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PROGRAM FOR INVESTMENT IN THE  
SMALL CAPITAL ENTERPRISE SECTOR:  
PISCES PHASE II

ASSISTING THE SMALLEST ECONOMIC  
ACTIVITIES OF THE URBAN POOR

A Report on the Second in a  
Series of PISCES Workshops

June 21-22, 1982  
Washington, D.C.

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by:

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## TABLE OF CONTENTS

Introduction.....	1
PISCES Project: Origin and Purpose.....	3
PISCES Phase II Projects.....	6
Development, Implementation and Evaluation of Income-Generation Assistance Projects: Reflections on Six Sets of Issues.....	23

## INTRODUCTION

A 2-day PISCES workshop was held on June 21-22 at the Carnegie Endowment for Peace and the American Institute of Architects in Washington, D.C. The purpose of the workshop was twofold. First, to present what had been learned from working over the past two years with local organizations (in Kenya, Egypt, The Dominican Republic, the Philippines and Bangladesh) to help develop or expand programs that assist the smallest economic activities of the urban poor. Second, drawing upon the experiences of workshop participants as well as the past and current work of the PISCES team, to shed light on issues related to the development, implementation and evaluation of income-generation assistance programs.

This report on the workshop is divided into three sections:

- I. The PISCES Project: Origins and Purpose
- II. PISCES Phase II Projects
  - The Small Business Scheme of the National Christian Council of Kenya
  - The Solidarity Group Component of the Micro-Enterprise Assistance Project of the Dominican Development Foundation
  - The Micro-Industries Development Society of Bangladesh and the Micro-Industries Development Center in the Philippines
- III. Development, Implementation and Evaluation of Income-Generation Assistance Projects: Reflections on Six Sets of Issues

The first section of this report draws on the presentation made at the workshop by Michael Farbman, the PISCES project manager at AID/Washington. The descriptions of the PISCES Phase II projects in section two are based on the presentations made by Fred O'Regan, Jeffrey Ashe and Jason Brown.

All members of the PISCES team stressed the point that their descriptions of the PISCES Phase II projects should be considered as interim reports. The length of time it took to develop and fund these projects through the AID bureaucracy and the very short time the projects have been operational preclude the PISCES team from drawing any definite conclusions regarding the impact of the projects, or even the relative effectiveness of the different approaches being implemented. The projects in Kenya and the Dominican Republic, for example, reflect different lessons learned during PISCES Phase I, even though they share important characteristics (e.g. both are being implemented

by experienced non-governmental organizations and both seek to achieve social as well as purely economic objectives). The Kenyan project started with the capacity to offer a broad array of services (e.g. group formation, bookkeeping assistance, marketing advice, credit, etc.) to its clients, while the Dominican project started with a minimalist approach, offering only credit and an opportunity for clients to organize themselves. Both these projects, however, have been modified over the past year, and the need to respond to emerging issues may make the two projects less different than they were initially. The similarities and differences between these two projects will be monitored carefully over the coming year.

The third section of this report tries to capture some of the flavor and essence of the discussions among participants which occurred during the second day of the workshop. These discussions were structured around the following sets of issues:

- Goals and assumptions of income-generation assistance projects
- Characteristics of effective implementing organizations
- Purpose and methods of group formation and development
- Criteria and mechanisms for client selection
- Determinants of the mix, order and intensity of non-financial services
- Determinants of credit needs and terms

Each member of the PISCES team took responsibility for leading off a discussion by framing what he thought was the most critical question or issue to be addressed. The discussions which followed these presentations did not take any predetermined course; they flowed naturally as participants, both explicitly and implicitly, raised questions and issues of concern to them and took issue or agreed with others in the room. No attempt was made to reach consensus at different points; when participants appeared to exhaust one topic, they moved, or were requested to move, to another.

Even a cursory perusal of the presentations of the PISCES Phase II projects and excerpts from the discussions among the workshop participants is sufficient to reinforce the feeling we had at the time, that the workshop had been both productive and stimulating. The PISCES team would like to thank all those who contributed to its success.

THE PISCES PROJECT: ORIGIN AND PURPOSE - Michael Farbman, USAID

PISCES is an acronym. It stands for the "Program for Investment in the Small Capital Enterprise Sector". Its purpose was to improve AID's understanding of the nature and constraints of the small-scale enterprise (SSE) sector, and eventually to upgrade AID's ability as a development organization to design, implement and evaluate projects which promote employment for AID's target group through provision of assistance to institutions, individuals and enterprises associated with this sector.

Under the "Small Enterprise Approaches to Employment" umbrella, three separate sub-projects were contracted. The first was designed to further AID's understanding of the relationship between housing improvement and employment. The second sub-project was designed to examine evaluation methodologies relevant to small enterprise assistance projects and to advance to state-of-the-art of cost-effective impact evaluation methodologies by field testing new instruments.

The third component of the "Small Enterprise Approaches to Employment" became known as the PISCES component. PISCES was designed to study and document ways to assist the smallest economic activities of the urban poor, including household and other "informal" types of enterprises. These activities constitute the single largest off-farm employment sector, often referred to as the "employer of last resort" because of the minimal entry requirements in terms of capital, skills and knowledge. But, since AID had no experience with lending and enterprise assistance projects to the informal sector, and conventional wisdom argued against such assistance, it was clearly necessary to document whatever the real world had to teach about reaching and assisting the smallest economic activities of the urban poor.

Three questions guided the research and documentation effort, known as PISCES Phase I:

- Is it possible to reach very poor urban dwellers and provide them assistance in respect of their self-initiated economic activities?
- What methodologies/approaches seem to be effective and would generalizable aspects emerge from studies of them?

- What are the implications for USAID and other donor agencies and how can they be helped to get into this business at the project level?

To answer these questions a competitive request for proposals was issued in early 1978. A contract was awarded to a group of three private and voluntary organizations (PVOs). Two of them, ACCION International/AITEC and Partnership for Productivity, accounted for a substantial proportion of U.S. PVO-run projects in developing countries which come even close to operating at the level of micro-enterprises in the informal sector. A third U.S. non-governmental organization, the Development Group for Alternative Policies (D GAP), rounded out the contracting team. The D GAP was not an implementing organization like the other two but had been very active in promoting alternative assistance policies and programs for the informal sector.

In September 1978 a contract was signed with AITEC as the prime contractor, marking the official beginning of PISCES Phase I. The contracting organizations located and reported on 20 indigenous projects and programs on three continents and produced a volume of case studies which presents and systematizes information from these projects and programs.\* The results of PISCES Phase I were also disseminated through a one-day workshop in April 1980 held at the Brookings Institution.

By the end of PISCES Phase I the three questions listed above were sufficiently well answered to justify moving ahead into Phase II of the project. During Phase II the PISCES team was to work in conjunction with USAID missions to help local organizations develop six pilot/demonstration projects. The purpose of these projects and PISCES Phase II was threefold:

- to demonstrate the transferability of the approaches and techniques studied in Phase I
- to document accurately and comprehensively what it was that was being demonstrated and the effectiveness of, and change in, assistance that was being promoted through AID missions

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\* The PISCES Studies: Assisting the Smallest Economic Activities of the Urban Poor, Office of Urban Development, Bureau for Science and Technology, U.S. Agency for International Development, Washington, D.C. 20523, September 1981.

