TECHNOSERVE

R&D

Findings '87

THINKING ECONOMICALLY: APPLYING TWO CLASSICAL CONCEPTS TO GRASSROOTS ENTERPRISE DEVELOPMENT

TECHNOSERVE

Technoserve, a private, nonprofit organization, aims to improve the economic and social well-being of low-income people in developing countries through a process of enterprise development which increases productivity, jobs and income. We concentrate on agriculturally related enterprises of medium scale. These take various forms, but are generally community based.

We accomplish these goals through a systems approach to enterprise development which involves management, technical assistance and training.

Technoserve was founded in 1968. We work in Africa and Latin America. We currently have a staff of over 160 persons, made up primarily of highly-qualified citizens of the nine countries where we operate.

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The papers in our FINDINGS series as well as the CASE HISTORIES series are meant to share our experience and stimulate debate and dialogue with others who are concerned with Third World problems.

THINKING ECONOMICALLY: APPLYING TWO CLASSICAL CONCEPTS TO GRASSROOTS ENTERPRISE DEVELOPMENT

SUMMARY

Even at the grassroots level, economic concepts such as comparative advantage and opportunity costs play a crucial role in determining enterprise viability. These concepts help business planners choose the best option given the constraints they face. Individual enterprises in the Third World, no matter how small and local, are increasingly part of a wider commercial network; therefore, their managers must acquire the habit of using the same kind of economic analysis used by businesses elsewhere so they can compete in the larger marketplace. Economic tools are applicable not just during the start-up of a business but throughout the life of the enterprise. Through hands-on management training, PVOs can transfer the economic skills that small-scale entrepreneurs need in order to seek out new opportunities and respond to changing trends.

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General Editor: Thomas W. Dichter

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THINKING ECONOMICALLY: Applying Two Classical Concepts to Grassroots Enterprise Development

Thomas W. Dichter and
Scott Zesch, Technoserve Inc.

While business advice may help the enterprise maneuver through one crisis, it will not necessarily teach the managers how to get through the next one on their own. To help create a truly self-sufficient enterprise, the PVO must instill in local participants the habit of continually responding to the evolution of comparative advantage and weighing opportunity costs anew as conditions change.

INTRODUCTION

A small group of African women decides to start a community beekeeping project as a means of earning more income for their families. They have heard about similar projects in other communities which have been successful. They ask for help from an American private voluntary organization (PVO), which agrees to provide equipment, a low-interest loan for starting capital and initial training.

The project appears desirable to everyone involved. Apiculture is a traditional pursuit. The operation is expected to be relatively simple, requiring neither foreign technology nor sophisticated production techniques. It will not consume a large portion of the women's time or land, leaving them free to grow food for their families. In time, it may even generate a couple of new jobs in the community. Eventually, and most important, it is expected to help the local people become more self-reliant and shape their own futures.

But things gradually start to go wrong. Little problems grow into larger ones. Neither the women nor the PVO had previous experience with this type of enterprise. Both technical and commercial aspects of apiculture turn out to be less simple than anticipated, and the business suffers some significant initial losses. Transporting the product to the nearest market is costly. Most distressingly, the group does not seem to be able to produce and sell honey as cheaply as its competitors. The domestic market is becoming more flooded every day, and there is little export potential. After three or four years the enterprise still has not shown a profit.
The PVO is faced with a stark dilemma: it must either keep subsidizing the group indefinitely in hopes that things will improve or else abandon it to sink or swim.

How do such things happen? There are no easy answers. But it has become clear that enterprise development—whether under the guise of "micro lending," "income generation" or "SMED" (Small and Medium Enterprise Development)—is as difficult as it is desirable.* Like most other sectors, enterprise development is intended to promote both the social and economic well-being of low-income people. But it is easy to get confused about precisely where the borderlines of the social and commercial spheres lie. As a result, the economic analysis that should be applied to the marketplace sometimes gets lost among the myriad factors competing for attention in the enterprise development process as we now know it.

Two of the basic concepts used in economic analysis are *comparative advantage* and *opportunity costs.* While not strangers to many practitioners of rural enterprise development, these tools are not yet a fundamental part of the grass-roots development kit. Yet both can play a major role in determining the long-term sustainability of an enterprise.

In business thinking, "comparative advantage" means specializing in what one can produce and sell most profitably at a particular time.

