

The Gender Manual Series

**Gender Issues in  
Small  
Scale  
Enterprise**

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GUIDEBOOK FOR INTEGRATING  
WOMEN INTO  
SMALL AND MICRO ENTERPRISE PROJECTS

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## TABLE OF CONTENTS

|  | <u>Page</u> |
|--|-------------|
| INTRODUCTION   | 1           |
| WOMEN AND SMALL/MICRO SCALE ENTERPRISE:<br>A RATIONALE FOR CONSIDERING GENDER          | 3           |
| Introduction   | 3           |
| Definition of Terms  | 3           |
| Women as Microentrepreneurs  | 6           |
| Conclusion   | 9           |
| GUIDELINES FOR INTEGRATING WOMEN INTO<br>SME PROJECTS                                  | 11          |
| Standard SME Project Components  | 11          |
| Credit   | 12          |
| Technical Assistance and Training  | 14          |
| Issues in SME Project Design   | 16          |
| Funding of Project Components  | 16          |
| Cost Effectiveness   | 18          |
| Technical and Managerial Capacity<br>of Implementing Institutions                      | 20          |
| Outside Technical Assistance   | 21          |
| Guidelines for Integrating Women<br>into SME Project Design                            | 24          |
| Step One: Identification of the<br>Type of Assistance to be Provided<br>to Women       | 24          |
| Step Two: Feasibility Studies/<br>Disaggregation of Data by Gender                     | 26          |
| Step Three: Identification of<br>Implementing Institution                              | 33          |
| Step Four: Identification of<br>Constraints to Female Small and<br>Micro Entrepreneurs | 35          |
| Conclusion   | 46          |

|   | <u>Page</u> |
|---|-------------|
| GENDER CONCERNS IN PROJECT IMPLEMENTATION, MONITORING, AND EVALUATION | 49          |
| Project Implementation  | 49          |
| Project Promotion   | 50          |
| Credit  | 50          |
| Loan Requirements   | 51          |
| Loan Review Procedures  | 52          |
| Loan Disbursement and Repayment                                       | 54          |
| Interest Rates  | 57          |
| Technical Assistance and Training                                     | 58          |
| Project Monitoring  | 61          |
| Project Evaluation  | 63          |
| Conclusion  | 65          |

## LIST OF FIGURES

| <u>Figure</u> |   | <u>Page</u> |
|---------------|---|-------------|
| 1             | Characteristics of Micro and Small Scale Enterprises  | 4           |
| 2             | Characteristics of SME and Implications for Women   | 6           |
| 3             | Grameen Bank  | 13          |
| 4             | Small Business Scheme of the National Council of Churches in Kenya                                    | 22          |
| 5             | Advantages and Disadvantages of Three Types of Women's Projects                                       | 25          |
| 6             | Constraints Women Face in SME Projects  | 42          |
| 7             | Institutional and Project Constraints that Adversely Affect Women's Participation in the SME Projects | 44          |
| 8             | Project Design Process  | 47          |
| 9             | PROGRESO  | 53          |
| 10            | Monitoring and Evaluation System Model  | 66          |

## INTRODUCTION

In the last decade an extensive body of literature has evolved on why women should be integrated into development planning and programs, and on how best to achieve this end. Many of the findings and data under the "women in development" rubric have persuaded planners and program designers that women represent a critical human resource in the development process.

AID's policy statement, the "Women in Development Policy Paper" (1982), emphasizes the importance of integrating women into development programs both for humanitarian/social considerations and for economic reasons. Women's contributions to the economy are already substantial. With increased education and access to control over resources, women become an increasingly important, dynamic force.

Misunderstanding of the gender differences, leading to inadequate planning and designing of projects, results in diminished returns on investment. Gender, therefore, is a critical category of analysis in AID's work, one which has not received sufficient attention to date. (AID, "Women in Development Policy Paper," 1982).

2.

This guidebook is designed to provide AID staff in Washington and in missions with a guide to integrating women into small and micro enterprise development (SME) programs. It is not meant to be an in-depth reference tool or a definitive statement on gender issues in SME development. Rather, it is intended to introduce program designers to gender concerns and to provide an overview of recent findings from the field. It may be used by project design teams in the preparation of Project Identification Documents (PIDs) and Project Papers (PPs); by staff in the review of Operational Planning Grants (OPGs) and other unsolicited proposals; by project managers to ensure that program implementation and evaluation properly consider women; and by other development professionals interested in formulating more inclusive and effective programs.

Regional or country-level considerations are outside the scope of the guidebook. Each guidebook user will have to identify for him/herself the country-specific factors (cultural/societal norms, institutional forms, legal aspects, certain economic factors) that may affect program parameters.

The guidebook is divided as follows: the first section summarizes the reasons for which women should be integrated into SME or other income generating programs. The second section presents a set of guidelines for the integration of gender issues into SME project design. The third section looks at the implementation, monitoring, and evaluation of SME projects, particularly in regard to gender issues.

WOMEN AND SMALL MICRO SCALE ENTERPRISE:  
A RATIONALE FOR CONSIDERING GENDER

Introduction

This section describes the small and micro-enterprise sub-sector. This will form the basis of the overall discussion regarding the importance of considering gender issues in all aspects of small and micro scale enterprise (SME) projects. Specifically, this section includes:

- . Definition of basic terminology of SME projects
- . Reasons why women are so prevalent among the smallest of small scale enterprises, those termed "micro-enterprises"

Definition of Terms

Most small and micro-enterprises operate in the informal sector in urban and rural settings, and are involved in manufacturing, food processing, commerce and service. Although there is enormous variation across countries and even within the sector of a single country, certain characteristics are common to most SMEs. Size, location, labor production, and inputs are summarized in Figure 1 and discussed below.

Figure 1. Characteristics of Micro and Small Scale Enterprises

| Size   | Capital         | Employees  | Location   | Labor                            | Production       | Inputs  |
|--------|-----------------|------------|--|----------------------------------|------------------|---|
| Micro: | Up to \$10,000  | 5 or less  | Home based<br>make-shift<br>quarters<br><br>No fixed<br>location | Family<br>members<br>Apprentices | Local<br>markets | Use simple<br>technology<br>and locally<br>produced<br>inputs |
| Small: | Up to \$100,000 | 50 or less |  |                                  |                  |   |

Size: Measurements of size, the most often used variable in defining SMEs, refer primarily to fixed asset amounts and number of waged employees. Generally, "micro-enterprises" for AID purposes comprise establishments with under US\$10,000 in fixed assets, or five or fewer workers. "Small" and "emerging out of small" enterprises have a larger asset base and a greater number of employees; small enterprises can be defined as having 50 or fewer waged employees and assets up to US\$100,000. Women dominate the ownership of the very small enterprises, and their participation decreases as the size of the firm increases. It is important to note that definitions vary among countries, and that enterprises in Africa and Asia tend to have lower asset levels than those in Latin America.

- . Location: Small and micro-enterprises often are home-based, use make-shift quarters, and operate in the street with no fixed location. They may represent one of several income stems for the family, and labor and capital may be allocated based on need and circumstance.
- . Labor: Most small and micro-enterprises use family labor or apprentices who are paid minimal wages, or in-kind. Management issues related to planning, accounting, and record-keeping are resolved on a day-to-day basis in no planned or systematic way. A low level of formal education and literacy characterizes most microentrepreneurs, most of whom have learned their trade on the job.
- . Production: Goods and services produced by small and micro entrepreneurs are generally targeted at local markets and are subject to volatile demand forces. Micro-enterprises create important backward and forward linkages within the country's economy by using locally produced inputs as well as producing inputs for larger industries.
- . Inputs: Most small and micro-enterprises use simple, labor-intensive technology, and can therefore generate jobs at a considerably less cost than their larger counterparts.

Women as Microentrepreneurs

The factors governing the economic activity of small and micro-enterprises make them particularly attractive to women. These factors are summarized in Figure 2 and described below.

| Figure 2. Characteristics of Small/<br>Micro-Enterprises and Implications for Women |   |  |  |  |   |
|---|---|--|--|--|---|
|   | Structure   | Barriers   | Skills/<br>knowledge   | Location   | Hiring<br>practices                               |
| Characteristics of SME  | Flexible<br><br>Loosely structured  | Less education, training and experience are required<br><br>Lower level of capitalization required<br><br>Use of family labor rather than wage labor | Can use already existing skills  | Street location<br><br>home-based  | Women predominate as owners of certain businesses |
| Implications for women  | Enables women to divide their time between domestic responsibilities and economically productive activities | Because there are few barriers to entry into the micro and small enterprise sector, women can actively participate                                   | Traditional activities such as garment making, food processing can be turned into businesses | Women can be involved in several activities at a time and overhead cost is low | Women entrepreneurs tend to hire female employees |

**Structure:** Small and micro-enterprises are more flexible and less structured than other employment sources, enabling women to combine productive activities with family responsibilities such as domestic chores and child care. This flexibility is even more important

as the number of female heads of households increases throughout the developing world. At the same time, women who retain the traditional female roles of homemakers and child-bearers find themselves assuming a growing share of the income-producing function within the family. They too are turning to the informal sector to earn income.