- to put USAID into the business of providing assistance to the informal sector.

A start has been made on putting together and developing the six demonstration projects. More in the way of project development and documentation is expected to happen between now and when PISCES Phase II is slated to finish, in late 1983.

PISCES Phase II Projects:

The Small Business Scheme of the National  
Christian Council of Kenya

The Solidarity Group Component of the Micro-  
Enterprise Assistance project of the Dominican  
Development Foundation

The Micro-Industries Development Society of  
Bangladesh

The Micro-Industries Development Center in  
the Philippines

SMALL BUSINESS SCHEME OF THE NATIONAL CHRISTIAN COUNCIL OF KENYA - Fred O'Regan,  
The Development Group for Alternative Policies

1. Introduction

The National Christian Council of Kenya (NCCCK) is currently carrying out the first income-generation project developed in Africa within PISCES II. It is an expansion, with certain modifications, of an existing income-generation effort, known as the Small Business Scheme (SBS). The project began operations in August 1981.

The selection of NCCCK as the implementing organizations and the design of the expansion of the Small Business Scheme were based in part on findings from PISCES I research. Among the key elements of programs studied during PISCES I that reach and assist the bottom end of the informal sector are the following:

- autonomous, usually non-governmental, decentralized institutions
- income-generation assistance tied to community-based outreach and service programs
- an emphasis on group formation
- an emphasis on complementing skills which adults had as opposed to training and technical assistance
- management assistance which focused on bookkeeping adequacy, lowering the front-end costs of enterprises and stabilizing incomes, as opposed to sophisticated bookkeeping systems and other techniques necessary for large-scale growth
- marketing assistance to identify viable trade areas and establish stable marketing channels
- careful use of credit in accordance with the need, capacity and ability of the clients to repay

NCCCK was considered as the implementing institution because of its well-earned reputation as a pioneering agency in assisting the urban poor which included income-generation assistance to the self-employed. But, NCCCK did not only have a manifest interest in and some experience with income generation projects; it also was interested in the purpose of PISCES II: to learn more about what specific type, order, and intensity of inputs within what promotional and organizational framework appear to work well at the PISCES level.

The process of project design and development through to implementation is a lengthy one, even for relatively small projects. As a result, the SBS project has only been operational for ten months. Thus, findings must be taken as tentative at best.

## 2. Project Design

The goal of the SBS project is to increase the economic self-sufficiency of self-employed poor in Kenya. NCKK aims to achieve this goal through the integration of a technical, small business management advisory and credit component into its existing community upgrading work. The Small Business Scheme, therefore, was not seen as a separate entity, but as an integral part of the social work and community action parts of NCKK's development program.

The SBS project was designed to allow NCKK to (i) hire a program coordinator and assign small business advisors to four project areas encompassing six cities, who would back up the work of the social workers in those areas; (ii) increase its available loan capital up to a total of \$111,000; and (iii) cover related administrative, training and transportation costs. The project was initially planned to deliver a broad array of services to its clients in the areas of:

- bookkeeping and general enterprise management
- credit education and supervision
- procurement and stock control
- marketing
- production management
- licensing
- group formation
- credit

The array of services offered was purposely kept broad because of the great diversity of settings, clients and enterprise types expected to be reached by the project as well as the limited history of assistance to the bottom level of the informal sector on which to draw.

Total project costs for three years amounts to \$427,515, with an AID grant covering \$275,000, or 75% of the total.

### 3. Project Clients: Individuals and Enterprises

While definitive information on the project's clients is only available from the Nairobi area, the following summarizes some of their salient characteristics: 82% are women who have, on the average, 6 dependents; their average monthly family income is \$50 and the average daily income from their business is \$2.60; they live in both urban and peri-urban areas and work in trade areas that do not require extensive skills or capital (e.g. produce retailing).

Of the 115 individual enterprises receiving loans from the project, 69 are produce retailers and 31 are tailoring activities. There are ten group enterprises currently receiving loans; they include fish mongers, produce retailers, a handcraft workshop, tailoring and charcoal distributors.

### 4. Project Assistance Extended Through May 1982

From August 1981 through May 1982, the Small Business Scheme has made 125 loans to 263 individuals. Of the 125 loans 115 have gone to individual clients and 10 to groups of clients. The average size of the 10 groups is 15 members. The average loan size per individual enterprise has been \$191; the average loan per group enterprise has been \$1,194.

The total credit capital lent to date has been \$33,805. The total projected through to the end of the first year is \$40,000. The total number of clients assisted by the project to date is 833; of these only 263 have received loans. The other have received only non-financial assistance.

### 5. Project Elements, Development and Dynamics

#### 5.1 Staff training, orientation and coordination

In order to integrate the Small Business Scheme into its on-going community development program, NCKK decided to train its social workers and small business advisors together over a two-week period. It was hoped that this would not only upgrade the skills of the social workers in enterprise assistance and help the small business advisors acquire "social skills", but also establish the foundation for collaborative working practices.

While the training was considered to be quite successful, some of the differences in perspective and approach between the social workers and business advisors remain and have led to a breakdown, to some degree, in field coordination and to a slight rift in the program. The small business advisors are all male and tend to take a "harder" and more short-term view of their clients' needs and potential. The social workers have a much longer-term, social change perspective and hold to the position that the primary goal of the program is not enterprise growth per se, but rather to assist the very poor in increasing their own economic security. The creative tension which these differences have created is apparent to all project staff and is being addressed in different ways, including a second staff workshop.

## 5.2 Outreach, promotion and selection

Social workers were initially responsible for client identification and referral. Heavy demand, which eliminated the need for promotion, and feelings of inadequacy on the part of social workers when it came to business decisions have decreased their role in these two areas. This does not, however, seem to have affected the level of clientele being selected, which is where NCKK believes it should be.

## 5.3 Group formation and individual clients

The SBS project initially aimed to emphasize group formation, both of individual enterprises and group enterprises. While a number of dynamic group enterprises have emerged, the project is behind in lending to groups. The transition from a social group to a business is in many cases taking longer than had been expected. Groups need more managerial assistance because of their more complex structures. And, the project has found that not all enterprises can be grouped (e.g. restaurants). To address these concerns NCKK is planning increased group preparation training for its staff.

## 5.4 Management assistance

According to records being kept by the business advisor, the time spent on management assistance breaks down as follows: 50-60% on bookkeeping, 20% on credit education, and the remaining on marketing. This differs, however, by trade area and forms of enterprise. Furthermore, the project has found that

most clients are not keeping their cash books up to date and do not see the utility of doing so. The project has also found that most clients have well-developed marketing skills and knowledge. Thus, the project expects to decrease its bookkeeping and marketing assistance.

On the other hand, NCCK has played an important advocacy role in obtaining licenses for its "clandestine" clients. The project has also found that the proper use of credit (i.e. for investments) is tied to credit utilization advice and that the recommendations for inventory diversification and changes in trade areas have been considered useful.

#### 5.5 Credit terms, conditions and policy

The original lending terms were as follows: (1) \$200 per person loan ceiling; (2) 5% annual interest rate; (3) variable amortization periods to adjust the monthly repayments; and (4) third-party guarantees for groups as well as individuals.

The project has learned that the \$200 ceiling is too low to be economical in some trade areas and, consequently, plans to vary this ceiling by enterprise type. NCCK also plans to raise the interest rate it charges (perhaps up to 8%) in accordance with the capacity of individual clients to repay.