A QUICK LOOK AT THE TERMINOLOGY

Comparative advantage refers to the ability to provide a certain good or service at a relatively lower cost than competitive producers. In business terms, it means specializing in what one can produce and sell most profitably at a particular time, given the resource endowment and marketing opportunities available. It implies *selling* goods produced using locally abundant (and relatively cheap) factors of production and *buying* goods that would otherwise use up scarcer, more expensive local resources.

Economists are careful to point out that comparative advantage refers to the relative rather than absolute efficiency of one's production. According to Ricardo's theory, a country (or individual business) that can produce several goods more cheaply than its competitors should nonetheless specialize in producing the good for which its cost advantage is greatest in order to gain the most from trade. To use a simplified example, an agricultural cooperative in one community may be able to produce both tomatoes and pitchforks more efficiently than any other producers in surrounding areas. However, if its cost advantage is greatest for pitchforks, the members would do better to buy their tomatoes from another community and concentrate on making more pitchforks to sell. (Of course, in reality, this is possible only when adequate markets and means of distribution exist.)

By its frequent association with international trade, the term "comparative advantage" has unfortunately acquired some excess ideological baggage, attributable largely to dependency theorists.** As a result, some people automatically connect the concept with unregulated market forces, free trade, dependency on outsiders and a dangerously vulnerable economy relying on a single export commodity (usually a cash crop or mineral). Taken literally, however, the principle of comparative advantage denotes none of these things. Rather, it is a tool for

*Small enterprises are receiving increasing attention as a development target in the 1980s. In Africa alone, by early 1986 at least thirty-five American PVOs had established enterprise development projects. From 1986 to 1987, AID more than doubled their funds devoted to selected development activities that support private enterprises from $4[illegible] million to about $100 million.

"Opportunity costs" refers to the cost of foregone opportunities when one chooses to use limited resources in one way instead of another.

examining a particular situation to determine the most profitable way to use one's resources in a heavily interdependent world.

By comparison, *opportunity costs* is a relatively neutral term. It refers to the cost of foregone benefits when a decision is made to use limited resources in one way instead of another. Economists measure opportunity costs according to the value of goods that cannot be produced when the necessary resources have been used

to make another good. The crucial criteria for analysis are the net benefits those same resources could have generated if deployed alternatively.

More simply put, opportunity costs are related to the broader economic problem of scarcity, of choosing whether to have one's cake or eat it. A farmer cannot grow cassava if she decides to use all her land, money and physical effort to produce maize and beans. There is a trade-off involved in every choice. Although producing maize and beans may be profitable, she should nonetheless consider the potential net benefits to be gained from other crops before deciding what to grow.

In a sense, "comparative advantage" and "opportunity costs" are merely different sides of the same coin. The two concepts play complementary roles in making rational choices, since both have to do with specialization. Comparative advantage can be used to determine the most cost-effective activity on which to concentrate and from which to derive maximum gains from trade, while opportunity costs measure the foregone benefits from the alternatives not chosen.

These concepts have spawned a vast body of economic literature since the early nineteenth century and warrant more discussion than we can give them here. Instead, we shall consider how these classical theories pertain to enterprise development at the grassroots level.

APPLYING ECONOMIC CONCEPTS TO INDIVIDUAL ENTERPRISES

Economic analysis of a rural business venture requires, among other things, a comprehensive view of the past, present and future. One's

*The dependency school of thought argues that imperialism and international capitalism, not differences in cultural history, are responsible for the continued underdevelopment of the Third World. According to Furtado and other proponents of this theory, the Western nations at the core of the model became developed by exploiting the resources of the underdeveloped regions on the periphery. Dependency theorists claim that this core-periphery status remains in effect today, in part because of the infusion of foreign capital and technology which keeps the nations on the periphery dependent on the West. They maintain that accelerated development and improvements in living standards in the Third World can occur only if imbalances in world power are redressed.

Even if a business plan is expected to be profitable, it is not the best choice unless it is superior to the alternatives.