- . Barriers to entry: The barriers to entry into small and micro-enterprises are few. Operating a small firm requires less education, training, and experience than formal sector jobs. Since women tend to be at a greater disadvantage than men in these areas, they are often limited to the least remunerative jobs in the economy. Other barriers, such as initial level of capitalization, production technology, and wage requirements are also lower; start-up costs for micro-enterprises require a minimal asset base, and often depend on family rather than wage labor. These other factors are important considerations for women who tend to have limited legal rights over property or other assets suitable for collateral in business start-up transactions. As a result, women are concentrated in those entrepreneurial activities that require the least capital, such as selling.
  
- . Skills and knowledge: Small and micro-enterprise activities often enable women to build on

skills and knowledge gained through their traditional roles as household and child care providers. The business becomes a natural extension of household activity. For example, textile processing (garment-making, embroidery) and food preparation (baking, candy-making, street foods) are areas in which many women utilize traditional skills to establish successful and growing enterprises. The serious limitation of these firms, however, is that they tend to be among the least remunerative and least capitalized small and microenterprises. Because of low skill levels, women are less able to diversify or engage in more productive enterprises.

- . Location: The location for operating a micro-enterprise can vary. In many countries, women tend to predominate in the commerce and street vending sector. They run their businesses from shifting or fixed street locations, rather than from purchased or rented locales, which require greater capital. Women involved in the manufacturing or service subsectors tend to work from home-based enterprises rather than in workshop or small factory settings. In both instances, the manner of operation enables women to engage in several different tasks at the same time, and reduces high overhead costs.

- . Hiring practices: A correlation appears to exist among SMEs between the number of female

employees and the extent of female ownership. For example, women are the proprietors of most candy-making, dress-making, pastry, and craft establishments in Haiti and Jamaica. In these same establishments, women employees far exceed the men, indicating that female entrepreneurs tend to hire more female employees than males.

### Conclusion

This section set out the basic factors that characterize small and micro enterprises. These characteristics make SMEs a particularly viable employment creation and income generating alternative for women. The SME sector, as we have seen, is rather loosely structured, and this allows women to divide their time between economically productive activities and domestic responsibilities. Limited access to education and training, as well as low literacy levels, do not pose as severe a constraint for women in the SME sector as they would otherwise. Through the provision of assistance, women can use the skills they already possess to expand household activities such as food processing into business activities to generate increased income.

The next step is to incorporate the characteristics of SMEs, and the factors which make them particularly viable for women, into the design of an assistance program to improve the levels of economic productivity of a large number of women.

## GUIDELINES FOR INTEGRATING WOMEN INTO SMALL AND MICRO-ENTERPRISE PROJECTS

This section of the guidebook describes the principal steps in designing SME projects to ensure the inclusion of women among the project beneficiaries. The discussion in this section will cover the following subject areas:

- . Standard project components
- . Issues in SME project design
- . Guidelines for integrating women into SME project design

### Standard SME Project Components

Projects designed to assist small and micro-enterprises are generally comprised of three components: credit, technical assistance and training. The proportional size of the components vary according to the degree of sophistication of the targeted beneficiaries (the entrepreneurs), the managerial and financial capabilities of the implementing institutions, and the resources available for overall project implementation.

12.

Credit programs have the potential to become self-sustaining. Training and technical assistance programs have not yet demonstrated the ability to do so.

### Credit

SME projects usually contain some form of credit assistance to the entrepreneur. The manner in which the credit component is implemented varies, particularly regarding issues such as the methods of seeking out potential borrowers, regulations regarding the uses of the loans, and the type of businesses on which the credit component will focus.

Credit assistance programs are frequently characterized by:

- . Short-term working capital loans
- . Single borrowers and, with increasing regularity, group borrowers (see Figure 3). These groups, sometimes called solidarity groups (Latin America) or village cooperatives (Africa), are composed of people who are collectively and individually responsible for loan repayment.
- . Different loan application procedures, depending on loan size, business type, and borrower experience. The potential financial and credit information may even be collected through an oral interview in the case of small or repeat borrowers.

## FIGURE 3. Grameen Bank

The Grameen Bank, started in 1976 by Mohammed Yunus, provides loans to the landless poor in Bangladesh. The Bank successfully reaches its target group by operating branches at the village level and by focusing on group formation amongst borrowers. A week-long course is required prior to loan disbursement more to ensure proper understanding of the loan repayment process than to upgrade business skills.

From 1981 to 1985, the Bank extended 115,000 loans through 86 branch offices to approximately 58,000 beneficiaries located in 1,250 villages. The repayment rate was 94 percent. By April 1986, the Bank operated nearly 250 branches.

Women account for approximately 69 percent of all members and receive about 55 percent of the total credit. Many women (60-65 percent) had not previously been engaged in income-generating activities.

Project design features that contribute to the Bank's success in reaching women include:

- . Group formation and loan extension services at the village level: minimizes the amount of time female borrowers must spend away from their households and income-generating activities. It should also be noted that travel beyond the home village is particularly difficult for women in Bangladesh because of cultural constraints.
- . Branch staff members living in the village where the branch is located: provides greater opportunities for interaction between staff and clients. This is especially important for women who often rely on informal contacts for information and technical assistance. In addition, at least two staff members of each branch are women.
- . Standard training for all borrowers: increases the self-confidence of women.

14.

- . Single or multiple interest rates, with the latter type reflecting loan size
- . Potential collaboration between the non-financial implementing organization and a bank, especially with respect to the disbursement and collection of loans

#### Technical Assistance and Training

SSE projects also provide technical assistance and training to project beneficiaries. Most often technical assistance and training are seen as complementary to credit. Some projects provide technical assistance on request. Occasionally, a small fee is charged. Other projects feature technical assistance as a mandatory step toward obtaining credit. Still other projects, especially those working with beneficiaries at the pre-entrepreneurial stage, focus on technical assistance or social education for varying periods before initiating any discussion of credit.

Training assistance often has the following features:

- . Individual sessions before and after loan disbursement
- . Requirement that applicant attend a specified number of hours of group training prior to disbursement of the first loan
- . Assistance in specific management skills, such as bookkeeping, planning, and production functions
- . Training in technical skills specific to a given line of production (furniture making, tailoring, metal work, etc.)

- . Training in related areas, such as literacy, group formation, laws and regulations, etc.
- . Assisting borrowers to form their own associations to increase their leverage and access to institutions and resources

The provision of technical assistance to the institution implementing the project is often a component of SME projects. Through the work of a long-term advisor, periodic visits, workshops and a variety of other mechanisms, projects seek to strengthen the local institution's human resource base and upgrade its financial and monitoring systems. Assistance designed to improve the organizational and managerial capacity of the institution will increase that institution's ability to assist micro and small-scale entrepreneurs.

It is important to note that there are cases where SME projects provide a wide variety of other non-financial inputs to beneficiaries. These can include market facilities, delivery of health and family planning services, improvement of roads or other infrastructural components, and formation of cooperatives. These types of assistance are generally the exception.

The informality of the SME sector limits the access of entrepreneurs, particularly women, to productive resources such as credit and technical assistance. The provision of such resources would enable many entrepreneurs to break out of subsistence-level activities. This step is crucial if small and micro entrepreneurs are to contribute to the growth and development

of their economy. However, the ability of entrepreneurs to expand production, hire additional workers, and increase overall income and/or value added is dependent on suitable SME project design. The following sections review the design elements of SME projects. Particular emphasis is placed on the design elements that affect the smallest enterprises, and consequently female entrepreneurs.

#### Issues in SME Project Design

Several issues need to be addressed in the project design phase. Two such issues -- the strategy for funding components of SME projects and types of technical assistance to be provided -- are discussed below.

#### Funding of Project Components

Most SME projects are initially funded by a grant from an international donor. USAID mission portfolios, for instance, include "OPGs" and/or other bilateral projects designed to reach SMEs. The grant funds cover the costs of operation (salaries, overhead, equipment), and of project components, directed to the institution and the beneficiaries.