The project currently enjoys a good repayment record; only 7-8% of the loans are in arrears. And, some data suggest that the net increase in incomes of the enterprises receiving loans has been between 30-40% over the first six months of the project.

#### 6. Emerging program issues

Five important issues have emerged since the Small Business Scheme was expanded in September 1981. First, there are the difficulties in integrating social and economic objectives and maintaining a strong "social policy" control over the business side of the project. Second, there is the challenge of dealing with the great diversity of clientele and settings through a decentralized program. Third, there is the need to determine accurately the absorptive capacities

of individual clients and to set loan policies accordingly. Fourth, there are various aspects of group formation, including factors which relate to both success and failure, about which little is known. And, finally, the significance and costs of the various non-financial inputs (e.g. bookkeeping assistance) have to be assessed very carefully in order to determine total program costs and maximum client load for the business advisors.

THE SOLIDARITY GROUP COMPONENT OF THE DOMINICAN DEVELOPMENT FOUNDATION'S  
MICRO ENTERPRISE PROJECT - Jeffrey Ashe, ACCION/AITEC

1. Introduction

In 1980, the Dominican Development Foundation (DDF) established, with ACCION technical assistance, a micro-enterprise program with two parts: a "micro-enterprise" component that reaches small artisan manufacturers with 2-3 employees, and a "solidarity group" component that reaches hawkers and vendors and the smallest cottage manufacturers, principally seamstresses. It is the solidarity group component of the DDF program that will be described here.

The DDF solidarity group component had its origin in two projects identified in PISCES I, the PRIDECO/FEDECCREDITO program in El Salvador and the Working Woman's Forum in Madras, India. Both projects reached over 2,000 businesses in under two years from their inception and were characterized by low cost and high payback, a small paraprofessional staff and high client participation and commitment.

2. The Solidarity Group Project

2.1 Goals

The solidarity group project has three goals:

- to increase the income of the urban self-employed
- to reinforce entrepreneurship and encourage grassroots advocacy through group experiences
- to reach and assist large numbers of micro-enterprises at the lowest cost possible

2.2 Clients

The main beneficiaries of the project are "tricicleros," men who pedal heavy cargo trikes through the streets of Santo Domingo selling fruits and vegetables and prepared foods and collecting bottles, cardboard and scrap metal. Tricicleros are virtually all immigrants from the rural areas who on the average have lived 13 years in Santo Domingo. The average triciclero has pedaled his trike for 5 years and has a 4th grade education. Nine in ten are heads of a

household and have on the average 5 dependents.

The triciclero rents his triciclo from an agency for from \$1.00 to \$1.25 a day. The rented triciclo is often in poor repair and tricicleros are often in debt to the agency, paying on loans with an 8% daily interest. The highest aspiration of tricicleros is to own their own triciclo and work as independent agents.

### 2.3 Basic elements of the project

The solidarity groups of the DDF project are self-formed, informal associations of from 5 to 10 business owners who know each other well enough to collectively guarantee the loan made to the group. Loan payments are made daily or weekly to the group president and a DDF promoter collects from the group president at his home or at an association meeting. Solidarity group members have formed an association which is made up of 6 "nuclei" in the barrios where the program works. These associations have weekly meetings and are planning to develop and offer services to the members (e.g. prisoner advocacy, emergency loans, and burial services).

Clients receive an in-kind loan of \$222 for the purchase of a new triciclo and \$18 for working capital. A flat annual interest rate of 24% is charged; each group member makes 52 weekly payments of \$5.30 per week. The daily payment of \$.88 represents an immediate daily savings of \$.20 or more over the fee charged by the rental agencies.

### 2.4 Staffing

The project staff consists of three promoters, who are young, highly committed university-trained economists. Each promoter is responsible for 34 solidarity groups with approximately 234 members. The promoters orient and train new groups, prepare credit proposals, collect weekly loan payments, and troubleshoot groups that are having difficulty with loan repayments. This component of the micro-enterprise program also requires an estimated 40% of the time of the micro-enterprise project director.

## 2.5 Results

The first test group of tricicleros was formed in December 1980, using DDF funds. Between December 1980 and March 1981 members of the first trial solidarity group organized 18 new groups and established the basis for the first association.

In the eleven months since the project officially started (March 1981) solidarity group members have organized 250 groups, representing 1,700 hawkers and vendors and small-scale cottage artisans. Loans have been extended to 700 of these micro-enterprises, organized into 103 groups.

## 3. Developments and Changes in Project Methodology

Two evaluations of these projects have been carried out. By the time of the first project evaluation in September of 1981, 85 solidarity groups had been approved to 62 groups. Up to that point there had been no late payments--a great source of pride for the fledgling triciclero association.

A second evaluation was carried out in April of 1982. Between evaluations several problems had emerged. Although 80% of the loan payments were still on time, late loan payments had become a persistent problem. In addition, a few individuals 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 president.

A careful examination of the program showed that many of the original groups had been too hastily formed. Some group members did not know each other very well, and some were not even tricicleros; others did not live in the same barrio or even neighboring barrios, which made loan collection difficult for group presidents. It also became evident that many did not fully understand the program, what it was trying to accomplish, and above all, the need for 100% payback.

Several changes were made in the project methodology to deal with these

problems. These changes resulted in a more realistic balance between the role of staff and the role of the clients. As was the case previously, promotion and group formation is totally in the hands of the clients. Once the groups are formed, the DDF promoters give a 4-hour, two-part course on the project and requirements for membership in a solidarity group. Courses are generally held with 4 groups of "aspirantes" ("pre-groups") at a time. Many who are not qualified or who are not sufficiently interested drop out of groups at this point. Individuals left in the groups recruit new members who must go through the same two-part course before they are accepted as clients.

At the end of the course a president is elected, and the group is officially registered. After being registered, the group must attend association meetings for 1 to 2 months before their application for credit is accepted. This further tests the commitment and cohesion of the group. After the waiting period, the FDD credit analyst fills out the loan proposal, checking once again to make sure all the group members know each other, that they come from the same or neighboring barrios, and that they have been business owners for at least one year. The loan proposal then goes to the credit committee where it is routinely approved and checks are given out to the triciclo manufacturer who constructs the triciclos. After a simple ceremony the DDF promoter turns the new triciclos over to the group.

Once the new triciclos are delivered, weekly payments begin, and promoters follow up vigorously on late payment problems. As a last resort, if an individual in a group does not make a loan payment for 8 weeks, and after consultation with the group president and one or more meetings with the solidarity group, the triciclo is repossessed.

#### 4. Project Costs

In April 1982, with 3 promoters, 103 groups funded, and a loan portfolio of \$161,000, administrative costs totaled 16% of the loan portfolio. This included the salaries and benefits of the field staff, other direct expenses such as per diem, gasoline, insurance, the cost of the motorcycles, equipment, and the use of automobiles. It also included the costs of all other DDF personnel, calculated as a percentage of the time they spent directly on the solidarity

group project. If a default rate of 5% is assumed and the costs of AITEC technical assistance are included, project costs increase to 26% of the loan portfolio. The interest charged was 24% of the loan portfolio.