A rural enterprise, no matter how well suited to the inhabitants of a community, is building on shaky ground if it blindly assumes that a market for its product exists and can be tapped. Managers of rural businesses must acquire the habit of continually seeking out new opportunities.

current comparative advantage is partially the result of what has happened in the past—the infrastructure that has been built and paid for, the skills that local people have developed through the years. Moreover, it would be imprudent to plan a new enterprise without giving thoughtful consideration to future trends, since a major commitment of resources is hard to retract. As one author notes, "As soon as a decision taken today can no longer be undone tomorrow without costs, the future needs to be taken into account in taking action in the present."*

Some economists have recently emphasized the dynamic nature of comparative advantage. As the commercial and social environments change, so does the relative cost-effectiveness of making and selling different products. A major shift in any of the complex interwoven components of commerce, be it local transport or international prices, can have a significant impact at the enterprise level.

For this reason, it is insufficient for emerging entrepreneurs to use the tools of comparative advantage and opportunity costs *only* during planning stages and then discard them once their business is operating. Instead, managers of rural businesses must acquire the habit of continually seeking out new opportunities in order to best respond to changing trends.

Look, for example, at the experience of the farmers of La Libertad Cooperative in Panama. Thus far, they have been able to raise their incomes by getting onions to market four weeks earlier than most farmers in the country, at a time when onions are scarce and prices are high. They were able to do this by introducing a faster-growing variety suitable to the valley where the farmers live. The natural resources were there all along; the tricky part was determining how to use them most profitably. Through participation in a commercial organization—their cooperative—many farmers were able to benefit from a few key people's knowledge of markets and new technology.

What is important in this example is not the clever scheme of getting onions to market four weeks early. After all, a trick like that doesn't work a second time in the real world if just dumbly repeated. We are concerned instead with a way of thinking about the patterns of change in the marketplace.

For instance, if other farmers in Panama started marketing onions earlier and drove prices down, what should La Libertad's members do? They would need to turn their attention to other under-exploited opportunities. In fact, there will continue to be "what-to-do-next" dilemmas as the dynamic of the marketplace ebbs and flows. Reading those dynamics then becomes a core skill of the members. After a while, merely turning their attention to other under-exploited opportunities will not be enough. They will have to create them.

What complicates the application of a macroeconomic principle such as comparative advantage to local enterprise development is that the process cannot short-circuit the macro level. On the contrary, economic analysis of rural businesses should typically begin with national

*Schydlowsky, 1984, p. 445.

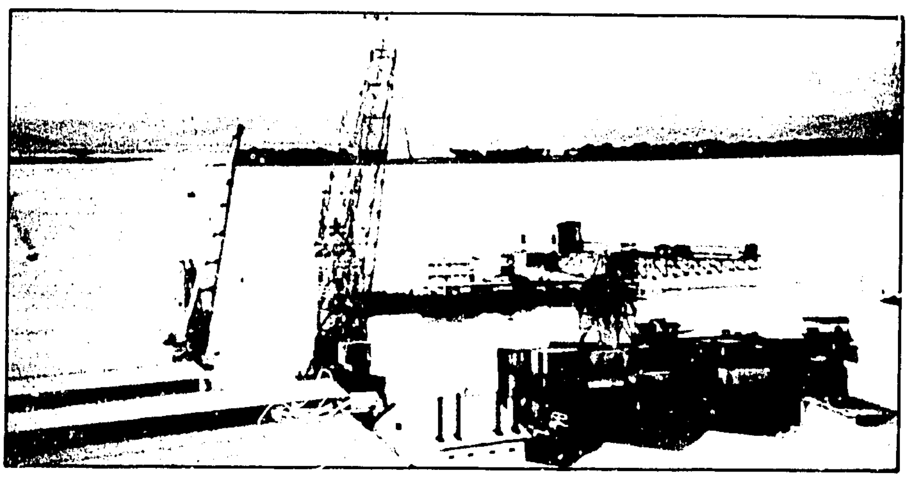
trends, moving from general to specific. After all, a particular community may provide an ideal site for sugarcane production and processing, but this makes little difference if the outlook for the sector as a whole is bleak.

To illustrate, let's trace the course of analysis leading to the establishment of a community-owned palm oil business in Ntinanko, a small village in Ghana. Since the product was intended partly for export, it was necessary to consider Ghana's long-term comparative advantage in the world market for palm oil. A survey revealed that the country's resources and climate gave it a natural edge in palm oil production, although current production costs were relatively high. This situation was attributed largely to a nationwide decline in agricultural productivity and a consequent rise in the prices of scarce commodities. Since Ghana's agricultural sector was undergoing significant rehabilitation, the analysis concluded that the long-term outlook for lower-cost production and marketing of palm oil was positive, especially in untapped domestic markets.

