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PISCES Phase II
Assisting the Smallest Scale Economic Activities
of the Urban Poor

**ASSISTING THE SURVIVAL ECONOMY:
THE MICRO-ENTERPRISE AND SOLIDARITY GROUP
PROJECTS OF THE DOMINICAN DEVELOPMENT FOUNDATION
(Revision & Update: 1984)**

By:
Jeffrey Ashe
Senior Associate Director
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FOREWORD

THE PISCES PROJECT

The Dominican Development Foundation program is part of the PISCES Project (Program for Investment in the Small Capital Enterprise Sector). PISCES has been funded by the Agency for International Development/Washington since 1978 to explore the feasibility of direct assistance to tiny informal sector enterprises.¹ In its justification for the funding of PISCES, the Agency noted that from 30% to 60% of the urban labor force in developing countries is comprised of 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, focusing on 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, might increase their income, employment and access to services.

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 field work, and the synthesis of the study results. The African and Asian components have been sub-contracted to the Development Group for Alternative Policies and to Partnership for Productivity, respectively. All three agencies are Private and Voluntary Organizations with considerable experience in small enterprise development.

In Phase I of the PISCES Project twenty projects in sixteen countries were studied and reported on, and the key elements of the most successful programs were synthesized.² In Phase II, demonstration projects in four countries have been implemented and evaluated,³ and the results are currently being synthesized in preparation for a final report in the Fall of 1984.

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 AID missions. The PISCES team is committed to reporting on program methodologies and results for their transfer to other countries.

¹PISCES Phase I, contract number SD-otr-C-0013.

²"Small Enterprise Approaches to Employment," the final report of PISCES Phase I, is available from the Office of Development Information & Utilization, Bureau for Science and Technology, U.S. Agency for International Development, Washington, DC 20523. 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.

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

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**EXECUTIVE
SUMMARY**

EXECUTIVE SUMMARY

The Dominican Development Foundation (DDF) is a private voluntary organization founded in 1965 that 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 AID approved funding for a feasibility study that clearly demonstrated the needs of the informal economic sector in Santo Domingo. PRODEME (Program for the Development of Micro-Enterprises) became operational in May 1981 and the first loans were disbursed to micro-business owners in July of that year.⁴

PRODEME includes two components: (1) a "solidarity group" component consisting of small groups of 5-8 members who mutually guarantee a loan made to the group for individual business purposes and (2) a "micro-enterprise" component consisting of 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" 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 that of increased income.

A. Solidarity group component

The businesses of the solidarity group component are much smaller than the "micro-enterprise" businesses, usually having no employees besides the

⁴PRODEME is funded by USAID (see footnotes 1 and 3), the Inter-American Foundation, Appropriate Technology International and local Dominican sources. From the start AITEC has provided technical assistance through a full-time resident advisor whose contract ended in August 1983.

owner. Eighty-three percent of the project's clients are tricycle cart vendors (**tricicleros**) and the other 17% are seamstresses, food vendors, or market stall holders and are known as the "working capital" group. The tricicleros of the program receive \$249 toward the purchase of a **triciclo** (which they previously rented) plus \$21 for working capital, to be repaid in 52 weekly payments. The "working capital" group members receive up to \$249 to be used for working capital only, also to be paid in one year. A flat interest rate of 24% per annum is charged.

Tricicleros are all male and are on the average 30 years old, whereas 3/4 of the working capital recipients are female, and on the 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, though not the most destitute members of society, and live in the poorest barrios of the city.

The solidarity group methodology emphasizes participation and the group members are encouraged to take an active role in the program. Those members already in the program 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 to pay their loans, and at the end of the course members select group presidents. The group attends barrio-level meetings for one to two months before the 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 eight weeks late the possibility of repossessing his triciclo (in the case of tricicleros), or 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 money lenders at exorbitant rates ranging up to 20% 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," 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, six in ten said they would prefer a group loan. Also, most (74%) said they would take out a second loan with the same group, 24% that they would take out one with some of the members of their group, and only 2% 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% and 70%, 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% have "good presidents," half the group have "good solidarity," and a third meet among themselves frequently to share ideas and advice. On the negative side, 85% 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 there has been one or more members who have sold or pawned

their triciclos. When asked to rate the groups they worked with, one strong trend was that the first groups that were formed 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 100% 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, known as the "Dominican Association of Tricicleros 'San Jose Obrero,'" showing 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 offices, 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 put in jail. An Association savings and loan cooperatives 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 a period of severe recession, the street economy will be affected adversely as well. The Dominican economy is in such a period of decline. When asked if current economic conditions made it hard to earn more, 88% of the tricicleros and 73% of the working capital recipients answered yes. Most all 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% 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 \$388 a year in rental fees, representing a 16% increase in yearly business income. The 17% who keep their triciclos at home will save an additional \$50 a year in garage fees. They are also able to ride further and faster with their new trikes, 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 before being reinvested.

Group members' opinions about the program

When asked what they liked about the program it is striking that, when added together, "solidarity" (25%) and "the emergency fund" (20%)—two things brought about by the beneficiaries themselves—rate higher than the loan, another indication of the beneficiaries' "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," giving hints as to ways the program might be improved.

Showing their desire for additional sources of working capital, 56% of the loan recipients, when asked to rank possibilities for new types of services the program could provide, said they would like a savings and loan cooperative or small working capital loans—while 28% said "a place to buy cheap merchandise," 14% "a course or class," and 2% said "trips or parties." Sixty-five percent feel the program should provide small working capital loans and 80% 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 need to be made.