Based on the projections for December 1982, when there will be 5 promoters with one supervisor, a total of 223 groups funded, and between 1,500 and 1,600 individuals assisted, the loan portfolio of \$346,542 will generate \$79,012 of interest income (assuming a 5% default). Of this (reflecting the economies of scale) costs for field staff, other direct costs, vehicles and overhead will total 13% of the loan portfolio. The costs of a 5% default and AITEC technical assistance add another 7% to that amount, totalling 20% of the loan portfolio.

In twenty months, then, the project should cover its operational costs, defaults, and the costs of AITEC technical assistance, if changes in project methodology are not required.

##### 5. Project Impact

An analysis has been made of the first 42 tricicleros in the program who had finished paying their loans or who had virtually finished paying their loans. When they entered the program they earned \$7.91 a day. This group was compared to 42 tricicleros who just entered the program, whose daily income averaged \$8.42 a day. (The 51¢ a day difference between the two groups was attributable to such factors as inflation and the general economic situation).

The average daily income of the first 42 beneficiaries of the project is now \$12.82 a day. New income, which is assumed to be attributable to the project, is \$4.40 a day, an increase of 55%. If this increase in income continues for only one year, over a thousand dollars of new income will have been generated for one of the poorer households in Santo Domingo. Benefits for the 1,500 assisted through 1982 could total well over \$1,000,000 in the first year after loan repayment.

Increased income can be attributable to lower costs, and increased sales. Costs are lowered because tricicleros, no longer having to make the rental payment to the agency, often keep the triciclo at home rather than parking it at an agency garage, and many pedal to where they work rather than take a bus. Sales are increased because the new triciclos can go further and faster, and also because the tricicleros can work Sundays and nights, which was not possible when the trikes were garaged at an agency.

## 6. Emerging Issues

Client participation is critical to the success of any development project. The DDF project fosters client participation in several ways. First, the project addresses a strongly-felt need. The possibility of owning one's own triciclo is a powerful motivating force. Second, the project is perceived by the beneficiaries as "do-able". The concept that you can own your own triciclo in a year and that the daily payment will be less than you are paying now, can easily be explained by clients to their co-workers. Third, forming and joining a solidarity group requires hard work, risk-taking and repeated meetings. This tends to reinforce the commitment of the group to the project. After forming the group, joining the association exposes new members to the ideology of the leadership of the program, which emphasizes mutual help, individual advancement, responsibility to the program, and being part of a movement which is greater than themselves.

Fourth, once a loan is received, group cohesion is reinforced through the loan repayment process. If individual group members do not pay, the entire group is immediately penalized. Interest in the project is maintained through opening up the possibility of a second loan, and also through the range of issues being discussed in the association meetings which includes becoming involved in the community and organizing to protect one's rights.

And, fifth, while most of those who have joined the project are interested only in the loan, a vocal minority see the project as having a transforming effect on their lives and their community. Already the "Dominican Association of Tricicleros" has taken on important roles such as insuring a decent burial of members and their families, providing emergency loans in case of family emergencies, and acting as advocates if members are thrown in jail. Future

plans include a savings and loan cooperative and the bulk purchase of merchandise and triciclo parts.

The high level of participation and commitment which is reflected in these plans will have to be maintained, if the DDF project is to address successfully challenges and opportunities posed by increased politicization, program expansion, requests for second loans and a greater diversity of clients.

THE MICRO-INDUSTRIES DEVELOPMENT SOCIETY IN BANGLADESH AND THE MICRO-INDUSTRIES DEVELOPMENT CENTER IN THE PHILIPPINES - Jason Brown, Partnership for Productivity

1. Industries

The Micro-Industries Development Society (MIDAS) and the Micro-Industries Development Center (MIDC) are both "umbrella organizations." They have been established by organizations that assist micro-enterprises in the informal sector in order to obtain and develop services that would make the assistance organizations more effective and efficient.

The PISCES team supported the establishment of both MIDAS and MIDC because of the following findings from the PISCES I research:

- if a donor wants to assist the informal sector, it needs to work through a mechanism that has good grassroots contacts--this could be a private, voluntary organization, a government agency or even local money lenders
- there is a large number of organizations currently assisting different parts of the informal sector throughout Asia
- there is a variety of viable options (most of them non-governmental) for assisting the informal sector
- many private, voluntary organizations have been working in enterprise development for 15-20 years and are quite sophisticated
- many organizations assisting the informal sector are seeking cooperation and collaboration.

Theoretically, an umbrella organization which links together individual organizations and agencies should be able to achieve the following purposes:

- to spread the costs of very expensive enterprise support functions
- to test, replicate and exchange information or new approaches and methods
- to rationalize efforts to obtain financing from potential donors
- to locate and obtain outside resources and skills
- to make it easier for donors to reach and support large numbers of small organizations.

Both MIDC and MIDAS were set up with these purposes in mind. Since both have only recently become operational, it remains to be seen whether their goals can be reached.

## 2. Micro-Industries Development Society - Bangladesh

MIDAS has been in the process of development since 1978-79, though it only became operational this year. Its purpose is to provide services to any organization (private, voluntary, governmental or parastatal) that supports informal sector enterprises. The enterprises supported must have assets of under \$800, be locally owned and operated and have fewer than 15 employees. As part of its mandate, MIDAS expects to provide the following types of services to member organizations:

- information: (e.g., to develop a library that pulls together information from all over the world on small-enterprise development; to serve as the Bangladesh representative of the NTIS; to publish a newsletter; and to package information on specific technical areas)
- technology: (e.g., to take product ideas (e.g., treadle pumps) that are ready to be commercialized, but have been held up for one reason or another, and facilitate their dissemination)
- research: (e.g., to prepare feasibility studies in such areas as white-ware ceramics and handlooms)
- marketing: (e.g., to become a yarn distribution center)
- training: (e.g., to run workshops in technical areas such as whiteware ceramics)
- financing: (e.g., to act as a conduit of funds to member organizations for international donor agencies).

MIDAS has its roots in the increased demand from the clients of social programs of local PVOs for assistance in launching income-generating projects.

In 1978-79 some 30-50 organizations met over a series of meetings to discuss ways to address their technical, information and financial needs. In 1980 a \$450,000 grant from USAID to the Asia Foundation established MIDAS.

The very real lack of progress from 1980 to early 1982 can be attributed to the following four factors: (1) the senior staff of the Asia Foundation changed three times; (2) continual disagreement among USAID, Asia Foundation, the PVOs, and advisory committee about how to proceed; (3) resistance from the government of Bangladesh; and (4) opposition from PVOs not wishing to be associated with U.S. government financing.

Despite these problems, an informal survey of members taken early this year indicated that the technical services provided by MIDAS continue to be viewed as needed. And, those organizations which have received services declared them

to be most valuable.

### 3. Micro-Industries Development Center - The Philippines

MIDC has been operating since 1980. Its purpose is to provide member organizations with management and technical assistance services, to facilitate information exchange among these organizations, to encourage and evaluate innovative approaches to informal sector assistance and to act as a conduit of funds to assistance organizations. MIDC currently provides services to two Philippine organizations which assist informal sector enterprises. The businesses assisted include trading and service enterprises as well as micro-industries.

MIDC grew out of the realization on the part of many organizations working in small-enterprise development that new ideas and approaches were needed, if the informal sector was to be assisted effectively. Their search for new approaches coincided with the PISCES I research effort. As a result of the research carried out in the Philippines, a number of organizations became more familiar with each other's work and began to interact on a regular basis.