In some cases, local institutions also help to finance projects through loans from local banks and/or through local fundraising efforts. This type of support typically represents a small percentage of the overall project budget, despite the popularity of SME projects in the targeted geographical area.

The need for outside financing raises the issue of project sustainability and self-sufficiency. If designed properly, SME projects can achieve considerable levels of self-sufficiency, particularly in the provision of credit. However, experience shows that achieving full self-sufficiency in SME projects (i.e., covering program costs from interest and other income earned through the program) is very difficult unless the project manages a very large fund and has quick rotation of loan moneys. One problem often encountered in this regard is poorly conceived cost recovery estimates, which contribute to low levels of project self-sufficiency. These estimates rely on shaky assumptions or ignore important cost determinants and point the project toward continued dependence on grant funds.

The issue to consider is whether some level of subsidy is justified, and which project components, such as credit, can be expected to cover their own costs. In general, training and technical assistance to the implementing institution and project evaluation require some outside support. Certain local organizations, such as those working with Accion International/AITEC in Latin America and the Caribbean and the Grameen Bank in Bangladesh, underline the importance of project sustainability by setting it as a project goal. These local organizations use grant moneys as start-up funds and, over time, reach increasing levels of self-sufficiency.

The use of project funds will vary depending on the target group. For example, for beneficiaries at the pre-entrepreneurial level, where women predominate,

18.

more input is needed at the preliminary training stages. The use of project funds will be greater up front. Projects focusing on target groups at subsequent levels of entrepreneurial development use most of the project moneys at latter stages when intensive training is provided in conjunction with the loan and project monitoring takes place.

#### Cost Effectiveness

Small and micro-enterprise projects should be designed with the aim of providing the optimal amount of project benefits per unit of project cost. Calculations of the cost-effectiveness of a project must make a distinction, however, between the various project components. Credit, training and technical assistance are not on an equal level in terms of self-sustainability.

The credit component of a SME project should be able to cover its operating costs. Credit programs in fact should be designed in such a way that will facilitate rapid loan recovery and a low level of loan default.

The training and technical assistance components of a SME project, on the other hand, should be designed to meet the real constraints on enterprise growth in developing countries and should not be expected to cover their own costs.

Some causes of lower cost effectiveness include the following:

- . Fund disbursement from donors often occurs in "tranches" that are not in line with credit needs of the project. If the project disburses its original credit fund faster than planned (often a sign of a well-run project), then it temporarily depletes its credit fund, since repayments are slow at first. If the project then must wait several months for another disbursement from the funder, it loses momentum, discourages potential clients, and loses income.
- . Staff responsibilities are defined in very broad terms; staff is not encouraged to cut project costs or to be concerned about program cost effectiveness. Staff productivity, in terms of amount lent, number of borrowers, repayment record of clients, etc., is seldom considered an indicator of performance. In addition, staff is expected to be versatile enough to carry out all functions related to credit and technical assistance. For example, staff time spent collecting bad debts may carry a higher opportunity cost than if a person is hired to perform that specific function.
- . Movement of credit is hindered by lengthy application procedures, complicated review processes, and inefficient disbursement systems. Turnaround time for loan decisions can be as short as one week or as long as several months. In the aggregate, this factor can debilitate the project.
- . Dependence on concessionary moneys prevails among implementing institutions. There is little incentive to aspire toward improved cost-effectiveness if the donor organization continues to provide funding without identifying this issue as an important factor in its decision.

- . There is a lack of proper documents available to enable project monitors to calculate cost-effectiveness as well as issues related to cost-benefit ratios.

#### Technical and Managerial Capacity of Implementing Institutions

In addition to project funding, the technical and managerial capacity of institutions deemed capable of implementing SME projects must be analyzed. Many institutions have strong ties with the community and an emphasis on community participation, which enhances their ability to promote lasting social and economic development. However, the financial, business, and economic know-how required to coordinate a successful SME project is not always part of the technical knowledge base of such institutions' staff, whose backgrounds tend to be in the social sciences (sociology, education, anthropology, etc.). In the case of volunteer organizations, this deficiency is even more apparent.

These problems are compounded by the demands on the personnel of the institutions. The staff are often expected to assume a variety of responsibilities, including training, review of credit applications, business projections, and organizational development. They are usually unprepared to carry out all these functions and tend to spend the majority of their time in the areas where they have the most expertise. Moreover, allocation of time for each of these functions is seldom well defined. The level of complexity (growing number of clients, high number of transactions, financial monitoring) and the diversity of the services

delivered (credit, training, technical assistance) involved in SME projects makes a strong management capability within the implementing institution particularly important (see Figure 4).

In general, SME projects are more efficient and effective when:

- . The organization's leadership provides vision (a clear mission for the organization) and direction (clear goals and objectives) to the project
- . The staff is dedicated and committed to the project's goals and objectives
- . The organization has solid management and efficient administrative systems
- . Decision-making is decentralized and involves the staff
- . There is a strong component of staff training in finance, business and accounting. NGOs administering SSE projects should be encouraged to hire staff with business and financial skills
- . Staff productivity is emphasized and incentives are built into the program
- . The organization has good links with the business community and local community groups

#### Outside Technical Assistance

Many SME projects include some form of outside technical assistance, usually provided through U.S.-based organizations. Because such outside organizations often have considerable input into the way in which the

FIGURE 4. SMALL BUSINESS SCHEME OF THE  
NATIONAL COUNCIL OF CHURCHES IN KENYA

The Small Business Scheme (SBS), established by NCCK in 1975 and expanded with assistance from USAID in the early 1980s, seeks to increase the economic self-reliance of the least skilled urban poor in Kenya through the provision of working capital loans and advice on credit management. The SBS's client group consists primarily of women, many of whom were without a regular source of income prior to participating in the program.

In the early stages of expansion, the program was beset with problems in program management and administration, i.e., frequent turnover of top staff, inconsistent client selection criteria and technical assistance approaches between project sites, and long delays between loan approval and actual disbursements. In spite of these problems, it was clear by 1984 that the program had a positive economic impact (consisting of a 10 to 14 percent increase in net income) on program participants.

Lessons learned during the early years of the program include the following:

- . Group formation is the only effective means for reaching a relatively significant number of people in instances where both program staff and loan funds are small. Group development may be impeded, however, by ethnic diversity, a lack of leadership within the potential group, a lack of managerial and administrative skills within the group, or haphazard group formation. Technical assistance and training can often overcome many of these constraints.
- . The system of assistance is as important as the nature of the assistance itself. For example, workshops or seminars are important vehicles for assistance for a variety of reasons. They allow program clients to brainstorm and solve problems as a group, a first step to self-help. They provide a forum for discussion between program clients and staff in which clients may express needs that they feel the program should address. Finally, they facilitate program logistics and general administration in areas such as loan collection and client follow-up.
- . Client selection is important; staff selection is critical. Aside from having the appropriate technical qualifications (such as knowledge of accounting principles, experience with loan disbursements and collection), potential staff members must demonstrate a commitment to the program's purpose. Commitment reduces staff turnover and ensures program continuity.

local institution designs and runs its program, the capacity and approach of the outside firm are important factors in project success or failure.

When technical assistance is flexible and responsive to the country and institutional setting, it can make the difference between an effective and a struggling project. This does not necessarily include the use of a full-time outside technical advisor -- he/she may become too involved in the institution and the program to maintain objectivity. Moreover, the salary costs may be prohibitive for projects that should emphasize cost-effectiveness.

Experience has shown that outside technical assistance is most useful when the technical advisor:

- . Plays a well-defined role, preferably according to a specific job description
- . Develops a systematic way of training local staff, beyond "learning by doing"
- . Uses lessons learned from other projects but does not insist on replication
- . Participates in institutional policy issues only when these affect the project's outcome (e.g., credit review policy, income level of client group)
- . Does not spend all his/her time at headquarters, but considers field visits to the entrepreneur's place of production part of effective assistance
- . When feasible and advisable, facilitates communication and negotiations between program donors and the implementing institution

Guidelines for Integrating Women into  
SME Project Design

The three components of micro and small-scale enterprise projects -- credit, training and technical assistance -- can be designed to incorporate elements of gender-specific assistance. This process is critical, as project success rests primarily on effective project design. The key steps in the design process are detailed below.

Step One: Identification of  
the Type of Assistance to  
be Provided to Women

The first step in the process of integrating women into micro and small-scale enterprise projects is assessing whether the project is to focus exclusively on women, is to feature a women's component, or is to "mainstream" women into a larger development effort (see Figure 5). Generally speaking, focusing on gender issues does not require separate programs; it does, however, entail special emphasis on women's activities within general programs. The need for special attention is due to the tendency to deny women -- albeit often unintentionally -- the level of support enjoyed by male project beneficiaries.