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 resulting in increased administrative costs and unnecessary delays for the program's clients. On the programmatic side, the policies and mechanisms for granting second loans needed to be specified and a system by which smaller, shorter-term working capital loans could be granted needed to be created.

Problems with repayment became evident in April 1982. Before then, 100% of the payments were on time. By April this percentage had decreased to 80%, and by September 1982 was 67%. 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, one 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 the time required to collect on late and defaulted loans considerably and reduce the cost of administering the cost of 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 with the repossession of triciclos from individuals who refused to pay had increased the repayment rate from 67% to 78% for the newer groups and 68% for the older groups. Also, several second loans had been made and the DDF had experience with loan payback periods of as little as six 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 six 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.

B. 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 \$4,272 in total investment. The owners of these businesses average 38 years of age, 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 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 of 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 were demonstrated by the fact that the businesses assisted intensively by the program with loans and management assistance out-performed 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 of the program showed net increases of 31% in total investment, 24% in machinery and equipment, 25% in monthly sales, and a 20% increase in "aggregate value" (sales less the cost of raw materials—a simple measurement of overall business change).

Based on the September 1982 study, within the 101 assisted businesses, 141 new full-time equivalent jobs were created that paid an average of \$115 a month, representing a 64% net increase in employment compared to the control group. In a year the total amount of new salaries alone (\$195,206) would be greater than the total value of the loans (\$194,033). The program also increased the incomes of the owners by 27%. If it is considered 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, which for the purposes of the study were divided into four categories or levels of success. In profiling the most successful ones 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 juncture in their experience.

Job creation

An analysis was also made of the employees of the businesses. Were the jobs being created "marginal?"—apparently not. The average monthly salary of \$115 is above the minimum wage in the Dominican Republic of \$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 50% 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% of those working before the loan and 90% of those hired since the loan are still working.

The study also showed that micro-businesses are 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% 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.

Problems and recommendations

When asked in September 1982 what they liked best about the program, 40% of the clients said "the loan," 25% liked the comfortable loan terms, and 30% said they liked the courses. When asked what they didn't like, the "purchase order" rated the highest by far (46% 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 the delay in receiving the loan.

Recommendations for improving the program, based on the 1982 study, corresponded closely to the complaints of the clients. One suggestion was to eliminate the purchase order, perhaps experimenting by granting part of the loans without the purchase order, and then comparing the two groups as to their success and payback rates. Other improvements suggested were the simplification and speeding up of loan application and disbursement procedure.

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 process of approving a loan and providing follow-up, the number of visits to a micro-enterprise before a loan is approved has been reduced from an average of sixteen visits to eight. 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 those businesses that needed the help and were genuinely interested in adopting improved management techniques.

The program was modified also to counter some of the principal complaints of the clients. The use of the purchase order was reduced and short-term working capital loans were tried out on an experimental basis. Finally, the micro-enterprise staff were much more strict than they had been earlier. That these measures have been effective is reflected in the payback rate. By September 1982, payback was only 56%; one year later it was 71%.

C. Summary

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, and there were many positive indications of this: three-quarters of the members would take out another loan with

the same group, over half had recruited new members, and three-quarters of the group presidents would 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, 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 \$93 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 in the intervening year much progress was made.

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

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PART I

INTRODUCTION

THE DOMINICAN DEVELOPMENT FOUNDATION'S MICRO-ENTERPRISE PROGRAM

The Dominican Development Foundation (DDF) is a private voluntary organization founded in 1965 that 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 that clearly demonstrated the needs of the informal economic sector in Santo Domingo.⁵ In May of 1981 PRODEME (**Programa para el Desarrollo de Micro-empresas**) was launched by the DDF with AID funding and the first loans were granted in July 1981. Later the Inter-American Foundation, Appropriate Technology International and Dominican sources also provided funds.⁶

The program has two parts, a "micro-enterprise" component that reaches small artisan manufacturers with 2 to 3 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 effective methodologies developed by local organizations in San Salvador and Madras detected in 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 have been assisted. The amount loaned is shown on the table below:

⁵Estudio de Factibilidad: Programa de Micro-Empresas, Tomo I, II by Stephen R. Gross, Fundación Dominicana de Desarrollo.

⁶USAID provided \$500,000, the Inter-American Foundation provided \$385,000, and Appropriate Technology \$60,000.

TABLE 1

PROGRESS TO DATE

	<u>MICRO-ENTERPRISES:</u>			<u>SOLIDARITY GROUPS:</u>			Average per member	
	<u># of loans</u>	<u>Total amount</u>	<u>Average amount</u>	<u># of loans</u>	<u># of benefi- ciaries</u>	<u>Total amount</u>		<u>Average amount</u>
Jul-Dec 81	49	\$91,788	\$1,873	64	418	\$100,160	\$1,668	\$240
Jan-Jun 82	14	\$27,358	\$1,954	40	236	\$56,341	\$1,409	\$239
Jul-Dec 82	38	\$74,877	\$1,970	54	324	\$72,486	\$1,342	\$224
Jan-Jun 83	54	\$100,379	\$1,859	99	546	\$130,117	\$1,315	\$238
Jul-Dec 83	56	\$88,959	\$1,589	86	474	\$106,455	\$1,238	\$225
TOTAL	211	\$383,405	\$1,817	343	1,998	\$465,586	\$1,357	\$233

A. 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.⁷ Both programs reached over 2,000 businesses in less than two years, and were characterized by low cost, high payback and highly motivated clients. A small paraprofessional staff administered the programs.

Although they spanned two continents, 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 through assigning the bulk of responsibility to clients for promotion, selection, group formation and

⁷For complete descriptions of these programs see PISCES Studies, pp.162-192 and pp.141-148.

payback. This, in turn, fostered an 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" through group experiences that reinforce entrepreneurship and grassroots advocacy; increasing income; and assisting large numbers of businesses at low cost.