In 1979-80 a series of meetings between a small number of these organizations, which included a government agency (MIDP), led to the decision to organize a supra-organization. Even though USAID expressed little interest in the concept, in May, 1980 MIDC signed a \$40,000 contract with Appropriate Technology International. This grant has allowed MIDAS to support some innovative projects.

Among the six projects supported by MIDC over the past two years, there have been efforts to utilize volunteer community leaders as extension workers and establish loan windows for individual entrepreneurs in different communities. Another experimental project has involved making use of local money lenders as loan windows. The very slow pace at which MIDC has developed can be attributed to a number of factors, including: (1) leadership changes--the director left in 1981 to pursue graduate studies and one half of the original board has resigned; (2) absence of clear statement of purpose; (3) limited financing; and (4) lack of institutional independence from the government sponsoring organization.

#### 4. Lessons learned

While an umbrella organization might be one way to achieve some of the purposes enumerated earlier, putting one together is enormously difficult. The typical problems involved in creating a new organization are exacerbated by the fact that many organizations are usually involved and that many difficulties can come from one party. Circumstances to be particularly wary of include donors trying to assume ownership (as in the case of MIDAS), a government reacting negatively to possible competition and efforts by a single PVO to dominate.

DEVELOPMENT, IMPLEMENTATION AND EVALUATION OF  
INCOME-GENERATION ASSISTANCE PROJECTS:  
Reflections on Six Sets of Issues

- Goals and assumptions of income-generation assistance projects
- Characteristics of effective implementing organization
- Purpose and methods of group formation and development
- Criteria and mechanisms for client selection
- Determinants of the mix, order and intensity of non-financial services
- Determinants of credit needs and terms

## A NOTE ON THE FORMAT USED IN THIS SECTION

The actual words of the participants are used as much as possible; comments by the editor are held to a minimum.

Following a description of the way a set of issues was framed by a member of the PISCES team, quotes (which are single-spaced and set off by quotation marks) are inserted under the issue or question being discussed (which is numbered and underlined). Where contrasting views were expressed, representative quotes are presented in parallel columns. Where a single viewpoint was expressed or a consensus reached, representative quotes are centered across the page. Editorial comments are 1 1/2 spaced throughout.

## 1. GOALS AND ASSUMPTIONS OF INCOME-GENERATION ASSISTANCE PROJECTS

Doug Hellinger opened the discussion of goals and assumptions by posing the following questions:

- Should income-generation assistance projects be viewed as essentially economic programs with economic objectives? Or,
- Should income-generation assistance projects be viewed as basically social programs that have economic components?

Doug suggested that the choice one makes depends largely on one's values and analysis of how a particular society functions. Thus, in order to answer the question of whether income-generation projects should be basically economic or social projects, he argued that the following questions must first be addressed:

- Does a particular society function so that benefits directed to a certain class or level of people (in this case, micro-entrepreneurs) to assist them to "take off" economically will trickle down and be shared effectively with the intended beneficiaries of the assistance program (i.e. the lowest level of the self-employed)? Or,
- Does the society work differently, making it necessary to work directly with the intended beneficiaries, where they are, within their own social fabric but through new structures which challenge the traditional ones?

Furthermore, the participants were enjoined by Doug not to be reticent about exposing their own values because, in his opinion, one's choice of goals as well as underlying assumptions are very much value judgments. In Doug's words:

"We would really be fooling ourselves to think that our interventions have no effect; there is a bias to any type of intervention. The fact that we work almost exclusively through government and large-scale projects brings with it a whole set of assumptions and an impact that we have to take into account....When we make choices about what type of activity we are going to finance overseas, we are making a political, economic and social statement and to deny that fact--to think that the funding of a micro-enterprise project is free of any type of value...is very naive; the fact that we are funding micro-enterprise projects has a very definite impact at the local level and we should not be afraid to talk about our values and biases."

The discussion which followed Doug's presentation raised the following questions:

- What is meant by social goals?
- How important are social goals?
- Can social goals be achieved by assisting disaggregated individuals?
- What is the position of USAID and government agencies with regard to social goals for micro-enterprise projects?

### 1.1 What is meant by social goals?

#### Social goals are consequences of increased income

"The social objectives of our programs are just offshoots of the economic goals we have:

- how many of their children are now going to school
- what appliances have been bought
- have they improved their houses
- are they eating better

I mean that is it."

"This morning I received a letter from group of women who had undertaken a trickle-up project. The significant thing was that never before in their lives did they have any money. The excitement, human satisfaction and their status have increased enormously [as a result of increased income]."

#### Social goals are causes of economic improvement

"I am really amazed at the way you are defining "social" as just the consequence of economic improvement...[in my experience] there is a very important factor for individuals who are belonging to groups or just the possibility of being together; I mean one of the important characteristics of people in the informal sector is isolation: the absolute lack of the possibility of defining goals together, the impossibility of mutual aid, of establishing, for instance, some common knowledge of the marketing needs, of how to use their skills, of how to deal with clients. These are problems and aspects which are solved within the context of group situations; therefore, this has to be considered as a goal of these projects..."

Participants mentioned several social goals that need to be taken into account by project planners:

- the quality, type, permanence and the possible exploitative nature of the employment created

- the need for increased political clout to do away with police harrassment and reduce licensing fees, etc.
- the maintenance of the cohesion of traditional life and dealing with atomization, disaffection and alienation of people

## 1.2 How important are social goals?

### Not very important

"You cannot assign terribly high values to group cohesion, preservation of traditional values and other amorphous goals, whatever they mean, because resources are so terribly limited--both theirs and ours."

"My informal sector entrepreneurs are interested in economic activities; they are not interested in the funding agencies' needs to evaluate social impact, etc."

### Critical

"There is an almost textbook lesson from the 1970s that "development" is not simply an economic process, it is the social process--the institution building, the participatory aspects of projects--that is the engines and tracks of development."

## 1.3 Can both social and economic goals of income-generation projects be achieved by assisting disaggregated entrepreneurs?

Three participants argued that the chances were very slim indeed, particularly if the social goals were broadly defined.

"In the discussion we are having so far my biggest problem is wondering whether any project can be designed for individual entrepreneurs where there would ever be a coincidence of objectives between the donor and the beneficiary group that includes social objectives, particularly a disaggregated group of entrepreneurs...in funding to disaggregated entrepreneurs, I think to some extent we are gambling on economic behavior to deal with social objectives and to assume that we are going to find their coincidence of objectives is self-deluding."

"[Our programs] fund individual clients and I do not think that there is a [relationship between social impact and whether we deal with individuals or groups] because of the way we define social objectives (i.e. improvement in the social life of the family)...but, helping individual entrepreneurs, unlike group efforts, cannot result in, for example, increased political clout....Here PVOS can take leadership in forming these groups."

"The social goals as defined by people around this table are there in the informal sector; the people working in the informal sector have these goals...The problem is that they are unable to give a form to these goals."

1.4 What is the position of USAID, other large donors and government agencies with respect to social goals for income-generation assistance projects?

Several participants expressed the feeling that these organizations have very little interest in non-economic goals.

"How USAID and other major agencies look at development simply does not reflect the state of the art...It took us 12 months to get a \$240,000 project through AID because of 17 levels of people asking questions like should the interest rate be 8% or 5%--when the key questions are:

- What kind of methodologies can get poor people involved?
- What happens locally, do people get involved?
- What can hold at local levels?
- What kind of projects can respond to what people are doing in their everyday lives?"

