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Assistance to Resource Institutions for Enterprise Support

CAPACITY BUILDING FOR RESOURCE INSTITUTIONS FOR SMALL AND MICRO-ENTERPRISES

A STRATEGIC OVERVIEW PAPER

by

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Acknowledgements

During the past decade, numerous studies have drawn attention to the important role of small-scale and micro-enterprises in the development process. In addition to the work of individuals, a number of institutions have helped to generate important insights into how such enterprises contribute to production, employment, investment, and human resource development. In particular, work sponsored by the Agency for International Development, the World Bank, Michigan State University, The Cranfield Institute of Technology, and the International Labor Organization has enriched our understanding of the role of small enterprise in developing countries' social and economic structures.

Much of this research, including the important PISCES projects funded by the Agency for International Development, indicated that small and micro-enterprises could be assisted through: 1) focusing more attention on improving the policy environment, particularly as it affects small enterprise; and 2) strengthening the intermediary resource institutions that promote and assist small and micro-enterprises. One result of the former finding is AID's creation of the Employment and Enterprise Policy Analysis Project (EEPA); a result of the second finding is the Agency's creation of the Assistance to Resource Institutions for Enterprise Support Project (ARIES).

The ARIES Project provides a variety of resources to reinforce the efforts of the intermediary institutions as they enhance their capacity to serve small and micro-entrepreneurs more effectively. Under AID funding, Robert R. Nathan Associates provides project management and technical assistance; the Harvard Institute for International Development provides applied research, with a focus on producing materials for executive training for resource institutions. Control Data Corporation produces curriculum design and training materials for use by resource institutions in improving their own management and the services they render to their clients. Appropriate Technology International provides both technical assistance and expertise based on its own experiences with small-scale enterprise and with collaborating indigenous resource institutions.

This document was created to provide a strategic overview of enterprise development issues and programs in order to establish a focus for the use of resources by the project partners and collaborating organizations and individuals. It deals centrally with the issues faced by the resource institutions as they attempt to design, implement, monitor, and evaluate assistance programs for small and micro-enterprises. Its purpose is to provide guidance about how institutions and their programs can become more efficient, effective, and sustainable. To this end, the paper draws extensively on the literature about assistance programs and small-scale enterprise and on the experience of resource institutions in managing efforts to respond to the needs of low income clients in developing countries. In conjunction with the work of our ARIES partners to provide technical and training assistance, we hope the perspectives in this paper will be useful to the resource institutions in

assessing the capacities of their own organizations and the needs of their beneficiaries.

Both to assist us in the preparation of this overview document and to make more accessable the rich literature of this field, we also have created the AskARIES knowledgebase. This contains analytical summaries and commentary for key documents in the literature, indexed not only by conventional library methods, but also according to the recurrent problem framework set forth in Chapter V. AskARIES can be used anywhere by anyone with an IBM PC or compatible computer. It can also serve as a framework within which others can organize and, if desired, share their own document collections.

As in any large-scale undertaking of this sort, our intellectual debts are manifold. The footnotes and bibliography formally acknowledge the many colleagues and resource institution staff members who shared with us their knowledge and insight. The paper has benefited particularly from the opportunity to participate in several working sessions with the project's Technical Review Board. We are grateful to Jeffrey Ashe (who also worked with us as a casewriter), Jaime Carvajal, Jacob Levitsky, Carl Liedholm, Harthon Munson, and Howard Pack. Tom Timberg, ARIES project manager, and his colleagues at Robert R. Nathan Associates have given us many valuable suggestions and leads. Beth Holmgren of Control Data Corporation has provided useful information through CDC's "needs analysis" and surveys of training materials.

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The HIID ARIES research assistants deserve a special place in this acknowledgment. They have helped to develop the substance of the AskARIES knowledgebase upon which this paper largely rests, and the teaching cases which accompany it. In alphabetical order, they are: Charles Alterkruse, Mary Barton, Margaret Bowman, S. Lael Brainard, Pia Bungarten, Shubahm Chaudhuri, Julia Dubner, Elizabeth Francis, Cynthia Leigh Glass, Heidi Hennrich, Anne Hornsby, Frank Hicks, Gudrun Kochendorfer-Lucius, Rebecca Kramnick, Poh Lian Lim, Andrew Neitlich, Rajesh Pradhan, Vijaya Ramachandran, Thomas Reis, Catherine Rielly, Elisabeth Rippy, Francisco Roman, Laura Elaine Sejen, Stuart Sharp, R. Dieter Wittkowski, and Sarah Yeates Project assistant Cheryl Cvetic made important contributions to the smooth administration of the project. Our thanks also to Donald Morrison and Zach Deal, of Harvard's Office of Information Technology, who helped us select and set up the computerized system through which ARIES information is developed, organized, and shared; to Jeanne Tifft, of AID, who helped us tap the wealth of information available from previous AID financed work, and to Susanna Badgley Place who shared insights developed during her work with the World Bank.

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We cannot close this acknowledgement without special tribute and recognition to the micro-entrpreneurs of the developing world. The acid test of all of our efforts is improvement in their well-being and the contribution such improvement makes to their societies.

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Executive Summary

Throughout the developing world, private and public organizations manage programs to assist small and micro-enterprises. The institutions are distinct, their programs varied, and their beneficiaries different. Yet almost all organizations attempting to carry out assistance programs for small and micro-businesses could benefit by becoming

- more efficient in their activities,

- more effective in responding to the needs of their beneficiaries, and

- more sustainable in their operations.

Well-managed organizations for development assistance are able to set and maintain goals and priorities, while adapting to a changing environment and adjusting to their own growth and change. They can become self-sustaining, in both their finances and the quality of their staffs. They can work effectively with, learn from, and share ideas with other organizations having similar aims.

Assisting resource institutions to develop these characteristics is an important task, given the significance and difficulty of their work. Providing services to small and micro- enterprises requires much skill, vision, and commitment of institutional managers and staff. Program designers and managers need to be sensitive to the needs of the entrepreneurs they wish to help.