The solidarity groups of the DDF program are autonomously formed informal associations of 5 to 8 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% are collectors of bottles and cardboard, and 17% 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 **Asociación Dominicana de Tricicleros**—an important source of communication, skill development and support for program participants.

B. 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 2.6 full-time equivalent employees⁸ and \$4,290 total investment. The objectives of the mi-

⁸Part-time employees are counted as one-half a "full-time equivalent."

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 businesses 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 costs are also provided.

C. The two components compared

The methodologies of the two components contrast sharply. The solidarity group component reinforces collective responsibility through a highly participatory methodology, whereas the methodology of the micro-enterprise component tends to emphasize one-on-one technical assistance and has limited solidarity or associative objectives. Below, the methodologies of the two projects are compared:

SOLIDARITY GROUPS

Promotion

- word of mouth—informal conversation among friends, relatives and work-mates;
- meetings to explain program are set up and run by beneficiaries;

Selection

- consensual selection of group mem-

MICRO-ENTERPRISE

Promotion

- word of mouth—informal conversation between project participants and other micro-business owners;
- response to announcements in newspapers.

Selection

- suitability of client is determined

bers who will share responsibility for loan payment.

Guarantee

- loans are guaranteed through the group mechanism/repossession of property.

Mechanism

- clients form their own credit groups of from 5 to 8 business owners;
- group process is reinforced by regular meetings of the solidarity groups and barrio-level Association meetings.

Assuring loan payback

- group structure insures that those who do not repay will be pressured by other group members;
- if this fails, program coordinators can, as a last resort, repossess property purchased through the loan.

Management assistance

- exchange of ideas about improving business practices occurs informally through conversations with group members and more formally in meetings of the Association.

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.

by the project staff through an economic analysis of the business.

Guarantee

- loans are guaranteed by property, inventory or co-signers.

Mechanism

- one-on-one assistance to individual clients.

Assuring loan payback

- coordinators are advised of late payments and visits are made to the businesses;
- if this is not sufficient, legal procedures are carried out.

Management assistance

- program personnel teach clients how to improve their businesses in one-on-one sessions or in formal courses.

Beneficiary's role in the program

- aside from clients' activity in promotion and the courses, their role is limited.

Most appropriate client population

- very smallest businesses;
- may be appropriate for larger businesses, but this needs to be explored.

Most appropriate client population

- larger shops of 2 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.

As the two components of PRODEME are analyzed in the following pages, these methodological comparisons help provide an understanding of the differences in project income.

D. ACCION technical assistance

The role of the advisor to the Dominican Development Foundation, Stephen Gross, was to transfer specific skills and information within a pre-defined period, as is the typical procedure in any ACCION-assisted project. When the Foundation became interested in micro-enterprise development, he provided information on both 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, and was also largely responsible for designing and carrying out the initial feasibility study.

Since 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 the micro-enterprise component is currently using. In the initial months he worked side by side with the PRODEME staff, but 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.

E. Evaluation of PRODEME

A comprehensive evaluation of PRODEME was initiated as part of PISCES Phase II activities, focusing mainly on the solidarity group component,

but also, later, including the micro-enterprise component. The monitoring system was built into 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.⁹ In April of 1982 a second evaluation focusing on project methodology was completed.¹⁰

In September 1982 a comprehensive investigation was completed by Jeffrey Ashe with the assistance of Dominican University student-researchers and PRODEME coordinators. Interviews 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 were also interviewed.¹¹ 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 study¹² 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). The impact of the solidarity group mechanism was assessed through its evo-

⁹PISCES Phase II-The Solidarity Group Program of the Fundacion Dominicana del Desarrollo with Technical Assistance from ACCION International/AITEC: The First Eight Months, by Susan Sawyer.

¹⁰"Extending Credit to Urban Hawkers and Cottage Enterprises: Reaching Large Numbers at Low Cost Through Credit Guarantee Groups," by Jeffrey Ashe.

¹¹Assisting the Survival Economy: the Microenterprise and Solidarity Group Projects of the Dominican Development Foundation (1983 edition), by Jeffrey Ashe, ACCION International/AITEC.

¹²The Dominican Association of Tricicleros 'San Jose Obrero': A Case Study in Local Empowerment, ACCION International/AITEC.

lution into a grassroots organization of tricicleros. Organizational and educational skill development that resulted from participation in the Association of Tricicleros were 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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PART II
THE SOLIDARITY GROUP
COMPONENT

DESCRIPTION OF PROGRAM BENEFICIARIES

The principal beneficiaries of the solidarity group program (83% of the groups) are **tricicleros**, men who pedal heavy cargo trikes 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. The rental fee ranges from 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 to liberate themselves from dependency on the agencies.

The remaining 17% of the solidarity groups are 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.

Below, the personal characteristics of the two groups are profiled:

Tricicleros

Is working as a vendor, principally of fruits and vegetables or as a collector of bottles, cardboard or metal.

Is a male head of household (there are no female tricicleros): 88% are heads of households averaging between 5 and 6 members.

Working capital loan recipients

Is working as a sidewalk vendor, a market stall holder or a cottage artisan, most likely a seamstress.

Is a female head of household: 3/4 of the working capital loans are to women business owners. Of these, 58% are heads of households and 15% are wives; the rest are other adults living in the household. Of the men, 75% are heads of households. Households average between 6 and 7 members.

Average age 30: virtually none are over 50; peddling a heavily-laden triciclo through the streets of Sto. Domingo is work for the young.