Women-specific projects are often designed to test new approaches to reaching women, to help women "catch up" to men, or to strengthen women's - research/action organizations. They are implemented particularly in situations where cultural constraints act as a barrier to integrating women in mainstream projects.

FIGURE 5. ADVANTAGES AND DISADVANTAGES  
OF THREE TYPES OF WOMEN'S PROJECTS

| <u>Type of Project</u>                | <u>Advantages</u>  | <u>Disadvantages</u>  |
|---------------------------------------|--|---|
| WID-specific                          | Women receive all of the project's resources and benefits. Beneficiaries may acquire leadership skills and greater self-segregated environment. Skills training in nontraditional areas may be much easier without male competition.                             | These projects tend to be small-scale and underfunded. Implementing agencies often lack technical expertise in raising productivity or income. WID-specific income-generation projects rarely take marketability of goods or services into account and thus fail to generate income. Women beneficiaries may be required to contribute their time and labor with no compensation. Women may become further marginalized or isolated from mainstream development.  |
| Women's component in a larger project | The project as a whole enjoys more resources and higher priority than WID-specific projects, which can benefit the WID component. Women are ensured of receiving at least a part of the project's resources. Women can "catch up" to men through WID components. | The WID component usually receives far less funding and priority than do the other components. These components have tended to respond to women's social roles rather than their economic roles; for this reason, domestic activities may be emphasized to the exclusion of any others. Awareness of the importance of gender in the project's other components may be missing.   |
| Mainstream/ integrated project        | Women can take full advantage of the resources and high priority that integrated projects receive. If women form a large proportion of the pool of eligibles, their participation will probably be high, even without detailed attention given to WID issues.    | Unless information on women's activities and time use is introduced at the design stage, these projects may inadvertently exclude women through choices of promotion mechanism, location and timing of project resources, etc. If women form only a small proportion of the pool of eligibles, they may not be included in the project. Women may be competing with men for scarce project resources and lose out because of their lack of experience in integrated group settings and their relatively low status in the family and community. |

Source: Gender Issues in Latin America and the Caribbean.

- . Larger projects with a WID component are attractive vehicles for assistance because they tend to command greater resources and attention from planners and donors than women-specific projects. In addition, the WID component has its own budget and staff which simplifies project monitoring and assessment of impact with respect to gender. An example of a WID component is a housing project in which women receive access to credit from a special fund designed for women applicants only.
- . Mainstream projects integrate women directly into their program of assistance. An example would be a micro-enterprise credit project that is able to reach women because its collateral requirements and review procedures are appropriate for women.

Of the three approaches, the last has the most potential for raising women's productivity and incomes. Experience shows that it is more beneficial, from the gender perspective, to promote SME projects designed with a strong gender-integration approach than to "segregate" women as project beneficiaries. This manual therefore focuses on ways in which to bring women into the development process by including them as active participants in the micro and small-scale enterprise development effort.

#### Step Two: Feasibility Studies/ Disaggregation of Data by Gender

##### Rationale for Feasibility Studies

The next step in the design process is an in-depth review of the state of the micro and small-scale

enterprise sector within the target region. SME projects should be designed on the basis of an empirical assessment of the SME sector in the given region or city. Preliminary project studies, however, seldom include data that permit realistic target setting. As a result, most targets established for project performance (number of loans, amount to be lent, recovery rates, rollover of capital) and for impact (number of jobs created, level of income/savings enhancement, value added, firm expansion) are estimates, unreliable projections, or approximations based on the performance of projects in other countries.

The design phase of SME projects should therefore include a sector assessment/feasibility study that enables planners to develop more effective projects with realistic targets. A feasibility study should cover:

- . The economic context of region or country
- . The main problems and strengths of the sector
- . The beneficiaries and their businesses
- . The implementing institution
- . The services to be delivered

The methodology on all aspects of data collection for the feasibility study should include:

- . Involvement of staff in data collection; this is an effective way of training

staff who will later administer the project, and of establishing a strong link with the community

- . Direct input from selected potential beneficiaries, through interviews with individuals, local associations, etc., to assess their needs and identify leaders
- . A style of presentation that can serve to educate donors, government agencies, and implementing institutions on the informal sector
- . Data disaggregated by gender

#### Disaggregation of Data by Gender

A major obstacle to including women in small and micro enterprise projects is that gender-related data are almost never available and are difficult to collect. Women tend to remain "invisible" in surveys and official data collection efforts. Their enterprises tend to be the smallest and, consequently, are unregistered business units seldom subject to official review. Moreover, women's work tends to be discounted as not economically productive; indeed, many women's enterprises are incorrectly regarded as subsistence production instead of businesses in which the woman is self-employed.

Disaggregation of data by gender is necessary because in every society, differences in gender roles exist. Depending on a range of cultural, political and economic factors, women and men undertake different

tasks, face different constraints, and focus on different concerns. Distinct gender roles are often overlooked or taken for granted, and yet they influence all aspects of development, particularly productive and other income generating activities.

The first step in the process of gathering data is to design data collection systems that allow information to be accumulated along gender lines. Data collected in this fashion can then provide at least the following information:

- . Gender-related differences among potential beneficiaries
- . Patterns or trends attributable to only one gender
- . Limitations possibly determined by gender

Sex-disaggregated data allows one to determine, for example:

- . The types of businesses in which women predominate
- . Whether the use of business profit (i.e., for consumption or reinvestment) is related to gender
- . Whether women request credit in numbers commensurate with their presence in the informal sector

The second and more difficult step in data disaggregation involves incorporating issues that are

particularly pertinent to women into the data collection process. Knowledge of these issues helps designers to analyze the project's ability to benefit women.

### Gender-Specific Studies

Independent studies, such as project-specific feasibility studies enable the collection of accurate data relevant to gender issues. These studies should be carried out in several stages. One important caveat is that in many countries there will be a paucity of data on small and micro-enterprises. This makes the collection of gender-specific data even more difficult. The following discussions highlight some of the critical issues to be considered.

The first phase should focus on the potential beneficiaries of the project, and would furnish information on such variables as:

- . Percentage of women who own enterprises
- . Number of female employees
- . Level of education, training, and literacy
- . Percentage of households headed by women
- . Size of household
- . Amount of time spent on income-earning activities
- . Type of previous credit sources: money lenders, family loans, banks, cooperatives, etc.

- . Difference in savings propensity between men and women
- . Percentage of household income from enterprise (determine level of dependency of family on women's income)
- . Earnings level of women vis-a-vis men

The second phase should focus on gathering information on the specific types of enterprise activities and the ways in which women work. These studies should generate information on:

- . Firm type: urban, semi-urban, rural, number of employees, amount of fixed assets
- . Location: home-based, rented, owned, shifting or fixed quarters
- . Technology: semi-modern or modern
- . Inputs: use of raw materials, locally produced inputs, backward linkages to rural production, forward linkages to large-scale production
- . Types of activity in which women predominate: manufacturing, commerce, distribution, transportation, processing
- . Sales volume/profits
- . Use of profit
- . Management: record-keeping, accounting, inventory

The third level of studies should focus on specific market issues, including:

- . Client base: current demand source, potential of increased access to additional consumers
- . Distribution: ability to reach markets
- . Pricing: how products are priced; is there a difference between prices for products produced by men and those produced by women?
- . Market: urban, rural, household, export

The fourth phase should focus on the local institution to be charged with implementing the SME project. These particular studies will illuminate issues such as:

- . Organizational structure: degree of centralization in decision-making, balance of men and women in senior and mid-level positions
- . Income levels of beneficiaries of the institution: institutions that work with the lower strata among the poor are more likely to be equipped to reach women
- . Staff: level of sensitivity to gender issues and knowledge of staff members about women
- . Technical capacity: consideration of gender issues in program planning and implementation

In those cases where project studies and materials have already been developed and contain no gender analysis, the funding agency in conjunction with the implementing institution must ensure that disaggregation of data by sex is completed prior to project

implementation. Finally, all data collected during the course of the project should be disaggregated by sex. This practice will enable project managers and evaluators to assess if gender is a variable in the wide range of factors that affect a project's performance and impact.

Step Three: Identification  
of Implementing Institution

The provision of assistance to SMEs is rendered difficult by several features. SMEs are small, numerous, and (especially in rural areas) scattered over long distances. In addition, they operate outside the formal network of credit and training. For these reasons, it is difficult and costly to work with them directly, and it is preferable to work through existing SME support organizations or institutions that demonstrate the potential of acting as intermediary organizations. The creation of new institutions requires an intensive mobilization of human and financial resources; they also run a high risk of failure.