These small and micro-entrepreneurs are not easily described. They are a diverse group and many of them are engaged in multiple income generating activities. Their businesses often are closely tied to family economies, and their tendencies to avoid risk and be wary of formal institutions increase the problems of identifying them and appreciating their needs. Seeking to improve the conditions within which these people work -- e.g. by information services or small-scale infrastructure -- may sometimes be a more useful approach than trying to reach particular entrepreneurs. Occupational category, ethnic and religious indentity, gender, age, and mobility are important characteristics for resource institutions to consider in designing assistance programs, for they help determine what kinds of assistance are appropriate for specific contexts.

Entrepreneurs' needs as they perceive them may differ from those identified by others. Whereas a needs assessment survey might indicate that entrepreneurs need marketing assistance or training more than credit, credit usually ranks first among their self-expressed needs. The features small or micro-enterprises have in commmon are important but few, and assessing their needs beyond these takes time. Thorough and deliberate planning, careful research, patient implementation, limited staff rotations, and realistic project cycles all can heighten the effectiveness of both resource institutions and the small and micro-businesses they serve.

Six principal types of organizations provide assistance to small and micro-enterprises:

- international private voluntary organizations,

- local and national private voluntary organizations,

- cooperatives,

- government agencies,

- banks, and

- business associations.

Similar institutions tend to share characteristics with regard to size, scale of operations, degree of institutionalization, adaptability to local circumstance, socioeconomic emphasis, dependence on donors or subsidies from government, and ability to influence the policy environment.

- *International private voluntary organizations* range from very large to small. They may reach a large number of beneficiaries, but the number they reach in any one country may be quite limited. International PVOs often are well institutionalized and, when they work through local grantees, they can be flexible and adaptable. They vary considerably in the socioeconomic focus of their programs -- whether they emphasize business development or social welfare goals. Such organizations tend to have diversified sources of funding that encourage their sustainability over time. Finally, their ability to influence the policy environment is limited.

- *National and local private voluntary organizations* tend to range from medium to very small. They often specialize in intensive service to a very specific clientele. While some are well institutionalized, there are many more that are only loosely organized. They can be very responsive to local circumstance. They vary in socioeconomic emphasis and tend to be highly dependent on donor assistance. With some exceptions, most are not able to exert much pressure on national decision making processes.

- *Cooperatives* rarely grow beyond a few hundred members, but national federations of cooperatives often have memberships numbering in the thousands. At the national level, they tend to be well institutionalized; at the local level, however, they can be much less stable. The necessity of maintaining cooperative forms of organization and the existence of considerable government regulation often make them less flexible than other types of organization. Cooperatives tend to empahsize community and social welfare goals at the same time that they stress business performance among the members. They vary considerably in their degree of dependence and they tend to have little control over policies that affect them.

- *Banks* tend to be large and to operate on an extensive scale, particularly in cities. They are highly institutionalized and are frequently less adaptable to local circumstance than other organizations. They have a firm commitment to business performance and tend to operate for profit, although some government banks subsidize programs for low-income borrowers. Banks can have the capacity to affect government policies related to interest and exchange rates, and industrial and commercial policy, but may have littel interest in affecting policies concerning low-income entrepreneurs.

- *Government agencies* are relatively large and can reach large numbers of beneficiaries. They tend to be higly institutionalized and are often less adaptive to local circumstances than smaller organizations. They vary in terms of socioeconomic emphasis. They generally operate on the basis of subsidies or funding from government and international donors. Although part of the government, agencies with low-income beneficiaries are often weak and their influence on policy makers tends to be restricted to those issues that apply uniquely to small and micro-enterprises.

- *Business associations' programs* for small and micro-enterprises share many characteristics with national and local private voluntary organizations. They tend to be relatively small and to be adaptive to local circumstance. They generally emphasize a business orientation and tend to be more autonomous of donor funding than other organizations. Business associations can have much influence on government decision making but their interest in small and micro-enterprises may be limited if their membership is drawn heavily from the ranks of medium and large entrepreneurs.

All types of resource institutions have produced successes and failures in small and micro-enterprise assistance programs. Decisions about which organizational form to adopt or assist therefore generally will depend on local conditions, experiences, available resources,and the particular strengths and weaknesses of existing organizations. Nevertheless, the characteristics of different types of organizations result in differing abilities to reach particular clienteles. Thus, private voluntary organizations and certain government agencies may bethe most appropriate institutions for reaching the poorest entrepreneurs. Cooperatives and certain types of government agencies may be best able to reach somewhat better-off entrepreneurs. Banks and business associations may be the most appropriate institutional types for reaching the most well-off among the low income small and micro-entrepreneurs.

Among the most significant aspects of the policy environment for the work of resource institutions are those that affect interest rates, economic regulation, exchange rates, and discrimination based on scale of enterprise. Important aspects of the socioeconomic environment include the dynamism of local and national economies, rates of inflation, level of infrastructure development, extensiveness of market linkages, and traditions of entrepreneurship. These factors are important for assessing the feasibility of enterprise assistance plans.

Four components form the building blocks of the vast majority of small and micro-enterprise assistance programs — financial assistance, technical assistance, training, and social promotion. Most programs use one or more of six general models combining these components in different ways and in different sequences:

- Individual financial assistance
- Integrated financial assistance and technical assistance/social promotion
- Integrated and sequenced training, technical assistance, and financial assistance for individuals
- Group-oriented social promotion, financial assistance, and technical assistance
- Training

The models can be compared in terms of their cost, the level of beneficiary they serve most easily, the kinds of skills they require of program staff, their labor intensity, their appropriateness for new or established businesses, and the extent to which they require the active involvement and time commitment of beneficiaries. There is no "one best way" to design an enterprise assistance program. However, program models can be selected for serving a particular client group with the financial and human resources available to the institution.

Regardless of the model adopted or the characteristics of the resource institution, small and micro enterprise programs often share a set of recurrent problems. The problems most frequently encountered in programs are:

- poor designs for credit and marketing components;
- inappropriately low user charges and interest rates;
- poorly delivered technical assistance;
- lack of beneficiary participation;
- overly complicated selection and monitoring methods; and
- the absence of periodic impact evaluations.