Average age 38: three-quarters are between 21 and 50.

Is poorly educated: average 4 years.

Is poorly educated: average 4 years.

Is an immigrant to Sto. Domingo: only 4% were born in Sto. Domingo.

Is an immigrant to Sto. Domingo: only 5% were born in Sto. Domingo.

Is a long-term urban resident: average 9.6 years. Only 18% have been in Sto. Domingo 3 years or less.

Is a long-term resident: average 14 years. Only 2% have been in Sto. Domingo 3 years or less.

Has lived in the barrio for several years: average 5.5 years.

Has lived in the barrio for several years: average 6.5 years.

Works long hours and is experienced: a triciclero's work week averages 48 hours, 6 eight-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.

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 also 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.

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:

TABLE 2
SOURCES OF FAMILY INCOME

SOURCES OF INCOME	TRICICLEROS	WORKING CAPITAL
Spouse of owner	6%	46%
Another family member	13%	32%
Secondary employment of owner	2%	19%
Other source of family income (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; of that income, 95% is derived from the owner's business. For the families of working capital groups, family income averages \$10.10, of which 65% 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 3
PERCENTAGE OF FAMILY INCOME DERIVED FROM BUSINESS

PERCENTAGE OF TOTAL FAMILY INCOME	TRICI- CLEROS	WORKING CAPITAL
75% - 100%	87%	42%
50% - 74%	9%	14%
25% - 49%	4%	18%
0% - 24%	0%	26%

The greater age and income of the working capital loan recipients is 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 TV and a refrigerator; these percentages for the tricicleros are 26% and 9% respectively.

DEVELOPMENT OF PROGRAM METHODOLOGY

A. 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 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% interest rate was charged—\$59.76 for a \$249 loan over the one 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. A typical account of the formation of a solidarity group portrays one member hearing about the program from another triciclero and returning 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 are brothers, several groups even having two sets of brothers. What were these enthusiastic tricicleros looking for? Most members said they were looking for a better life and that the FDD program seemed like a way to improve their economic condition.

Between December of 1980 and May of 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% 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 quotas entrusted to them, and in a few groups distrust was so great that individuals demanded to pay 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** ('neighborhood') 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 100% payback.

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 it would maintain the 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 re-instituted.

This was also when the directors 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 has evolved out of these circumstances is essentially unchanged today and will be described in detail below.

B. Current program methodology

The first step—promotion and group formation—has been in the hands of the clients since the beginning. By taking 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** ('pre-members') at a time.¹³ Those not qualified or not sufficiently interested drop out, and the remaining individuals recruit new members, who must also attend the same 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 one to two months, where the PRODEME coordinators provide further orientation and training, before they 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 have been business owners for at least one 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, a check is given to the solidarity group members.

¹³These 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 6 barrio-level meetings held in different parts of the city.

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 eight 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.

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% of the PRODEME credit analyst's time and 40% 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.

- First, 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.
- Second, the program has well-focused goals. It is perceived by the beneficiaries as "do-able," and is easily explained by program clients to their co-workers.
- Third, 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.
- Fourth, 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, etc.

- Fifth, the minority of 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 is essential for the dynamic expansion of the program.

- Sixth, 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 where 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.

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 1983.¹⁴

¹⁴The Dominican Association of Tricicleros 'San Jose Obrero': A Case Study of Local Empowerment, by Rebecca Reichmann. ACCION International/AITEC, February 1984.

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. Solidarity Group #1 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 one of the members' garage. The ACCION advisor attended many of the first meetings and gave organizational advice when needed, but otherwise 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 man needs other men in order to live." One of the first projects was taking a collection to pay for a stolen triciclo, and these leaders effectively support 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 did seem specially 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 that, for example, 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 the prison if any

of their members were put in jail.

A year and a half later, the loan fund had grown considerably, strictly through contributions by the members, and loans ranging from \$5 to \$25 were approved and disbursed. Also by September 1982, the Association had its own meeting place where rent was paid for by a 10-cent 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 collecting the loan payments.

By September the meetings were 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 the development of leadership skills, including public speaking, organizing, and financial management, for waking aspirations of community members, especially young people's, and for the diffusion of values (education, savings, group responsibility, new business practices, conscientiousness). Also, 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.

MEASUREMENT OF "SOLIDARITY"

As the PISCES team studied various forms of credit guarantee groups in the Phase I research, it was 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 possible "social spill-overs" of organizing poor people into groups around their economic activities. It was thought that bringing people together by offering them something that was universally desired and needed—credit—that the people themselves would take a major initiative in promoting the program (which they did). Also, it was felt, 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).

A. Clients' responses to questionnaire on group solidarity

In the September 1982 questionnaire, solidarity group members and presidents were asked several questions that were thought to measure 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.¹⁵ 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% would prefer to take out a loan with the same group, 24% with some members of the same group, and only 2% would prefer to take out their loan with another group.

Another gauge of solidarity is the degree of commitment of their 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%)
- 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 these activities in their groups:

- Collect the loan quota (100%)

¹⁵Numbers of responses to open-ended questions are based on a constant analysis of responses. Quotes are taken directly from the interviews.

- 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% of the tricicleros and 52% 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% 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.

B. 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. Payments were 100% on time, and the formation of new groups proceeded rapidly. Then payback problems began to occur. With so many pressing needs—a sick child, money lenders 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." The results were as follows:

TABLE 4
COORDINATORS' OVERALL RATING OF SOLIDARITY GROUPS

<u>Date loan received</u>	<u>Before the loan</u>	<u>First months of the loan</u>	<u>Now</u>
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	2.99

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 loans for ten months or more were rated on the average as "a group with problems." For the groups with loans less than ten months, who had been exposed only to the new program methodology that included training courses and more stringent qualifications for membership, the rating was between "average" and "better than average." Because of these changes in methodology, these newer groups did not have as severe problems 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 promoters rate 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 out informally in various ways—such as by giving advice as to 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.

