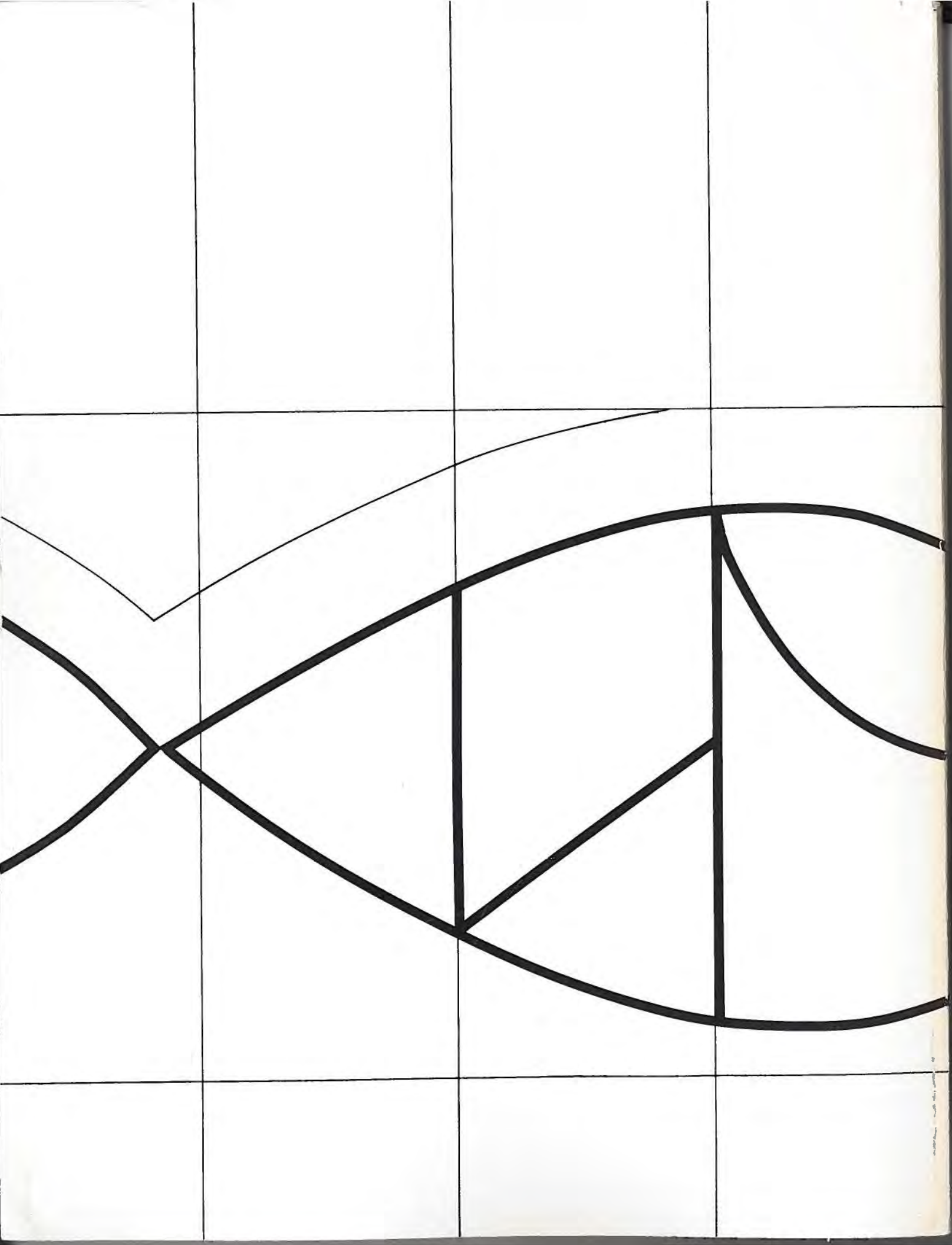
"Is this a good business?"

"Sometimes it's fantastic--you get 20 or 30 times what you pay for a crop. If it weren't for the loan we never would have been able to pay."

"Do you like the way the loan works?"

"Yes and no. I think it's very good, but what I don't like is paying in groups. I wish you could get an individual loan, so that when you go to pay the quotas you deposit something in a savings account."

"What have you invested your profits in?"

"You won't believe this. I've finished paying for our house, and we even have a little savings to buy the next crop of guayabas."

A young employee of the shoe store on the corner interrupted us to tell Isabel that her husband had called her from the Zona Sur. We said good-bye to her hurriedly, pleased to know another Costa Rican who knew how to use the opportunities offered to her.