Helping resource institutions build capacity in program design skills can assist them in turning problematic programs into more successful ones. More fundamentally, helping them to build capacity in four broad areas can equip them to cope more successfully with their recurrent problems.

- Assistance in improving strategic capacity can help resource institutions set objectives and priorities, become more efficient, manage change, and become more sustainable and independent;
- Assistance in improving technical capacity can help resource institutions generate better information about their financial status and plan for short, medium, and long-term activities;
- Assistance in improving administrative capacity can help resource institutions hire, train, and motivate staff and develop systems for effective internal communication and coordination;
- Assistance in building communications capacity can help resource institutions receive and impart information effectively and learn from feedback and experience.

Several approaches and methods are appropriate for helping resource institutions develop strengths in these capacity areas. For example, in helping managers develop their capacity to think strategically about goals, priorities, change, and future planning, the case method is particularly appropriate. It also can be an effective means to build decision making skills relevant for program design and administration. Capacity building in response to more substantive areas of expertise can be done effectively through a variety of computer-based training materials, "how to" manuals, and workbooks. Well-selected materials have considerable potential to help resource institution management and staff in areas of planning, project design, financial and administrative management, and evaluation. Moreover, video and audio training materials exist that deal with issues such as business applications of computers, budgeting and accounting, communications skills, personnel supervision, financial analysis, organizational design and control, and other substantive areas. Resource institutions can be assisted through the development of specific packages of materials that address their particular strengths and weaknesses.

Even the most skilled and dedicated collaboration between outside agencies and resource institution staff to increase strategic, technical, administrative, and communication skills will not produce perfect organizations and flawless programs. But such efforts can improve decision making, problem-solving, planning, implementation, and other abilities to produce more efficient, effective, and sustainable organizations. Improvement in these skills, using their own and outside resources, will help them to cope better with the recurrent problems that characterize the difficult, demanding, yet highly productive task of assisting small and micro-enterprises. Given the inhibiting effect that many of the recurrent problems have on the performance of the resource institutions, this is an important set of goals.

This work seeks to contribute to accomplishing these goals by bringing the research and experience of many people to bear on these problems within a comprehensive framework. Making this knowledge more widely available within such a framework can facilitate collaboration by resource institutions as they seek to learn from their own and others' experiences.

Chapter I

Introduction

Throughout the developing world, private and public organizations, national and international, manage programs to assist small and micro-enterprises. Their programs are varied, the institutions distinct, and the beneficiaries different. Yet, almost all organizations attempting to carry out assistance programs for small and micro businesses could benefit by becoming more efficient in their operations and more effective in responding to the needs of their beneficiaries. ARIES is designed to assist these institutions' own efforts to strengthen their capacity to design, implement, monitor, and evaluate development assistance programs with increased efficiency, effectiveness, and sustainability.

In 1985, the Office of Rural and Institutional Development (Bureau for Science and Technology) and the Office for Private and Voluntary Cooperation (Bureau for Food for Peace and Voluntary Assistance) of the Agency for International Development created the ARIES Project (Assistance to Resource Institutions for Enterprise Support). Theproject combines technical assistance, applied research, and training for public and private sector organizations that sponsor enterprise development programs. In this endeavor, ARIES builds on the research output and experience generated through the PISCES I and PISCES II projects that were funded by AID between 1978 and 1985.[1] The findings of the PISCES projects form the point of departure for ARIES. These earlier undertakings demonstrated that it is possible to design and carry out programs to assist small and micro-enterprises in the informal sector. A series of case studies and program interventions indicated that such assistance could help very poor people increase their income and welfare and could make it possible for very small businesses to grow and generate employment opportunities in developing countries. PISCES identified types of small and micro-businesses that correspond to three different levels of potential for generating income, welfare,growth, and employment; different types of programs were deemed appropriate for assisting each level of

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[1]PISCES is an acronym for "Program for Investment in the Small Capital Enterprise Sector." It was initiated in 1978 by the Office of Urban Development, Development Support Bureau (later, the Bureau for Science and Technology). ACCION International/AITEC was the prime partner and Partnership for Productivity and the Development Group for Alternative Policies were subcontractors. These organizations were asked to respond to three questions: 1) is it possible to reach very poor urban dwellers and provide them assistance in respect of their self-initiated economic activities; 2) what methodologies/approaches seem to be effective?; 3) what are the implications for donor agencies? (Farbman, ed. 1981:vii) Three volumes present the findings of PISCES I and PISCES II (Farbman, ed. 1981; Ashe 1985; AID 1985). See also Blayney and Otero 1985.

business.[1] The studies also identified factors that increase the potential success of small and micro-enterprise assistance programs: staff adaptability; commitment; concern for social development; and effective credit, training, and technical assistance.

In ARIES, the main focus shifts from the small and micro-businesses themselves to the organizations that carry out programs designed to assist them. The intention of the project is to help institutions such as private voluntary organizations, cooperatives, public sector agencies, business associations, and public and private banks become more efficient, effective, and sustainable as they design and implement programs.

- Increasing efficiency means that resource institutions will be able to accomplish more with the resources available to them and achieve their goals more rapidly.

- Increasing effectiveness means that resource institutions will be able to respond to the needs of their clients with appropriate development assistance.

- Increasing sustainability means that resource institutions will become less vulnerable to financial uncertainty, project failure, and dependence on particular lenders or donors.

Our central working hypothesis is that the better managed the organizations, the more efficient, effective, and sustainable will betheir programs. We believe that well-managed organizations for development assistance have the capacities to:

- establish goals, set priorities, and adopt policies to ensure that goals are achieved and priorities maintained.

- adapt to a changing environment, to learn from experience, to apply these lessons to improve existing operations, and to make appropriate decisions about institutional change and growth.

- become self-sustaining and to develop sufficient autonomy from donors and other sponsors to be responsive primarily to their beneficiaries, their own experience, and changing circumstance.