- A third of the groups meet among themselves frequently (at times other than their weekly barrio-level or Association meetings) to share ideas and problems; a 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 a had one or more late payments.

- In a 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 a 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't be used to generate income. In a quarter of the triciclo groups there have been one or more members who have sold or pawned their triciclo.

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

- In 28% 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% of the groups would be good second loan candidates.

IMPACT ON INCOME

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

Before presenting the results, however, they should be placed within 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 see to what degree the declining Dominican economy in the last two 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:

- 88% of the tricicleros and 73% of the working capital group members agreed that economic conditions made it difficult to earn more;
- 97% of the tricicleros and 91% of the working capital group members agreed that the cost for the items they are selling is higher now;
- 67% of the tricicleros and 52% of the working capital groups members report that they are selling more now, but because of rising costs a majority are earning less now than when they entered the program.

The random sample of groups representing 120 beneficiaries of the program showed that income had decreased 11%.¹⁶ This data corresponds

¹⁶The program coordinators feel that the decrease in income is more apparent than real. They explain it this way: "They over-represent 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.

fairly closely to the loan recipients' perception of whether they are earning more now than before. Of the tricicleros, 44% perceive they are making more money than when they entered the program, 47% feel they are earning less, and 3% feel they are earning the same. For the working capital groups these percentages were: 57% earning more, 32% earning less and 5% earning the same.

That the aggregate income had decreased between loan disbursement 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, or 62%.

Are the members of the program better off because they joined the program?

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%). Even if the triciclo is sold, the \$200 that it will bring could help cover a major family emergency, obviating the need to use money lenders.

Additionally, some tricicleros are cutting operating costs in other ways: 17% 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% 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 bikes, making it possible to expand their markets. Finally, lending for working capital among themselves will lessen the cost of interest paid to money lenders. Because of the program, tricicleros are cutting costs and selling more despite lower overall income; without the program their income would have declined 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 merchandise in bulk and keep prices down. To cover these extra costs they often turn to money

lenders, 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, and with the tricicleros these benefits should continue for several years, if the triciclos are not sold. If a triciclo only lasts five years (a conservative estimate) the savings in rental fees alone will total \$2,340. If to that is added the other cost-cutting benefits of owning a triciclo, the total new income generated as a result of the loan should be even higher.

CLIENTS' EVALUATIONS AND RECOMMENDATIONS FOR THE PROJECT

A. The loan recipients evaluate the project overall

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 what the beneficiaries have brought about themselves—the "solidaridad" with other group members and the emergency loan fund of the Association—rate higher than the loan, when added together.

TABLE 5

WHAT RESPONDENTS LIKE BEST ABOUT THE PROGRAM

The loan	42%
Solidarity	25%
The emergency fund	20%
Training given by the DDF staff	7%
Everything	6%

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')."

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

When asked what they didn't like about the program, respondents were as likely to be critical of the way some loan recipients had participated in the program as of the program itself:

TABLE 6

WHAT RESPONDENTS LIKE LEAST ABOUT THE PROGRAM

I like everything	36%
The irresponsibility of some group members	25%
The long delay in receiving the loans	13%
The emergency loan fund isn't functioning yet	7%
The way the loan payments are made, or the loan terms	6%
Other responses	12%

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."

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

B. What additional services do the 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. At that time the 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 chose which of these services would be most important to them, and which would be the second most important. The need expressed most commonly by the loan recipients is for additional sources of institutionalized capital, either

through small working capital loans or a savings and loan cooperative. These two categories represent 57% of the first and second priority responses. In another part of the questionnaire 65% 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, one 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 two months or less, and approval for second loans, once the first loan has 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%, 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% of the tricicleros, who had received \$21.50 along with their tricicleros, and 79% of the working capital loan recipients, who had received \$249, were still using the working capital provided them from the loan. Not surprisingly, once the working capital of the loan was used, they began to turn once again to informal sources of capital such as money lenders on the street, family or friends, or businesses where they sell. Currently a quarter of the loan recipients are using informal credit sources—40% of the tricicleros and 13% of the working capital loan recipients.

Loans from informal sources of credit are almost exclusively daily (47%) or weekly (43%). 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% daily or weekly being very common)

that they severely cut into profits.

How much working capital would they like to receive from the program? These terms and amounts were suggested by the beneficiaries:

TABLE 7
TERMS AND AMOUNTS OF WORKING CAPITAL LOANS SUGGESTED BY CLIENTS

<u>Payback period</u>	<u>Responses</u>	<u>Median amount</u>
DAILY	1%	\$25
WEEKLY	9%	\$20
MONTHLY	21%	\$35
OVER A MONTH	68%	\$65

The amount suggested is only slightly larger than the loans commonly being secured from money lenders, but the repayment period they are suggesting is at least one month. Even if the program charged 4% a month for these loans, this would be 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 a full fifth, would become a negligible cost.

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% 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% would start new businesses. Only a 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; a quarter want less than the first loan (\$300); a third want \$300-500; a fifth want \$500-900; and a quarter want \$1,000 or more.

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 still need to be made.