Another major consideration in assessing future domestic demand was whether or not palm oil was an inferior good—a lower cost substitute for which demand decreases as consumers' incomes rise. Once again, the trends were optimistic: West African incomes were likely to rise, but palm oil was not an inferior good. Consumption was likely to increase with rising incomes; both domestic and foreign demand could be expected to grow.

Once the outlook for the sector at the macro level was determined to be good, it was necessary to weigh the risks involved at the local enterprise level. Transportation was identified as the largest single risk; both mechanized and non-mechanized methods of transport were considered. The problem of equipment maintenance made a low-technology model appear more attractive, although it would require greater labor efficiency. The additional risk of inadequate market demand and surplus supply meant that new channels of distribution would be necessary to sustain a viable enterprise.

Next, these findings were brought to bear on the evaluation



Rural enterprises are not isolated and self-contained entities. They are part of an integrated commercial network which extends well beyond the village boundaries.

of the particular project site. Ntinanko was connected by a good road to the major market of Kumasi, about twenty kilometers away. Most of the farmers had previous experience in growing oil palm. Current local production was adequate to support a viable mill business, and production was expected to increase once the young plants matured.

Only at this point, after having taken time to evaluate the options and implications at the macro, micro and site-specific levels, is one ready to make the *economic* decision to go ahead with the proposed enterprise.

A dynamic analysis of comparative advantage calls for a complicated exercise in probabilities: whether production costs will drop, roads will be improved, currency valuations will change or world market demand will grow. When considered individually, however, these factors tell an incomplete story. The process of systematic evaluation requires more than following a pat checklist of potential problems. An overall knowledge of the commercial environment, combined with an understanding of the nuances of local human behavior, forms the mortar which holds the individual economic factors together.

An analytic process like the above not only takes considerable time, but also skill and experience locally and regionally.

The savvy reader, however, will note what we have left out: the matter of the commitment of the community to this enterprise, and how that commitment is elicited, formed or discovered; the cultural and social dynamics of the community—who has got what at stake in the formation of this enterprise, and why; the matter of the management of the enterprise after it has begun, and how community members are to be trained to sustain it. These other issues, much talked about in the catechism of grassroots development, are in themselves enormously tricky ones. Yet, please note, we are here focusing only on two economic concepts which are of great use in enterprise development: comparative advantage and opportunity costs. And they alone stretch our skills as developers, not to mention those of our beneficiaries.

ECONOMIC ANALYSIS: WHY IT MAY BE OFTEN SLIGHTED

No rational person starting a new business or expanding an existing one would commit resources to the project without conducting at least rudimentary financial analysis to determine projected costs and revenues. These figures measure the potential profitability of a particular enterprise. But financial analysis by itself does not necessarily take into account the alternatives. To move beyond this narrow mode of evaluation and examine the proposed enterprise in a comparative framework, the entrepreneur must apply the tools of economic analysis.

Of course, it would not be feasible to thoroughly evaluate the desirability of *every* conceivable enterprise which might be established in a particular location. The financial costs alone would be prohibitive, not to mention the time involved. Nevertheless, it is important for entrepreneurs and those who assist them to keep in mind that the initial idea is not

The concepts of opportunity costs and comparative advantage may not seem real enough to those involved in an enterprise project when initial concerns are fuel, wages, equipment and so forth.

always the best one; it may need to be modified or even scrapped altogether. Opportunity costs are one way of reminding business planners that there is more than one approach to every problem.

But concepts such as comparative advantage and opportunity costs do not always receive enough attention in practice. Development organizations with a grassroots orientation, who are in the business of starting and/or assisting Third World rural (and to some extent urban) businesses, do not necessarily make maximum use of these concepts. There are several reasons why.

The simplest explanation is that these concepts do not seem real enough. For a rural group starting a maize milling business (and the outsider helping them), the cost of the equipment, the price of fuel and the wages of employees are all obvious considerations in the initial evaluation. These are all tangible things which require hard cash. However, the projected net benefits from processing vegetables or raising rabbits as an alternative may be considered too abstract to factor into the feasibility study. Similarly, the question of diversification—whether the mill should only process maize or should also grow it, for example—sometimes escapes systematic evaluation.

Another possible reason for ignoring these broad principles may derive from semantics and/or ideology—the attitude that a micro-enterprise is by definition a discrete unit which serves only local needs. From this viewpoint, the community seems too small and the outside world too peripheral to warrant a truly thorough economic evaluation. The community and the enterprise are expected to maintain a static equilibrium indefinitely, happily unaware of changes in the world around them.