The choice of implementing agency is one of the most important elements in project design. One might assume that women's organizations are the best suited to implement projects that include women. However, experience with projects designed to reach women indicates that the failure of programs is often traced to lack of technical and/or managerial expertise on the part of the implementing agency, and women's organizations are sometimes weak in this respect.

In general, women-oriented organizations are locally based institutions with limited resources at their disposal. Many rely on volunteer workers with little technical expertise in development issues. The charity/relief focus of most of these organizations, moreover, does not prepare them to implement self-sustaining SME projects. Indeed, the prevailing approach of local institutions to reach women has been to develop women-specific "income generating projects" rather than to integrate them as beneficiaries in larger SSE projects. Agencies with the capacity to reach women are not necessarily capable of implementing successful productive projects for women.

On the other hand, technically proficient implementing institutions may be incapable of reaching women and may not even consider the participation of women to be important. These institutions often lack the ability to recognize which aspects of their programs potentially restrict women's access. Even with the best intentions, such institutions may still exclude women from opportunities to improve their economic situation significantly.

Many different types of institutions in developing countries that implement projects to assistance micro and small-scale enterprises. Most have an existing track record in community/cooperative organization and social development and work directly with grass-roots groups. Because of this grass-roots linkage, many institutions begin SME projects with a good basis for a strong and trusting relationship with the beneficiaries, although the institutions may have limited knowledge of financial and technical questions.

Project designers can increase the chances of reaching women by choosing implementing agencies with a blend of appropriate technical expertise and a commitment to developing or recruiting expertise on women's issues relevant to the project. In cases where the best technical institution lacks experience in reaching women, the project implementation plan's design should provide for technical assistance to the institution from outside consultants or organizations to improve women's participation in the project. Institutions that have not directed intervention toward enhancing the productive role of women in the past should not be excluded outright.

Step Four: Identification of  
Constraints Faced by Female  
Small and Micro Entrepreneurs

Social and Cultural  
Constraints

Constraints on women's participation in project activities should be considered in the design of all projects. Many of these constraints are rooted in the social, cultural, and economic fabric of the society and require structural and institutional changes that projects can address.

In many developing countries, women -- particularly those who are the sole economic support of their households -- are over-represented among the poorest low-income groups. Project interventions that identify the poorest of the poor as the target group will therefore automatically include a large percentage of women.

Project features to be considered in order to enhance women's participation include the location of activities and services and the timing and duration of activities. If, for instance, agricultural training programs involve long-term, residential training, there is little chance that women will be able to participate, given their household responsibilities and societal norms that typically restrict rural women's travel away from home.

When there is a low proportion of women in the pool of eligibles for project assistance, women's participation tends to be low, in spite of active efforts to include them. Three steps can be taken to prevent this type of de facto selectivity from occurring:

- . Expand the eligibility criteria.
- . Consider developing a special women's component designed to respond to the constraints that render women ineligible.
- . Institute an active recruitment program for women (particularly effective when implicit exclusion, based on cultural perceptions, reduces the number of eligible women; explicit exclusion is the contrary state).

The distinction between increasing women's activities or work and improving the returns of women's activities or work must be considered when planning project components and expected outcomes. In agricultural projects, for example, the involvement of

women in soil preparation or weeding of certain crops increases the demands upon women's time and labor, yet women may not share in the proceeds of crops sold through male-based cooperatives. Thus, women may refuse to participate in components that increase their work without increasing their returns; this factor enormously increases the potential for project failure. Project components must focus on increasing women's access to and control over project resources as well as benefits.

In addition, cultural mores, determined by tradition and religion, may affect such behaviors as the gender-based division of labor, and can have a critical impact on project success. There are wide variations in behavior across countries and even from community to community. Some cultural constraints can be addressed through program or project interventions. Resistance to involving women in new productive programs seems to decrease when the program increases household income. For example, in a village in rural Guatemala, women are accustomed to helping in the fields only during the planting season. However, the introduction of contract farming on horticultural crops, with its promise of increased income, influenced women to contribute 2-3 days/week of labor on the vegetable crops. It goes without saying that a project focus on the country's prevailing sexual division of labor is more likely to be viewed as deriving immediate benefits for female project participants.

### The Policy Environment

A recent study prepared by Haggblade, Leidholm and Mead concludes: "In most countries of the third world, the general policy environment is skewed distinctly against small producers." There are a number of policies, regulations, and business practices which have an adverse impact on small enterprises, and women as owners of the smallest of enterprises are disproportionately affected by this negative impact. Several of these policies are discussed below.

### Banking Policies

Collateralization of bank loans. Most banks extend credit according to the ability to meet collateral requirements. Small and micro entrepreneurs rarely have the necessary collateral, due to undercapitalization and low incomes. This is especially true for women, who are less likely to own property. In many countries there are legal restrictions on women's ability to own land or property; in others there are socio-cultural constraints on female ownership. These customary constraints on female ownership presents a critical problem for women who are widowed, divorced, or single heads of households.

Interest rates. The smallest entrepreneurs are viewed as a high risk, high cost group by bankers. Bankers weigh the probability of default against the potential gain in income from interest and set the interest rates accordingly. In certain instances, the rate thus derived surpasses the interest rate ceilings

imposed by the central bank. This effectively eliminates the possibility of obtaining credit from the formal financial system.

Transaction costs. Women, as owners of the smallest businesses, tend to borrow smaller amounts on a frequent basis. The small amount increases the cost per loan processed and the increased cost discourages bankers from loaning to women.

Application process. A large portion of female entrepreneurs are illiterate and ill prepared to deal with the formal banking sector. The loan application process is complex and entails a certain level of financial sophistication beyond many women. Applying for a loan might also require that the women travel away from their homes. This presents obstacles in terms of time spent away from the home or business and expense involved in getting to the lending institution.

#### Price Controls

Price controls generally have an adverse impact on the smallest businesses. The larger businesses can compensate for fixed prices by producing more goods, but the smaller businesses do not have the opportunity to mitigate the impact of price controls. Moreover, in many countries household and food goods are subject to price controls; micro enterprises are heavily involved in the production of those goods.

### Exchange Rates

In countries where there is an over-valued exchange rate, the price of imported goods is lower than those produced domestically. This eliminates the import-substitution opportunity for small-scale enterprises. Reduced prices for imported goods often favor the larger businesses which rely on imported goods for inputs and machinery.

### Tax Policies

Many countries offer tax exemptions to larger businesses to encourage industrialization. The small businesses are not granted these exemptions and find it difficult, if not impossible, to compete with the larger firms. On the other hand, the smaller firms often evade taxation entirely.

### Labor Policies

In many developing countries, there are regulations regarding the number of hours women can work and the specific businesses in which they can work. Laws requiring businesses to provide for maternity leave and child care facilities can be disadvantageous, as they discourage employers from hiring women.

### Legal Constraints

In many countries, there are legal restrictions which limit women's participation in economic activities. For example, women are often required to have

their father or husband co-sign for a loan. As mentioned earlier, there may be legal restrictions against women holding title to land or property.

#### Summary of Constraints

In each project setting, these constraints must be analyzed to understand how they might restrict women more than men. Figures 6 and 7 summarize some constraints that are gender related and have an effect on women entrepreneurs.

The limitations that the majority of societies impose on women, particularly poor women are highlighted in Figure 6. The constraints are varied and they affect many facets of a woman's life (including level of education, ownership patterns, roles within the family structure and status within society). These constraints, listed in order of priority, in the aggregate place women in a disadvantaged position vis-a-vis men, and make women less attractive as potential clients of enterprise projects. Some of these constraints, if addressed at the design and implementation stages, can be overcome. This can lead to appreciably greater participation by women in the distribution of available resources. Those projects where the constraints are not taken into account ultimately exclude -- albeit unintentionally -- a large number of women from the group of project beneficiaries.