Some program improvements have already occurred—for example, as early as April 1982, a careful evaluation of the program made by the DDF had resulted in several changes, including the addition of mandatory training courses and more time spent with groups to insure that their members knew each other well and came from the same neighborhood. Also, program promoters insisted that solidarity groups attend Association meetings before the loan was given. If they didn't 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 promoters rated those formed after these changes were made far higher than the ones 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 Salvador¹⁷ was able to complete the loan process in under a month. The solidarity group coordinators feel they could process many more loan proposals if administrative procedures were more agile. The program could serve more clients and reduce the costs per loan—which averaged 28% as compared to the interest rate of 24%, implying a subsidy of \$65 for an average \$1,497 loan.¹⁸

Payback

Between April and September 1982 payback had dropped from 80% to 67%, despite the DDF's previous 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 the solidarity group members to pay 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 arose. They noted that in the few instances where 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 if there were little possibility of getting a second one and when there were 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 repayments 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.

¹⁷See PISCES Studies, PRIDECO/FEDECCREDITO Project, pp.165-192.

¹⁸The 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.

Most recent changes

In the intervening year 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% among the newer groups and 68% among the older groups.

During this period:

- Second loans were given to various groups. The lack of a second loan was a disincentive to pay the first.
- Shorter term, smaller working capital loans of 6, 8 and 10 months were made. The smallest loan was \$83 for 6 months.
- The Foundation is encouraging the promoters to be much more strict about loan repayment. In September 1983 the promoters, 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, essential if this organization is going 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 terms of 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 is half that now.

PART III
THE MICRO-ENTERPRISE
COMPONENT

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 on the characteristics of the potential beneficiaries of the micro-enterprise component of the program—very small-scale businesses with a fixed location. While 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 Part II, 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% or 7,668 were "micro-businesses" with fewer than six employees and \$8,300 total investment. Of the businesses identified, 56% were commerces, 26% were services, and 18% were manufacturers.

The detailed findings of this study can be found in the report cited below.¹⁸ It was important to see, 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% the size of the businesses of the program in terms of monthly costs for raw materials, monthly sales and number of employees. While the businesses of the program are somewhat larger than the average businesses of the study, they are by no means the largest.

PROJECT IMPACT

A. Comparison of the controls and the businesses assisted by PRODEME

To see if the progress of the businesses assisted intensively by

¹⁸Gross, Stephen, 1980.

PRODEME with management training and loans was attributable to the program or would have occurred without the program, 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 "non-participant" businesses 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.¹⁹

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. The businesses of the program out-performed the controls by 29.2%.

TABLE 8

COMPARISON OF CHARACTERISTICS OF BUSINESSES INTENSIVELY ASSISTED AND CONTROLS (BETWEEN 6 MONTHS AND ONE YEAR FROM FIRST CONTACT)

VARIABLES	BUSINESSES INTENSIVELY ASSISTED/			CONTROLS		
	FIRST CONTACTS	NOW	% CHANGE	FIRST CONTACT	NOW	% CHANGE
TOTAL INVESTMENT	\$4,244	\$5,839	37.6	\$5,057	\$5,391	7
VALUE OF MACHINERY & EQUIPMENT	\$2,203	\$3,028	37.5	\$2,596	\$2,971	14
MONTHLY SALES	\$1,553	\$1,862	19.9	\$1,000	\$950	-5
MONTHLY COSTS FOR RAW MATERIALS	\$586	\$611	4.2	\$288	\$318	10
AGGREGATE VALUE*	\$977	\$1,029	5.4	\$712	\$607	-15
NUMBER FULLTIME EQUIV. EMPLOYEES	2.21	3.77	70.6	2.23	2.38	7
AVERAGE	—	—	29.2	—	—	3

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

¹⁹Of the control group of 24, three businesses (13%) 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.

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:

- Total investment in the business: net change +30.6%, \$1,293 per business.
- Total investment in machinery and equipment: net change +23.5%, \$518 per business.
- Monthly sales: net change +24.9%, \$387 per business.
- Monthly cost for raw materials: net change -5.8%, -\$34 per business.
- Aggregate value: net change +20.4%, \$203 per business.
- Full-time equivalent employment: net change +63.6%, or 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, then, is \$131,159 in new investment, of which \$52,284 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 \$468,777 in sales and 141 full-time equivalent jobs paying an average of \$115 per month (\$195,206 per year). The amount of new salaries is greater than the total value of the loans (\$194,033). If to this is added the increase in the owners' income of an estimated \$57,270 a year (a 27% 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 one year, then this program has proved itself in terms of increasing income and creating jobs.²⁰

B. The businesses of the program compared with each other

In the analysis of the data on the impact of the program, the sample

²⁰An 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 \$274,078, monthly sales would have increased \$81,610, and full-time equivalent employment 295, if the same rates of increase for the business recently assisted was equal to those assisted earlier.

of businesses intensively assisted by the program was divided into four categories of 12 businesses each: (1) those whose "aggregate value" had increased 96% or more, (2) those whose aggregate value had increased from 19% to 80%, (3) those whose change in aggregate value was only slight (+14% to -14%), and (4) those whose aggregate value had decreased more than 15%. These four groups of enterprises were compared according to these 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 between the 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?

Degree of business success

The most successful businesses, those whose aggregate value had increased 95% or more, out-performed the rest of the businesses of the program on almost every indicator of business success. This 25% 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.²¹

²¹This 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 9
INDICATORS OF SUCCESS FOR ASSISTED BUSINESSES

<u>CATEGORIES</u>	<u>MOST SUCCESSFUL</u> (AGGREG. VALUE 96%+)		<u>NEXT TWO CATEGORIES</u> (AGGREGATE VALUE +18% TO -14%)		<u>UNSUCCESSFUL</u> (AGGREGATE VALUE LESS THAN -14%)	
	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>	<u>\$</u>	<u>%</u>
TOTAL INVESTMENT	\$3,577	36%	4,895	25%	3,723	34%
INVESTMENT MACHIN- ERY & EQUIPMENT	2,605	32%	2,367	38%	1,611	45%
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 (FULLTIME EQUIV.)	2.2	132%	2.35	54%	1.8	56%

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. 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" or "has problems." From the perspective of the beneficiaries, the owners of most successful businesses feel they are close to "much better than when they started", and the rest were rated by themselves as "a little better."