Such an attitude may disguise an underlying and unconscious condescension towards the Third World of the sort that some recent writings have pointed to as the flip side of our supposedly humanitarian concern.*

In fact, even the smallest and most localized business cannot operate in a commercial vacuum, immune to the realities of a larger system to which it belongs, either formally or informally. Moreover, the owners of these businesses by and large want to belong to the larger system.

Rural enterprises are not isolated and self-contained entities; they are part of an integrated commercial network which extends well beyond the village boundaries. The most successful small businesses tend to become larger and more complex over time. The nature and tastes of the customers they serve also change. When this happens, they cannot necessarily continue to rely on the same markets, the same methods or even the same products as they did in the past.

Another possible reason for inattention to these economic concepts is the tendency of outside agencies to concentrate much more on the needs of those operating the business than on the demands of their potential customers and the market for their products. This is a natural enough tendency, given the assisting agency's focus on the owners and employees of the community business as beneficiaries; none-

*See, for example, Pascal Bruckner's *Tears of the White Man, Compassion as Contempt.*

theless, it is an instance of missing the forest for the trees. Of course, it is true that both comparative advantage and opportunity costs measure the resources and abilities of the producer, not the consumer. However, both principles are ultimately used in business to determine the potential gain from trade, which is always subject to both market access and the tastes and purchasing power of consumers. A rural enterprise, no matter how well suited to the inhabitants of a community, is building on shaky ground if it blindly assumes that a market for its product exists and can be tapped.

This latter situation is probably the most common failure scenario in enterprise development experience. It is well illustrated by the troubled history of the Turkana Fishermen's Cooperative Society in northern Kenya. Started in the late 1960s to improve the living conditions of the nomadic Turkana, the Society eventually constructed a huge fish processing plant on the shore of Lake Turkana, funded in large part by foreign donors. The Turkana themselves adapted fairly well to their new occupation; many of them abandoned their seasonal wanderings in favor of permanent residences and steady employment. According to most social indicators, the living standards of the 20,000 participants were expected to rise considerably.

PVOs tend to concentrate much more on the needs of the beneficiaries who operate the business than on what the market for the products of that business might demand.

Unfortunately, the attention devoted to the Turkana fishermen far overshadowed any concern for the marketability of their product. Freezing fish in the middle of the desert turned out to be an expensive proposition in the face of escalating energy costs, and the lack of nearby markets made transport expensive as well. Eventually the Cooperative Society switched to salting and drying fish. Although the fish were less costly to process and ship in this form, they turned out to be unpopular with Kenyan consumers. As an evaluation team admitted in 1984, "The project has been inserted into an environment where there is too little information about economic, social, political, administrative and cultural factors."

The Turkana processing plant may be an easy target. Nonetheless, it demonstrates how impossible it is to judge the suitability of a rural business to a specific locale without weighing the options. From an economic perspective, anticipated profits and projected rates of return are inadequate indicators unless measured against corresponding figures for other possible projects. Even if an enterprise is expected to be financially profitable, it is not the *best* choice for a community unless it is superior to the feasible alternatives.

THE CULTURAL HISTORY OF PVOS: ARE SOME OF OUR PAST BIASES GETTING IN THE WAY OF WHAT WE WANT TO ACCOMPLISH?

Enterprise development did not really exist as a development sector until PVOs began to get involved in it during the late 1970s and early 1980s. We have suggested above some reasons why the incorporation of economic analysis into the project planning process has been slow. In addition, there are perhaps some historical biases within the PVO community which have accounted for this hesitancy and which, if not examined, may continue to impede the achievement of

the very benefits that they hope to foster by taking part in enterprise development.

One of these may be our wholesale rejection of the "top-down" project process. We are generally against the practice of outsiders taking too directive a role in planning the enterprise, preferring instead to leave the initial identification of needs and strategies as much as possible to the community. No doubt this anti-interventionist stance derives from years of watching large-scale donors inject inappropriate projects into rural areas without bothering to learn from or even become aware of the accumulated experience of local people. And it is true, of course, that an enterprise stands little chance of survival in the long run if the expected beneficiaries have demonstrated no real commitment to the project.