FIGURE 6  
CONSTRAINTS WOMEN FACE IN SME PROJECTS

| <u>Gender Constraints*</u>   | <u>Effect*</u>  |
|--|---|
| 1. Societal norms and attitudes create stereotypes that devalue women's work and contribute to family income | . Project designers and planners do not recognize the real value of women's economic contribution   |
| 2. Women-owned enterprises tend to be among the smallest   | . Women borrow smaller amounts and need loans more often (working capital)  |
| 3. Lower levels of formal education; often semi or illiterate  | . Greater reluctance to approach an institution for credit or technical assistance<br>. Greater difficulty in completing application forms and requirements |
| 4. Less likely to own land or property (often for legal and socio-cultural reasons)                          | . Less able to meet collateral requirements that are based on ownership   |
| 5. Dual role of income earned and housekeeper  | . Significantly curtails time and mobility  |
| 6. Increasing percentage of rural/urban households are headed by women                                       | . Households depend solely on female labor for income<br>. Women are over-represented among the poorest sectors of society                                  |

FIGURE 6 (continued)

| <u>Result in terms of access to*<br/>project assistance</u>  | <u>Project Design Features<br/>Addressing These Problems</u>   |
|--|--|
| 1. There is no relationship between reaching project targets -- increased income, job creation -- and integrating women as project beneficiaries | . Require that a specific percentage of project beneficiaries be women   |
| 2. Transaction costs for credit and extension are higher and make it less cost effective to lend to women  | . Use quick and simplified loan procedures that require less staff time and increase overall loan volume   |
| 3. Self-selection process occurs even before a woman approaches the institution  | . Rely on simple application forms supplemented by interviews  |
| 4. Women not eligible for credit or other resources available through the project  | . Encourage group formation among women borrowers who will be responsible collectively and individually for loan repayment,<br><br>. Offer small, short term loans for working capital |
| 5. Women cannot travel to project headquarters   | . Use branch offices to provide project services at the local/village level  |
| 6. Group least likely to participate in project benefits<br><br>Delivery channels and requirements may exclude this group                        | . Develop a flexible schedule for the delivery of project services to encourage female participation after work hours or during periods of slow business                               |

\*Source: Gender Issues in Latin America and the Caribbean.

FIGURE 7  
 INSTITUTIONAL AND PROJECT CONSTRAINTS THAT ADVERSELY  
 AFFECT WOMEN'S PARTICIPATION IN SME PROJECTS

| <u>Institutional and<br/>project constraints*</u>   | <u>Effect*</u>  |
|---|---|
| 1. Less likely to conduct out-reach and promotion through channels accessible to women                                      | . Women do not learn of project's resources   |
| 2. Management does not consider gender an important policy variable   | . Inclusion of gender is not an institutional priority<br>. Staff is not rewarded for addressing gender |
| 3. Feasibility step: sample seldom disaggregates by sex; inclusion of women entrepreneurs not part of methodology           | . Project designers fail to learn of women's constraints and needs                                      |
| 4. Delivery systems selected for project not take into account time and other constraints women face                        | . Requirements and procedures may unknowingly exclude a large number of women                           |
| 5. Staff lacks capacity to address gender issues  | . All technical assistance is designed in a uniform manner  |
| 6. May use census data or national statistics which undercount women's economic activity, especially in the informal sector | . Women remain invisible, or their productive roles are grossly underestimated and undervalued          |

FIGURE 7 (continued)

| <u>Result in project-specific terms*</u>  | <u>Project design features to address these problems</u>   |
|---|--|
| 1. Assumes all entrepreneurs are reached with no gender bias  | . Provide for greater interaction between staff and project beneficiaries by requiring staff members to live near the village/rural offices. Use female staff members to promote project |
| 2. No policy and administrative mechanisms are in place to guide projects                                 | . Hire a full-time coordinator, (or designate an existing staff member as such) to ensure that gender-related mechanisms (policy and administrative) are operating effectively           |
| 3. Project design does not reflect data pertinent to women entrepreneurs                                  | . Use specific outside technical assistance, if necessary, to collect, analyze and incorporate gender issues into project design   |
| Project design does not include effective systems to reach women  |  |
| 4. Project does not benefit women in a numerically significant manner                                     | . Involve women who are knowledgeable of local conditions and the schedules of working women in the design of project delivery systems and procedures                                    |
| 5. Project does not provide women who participate with the full benefit of assistance                     | . Employ female staff members and train male staff members to incorporate gender concerns into the project   |
| 6. Design based on incorrect assumptions and/or on incomplete information regarding the client population | . Collect data disaggregated by sex during the design phase  |

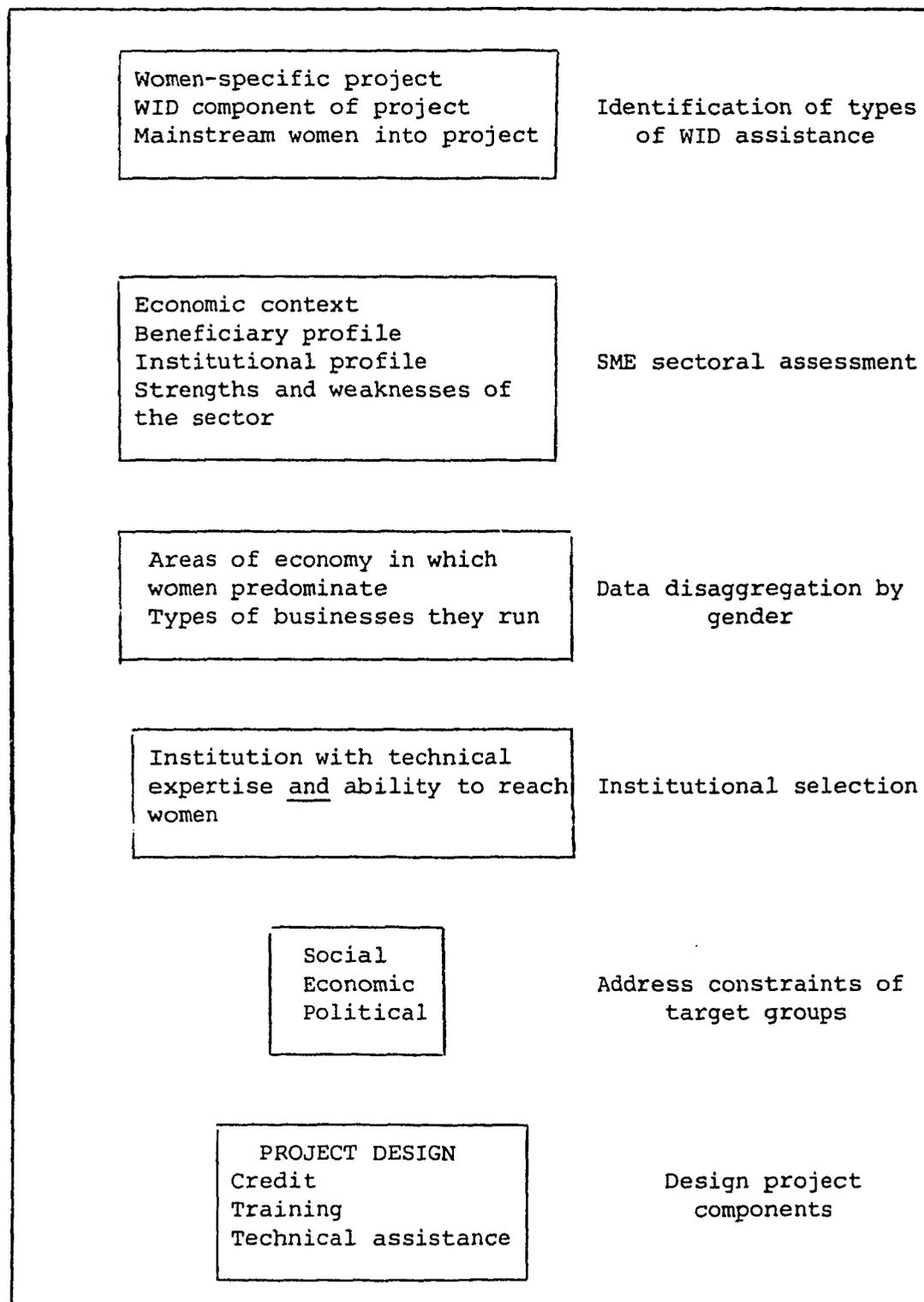
\*Source: Gender Issues in Latin America and the Caribbean.

Institutions, by ignoring gender issues, often create projects that, by design or oversight, exclude women. The crucial points at which an institution can err in its approach to women are outlined in Figure 7. The philosophy that underlies project creation, the data used to formulate projects, and the means selected to implement these projects all can affect whether women are consciously or inadvertently excluded from a project.

### Conclusion

This section has discussed the key factors (summarized in Figure 8) that must be considered at the design stage of SME project development. Particular emphasis was given to those factors which affect women. It is clear that there is no one set model for designing SME projects. Careful planning and research, as well as realistic strategies and targets, are the best ways to increase the effectiveness of project assistance and to enhance the chances of successfully reaching female small and micro entrepreneurs.