- monitor finances effectively so that management can plan for the future, assess ongoing activities, and make informed decisions about strategic, programmatic, and administrative issues.

- identify, attract, motivate, and retain committed and effective staff.

- work effectively with other organizations — public and private, national and international — to increase the impact of development programs.

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[1] According to the PISCES projects, Level I businesses are extremely marginal; community based programs stressing social welfare are most appropriate. Level II enterprises are micro-enterprises that generate enough income to allow the owner to meet basic family needs; programs organized around small informal groups of similar size entrepreneurs are most appropriate. Level III businesses are very small enterprises that have the capacity to grow and to enter the formal sector; programs offering assistance to individuals are most appropriate. See Farbman, ed. 1981.

- learn from others pursuing similar objectives; share with them successes, frustrations, and problem-solving ideas.

These are ideal characteristics, of course, and few organizationsever fully achieve them. Nevertheless, institutions choosing to work with ARIES can draw upon project resources to improve their capacities in these areas and become more efficient, effective, and sustainable.

The project distinguishes four dimensions of capacity building from which organizations can benefit -- strategic, technical, administrative, and communication capacity. The most important of these is strategic capacity, which refers to the ability of management to establish goals, set priorities, generate appropriate institutional policies, and make choices appropriate to their context. For this priority to be addressed constructively, improved technical capacity is needed within the organization, particularly in terms of improved financial information systems. Similarly, improved strategic capacity requires -- but also helps ensure -- increased administrative capacity, the ability to manage human resources and to coordinate organizational activities. All three dimensions of organizational capacity are strengthened when a resource institution becomes better able to receive and communicate information and to learn from its own experiences and those of others, including its clients.

ARIES seeks to help institutions develop these four capacities which are central to developing effective, efficient, and sustainable ways to assist small and micro-businesses.Our research suggests that resource institutions can pursue the most appropriate programs when they:

- understand the beneficiaries they wish to assist;

- know the environment in which they will pursue programs;

- appreciate the costs and benefits, advantages and disadvantages, of various assistance program components.

Assessing and improving their organizational capacity in strategic, technical, administrative, and communication areas helps them make better choices about interacting with their clients, responding to environmental constraints and opportunities, and selecting appropriate program designs. The interrelationships among clients, environment, programs, and capacities are addressed in this Strategic Overview Paper.

The paper should serve as a vehicle for discussion and sharing of ideas as the project develops its focus on the priority issues facing the resource institutions and their small and micro-entrepreneur clients. It is guided by and based upon the literature of the field and on an extensive description and data set generated from that literature.[3] The data set has been developed and organized within the framework of a computer-based analytic bibliographic database (AskARIES). This paper is an attempt to derive from the literature, the data set, and interviews with

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[3] For additional reviews of the literature, the reader is referred to "state-of-the-art" papers prepared under the Employment and Enterprise Policy Analysis Project (EEPA), produced by the Harvard Institute for International Development and Michigan State University under contract to the Office of Rural and Institutional Development.

resource institution staff a description of the environment within which resource institutions carry on their work and the recurrent problems they face. Its purpose is to identify in what ways ARIES can help resource institutions cope more effectively with these problems.

The logical starting point for this diagnostic and prescriptive paper is to describe the beneficiaries of the resource institutions. An extensive literature documents the variety and development potential of the small and micro-enterprise sector. The findings of the PISCES projects are particularly important. Chapter II taps this rich literature in presenting a framework within which to think about the world of the small and micro-enterpreneurs. Who are the entrepreneurs? Where are they located? What do they do? How are they organized? What resources do they have available to them? What are their needs? Answers to these questions shape the orientation of resource organizations. The chapter therefore presents in general terms significant aspects of the identity, work, environment, and needs of the clientele of the resource institutions.

Chapter III focuses on the resource institutions that assist the small entrepreneur: their characteristics, the characteristics of the particular clientele they serve; and the context in which they deliver services. The chapter identifies the principal types of organizations that provide support for small and micro-enterprises -- private voluntary associations, cooperatives, government agencies, banks, and business associations -- and compares their characteristics. It considers briefly the organizational implications of delivering services to different types of low income beneficiaries and concludes with a discussion of the impact of the policy and socioeconomic environments on the resource institutions.

Chapter IV takes a closer look at programs to assist small and micro-entrepreneurs. It identifies four components of enterprise assistance -- financial assistance, training, technical assistance, and social promotion. The chapter then presents six models of programs that combine these components in different ways and in different sequences. A matrix compares the characteristics of various models and is intended to help resource institutions select an assistance model that is appropriate to their resources, priorities, and capacities. The chapter concludes with a discussion of common weaknesses in programs to assist small and micro-entrepreneurs: poor designs for credit and marketing components, failure to assess appropriate user charges and interest rates, poorly delivered technical assistance, lack of beneficiary participation, overly complicated selection and monitoring methods, and the failure to undertake periodic evaluations.

Chapter V draws upon the rich literature documenting experience with small-scale enterprise to identify what seem to be the most important recurrent problems faced by resource institutions. These recurrent problems are grouped into broad clusters of related issues and discussed in terms of the priority in which they need to be addressed. The sources of the problem are identified along with the implications for the performance of the resource institution. Many of the problems can be addressed by strengthening the strategic, technical, administrative, and communication capacities of the organization.

Chapter VI demonstrates how the four capacity areas can be strengthened in resource institutions. It suggests the extent to which building decision making and managerial skills can lead to increased efficiency, effectiveness, and sustainability in the performance of the organization and points our a method for improving these skills. The chapter assesses training materials and resources appropriate for strengthening skills in financial, personnel, organizational, and communications management.

This document should help illuminate important issues faced by resource institutions that provide assistance to small and micro-enterprises and suggest viable ways of coping more effectively with recurrent problems. Of course, the effective use of these solutions will not ensure resource institutions of a trouble-free future. The intent of the ARIES project is to help resource institutions identify problem areas more effectively and respond creatively to them. A stronger and more self-sufficient organization, not a perfect one, is an appropriate and feasible goal for these institutions. The strategic overview presented in the following pages is intended to give both structure and insight into this continuing process of capacity building.