"My experience in 3 countries (including Harlem in the U.S.) is that government planners will not sit down and discuss social impact of projects; over the past 10 years I have found it increasingly difficult to get them to focus on the same level of discussion of the people in this room; I find the leaders are just brickheads."

"I do not think the real goals and assumptions of certain organizations--those indigenous groups which have been in enterprise development for 15-20 years--are discussed at the ministerial level because they are too threatening. What a lot of the groups are talking about is who owns the company, the assets, the money; and that is revolutionary. You are talking about access to resources by the lower third of the economic sector."

## 2. CHARACTERISTICS OF EFFECTIVE IMPLEMENTING ORGANIZATIONS

Building on remarks made about the importance of designing projects that can be replicated by either client groups or government agencies, Doug Hellinger opened the discussion of the characteristics of effective implementing organizations by posing the following questions to workshop participants:

- Do we, as donors, support larger national or regional-wide organizations with centralized services and technical staff (hoping to change them over time)? Or,
- Do we work with smaller organizations with already established outreach in poor communities that can work directly with people in their own context, get viable projects going, and, then, help these organizations build up their capacities, and link up together and to the public sector?

The discussion which followed did not focus on characteristics of effective implementing organizations (on which most participants seemed to agree implicitly), but on the following points:

- the need for a bridging institution between the client/community and the financial institution;
- the needs of bridging institutions;
- the implications and difficulties for grassroots organizations of being linked to large donor and commercial institutions; and
- the implications for large donor agencies of working with grassroots organizations.

### 2.1 The need for special bridging institutions

#### The role of central institutions

"In order to have significant impact in terms of numbers reached you need to work through central institutions, e.g. development finance corporations, central banks, savings and loan institutions, etc...PVOs and NGOs (private voluntary organizations and non-governmental organizations) are limited in scope and cannot really handle large sums of money...They

#### The problems with central institutions

"In our experience these organizations (e.g. development banks, finance corporations, etc.) tend to be very bureaucratic, to have reward systems that are antithetical to innovation, not to have contacts in the field, not to have the trust of local communities and to channel loans to more established enterprises or to friends, if they make loans

would be better off if they were to involve themselves in project identification and appraisal and providing support and collateral."

at all....In contrast, the smaller, private organizations which are effective have established outreach structures, work with people directly, are able to group people in order to lower up-front costs."

"If banks were relevantly getting money out to [the informal sector], we would not be here today....It takes a lot of creativity and a lot of sticking power for donors...[Commercial banks and most large institutions do not have much incentive or interest] in including poor people in their micro-enterprise assistance program [when they have them], and in promoting the program, preparing clients and forming an organizational base."

### Summary

"[The argument over whether the NGO provides financial services or not really begs the fundamental question]...any one of the so-called PISCES projects could externalize the financial services part of what it is doing and provide a fee to do it. But, that doesn't answer the more fundamental question regarding the outreach institution--that link between the community and individual small enterprises and the bank...We seem to be agreed that commercial banks cannot play a retail function for micro-enterprises...It is not a sufficient condition to have a bank interested in lending at the PISCES level; the necessary condition for bridging to it is a bridge institution."

## 2.2 The needs of bridging institutions

Participants argued that bridging institutions need executing authority, subsidies and links to other grassroots organizations and the public sector. They also argued that large donor agencies, such as the World Bank, could play an effective role in helping grassroots organizations meet these needs, but they usually do not. Several participants, while agreeing with the importance of strengthening linkages between a bridging institution and the public sector as well as other grassroots organizations, underscored some of the problems with such links. Other participants suggested that the large donor agencies would neither acknowledge nor accept the implications of working with grassroots organizations.

### Executing authority

"I have seen the World Bank come in and establish a program based on work which has already gone on (and a lot of that work has been done by good non-governmental organizations) whether in housing or income generation, and what the IBRD usually does is to leave out that implementing organization from any type of policy control and they have no input into that program...so what was essentially a grassroots program, flexible and able to respond to client needs, becomes very bureaucratized and one which reflects needs of the implementing organization."

"The World Bank puts stress on giving implementing and executing authority to the financial institution;...finance is only one component of a project and in my opinion it is not even the essential part....The essential part is to reach out and include poor people in that program, to promote that program to prepare clients and to form an organizational base; thus, the promotional organization should have executing and policy authority."

### Subsidies

"If we try to make these projects self-sufficient in the long term, then we might be defeating the very purpose for which these projects are put together; if the focus is self-sufficiency, then many parts of the program might be knocked out."

"You are not going to get to the PISCES-level population without either:

- subsidies to banks to reimburse them for the initial costs of reaching out, or
- a policy that requires cross-subsidization (e.g. differential interest schemes), or
- a subsidy directly to the intermediary organization.

### Linkages between grassroots organizations and other institutions

"A problem with [the grassroots] approach is that if grassroots institutions are going to expand beyond donor funding you have to establish links with formal or perhaps less informal financial institutions--some mobilizers of credit; what happens when donors' funding runs out, where does the next slice of credit come from, where do funds for expansion come from?"

### 2.3 Implications and difficulties for grassroots organizations being linked to each other and other institutions

"Promoting or effecting a coalition of small grassroots organizations within a country in the private sector might be a sine qua non for them to have significant impact and political clout vis a vis the large public sector institutions, but I can see just so many problems in so many areas....Do you go through a parastatal--a line ministry or what...and

the rivalries and jealousies and the defending of budgets are just as much on the PVO side as they are on the line ministry side and sometimes a lot of what a project is after, especially in terms of social goals, can be lost in these kinds of squabbles. What can a donor do?...There are a lot of barriers to working together."

"I can only think of two organizations (one in Sri Lanka and one in Indonesia) that have the size and political clout to deal with the World Bank, for example. In Indonesia, for instance, a lot of PVOs refuse to submit themselves to AID's requirements; the PVO co-financing desk at AID has been trying to be flexible, but they have not been able to bend the requirements enough to suit a lot of indigenous PVOs; a lot of local groups feel that they would have to completely restructure themselves to fit AID, World Bank and local financial institution requirements and regulations....There are instances--the Madras Working Women's Forum is an example--where the PVO will get fed up with all the problems and set up their own banking institution."

#### 2.4 The implications for large donor agencies of linking with grassroots organizations

"The problem is the nature of the donor agencies themselves; there is not the reward system to encourage project officers to take the time and the risk to develop creative networking efforts, to spread the up-front costs and to creatively package institutions with grassroots capability."

"There has to be a loosening up of procedures internal to the donor in order to respond to some of these opportunities."

### 3. PURPOSE AND METHODS OF GROUP FORMATION AND DEVELOPMENT

Fred O'Regan started off the discussion on group formation and development by enumerating the reasons for grouping clients of income-generation projects: (1) to increase client participation and empowerment; (2) to increase the efficiency of a project; (3) to encourage the sharing of skills; (4) to lower enterprise costs; (5) to guarantee credit.

As a way of structuring the discussion Fred posed the following questions:

- Can/should all clients be grouped? If not, which ones should or which ones should not?
- What factors appear to make groups succeed or fail as enterprises?
- What types of groups seem to work better?
- Which of the following factors determine the approach to group formation and development: culture, sex/age, etc. of client; enterprise/trade type; political situation; project context.