The problem with this view, however, is that in being sensitive to the needs and aspirations of the beneficiaries, it ignores the point of having outsiders come to help in the first place. If, as we are increasingly all agreeing, money and tangible objects may not be the most important things we have to offer to the Third World, then why are we there, if not to share knowledge and help to bridge gaps which would be hard to bridge without us?

Let us not be so humble as to slight the valuable information and perspective that outsiders can provide to rural entrepreneurs when they are forming a new enterprise or contemplating a major change in an existing one. Comparative advantage and opportunity costs are best determined through *dialogue*, not monologue. Even large corporations in the industrial world engage outside consultants in conducting business studies, adhering to the commonsense notion that outsiders might see things that insiders would overlook. Both donors and recipients can make vital contributions to the enterprise design process, each bringing their own comparative advantages to it.

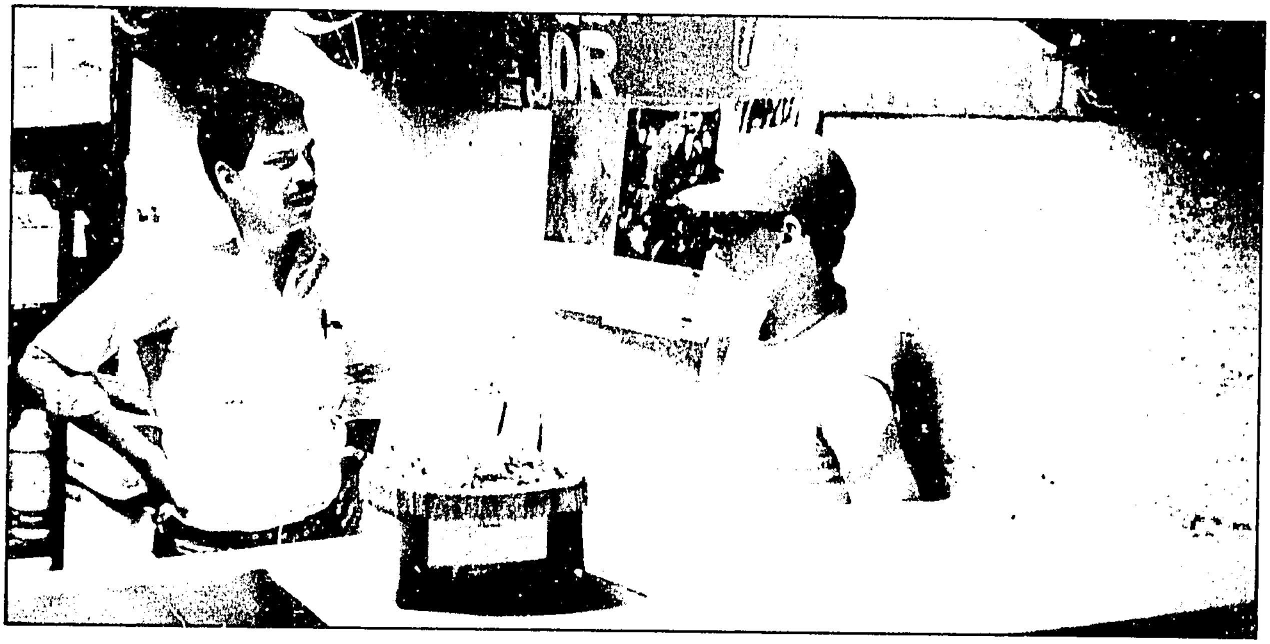
The PVO should bring to the

table its wealth of experience in assisting other groups undertaking similar activities. For example, it can help a newly formed producer association avoid certain pitfalls encountered by other groups in designing a marketing system. Local people, on the other hand, can point out reasons why the PVO's previous experience may not be entirely applicable in their case.

Sometimes rural entrepreneurs considering a new business venture have more energy and enthusiasm than they do market information. They may want to start producing charcoal simply because people in the neighboring community have successfully done so. With their limited commercial experience, however, they may overlook the flaws in their proposed scheme as well as the other alternatives which would be better suited to their situation. A PVO which wholeheartedly embraces a group's proposals, knowing that better opportunities might have been revealed upon investigation, is doing its clients a disservice by not encouraging them to seek the optimal alternative.