FIGURE 8  
PROJECT DESIGN PROCESS



## GENDER CONCERNS IN PROJECT IMPLEMENTATION, MONITORING, AND EVALUATION

The integration of gender concerns into the design of an SME project is not sufficient to ensure that women will significantly benefit from the project. The implementation of the project must focus on integrating women entrepreneurs into the overall enterprise assistance effort. The integration of gender concerns in the implementation of the project will necessarily entail including a gender focus in project monitoring and evaluation.

### Project Implementation

This section discusses the key factors in project implementation that directly affect the number of women reached and the quality of assistance provided by the project. The discussion covers:

- . Project promotion
- . Credit
- . Technical assistance and training

### Project Promotion

It is critical that project promotion be conducted in the communities where the beneficiaries live and work. Advertising a project's resources through newspapers or formal institutions, for example, may restrict access to the project to the "better off" businesses. In poor communities, information about available resources spreads through word of mouth, informal associations or networks, and the work of churches, schools, and social service agencies.

Careful and targeted promotion of project activities may be time consuming at first. Experience shows that if the promotional program is responsive and effective, less investment of time will be required as the project grows.

Women have their own informal associations through which they exchange information. Project promotion efforts must therefore identify the channels of information most accessible to women and include these in all information dissemination efforts. Women may be more reluctant than men to ask questions of the project promoter, especially if that person is male. Well-trained staff should be sensitive to this fact and be capable of eliciting questions and presenting information in a "non-threatening" way.

### Credit

The extension of credit to small and micro entrepreneurs involves considering such matters as:

- . Loan requirements
- . Loan review procedures
- . Loan disbursement and repayment
- . Interest rates

#### Loan Requirements

The credit experience of most participants in SME projects consists primarily of transactions with local moneylenders or family. Many lack experience with application procedures and formal lending requirements and, as discussed earlier, collateral requirements exclude many entrepreneurs, especially the smallest and neediest. Conversely, most formal institutions lack experience with this category of clients and are unable to develop assessment procedures suitable for small entrepreneurs. Alternative ways of assessing a person's reliability or potential creditworthiness include:

- . Character references from community members
- . A selection process that involves the beneficiaries
- . Formation of small groups that mutually guarantee each other's loans
- . Keeping initial loan amounts small to minimize risk
- . Simple economic analysis to verify the viability of the firm

Some projects specify the number of women they will attempt to reach with services. In this way, it

is more likely that mechanisms will be created to reach women. This does not necessarily mean that these projects ignore issues of firm viability or credit-worthiness; it simply means that setting gender-specific targets results in designs that better reach qualified women entrepreneurs (see Figure 9).

#### Loan Review Procedures

In some projects, the loan approval procedure is cumbersome, involves many people from different departments in the institution, and centralizes decision-making in the hands of board members or a committee. In other cases, the loan application form is complicated and time consuming. It may require over a dozen visits by the promoter to the loan applicant and, in the final analysis, may not provide very useful information or result in appreciably better repayment rates. Both approaches to the loan review process may result in:

- . Dissatisfaction among loan applicants, whose businesses may suffer and whose commitment to timely repayment may flounder
- . Increased program costs because staff time is not used in a productive way and less interest income is generated
- . Delaying the disbursement of credit

The last outcome is the most serious, because an important factor in the success of microenterprise credit lending projects is the speed with which they move credit. Speed in credit lending and loan review

## FIGURE 9. PROGRESO

PROGRESO, a micro enterprise credit program started in 1982 by Accion Comunitaria del Peru, operates in the barrios on the outskirts of Lima.

PROGRESO has two client groups and operates on a different basis with each. In the case of microentrepreneurs with a fixed place of work, individual loans are made subsequent to interviews and an on-site visit by a PROGRESO staff member. In the case of street vendors and the like, loans are made to self-selected groups which are collectively responsible for loan repayment.

During its five years of operation, PROGRESO has made over 40,500 loans to 3,499 microentrepreneurs and 1,978 solidarity groups. Loan amounts ranged from \$50 to \$1,000 and were for working capital. The loan repayment rate is 95 percent for microentrepreneurs and 96 percent for solidarity groups.

Over 50 percent of the microentrepreneurs assisted are women. Approximately 80 percent of the solidarity groups are also women. As the program continues to expand, PROGRESO seeks to maintain a consistently even proportion of loans to women by:

- . Promoting program services through informal networks and by word of mouth (PROGRESO offices are located in the barrios)
- . Stipulating a maximum of two men per solidarity group (women represent the majority of market vendors)
- . Offering social support to women (since 1984, PROGRESO has been working with local women's educational/development organizations to provide skills training in health and nutrition to female participants)
- . Imposing no collateral requirements (a co-signer serves as a guarantee if the microentrepreneur defaults; the group structure insures loan repayment amongst market vendors)
- . Requiring very few office visits (a total of three pre-loan visits; subsequent visits are once a month or less)
- . Offering technical assistance, such as accounting or managerial advice, prior to loan disbursements and courses on small business administration in conjunction with the loan disbursement-repayment process

is most often maintained when all or many of the following systems are in place:

- . Loan application forms are designed to gather only the needed information, and kept short (3-4 pages)
- . Entrepreneurs applying for second or subsequent loans undergo a more simplified review process, or are granted a "line of credit"
- . Various procedures for reviewing loans are established, to speed up the review of the smaller loans
- . Staff are involved in making decisions on loans, whether as teams or committees, not just in making recommendations
- . The institution understands the importance of striking an appropriate balance that does not sacrifice speed for judicious analysis, and is willing to adapt its systems as the program grows and the needs of the beneficiaries evolve

Gender issues to be considered include the fact that women may have less experience in completing application forms and may need more technical assistance in this area. Moreover, women may be unable to travel to a central office because of child care, household, and other responsibilities or cultural restraints.

#### Loan Disbursement and Repayment

In early SME projects, many institutions assumed disbursement and collection responsibilities, typically operating through a window in their offices. Some

implementing institutions disbursed funds for fixed and working capital direct to the supplier (through a "purchase order" system), from whom the borrower picked up his/her goods. The loan repayment was then made direct to the institution. Insisting on a "purchase order" system, however, increased the costs of production for the entrepreneur, who could usually secure inputs on an "informal" basis at a lower cost.

In more recent projects, arrangements are made with banks or other financial institutions to facilitate and/or oversee both the disbursement and repayment processes. Experience shows that when borrowers must deal with a commercial institution as part of the loan transaction, they become more adept at directly approaching a bank for credit. Some projects require that the borrower open a savings account and set aside a certain percentage of earnings periodically. This requirement mobilizes savings, familiarizes the borrower with a formal lending institution, increases his/her sense of commitment to the project and gives him/her greater access to further commercial credit.

Loan repayment rates vary considerably from project to project. Many projects fail to define arrearage and default and lack simple mechanisms to determine the delinquency rate over time. The most "successful" have an arrearage rate below 15 percent and sometimes as low as 5 percent. Default rates (loans written off) are below 10 percent. In general, projects that tailor the loan terms and payback schedules to the borrower's experience tend to have

fewer repayment problems. Successful projects also tend to emphasize working capital loans and frequent loan repayments. Built-in incentives for repayment include the prospect of larger future loans, simplified procedures, and individual technical assistance.

It should be noted that changes in the economic situation of countries in Latin America (i.e., devaluation, high inflation, shortage of inputs or any force that alters product supply and demand) tend to affect repayment rates more strongly than do lending criteria (such as interest rates or frequency of payback).

As with loan review, speed in disbursement and collection is important. If disbursement is not timely, borrowers lose interest; if collection is delayed, the project loses income, has less capital to lend, and is less likely to recover its loans. A short payback term is crucial, as it avoids misuse of loan money and over-purchasing of raw materials. It also recognizes that the borrowers' previous credit transactions with moneylenders probably requires daily or weekly payback.

We have seen that women tend to own smaller businesses and require smaller amounts of short term credit. Women predominate in commercial/service sectors and tend to require credit for working capital only. In most programs where data are available, women have as good or better repayment rates than men and have proven to be "good risks." Mechanisms for selecting female beneficiaries and screening their needs should be developed and incorporated as criteria of the

credit program to ensure that it is not simply used by the better-off (usually male) entrepreneurs.

### Interest Rates

In SME projects, few borrowers identify high or market level interest rates as barriers to obtaining credit. In addition, market interest rates are not perceived as a key factor in situations of high delinquency rates. As explained above, delinquency rates are most likely to be affected by a downturn in the economy, unrealistic sales projections, increased costs of production, poor management, etc. Most small entrepreneurs rely on moneylenders for short-term credit, and are accustomed to paying the going market interest rate.