The discussion which followed the presentation covered these questions as well as the inputs required to form groups successfully and the potential of building upon traditional grouping structures. Several participants underscored the fact that there are many different types of groups. In the NCCK project, for example, the groups range from a fully integrated, cooperative venture to individual retailers who come together only to secure a loan. The range includes a group of hawkers who operate independently, but who are beginning to invest a little bit of their funds to take out a loan as a group. These differences, it was pointed out, affect the inputs necessary to form and maintain groups and can be factors in a group's success or failure.

#### 3.1 Are groups really necessary?

"Grouping is not a cut-and-dried question; as more research is done the complexity of the question is being revealed; it is not that simple. But, from a cost-lowering point of view it seems to be one of the necessary elements commonly found in PISCES-level projects--that it is very difficult to reach significant numbers of clients without some mechanism for grouping."

No, there are other ways to reach clients

"If the purpose of this discussion is to say whether it is better to reach micro-entrepreneurs through group mechanisms, I would say no! It can be one of the methods of lowering costs, but one has to look carefully into the different environments and countries... Why do we talk only about groups? Why do we not talk about the other informal mechanisms that are going on now, let's say the community leaders and existing money-lenders."

Yes, grouping is necessary to reach and assist poor people

"What level of people are we talking about? Are we not talking about very poor people in the informal sector--many of whom are in it just to survive? These people are not entrepreneurs; they are people with very little confidence. Sometimes grouping is the only way to get the confidence and the expertise from the outside which can really reach these people and establish something close to a viable enterprise...Groups, therefore, can be a tremendous asset for reaching very poor people who do not see themselves as entrepreneurs and do not act that way."

3.2 What program inputs are necessary to form and develop groups?

A lot, if a program attempts to reach very poor people and create cohesive groups

"Forming individuals into viable groups takes a lot of time; you have to have social workers, you have to put in social inputs and give them group dynamic sessions. And, it takes how many years to become cohesive?"

"If you are going to reach down to people who are not entrepreneurial, then in fact there is going to be an intensity of input up front; we should not be shy about the intensity of input required to promote and strengthen groups..."

Much less, if a program aims for less than cohesiveness

"Is there not a lower threshold for viability than cohesiveness--that is a very high level of achievement."

"A lot of what comes from the outside is assistance in facilitating existing, informal linkages without forming them into formal kinds of groups..."

3.3 What factors make groups succeed or fail?

Participants suggested four factors that appear to affect a group's chances for success: (1) the reason why people come together to form a group; (2) whether there are traditional grouping structures on which to build or cultural factors which inhibit people from forming groups; (3) the very financial success of a group when profits have to be shared, and (4) the type of group.

### Reasons why people form groups

"In a women's program in Asia, there were two small industries--one which seemed to be failing and one which was succeeding. The one succeeded because the women involved had something other than just economic things in common: when things got tough economically, they still had allegiance to one another to keep the effort going. The one that failed was formed strictly on the basis of, "Hey, we thought this was going to earn some income for us"; when that stopped for a period the rationale for staying together evaporated."

"In the Dominican experience the break-up of some of the groups formed during the first year of the project was due basically to the fact that some people were in the program for the wrong reasons--some were not really interested in being tricicleros and some used the money for other purposes--they went into the program with bad faith."

### Experiences to build on: cultural factors

"The cohesiveness factor in group formation is enhanced by the extent that there are traditional groups to build upon; for example, 'tontines' in West Africa are small revolving lending groups that can be used for group guarantee mechanisms."

"Within the multi-ethnic environment of Kenya, for example, there are big differences in how the program operates from one site to the next; in some program sites group formation is easier to do than at other sites; also, some ethnic groups appear to be much more entrepreneurial than others and there are group enterprises all over the place."

"In the Philippines it is very difficult to group micro-entrepreneurs together to take out a loan."

### The very success of a group

"The economic component can often destroy the viability and cohesiveness of the social group....If the enterprise really starts to take off and profits are made, etc. more strain is put on the mechanism for dividing up the money."

### The type of group

"If the group is to own the enterprise, it has to be socially and cohesively viable, which is a very high level of achievement; but if the agency gives them loans as individuals and they simply guarantee each other, then they do not have to be so socially cohesive..."

"In the Kenyan experience it is too early to tell whether the objectives for organizing constitute an important factor; it can be easier to form a limited function group because they are made up of people who have more experience and have some type of enterprise and come together to augment what they are already doing...whereas the production type of group are usually first time enterprises; people in them have very limited skills, limited experience with the cash economy and have been marginally employed ...you cannot compare the two situations, especially over the short term."

#### 4. CRITERIA AND MECHANISMS FOR SELECTING CLIENTS AND ENTERPRISES

Jeff Ashe introduced this topic by noting that program designers have two sets of decisions to make regarding client selection: what type of business or enterprise to assist (e.g. retail or manufacturing; cooperative vs. individual) and which actual business or economic activity to select. The choices one makes, Jeff suggested, are related closely to the goals and objectives of one's program. For example, if a goal is to reach people with no previous business experience, helping to form collective enterprises might be more appropriate than assisting individual efforts.

To start the discussion off on a provocative note, Jeff made the following remarks about criteria and ways to select clients of income-generation projects:

- Retail enterprises are appropriate types of economic activities to support.
- Project designers should identify enterprises with constraints that are relatively simple to address (e.g. need for a small amount of working capital) and/or will have a large and immediate impact (e.g. access to a productive asset).
- Clients should have the major responsibility for selecting other clients into a program.
- Selection should be based on a client's reputation and not on his or her collateral.
- Selection should be made through small test loans and need not be preceded by detailed analyses of putative clients.

The discussion which followed this presentation took a different direction than that implied by the above statements. Several participants expressed the concern that the biases of small enterprise programs against women need to be carefully examined. And, there was considerable debate over the need for outreach mechanisms to select poor clients and the potential of traditional sources of funds, including money lenders, for channeling credit to micro-enterprises.

4.1 Is there a need to make social goals explicit in the selection criteria?

Yes, there is; it is especially important as far as women are concerned

"I do not think you can look at the issue of selection criteria separately from the question of economic objectives or social objectives. There has to be thought given to the questions: who needs the money more, who uses the money in which ways, and whether you are trying to reach a particular group (e.g. women) because presumably they are spending money in ways that will benefit their families more."

"In general, I do not have a sense that without explicit goals you will reach women, especially in small enterprise programs."

"In the NCKK project there is no explicit goal to assist women. But, there is the stated goal to reach the poorest of the informal sector; this ends up to mean that 80% of the clients are women because the economic activities of most men are two notches above."

4.2 What mechanisms are necessary to ensure that the poorest of the informal sector are selected into a program?

An outreach mechanism with a social dimension is necessary

"If you want to reach and assist the poorest of the self-employed, those who are timid, without connections and not entrepreneurial, but still capable of running a viable economic enterprise, you need to actively seek them out, promote, and interest them; otherwise, you will almost necessarily be dealing with a population above that--and you will rule out a lot of women who are at the survival level in the informal sector."

"The...social workers play an important and significant role in making sure that people with needs are selected for assistance...When you rely on the field agents, the ones who go out and work with the clients...as it works out in actual practice, they select those who are somewhat easier to work with--the most agreeable, etc..."