Of course, a PVO cannot effectively preach what it does not practice itself. Economic principles are as applicable to the helping agency as to the assisted enterprise. A PVO with numerous requests for assistance can apply the concept of opportunity costs in deciding which project would benefit most from the development agency's limited resources. To achieve the economic goals of enterprise development, the PVO must consider which enterprises have the greatest potential for increasing income and employment. It can also maximize its potential impact by selecting enterprises which create backward and forward economic linkages with other producers.

Similarly, the PVO can apply the principle of comparative advantage to decide which forms of assistance



it can provide most cost-effectively. Business aid can take many forms, from highly technical process and operations design to accounting and inventory control to marketing surveys. During the project selection phase, it is crucial for a PVO to precisely identify the major constraints facing the business in order

to analyze how well the donor fits the beneficiaries. For example, if a group's main problem is marketing its products and the PVO's specialty is managing business credit programs, then the parties may not be compatible. A careful matching process at the outset can help prevent the PVO from blundering into half-baked projects which will deplete its own resources while providing little long-term gain for the beneficiaries.

A PVO cannot subconsciously discourage the beneficiaries from becoming business-minded and then expect the enterprise to thrive as a commercial entity.

IF WE HAVE TROUBLE THINKING ECONOMICALLY, HOW CAN UNEDUCATED THIRD WORLD PEASANTS DO IT?

The two economic concepts presented here—comparative advantage and opportunity costs—have been shown to be complex. They are. And it is not useful, in spite of the grains of truth in the notion, to take the position that Third World peasants and small-scale entrepreneurs are economically smart, but just don't speak our lingo. It appears that the medium-term success of small-scale entrepreneurs as enterprise owners or participants lies in their making connections with the larger economic system, whatever its inequities may be. They can thereby gain some leverage in the larger economic system, as well as begin to deal effectively with its inequities. *If this is so, then we cannot avoid the hard task of transferring the practice of ongoing economic analysis to them.*

But how can we do it? How can the PVO encourage small-scale entrepreneurs to continue to apply principles such as comparative advantage and opportunity costs when they evaluate business prospects on their own in the future?

One way is through hands-on management training of a fairly lengthy duration. Learning to use the results of economic analysis to identify business opportunities on a regular basis takes time. People with little previous experience in the marketplace do not become innovative entrepreneurs overnight. While business advice and short-term intervention may help the enterprise maneuver through one crisis, it will not necessarily teach the managers how to get through the next one on their own. A self-sustaining enterprise needs skilled people who will still be around after the PVO departs. And skills transfer of this sort, especially in the absence of a formal educational environment, requires practical, on-the-job experience to be complete.

To help create a truly self-sufficient enterprise, the PVO must instill in local participants the habit of continuing to respond to the evolution of comparative advantage and weighing opportunity costs anew as conditions change. The key attitude to foster is that a viable business—their viable business—is not entirely at the mercy of economic factors beyond their control. They can take an active stance toward trade by constantly seeking out underutilized opportunities and developing new markets. Understanding this process comes from experiencing it. Throughout the life of their business, ongoing analysis and commercial know-how will continue to be necessary.

The skills transfer process also requires facing up to certain limitations of individual smallholders or entrepreneurs. Acting alone, they usually cannot achieve the perspective on larger market forces needed to move to a more advanced level of commercial activity. By becoming members, co-owners or shareholders of some sort of organized entity that is larger than the individual, they can start to overcome their limitations.

Likewise, intermediary institutions offering advisory services —which may well be of a permanent nature—are often necessary. These resources need to be available to the smallholders' organization, initially as a subsidized service and eventually on a fee-for-service basis.

Finally, what answer can we give to those who fear that the social goals of development will inevitably conflict with the economic goals? Must the group and the PVO eventually choose one over the other?