TABLE 10

COORDINATOR'S PERCEPTION OF SUCCESS OF ASSISTED BUSINESSES

	MOST SUCCESSFUL (AGGREGATE VALUE 96%+)	NEXT TWO CATEGOR- IES (AGGREGATE VALUE 18% TO -14%)	UNSUCCESSFUL (AGGREGATE VALUE LESS THAN -14%)
<u>Evaluation of coordinator</u>			
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
<u>Owner's perception</u>			
Things are much bet- ter now (5), Things are much worse now (1)	4.5	3.7	3.9

Program inputs

It might be expected that the differences in degree of success was 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 was virtually identical in terms of the size of loan and the number of visits provided by the program coordinators.

TABLE 11

PROGRAM INPUTS FOR ASSISTED BUSINESSES

	MOST SUCCESSFUL (AGGREGATE VALUE 96%+)	NEXT TWO CATEGOR- IES (AGGREGATE VALUE 80% TO -14%)	UNSUCCESSFUL (AGGREGATE VALUE LESS THAN -14%)
Size of loan	\$1,809	\$1,885	\$2,096
Visits from coordi- nator before loan	18	16	15
Visits from coordi- nator after loan	17	15	17
Courses	1.0	1.0	.4

Adoption of management advice

There was, however, considerable difference in the 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.

TABLE 12

ADOPTION OF MANAGEMENT ADVICE BY ASSISTED BUSINESSES

EVALUATION OF COORDINATORS	MOST SUCCESSFUL (AGGREGATE VALUE 96%+)		NEXT TWO CATEGO- RIES (AGGREGATE VALUE 80% TO -14%)		UNSUCCESSFUL (AGGREGATE VALUE LESS THAN -14%)	
	FIRST CONTACT	NOW	FIRST CONTACT	NOW	FIRST CONTACT	NOW
BOOKKEEPING	.6*	2.8	.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

*0=none 1=deficient 2=worse than average 3=neither good
nor bad 4=better than average 5=excellent

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. The owners of the businesses most successful in terms of increased aggregate value, compared to the others assisted by the program, are younger and better educated, 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.

TABLE 13
PERSONAL CHARACTERISTICS

	<u>MOST SUCCESSFUL (96+)</u>	<u>NEXT TWO CATEGORIES (80 TO -14)</u>	<u>UN- SUCCESSFUL (-15 OR LESS)</u>
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

Based as it is on a few cases, this analysis is inadequate to develop 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 to the community. Faced with a growing family and rising expectations, this business owner 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.

C. Changes in businesses during the period of management assistance before the loan is granted

All the businesses of 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.

TABLE 14
CHANGE IN ASSISTED BUSINESSES
ATTRIBUTABLE TO MANAGEMENT ASSISTANCE

VARIABLE	% INCREASE, FIRST CONTACT TO STUDY	% OF TOTAL CHANGES OCCUR- RING 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%

What is more, the adoption of the business management suggestions made by the PRODEME promoters 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.

TABLE 15
LEVEL OF MANAGEMENT

VARIABLE	FIRST CONTACT	DATE OF LOAN	NOW
Bookkeeping	.7*	3.3	2.2
Marketing	1.7	2.5	2.4
Managing employees	2.3	2.9	2.9
Organization of production	1.7	2.9	2.9
AVERAGE	1.6	2.9	2.6

*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. 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 the PRODEME coordinators had with the 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 16
QUALITY OF BOOKKEEPING

AGGREGATE VALUE	FIRST CONTACT	DATE OF LOAN	NOW
96%+	.6	3.7	2.8
19% to 80%	.6	3.5	2.6
14% to -14%	.4	3.0	2.3
Less than 15%	1.1	2.8	1.1

A major debate among small enterprise 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 of 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.

D. 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.²²

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%) are making less than the minimum wage, calculated on the basis of full-time employment.²³

²²The distinction may be somewhat academic since it assumes that a choice is possible (i.e., that the jobs are available in larger modern enterprises).
²³For example, the income of a worker employed 1/4 time was multiplied by four.

TABLE 17
SALARY LEVELS

<u>MONTHLY FULL-TIME SALARIES</u>	<u>PERCENT OF EMPLOYEES</u>
\$50 or less	13%
\$51-82	18%
\$83-104	22%
\$105-165	17%
\$166+	31%

Salary is closely related to experience. While half or more of those earning under \$104 have no experience in this line of work, this percentage drops to 27% of those earning from \$105-165 a month and to 38% of those earning over \$166. Over half of those making \$166 or more a month have five years of experience or more, and only 12% of those who earn under \$104 have had this much experience.²⁴

Younger workers who are learning a trade tend to be paid less than minimum wage; once they are trained, they earn considerably more than the minimum wage. All of the 14 or younger group and 77% of the 15- to 19-year-olds earn under \$104 a month. By age 25 nearly three-quarters are earning over \$104 a month and nearly half are making \$166 or more.

TABLE 18
AGE OF EMPLOYEES RELATED TO MONTHLY INCOME

<u>SALARY</u>	<u>14 OR LESS</u>	<u>15-19</u>	<u>20-24</u>	<u>25-34</u>	<u>35-44</u>	<u>45 OR MORE</u>
UNDER \$105	100%	77%	44%	27%	17%	20%
MORE THAN \$105	0%	23%	46%	73%	83%	80%

²⁴The employees of microenterprises are predominantly male (89%). 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% of the males.