Chapter II

Understanding Small and Micro-entrepreneurs

Fundamental to a resource institution's capacity to serve its clientele effectively is a clear understanding of the nature of these small businesspeople. Based on anthropological and other perspectives, this chapter suggests some ways of thinking about the clients and of understanding their circumstances, motivations, and needs. A main theme is the great extent of local and regional variations in small businesspeople and their circumstances, and therefore the need for careful analysis of local context in program and project preparation. Usually this kind of analysis requires time and close contacts in the field. A number of the observations in this chapter serve as bases for recommendations in Chapter IV on components and models of assistance programs.

Who Are the Small and Micro-entrepreneurs?

There are many ways of defining "entrepreneur" or "enterprise".[1] For purposes of this project, an "enterprise" will be defined broadly as any business that produces or distributes goods, or provides services, including financial services. Many definitions of enterprise focus on an individual; but these are often inappropriate in developing societies. The project's definition may include group-based initiatives like local cooperatives, savings and credit associations, and self-help societies, according to context. Micro-entrepreneurs are often self-employed, though this concept too has many meanings[2]

[1] There is little consensus in the meanings of "enterpreneur" or "enterprise". As early as 1937, L.M. Fraser distinguished several current meanings of enterprise: the management of a business unit, profit taking, business innovation, and uncertainty bearing (1937, cited in Belshaw 1965). Many economists have focussed on the innovation: Schumpeter wrote in 1949 that "the carrying out of new combinations we call 'enterprise'; the individuals whose function is to carry them out we call 'entrepreneurs'" (1949:74). Marris and Somerset similarly define entrepreneurship as "a practical creativeness, which combines resources and opportunities in new ways". It "turns invention into profit, but need not originate it" (1971:1-2). Other contemporary definitions of entrepreneur in economics dictionaries include "the owner-manager of a firm" (Bannock, Baxter, and Rees 1978:152) and "the organizing factor in production" (Pearce 1981:130). Non-economists will note that this definition omits transporters and retailers, among others.

[2] To pick three African interpretations for instance, a Zambian use emphasizes having one's own place of business and determining one's own hours of work; a Ghanaian use specifies working for two or more individuals; a Swazi use emphasizes being paid by the job done or goods sold, rather than receiving a stable salary (International Center for Research on Women 1980:42; Dulansey and Austin 1985:91).

In the following discussion, "small" refers to enterprises working with no more than 25 permanent members (Chuta and Liedholm prefer 50 -- 1979:12) and fixed assets of no more than U.S. $50,000; "micro" will mean those with no more than about ten permanent members, and no more than U.S. $10,000 fixed assets.[3] The numbers of persons may include family labor. Fixed assets here exclude land (it is often hard to evaluate). Often most of the labor in a micro-enterprises comes from members of a single nuclear or extended family. Generally a small or micro-enterprise is one whose disappearance would make no appreciable difference to the national or international market in which it operates.

Insiders' and outsiders' perspectives may differ markedly on what constitutes an enterprise, or whom it includes. A common mistake is to assume that enterprises have fixed memberships where they may not. Another is to assume that they have a single manager or head at their core; some are better understood as nexuses or networks. A third common error is to conceive of its purpose too rigidly or peg it to a "sector" of the economy when in fact its activities may change quickly and often. Misunderstandings may arise from difficulties of translating terms like "business", "firm", "enterprise" into other languages. Income, capital, investment, employment, occupation, achievement, and even work and leisure are other ideas likely to be untranslatable or apt to be misunderstood across cultures.[4]

Some Widespread Tendencies of Small and Micro-entrepreneurs

Though few generalizations about micro-entrepreneurs will apply satisfactorily to all developing countries or societies, there are some broad tendencies worth special note.

Multiple Occupations

Micro-entrepreneurs often have multiple occupations, shifting their activities hourly, daily, or seasonally.[5] This is most notably true in agrarian communities.

[3]The figures are obviously somewhat arbitrary. An often-cited source cites 50 different definitions of "small-scale" used in 75 countries (Georgia Institute of Technology 1975, cited in Gordon 1978:18, and in Chuta and Liedholm 1979:12), and of course no country will have just one.
[4]These problems have seriously hindered attempts to quantify the economic dimensions of micro-enterprises in developing countries. All statistics on the subject should be regarded with extreme caution, particularly those appearing in secondary literature, where they are often repeated with reckless disregard of definitions, sampling, regional variation, or change over time.
[5]Long 1979 analyzes multiple-career strategy in Peru. For a few discussions of the pattern in eastern Africa, see Obbo 1980; Paterson 1985; Shipton 1985. [Kilby (1971:7n) gives an unsympathetic view of the pattern in West Africa.] These findings challenge conventional ideas about who is an entrepreneur and who is not. Partly for this reason, Shapero and Sokol (1982) have convincingly argued that the focus of entrepreneurial studies should shift from the individuals

The pattern can serve to avoid or minimize risks and to take advantage of shifting market conditions. Running several small-scale activities can make it easier to avoid taxation or regulation than running one larger one. Frequently there are also important non-economic reasons for occupational pluralism -- the interest of variety, the advantages of keeping inconspicuous to competitors or envious neighbors, etc. Of course, the costs of multiple occupations include some expertise and economies of scale. Since interviewers and informants in questionnaire surveys are often satisfied to report only one economic activity, statistics from surveys commonly under-represent the proportions of businesspeople engaged in more than one.

Patterns of plural occupations, where they exist, will have these and other implications for support projects:

- Attempts to specialize businesspeople into single "occupations" are likely to make their earnings more irregular and riskier. Where these attempts are made anyway, the heightened risks may need to be offset with new savings or insurance provisions.

- Less obviously, assistance projects might most usefully seek to improve conditions in which entrepreneurs work -- e.g. by small-scale infrastructure or information services -- rather than trying to reach particular entrepreneurs.

- Training programs for specific enterprises may have trouble drawing small and micro-entrepreneurs away from their homes or places of work for extended periods.