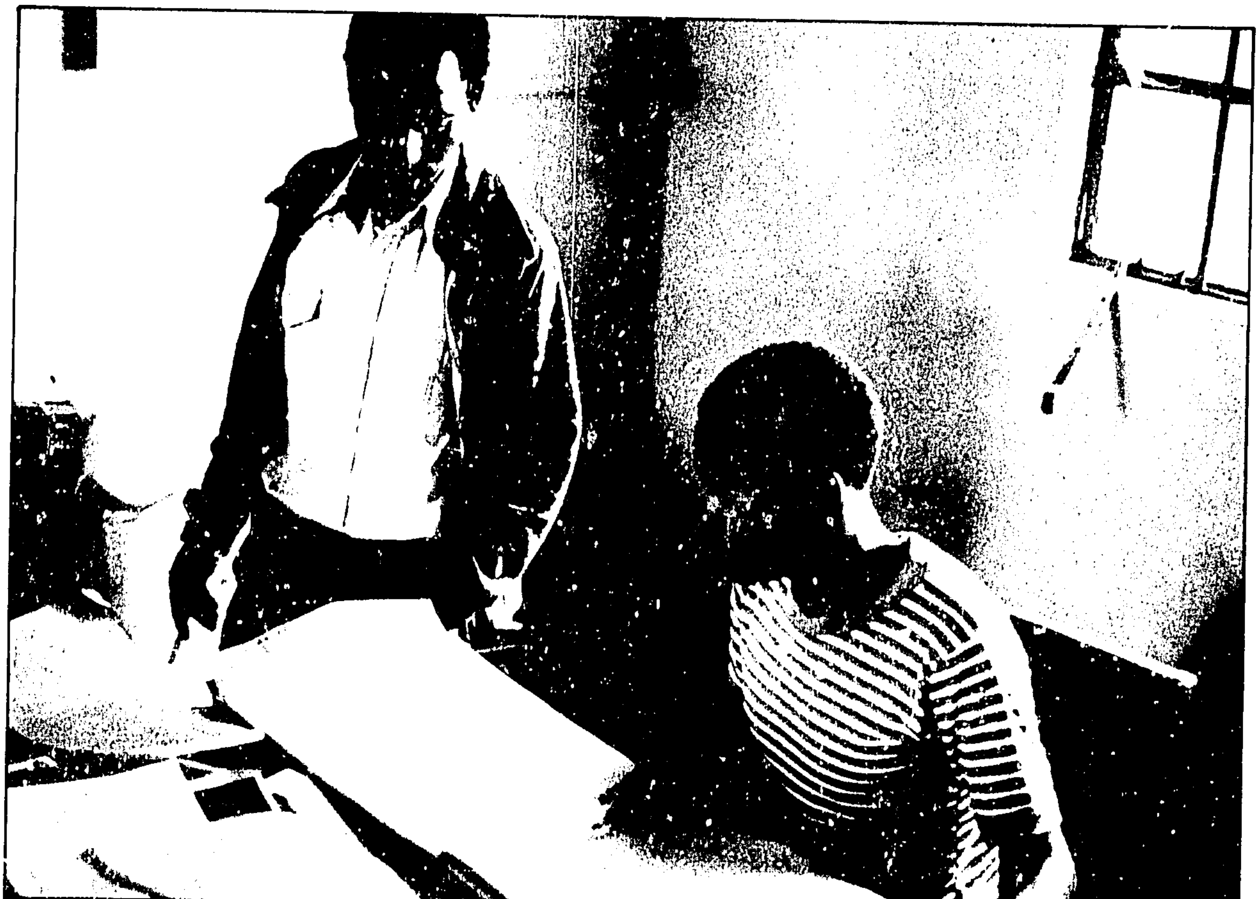
The view taken here is that if the beneficiaries are expected to eventually stand on their own, the PVO cannot neglect imparting the hard skills necessary for them to do so. It cannot subconsciously discourage the group members from becoming business-minded and then expect the enterprise to thrive as a commercial entity—hoping for what author Judith Tendler has termed "a kind of immaculate capitalist conception."* Regardless of whether a business is designed to earn maximum profits or provide maximum service, or whether the profits accrue to individuals or the community, the enterprise must be managed efficiently and creatively to achieve its economic goals.

Does this mean that an enterprise must subordinate its social goals, at least in the short run, in order to achieve commercial viability? The

*Judith Tendler, "The Well-Tempered Capitalist: Profiles from Bolivian Coops," *Grassroots Development*, Vol. 8, No. 2 (1984), p. 44.

answer to this question is not easy; it depends in part on what the social goals are. Suffice it to say that if one of the purposes of the project is to help poor people get a firmer grip on their own future, then the establishment of a truly viable business is one way of convincing them that they are not entirely subject to forces beyond their control and that they do not have to depend on outsiders to rescue them from their poverty

If we, as outsiders, believe in enterprise development as a way to decrease dependency, then we must encourage those whom we assist to apply the same rigorous analytical tools (such as the two discussed here) which First World enterprises routinely use. When we neglect our potential to transfer these tools to small enterprises in the Third World, we are selling them short.



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