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, countering the concern among many 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 by the fact that, with more experience, they can realistically expect to earn considerably more.

Duration of employment

One concern expressed by many of those interested in assisting informal sector enterprises is that once the business owner has received working capital there would 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. It is a question of whether the working capital would be used up quickly or would 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% kept their jobs seven months or more after the loan was granted, and the rest kept their jobs for less time.²⁵

What skills have been 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, eight in ten of those making under \$166 a month report they have learned something new in their employment; six in ten of those making \$166 or more say they have learned something new.

²⁵Overall, 63% of the employees are working full-time, and 13% more are working close to full-time (3/4 time). Another 15% are working half-time and 9% are working 1/4 time. There is no strong relationship between the number of hours worked and income per hour.

Of those who said they have learned something new, 8% said they had learned to use a machine, 20% said they learned to repair cars, machines, electrical appliances, etc., and 56% said they learned to make clothes, furniture, shoes, handicrafts, etc. 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%) 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.

Who are the employees of micro-enterprises?

The employees of micro-enterprises tend to be young—the largest category is from 15–19 years of age and only 11% are over 35. The young workers are often apprentices.

TABLE 19

AGE OF EMPLOYEES OF MICRO-ENTERPRISES

<u>AGE</u>	<u>PERCENT</u>
14 OR YOUNGER	5%
15–19	34%
20–24	29%
25–34	23%
35–44	6%
45 OR OLDER	5%

Only one-fifth of the employees are relatives; at this level of established enterprises the owner is much more likely to hire people outside the family.

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 of 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.

PARTICIPANTS EVALUATE 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? and what would they like changed?

What did they like best about the program?

What they liked most about the program was the loan (40%). They also feel that "the loan terms are comfortable" (25%) and that these terms "permit a person to pay according to his ability without so many requirements." They continually emphasize that "the program is better than the money lenders." The courses provided by the program also rate high (30%), 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."

What do they like least about the program?

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

- (1) the purchase order—46%²⁶

²⁶With 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 he can choose from 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.

(2) the slowness of receiving the loan—14%

(3) the terms of the loan—21%

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% of the value of their loans through having to use 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.

What changes are desired by the participants?

What changes do the program participants suggest to make it better? Not surprisingly, the biggest category was to abolish the purchase order (38%). 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%): 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%) 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 underscore the recommendations made in the next section.

CONCLUSIONS, PROBLEMS AND RECOMMENDATIONS

A. 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 businesses of the program out-perform the control groups on every measure of business success. It is noteworthy that an average of 1.4 new full-time equivalent jobs have been created for each business assisted and that 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%. 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, a quarter made truly substantial progress, increasing their aggregate value nearly twofold, another quarter made modest but substantial progress, another quarter are more or less the same as when they entered the program, while the "aggregate value" of the last 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 juncture in their experience.

Finally, an analysis was made of the employees of the businesses. Were the jobs being created "marginal"?—apparently not. The average monthly salary of \$115 is above the minimum wage in the Dominican Republic of \$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, three-quarter are earning more than \$104 and 50% are earning over \$166 a month. It is encouraging that 80% of those working before the loan are still working.

The study also showed that micro-businesses are 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% 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.

B. 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 was to serve its clients better. The comments by the project beneficiaries underscored many of these areas:

- The purchase order that 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 client. 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% the value of the loan to administer the loan and provide management assistance, almost twice the cost of the solidarity group component (the solidarity group component cost 24%). 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.

C. 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 to lower administrative costs and obtain a better payback rate. Suggestions were made in five major areas:

- Since the purchase order is a major area of concern to project beneficiaries and loans are already guaranteed by co-signers and property, the elimination of the purchase orders should be considered.
- Ways of simplifying the loan application procedure needs to be experimented with. Loan applicants reported that repeated visits for more information when the loan proposal is being prepared are troublesome. Whether so much information is necessary to judge a business' eligibility is questionable.
- Loan terms should be adjusted somewhat to reflect the conditions of the Dominican economy.
- Providing management assistance more through courses than through the almost weekly visits should be emphasized. Weekly visits are expensive and the courses have had high acceptance among the beneficiaries.
- Finally, ways to speed the process of loan disbursement need to be developed. The DDF should try to cut the time required to get a loan disbursed.

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 insuring payback and for training.

- Taking quicker action with those who are late in their 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 most of these areas:

1. Simplifying the process of approving a loan and providing follow-up:

- 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 was eliminated, once it was realized that for businesses at this level these calculations had little relevance.
- 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%), those who had "low" management skills (20%), and those whose skills were considered "average" (55%). Those in the first two categories were given little assistance (every two weeks to one 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, the aspect of the program that the clients least liked. 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 clients' 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 experimented with. Before, all the loans had to be paid back in one to two years, although at times they could have been paid back in three to six months. Many times this "extra liquidity" was wasted, causing problems later.

To be sure that the micro-business owners have a "line of credit" open to them, the promoters began the loan approval process two months early so that the check is ready when the loan is 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 very real possibility of receiving a second loan have created a more positive attitude among the clients.
- The promoters now have more expertise, and they select better candidates to receive loans. They have learned through experience that those who pay best are those 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.

CONCLUDING COMMENT

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

- the validity of a credit guarantee or "solidarity" group mechanism to guarantee loans;
- the ways this group can, under the right circumstances, assume a social as well as strictly 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 the credit of the institution that project methodology has evolved to meet these needs better. 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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