There has been a gradual shift from projects that offer subsidized interest rates to those that charge market or commercial or near-market rates. Most funders and project implementors are increasingly interested in supporting programs that:

- . Do not subsidize interest rates; subsidies can lead to dependence and decapitalization
- . Are able to achieve an "acceptable" level of self-sufficiency
- . Prepare the borrower to assume the market cost of borrowing

In most cases, interest income, even at the commercial rate, can only cover part of the costs of

operating an SME credit and technical assistance program. NGO institutions well-versed in financial matters are more likely to insist on charging market interest rates. Volunteer and other organizations that have a social welfare approach to development (and are more likely to work with women) frequently subsidize interest rates. Their approach has been criticized on the grounds that:

- . It creates increased dependence on the part of women beneficiaries
- . It does not prepare women to "graduate" to mainstream programs or to approach commercial institutions
- . Subsidized interest rates tend to decapitalize a credit fund and decrease the potential long-term impact of a program
- . It assumes that the project will continue receiving grants to cover its operating costs and its depleting credit fund

Nevertheless, credit subsidization may be necessary when beneficiaries are at the pre-entrepreneurial stage, as is the case with many women. In this case, up-front training and technical assistance should be required even before any financial resources are made available, and loans may be "soft" during the start-up phase of productive activities.

#### Technical Assistance and Training

Technical assistance is generally provided to complement the credit component of SME programs.

Technical assistance is a broad term that encompasses a variety of activities ranging from assisting small and micro entrepreneurs in typical business functions such as accounting, inventory, and marketing to more specific assistance in production methods and appropriate types of technology.

Most SME projects offer both group training sessions and individual technical assistance. Project staff are usually responsible for conducting both, although they may lack the training skills needed to develop curricula, select training methodologies, and conduct sessions.

The costs of training are often undercalculated in the project budget. Since most training yields little or no income, it is one project component that usually requires total outside funding. However, experience has shown that it is beneficial to charge a minimal fee for training; this ensures a certain interest level on the part of the trainees and helps to reduce operating costs.

The direct relationship between technical assistance/training and project success (in terms of repayment rates, firm expansion, job creation, income enhancement, and "graduation" of clients to other credit sources) is difficult to establish and has not been proven empirically. Many argue that technical assistance is not needed for a successful SME project, while others consider it an essential investment for long-term impact. Experience to date indicates that some training offered parallel to credit, and in areas

where microentrepreneurs have expressed real need, may enhance the economic development of a firm and increase its ability to sustain or generate employment.

A training component is most effective when it:

- . Responds to the beneficiaries' needs
- . Does not demand that all project clients follow pre-established rules on how to run their businesses
- . Combines one-to-one with small group technical assistance
- . Clearly differentiates between skills specific to the type of firm (food processing, furniture making) and skills necessary for all businesses (management, planning, accounting, marketing)
- . Is provided parallel to credit
- . Does not rely exclusively on project staff to prepare and conduct all training, but includes experts in non-formal adult education and training (academics or "big names" do not necessarily fit the required qualifications for effective training)
- . Charges a "fee for service" for the assistance provided

Because women tend to have a lower level of formal education and business experience, they may require more technical assistance in all areas of business development. Household and child responsibilities and transportation constraints may prevent women from attending group training sessions held in the evenings, thereby decreasing the potential impact of the training.

Furthermore, women may be more reluctant to speak up in group situations, especially if men are present. Sensitivity to this issue will help elicit questions and observations that will otherwise go unaddressed.

### Project Monitoring

SME projects require a more systematic and up-to-date recordkeeping mechanism than most development programs. Most SME projects lack appropriate monitoring systems that can provide the institution and the funder with updated information on the project's performance. An effective program must keep track of at least the following, some on a daily basis:

#### Credit

- . Number of applications and transactions
- . Delinquency rates
- . Loan capital available
- . Income interest earned
- . Costs of operation
- . Amount lent and number of borrowers per month

#### Technical Assistance and Training

- . Frequency and timing of technical assistance/training sessions
- . Attendance rates
- . Availability of training materials
- . Training fees collected

In addition, the program staff must use this information to formulate basic ratios and to determine the overall status of the project.

A detailed record-keeping and monitoring system should be developed as part of the project design phase. Funders must review such a system carefully prior to funding, to make sure that it is:

- . Easily kept up-to-date
- . Based on data drawn from loan application, repayment records, and other data collection instruments already in place
- . Useful

An effective monitoring system forces the implementing institution to determine what information is useful and what mechanisms are needed to collect it. For example, indicators useful to monitor project progress may include:

- . Ratio of current assets to liabilities
- . Debt to equity ratio
- . Six months' profit calculation
- . Semi-annual profit and loss statement
- . Quarterly financial summary
- . Loan delinquency rates

These indicators allow the institution to ascertain whether the project beneficiaries are able to produce more, earn greater profits, expand their operations or start up in new locations.

Data collected as part of record-keeping and monitoring should be disaggregated by sex to allow staff to trace project benefits to women. A properly designed monitoring system will assist project staff to determine if the project is reaching its established gender-specific objectives. The project staff should review data generated by the monitoring system on a monthly or quarterly basis.

#### Project Evaluation

An effective monitoring system will allow for project evaluations that produce important data on all aspects of the program -- from design flaws and weaknesses in the delivery of technical assistance and training to problems in credit disbursement and recovery.

The evaluation of the project will be based on the data collected during the life of the project. There should be sufficient data to judge project performance by comparing gender goals and targets to the final project outcome. The evaluation should include:

- . Number of loans
- . Number of borrowers
- . Arrearage and default
- . Amount lent
- . Adequacy of terms and procedures
- . Status of the credit portfolio
- . Institutional capacity to reach women in the organization implementing the project

In addition to assessing project performance in terms of objectives achieved and targets met, the project should also be evaluated in terms of its impact, both on the beneficiary level and the broader community level.

At the beneficiary level, project performance in three critical areas must be assessed.

- . How has the project affected women's access to, and control over, productive resources?
  - Capital
  - Credit
  - Technology
  - Information
  - Institutions
  - Markets
  - Labor
  
- . What, if any, benefits has the project brought about?
  - Changes in income (firm profitability)
  - Firm sustainability
  - Capacity for firm expansion or diversification of production
  - Strengthening of existing jobs or creation of additional jobs
  - Savings mobilization

- . How has the project affected women's use of resources?
  - Added income
  - Credit sources
  - Savings utilization

On the community level, issues to be considered by a project evaluation include:

- . Has the project helped form or strengthen community associations and increased their leverage/power?
- . Has the project helped to reduce existing biases against women?
- . What impact has the project had on local institutions or government policies?

Figure 10 depicts a model for a monitoring and evaluation system which was adapted from experience under the USAID PISCES project.

### Conclusion

This final section of the guidebook was a natural extension of the previous section. Integrating gender concerns into project design must be accompanied by operationalizing these issues during the implementation stage. Moreover, the project monitoring system must be developed and used in such a way as to track the project's performance and monitor its impact on female entrepreneurs. Finally, project evaluations provide a clear picture of the progress of the project and

FIGURE 10. MONITORING AND  
EVALUATION SYSTEM MODEL

| <u>Objectives</u>                        | <u>Monitoring Data</u>  | <u>Evaluation Themes</u>   |
|--|---|--|
| Reach female entrepreneurs               | Percentage of females who are entrepreneurs                   | Can women be reached? Are these groups of women that are left out (i.e., the very poor)? |
| Increase income                          | Percentage of increase in income                              | How is additional income used?   |
| Increase employment                      | Number of new jobs created                                    | Are jobs marginal? What skills are learned?  |
| Reduce transaction cost to beneficiaries | Time required by beneficiaries to receive assistance          | How could the program be fine-tuned to better meet client needs?                         |
| Provide a place to save                  | Savings per client  | How are savings used?  |
| Upgrade business skills                  | Business skills taught that are adopted                       | Do new business skills result in better managed businesses?                              |
| Reduce operational costs                 | Operational costs as percentage of the value of loans granted | How can project efficiency be improved further?  |
| Reach a large number of female clients   | Number of female clients reached                              | How can the project grow more quickly?   |
| Minimize late payments                   | Percentage of loans late; percentage of loans defaulted       | What are the client's reasons for late payment?  |

Source: The PISCES II Experience: Local Efforts in Micro Enterprise Development.

provide early warning signals so that adjustments and modifications can be made to make the project more responsive to the credit, technical assistance and training needs of women small and micro entrepreneurs.

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