An outreach mechanism with a social dimension is not a sine qua non for reaching very poor clients

"It is not an either/or situation. The two projects on which the FDD project was based were almost exclusively women's projects, but focused on existing business owners. All these women had something going, so it is difficult, if not impossible, to tell if they are dealing with the absolute bottom..."

"The MCSI program in the Philippines relies on community leader volunteers who are responsible for a 2,000 peso loan fund, 1,500 of which are loaned out to the smallest economic activities within their communities; loans range from 5-50 pesos, the highest is 300 pesos per individual. This is the lowest level of the poorest of the micro-entrepreneurs...most enterprises which the community leaders are trying to fund are trading activities...they do not have to group the micro-entrepreneurs to reach them...and it is a women's program."

4.3 Can traditional structures, including money lenders, be used to identify, select and reach poor people?

Several participants argued that the traditional sources of money could and should be used more often to provide working capital loans to poor people.

In the words of one participant:

"Before these programs came into being there was a system which included money lenders who rationed out money....An alternative to building new infrastructures is to put more money through money lenders....It seems... that there was something that was working before and the experience we have of meddling with complex systems is that more often than not we do more harm than good...."

Other discussants argued that there were several reasons why alternative structures more often than not have to be created.

"The critical issue is that sometimes money lenders are exploitative in their activities and co-opt a surplus value which could be internalized by the entrepreneur (to whom you are providing credit), thereby creating an economic dynamic (increased consumption, increased ability to purchase more wage goods, etc.) that increases the level of aggregate demand....In such cases it makes sense to replace the money lender."

"The traditional structures...money lenders or whatever...will continue to function but they are only meeting immediate family needs and not dealing with larger social problems being created by the turmoil....I do not see the money lending process as addressing the acute problem that these people at the bottom...are facing."

"The answer must be quite distinct depending on where you are....The problem in Africa is that the whole process of development has been disruptive of the traditional system....The NCKK project is trying to intervene with a population that's getting no support at all....Their land has been taken away, they are in urban squatter settlements, they have no urban or formal sector skills at all...."

## 5. DETERMINANTS OF THE MIX, ORDER AND INTENSITY OF NON-FINANCIAL SERVICES OF INCOME-GENERATING ASSISTANCE PROGRAMS

Fred O'Regan began the discussion of non-financial services by enumerating and classifying different types of services provided to clients of small and micro-enterprise assistance programs. The services he listed are:

- Managerial assistance
  - bookkeeping
  - credit education and preparation
  - credit supervision
  - purchasing, inventory and stock control
  - production organization
  - licensing
- Marketing
  - location analysis
  - product promotion and display
  - establishment of marketing channels and links
- Technical Assistance
  - skills training
  - technology choice
  - tool selection and upgrading
  - skills upgrading (on site)

Fred posed the following questions to the participants as a way to structure the discussion:

- which inputs and services are absolutely necessary; which ones constitute the sine qua non of micro-enterprise assistance projects?
- in what order and with what intensity should the services be delivered?
- what is the relationship between the following factors and the determination of the mix, order and intensity of services:
  - trade area
  - level of enterprise
  - group or individual enterprise
  - need for control of project policy (e.g. that a particular type of client is selected)

The discussion which followed highlighted the differences among participants regarding the need for different types of services, with some suggesting that less services are needed than usually thought, while others stressed the need for non-formal delivery systems and "motivation" training. The discussion also underscored the lack of information on factors related to the mix and intensity of services.

5.1 What are the necessary services to provide clients of micro-enterprise assistance projects?

Technical assistance, marketing, and bookkeeping are among the services which do not appear to be very useful or important

"Technical assistance in the projects we saw was almost non-existent; with adults at the lower end of the informal sector, the skill levels are very low to begin with, and the trade areas involve either very simple production systems or are retail trades. Given the diversity of enterprises the cost of providing technical assistance could not be justified... In the marketing area we found that the market women do not need much advice; they know their mark-ups, they purchase well, they select good locations and they have an inherent sense of what sells."

"We discovered that most clients are not using the cash book system and do not consider it necessary....The majority of micro-enterprises assisted by ACCION which are somewhat larger than those being assisted by the NCKK and FDD projects will put up with a bookkeeping scheme if it is a requirement for getting a loan, but will not use the system as soon as their loans are obtained....If you are expecting clients to do bookkeeping, then they are probably much too big and you should let the banking system deal with them."

Credit preparation and education and business planning for tiny businesses are among those services which seem to be necessary for stabilization and growth

"How can you expect a micro-enterprise to get above a certain level of performance, if it does not have a cash book to use as a planning tool? And, at the level at which NCKK operates, it is difficult to see how one can get away without some type of non-financial assistance, especially credit preparation and education; in the management area advice on bulk purchasing and procurement seems to have been important and the establishment of marketing channels in some cases helpful....Furthermore, NCKK has been intervening on behalf of clients to get licenses."

"What is also needed is a new category of assistance: business development and business planning for the tiny business, helping clients move from selling used clothing to new clothing to fish....But, what do business management and planning systems consist of for illiterates and semi-literates--we just do not know."

5.2 What mechanisms are necessary for delivering non-financial services?

A number of participants argued that client groups (e.g. the solidarity groups of the FDD program) and other informal structures are often very effective ways to transfer knowledge, skills and attitudes:

"While it is true that in the FDD program services are not provided by the staff, the whole idea of the solidarity group is to facilitate the exchange of information and skills, e.g. marketing."

"The risks involved in entrepreneurship training (e.g. 15-20% success rate) sort of highlights the necessity for some type of grouping of clients to take advantage of that 15-20% who have definite inclinations in that area... and one of the more successful things that I have seen in the better groups is that with 15 people you can get a division of labor--3 or 4 can have a knack for management, bookkeeping, or inventory control, etc. while the other ten might be damn good at salting fish or some other task."

## 6. DETERMINANTS OF CREDIT TERMS AND PAYBACK RATES

Jason Brown opened the discussion on credit terms by noting that every project studied or assisted by the PISCES team included credit as a component. Therefore, the important question, in his opinion, was whether credit is provided on a commercial basis or whether there is some degree of subsidization.

The discussion which followed brought out the point that credit is not a necessary element in all micro-enterprise assistance projects, highlighted the need to define "subsidization" carefully, and concluded that full cost recovery is virtually impossible.

### 6.1 To what extent should and can project costs be recovered by the interest rate and fees charged clients?

There has to be some degree of subsidization

"The lesson we have learned over the years, substantiated by the PISCES Phase I case studies, is that a full interest rate is just not in the cards; if this was not true, there would probably be much better sources of credit to such nice profitable businesses with rates of return of 40% to 50% to 60%....I guess the argument is not to subsidize or not, but has to be over the rule for arriving at a figure that is other than arbitrary for interest rates."

While many lending organizations might be able to charge their clients higher rates than they are presently charging, there are reasons they do not

"Many social agencies, for example, NCCK, do not want to be seen as commercial entities....There is a sensitivity they have to charging higher (8% vs. 5%) interest rates."

"And, most clients of these programs, even if they were to be notched up 2 or 3 levels are still so far away from the commercial banking sector that the need to wean them away from lower rates is purely academic."

"...we cannot ignore the political issue of higher interest rates.... There are several institutions which cannot charge higher interest rates, not because the clients cannot afford them, but because forces outside of their organization from above make it not feasible."