- Optimal forms of loan collateral, where any is available, may not need to be related to the enterprise for which credit is given. (E.g., a tailor may be able to offer a cane-crushing machine or hand lathe.)

- Numbers of participants may be a poor index of the success or failure of support programs.

Closeness of Business and Family

Small-scale businesses in developing countries generally are tied more closely to family economies than in North America. Often written records do not exist or do not separate family from business accounts. Where savings margins are low, families will wish to draw upon resources of the enterprises in times of need. Free interchange between family and business can be a sensible adaptation to poverty, though it seldom helps businesses *per se*.

Family labor can offer decided advantages over wage labor. It can provide efficient long-term training, ensure trust and confidence among workers, keep its own secrets, and respond quickly to changing economic and political conditions

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concerned, to the "entrepreneurial event" itself: the formation of a business, or the act of innovation.

(Benedict 1968:10-11). Therefore it is not always in the family firm's interest to encourage its expansion through hiring labor.

Some cultural family patterns, for instance those with strong internal hierarchy and stable marriages, may be better suited to family enterprise than others (Benedict 1968, 1979). This implies not that resource institutions should seek to change family structures, but that they may be able to decide on the basis of family structures where family enterprises are likely to make the best use of interventions.

Awareness that entrepreneurial families often have multiple occupations, and that the close relations between business and family may be based on sound reasoning, forces a clarification of program goals. Is it the aim to promote particular entrepreneurs and their enterprises, or also the well-being of their simple or extended families and their communities? The latter goal is normally the more appropriate for newly monetized economies, where placing family wealth suddenly in the hands of only one individual can lead to its irresponsible use and ultimately endanger dependents.

Risk Averseness

Small businesspeople vary greatly in risk averseness, but this characteristic should be respected where it exists.[6] In most developing countries, failing businesspeople fall upon safety nets of near or extended kin, rather than on government relief or welfare systems. In the more egalitarian societies, jealousies and resentments toward rising businesspeople may deprive them of family support in crises. Simply trying to break down clients' risk averseness may damage their well-being in the long run. A more responsible approach is to seek ways of making their investments less risky from the outset.

Invisibility, and Elusiveness Regarding Institutions

Many kinds of micro-entrepreneurs have been effectively invisible to investigators, particularly in official surveys. One reason is seclusion customs for female or child workers. Another is that small-scale trade need not occur in fixed places. Rural-rural, rural-urban, and urban-urban mobility must be taken into account; it may be one-way or circular. Several kinds of survey bias are identifiable and can be corrected to improve the visibility of the smallest businesspeople.[7]

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[6] The best literature on risk aversion in developing countries is about small farmers, but most of the lessons apply as well to small businesspeople. See Scott (1976) on Southeast Asia; Popkin (1979) presents a contrasting view on the region.

[7] These include (a) spatial biases (urban, tarmac, and roadside biases); project biases (concentrating where money is being spent and staff posted); (c) person biases (concentrating on elites, males, adopters of new techniques, the healthiest and strongest); (d) dry season biases (travelling when it is easy); diplomatic biases (failure to investigate projects suspected as failures), and (f) professional

Businesspeople whose enterprises are small, unregistered, and untaxed are often suspicious of formal institutions. (Indeed, some make their living precisely by avoiding them.) Illiterate micro-entrepreneurs in remote areas may not differentiate clearly between government bodies, private voluntary organizations and corporations. Among rural peoples, pastoralists are often the most antagonistic to formal institutions (as well as the most seldom helped by interventions). An implication is that resource institutions wishing to help people like these should consider means involving little or no direct personal contact. One way is to to try to influence policy reforms. Another is providing infrastructure, even on a small scale. A third is to give instruction, information, or advice through audiocassettes, radio, or other mass media.

Territory and Territoriality

The propensity of small-scale entrepreneurs to recognize, establish, and protect particular territories of operation is enormously variable across cultures, contrary to some popular literature. In some contexts, for instance among artisans in urban Senegal (Badgley 1978:17), territoriality is a reason why small-scale entrepreneurs refuse to move into new localities which on the surface might seem economically preferable. Productive enterprises sometimes may be reluctant to expand in size and volume because they would then need to challenge the market "hegemonies" of other producers.

Market territories may be variously understood as belonging to individuals, families, lineages or other kin groups, age sets, castes or classes, villages, chiefdoms, voluntary associations, trades, guilds, unions, religions or churches, ethnic groups, or specific government authorities. These territories may be understood to include trading routes as well as particular places (Cohen 1969), and they may be fixed or may change seasonally. Frequently, too, particular commodities will be considered the province of particular communities or ethnic groups.

Any project designed to promote businesses must be sensitive to locally recognized boundaries of control or market influence, whether these be physically demarcated or not. Tributes, taxes, or tolls demanded by local leaders for operation in particular settings or routes may have more symbolic than economic importance, and they may be negotiable in type or amount, but they should not be neglected lest a project be sabotaged.

Patron-client Ties

Similarly, it is worth finding out whether small or micro-enterprises have individual ties to powerful figures in local politics or administration. In some

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biases (blinkered vision within professions or academic disciplines). This list comes from Chambers (1983: 22-3).

societies, politicians favor market vendors or other publically-placed businesspeople with legal protection, contacts for institutional loands, or other benefits, in return for informal campaigning or other support (see Davis 1986). Setting up projects for such businesspeople may mean having to come to terms with their existing patrons

What Entrepreneurs Belong to: Multi-Functional Local Institutions

To understand small and micro-entrepreneurs, one must understand what they belong to: what rights and duties they have with respect to local and regional organizations of any kinds, and which of these connections may be tapped for enterprise support purposes.

An important principle in developing countries is that institutions are more likely to serve multiple purposes than in industrialized countries. Their ostensible purposes often are not the most important. In most of sub-Saharan Africa, for instance, civic lodges double as chambers of commerce; cooperatives are used as political springboards; family or clan reunion centers are used as capital-raising institutions and legal aid bureaus, churches are used as training centers and work-mobilizing groups for personal or community projects; open-air food markets are also used as information-broadcasting centers, craft fairs, and technological showcases.

A related principle is that economic or social roles are more likely to overlap than in industrialized countries with more mobile populations: business partners are more likely also to be kin, church-mates, sporting partners, etc. In many countries, notably in Africa, this is almost as true of urban as of rural communities (see e.g. Cohen 1969; Marris and Somerset 1971; Berry 1985). An implication is that for cost-effectiveness, enterprise resource institutions may be able to work imaginatively with, and through, diverse types of local institutions offering appropriate and conveniently situated infrastructure, not just through specialized business associations, training centers, etc.

Classifying Entrepreneurs to Assess their Relative Needs: What Kinds of People Make Entrepreneurs?

Psychologists, anthropologists, and economists disagree on the extent to which entrepreneurship is a function of drives, culture and values, or market forces and opportunities. Nonetheless, all these determinants play their parts in any setting (cf. Kilby 1971). There is no a single personality trait that produces entrepreneurship. Some frequently cited charactistics include innovativeness, curiosity and openness to new ideas, hard work, orientation towards the future and willingness to save and invest, leadership, risk acceptance, and even selfishness or greed. But all these capacities mean different things in different societies, and some may not be recognized at all. Entrepreneurship is not something that is either present or absent, as a binary variable, but rather is a combination of factors. These are not to be measured on some absolute scale but can usually only be understood in local context.

Small and micro-businesspeople are such an enormous and diverse category of people that any resource institution must make hard basic decisions about what kinds to try to assist, and what kinds to leave alone. Understandably, institutions starting new programs often are particularly concerned to find the entrepreneurs most likely to succeed, both because they wish their programs to acquire a favorable image among donors and the public, and because they want to establish a firm footing for financial components of their programs such as revolving loan funds. As programs become established they may (and doubtless should) re-assess their aims and begin selecting clients more on the basis of need. Unfortunately, these often are not the same kinds of clients.

There is no limit to the number of ways in which entrepreneurs can be classified, but some are indispensable to the design of any project. A few are discussed below: (a) the occupation or nature of the activity, (b) the size of the enterprise, (c) the ethnic and religious identity, (d) the gender, and (e) the age of the entrepreneur. Other essential factors not discussed include (f) whether the economy is rural, urban, or in between, and the following characteristics of the entrepreneur: (g) wealth, (h) class and/or caste, (i) mobility, (j) formal education, literacy, and numeracy, (k) political party or faction, (l) membership in voluntary associations, sodalities, etc.

Some of these factors may be too sensitive, or ethically inappropriate, for explicit policies. But all are dimensions that must be considered, if only to foresee what groups might be excluded from or even actively oppose a program or project.

Occupation or Nature of the Activity: Basic Choices

Many government ministries and departments of labor publish books listing in their countries occupations and job categories, including types of self-employed activities. Resource institutions can compare the activities listed with those they observe on the ground, and can compare the directories of different countries, to perceive which activities are absent, untried, or officially overlooked, or to detect changes through time. (Of course, official descriptions are never a substitute for first-hand observation.)

The evaluation of costs and benefits of different small or micro-level economic activities cannot be covered here, but a few economic criteria of benefits to clients are profitability, direct or indirect employment generation (both backward and forward linkages), possibilities for earning foreign exchange, likely changes in the distribution of earnings, and satisfaction of basic needs.[8]

Particular trades often are seen locally as the province of particular ethnic or religious groups, genders, or ages, as discussed below. There may or may not be economic reasons for these specializations, but usually it is wisest to assume at first that there are.

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[8] See Allal and Chuta (1982:64-100) and references cited there. This source gives simple algebraic formulas for weighting the costs and benefits of activities by these and other criteria.

Issues of Enterprise Size

Sizes of businesses can be judged variously in terms of personnel, capital, turnover, profitability, or other measures. As a kind of shorthand, the PISCES studies classified, by mixed criteria, informal sector micro-enterprises into three "levels" (Farbman, ed. 1982). These are used later, too, in this report.. They are: Level I: Extremely marginal businesses. Level II: Businesses generating enough income to allow the owner to meet basic family needs. Level III: Businesses with the capacity to grow and to enter the formal sector. Mixed-criteria classes are often used as well for larger enterprises.

In almost any context, it is a matter of debate what sizes of small or micro-enterprises are most appropriate for interventions, and whether enterprises should be encouraged to expand or only to multiply. The answers, of course, will depend on the activities in which the enterprises are engaged, and on local preferences and market conditions. Expanding enterprises may lead to re-organization problems within them, and possibly to market saturation. Careless interventions to this end may lower efficiency instead of raising it.

Resource institutions seeking to promote enterprise choose among three purposes, realizing that these can be quite distinct: (a) encouraging the formation of new enterprises, (b) helping existing small enterprises to expand (or even to contract), and (c) working to strengthen or stimulate existing enterprises without trying to change their sizes.

Efficiency and Scale Economists continue to debate the relative efficiencies of smaller and larger enterprises are a topic of debate among economists.[9] Much of the literature concentrates on industrial production. It tends to compare what we have defined as "small and micro" with "medium" or larger enterprises having up to hundreds or thousands of employees; little is known yet about the comparative efficiencies of enterprises of different sizes within the "small and micro" range itself. As further studies on this are done, however, many of the same concepts are likely to be used.

Contrary to popular assumptions, small firms are not always more labor intensive than large ones, nor are large firms always more capital intensive than smaller ones. A general conclusion emerging from size-and-efficiency studies is that capital/labor ratios often vary more between industries than between sizes of enterprise within an industry.[10] Whether smaller enterprises are more labor-intensive than larger ones will depend less upon size, than upon whether the enterprise produces, for example, charcoal, cloth or paint. Generalizations about the efficiency and factor-intensity of enterprises should be treated with caution.

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[9] Various arguments about firm size and efficiency based on these criteria and others appear in Staley and Morse 1965; Chuta and Liedholm 1979; Page 1979; Anderson 1982; Steel and Takagi 1983; Harper 1984; Mazumdar 1984; Dulansey and Austin 1985; Biggs 1986; Little 1987.

[10] Concluding a recent survey of research on industrial scale and efficiency in India, Korea, Malaysia, the Philippines, and Taiwan, Little comments, "Such differences in labor intensity as there are between size groups within an industry are dwarfed by differences between industries." (1987:230)

Possibilities of Symbiosis of Larger and Smaller Businesses The interests of larger and smaller enterprises need not conflict. These businesses should co-exist, serving different markets. With subconctracting they can become truly symbiotic. The practicability and durability of subcontracting arrangements may depend on cultural as well as on technical and economic factors.[11]

Cultural Differences: Some Delicate but Essential Considerations

Cultural or ethnic relations usually are best understood as those between groups speaking different languages, though language does not always coincide with other indicators. Most governments of developing countries understandably try to conceal the ethnic dimensions of development, both from nationals and from foreigners. But where members of different cultures may compete bitterly for resources within the same polities, resource institutions should be aware of the schisms, alliances, public stereotypes, and differing ambitions and attitudes of the populations among which they work.[12]

The practical purposes for this understanding are many. They include knowing which groups will accept training or financial assistance from members of which others, or will collaborate with them; knowing what kinds of enterprises, work tasks, or products are appealing or repugnant to particular ethnic groups; and knowing cultural attitudes towards private savings and investment or loan repayments.

Achievement Motivation across Cultures: There is no evidence whatsoever that any culture or ethnic group has stronger inborn propensities or abilities for entrepreneurship than any other. It appears more likely that some place more emphasis on individual achievement than others in their childrearing and early educational patterns (McClelland 1961, 1966; LeVine 1966), but the best known studies seeking to explain these differences in terms of "need for achievement" are open to charges of ethnocentric bias.[13] Differences in ethnic attitudes towards

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[11]Japan's rapidly expanding industrial economy relies on subcontracting to a degree that is perhaps unique. In the view of one analyst, sub-contracting in sophisticated technology is more easily developed among peoples with a strong sense of hierarchy, as in Japan, than among those with more egalitarian outlooks as in many parts of India (Elwood Pye, personal communication). See also Chuta and Liedholm 1972:27-9 and sources cited there.

[12]Within the ARIES Technical Review Board and consortium some differences of opinion have been expressed about the importance of the cultural or ethnic dimensions of enterprise.

[13]McClelland's and his followers' studies sometimes assume that all societies share the same standards for judging what kinds of activities count as "achievement" and what kinds do not: they suppose that "need for achievement", which they dub "n Ach", is a universal human quality varying in degree but not in kind. But it is now recognized that cultures vary enormously in what they consider achievement, so that no simple general model will do (see Cohen 1969; Nafziger 1977; Finney 1971, 1973; Kilby, 1971:Chapter 1). Finney and others have argued that McClelland's theory also confuses causes with effects, and tends towards tautology: economic

enterprise (to the extent they are real) must also be considered a result of resource endowments, climate, demographic pressures, political circumstance, historical events including colonial contacts, market opportunities, and other factors.

Certainly, societies vary greatly in their cultural emphasis on individualism or group cooperation, on egalitarianism or hierarchy, on concealment or ostentation of personal or corporate wealth, and on innovation or the maintenance of tradition and stability. All these factors may bear directly upon the choices of enterprises, technology, and managerial styles to be promoted.

Minority Entrepreneurial Communities and Diasporas: Examples of small minority groups that excel in particular kinds of enterprise are to be found in all parts of the world.[14] There is no satisfactory single explanation for the ubiquity of this phenomenon, but there is evidence that in many contexts, achievement in enterprise is related (as cause, effect, or both) to personal histories of displacements, migrations and/or social maladjustments, and compensatory rewarding behavior within families (Hagen 1962, 1966, 1980; Hoselitz 1966:189-90; cf. Siyagh 1952; Marris and Somerset 1971:58; Shapero and Sokol 1982). In many areas the rise of ethnic-specific entrepreneurial traditions also appears to result partly from land shortage or denial of access to land, and a group's being forced by circumstance into activities other than farming (Barrett 1968; Moock 1976; Paterson 1980a, 1980b). Sometimes, resentments of majority populations about minority successes in enterprise can re-inforce aggressive business behavior, through a denial of other livelihoods or opportunities to intermarry. These pressures can lead to a self-perpetuating cycle of accumulation and alienation.[15] But where entrepreneurial minorities are allowed to assimilate, they often will. In any case, the conspicuousness of wealth held by entrepreneurial ethnic or religious minorities should not lead resource institutions to neglect the poorer members of those groups, who are likely to be more hidden from view.

Religious Dimensions in Enterprise: The influences of some religious ideologies on work, saving, risk-taking, and other elements of entrepreneurial

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growth is used as the main indicator of "n Ach", and "n Ach" is used as the main explanation for economic growth. LeVine has repudiated the main conclusions of his McClelland-inspired 1966 study in subsequent work. The "entrepreneurship training" approach to enterprise development, based on personality tests to screen beneficiaries most likely to succeed, is a topic of controversy. (See McClelland and Winter 1969; Kilby 1971; Hunt 1977:177,199 and sources referred to in this last work.)

[14] A general, categorized appendix and bibliography on what some have called the "minority middleman" or "pariah capitalist" phenomenon appears in Bonacich and Modell 1980. The most conveniently consolidated set of recent writings and bibliographies on the subject is the journal *Ethnic Groups*, especially issues 2 (1) 1978, and 2 (3) 1980.

[15] In most developing countries, of course, minority groups facing discrimination have been encouraged or compelled to specialize in kinds of businesses deemed inferior or polluting by the local majorities. These may variously include activities widely classed as "women's work" such as restaurant food preparation and laundry, or financial specializations like moneylending. Minorities fearing expropriations or expulsions often wish to keep their property in compact, mobile forms, often including jewelry; in many cultures these traditions outlive their initial causes.

behavior vary widely and can be most important.[16] Observations made above about ethnic groups may apply equally well to religions within an ethnic group. Religious prohibitions on loan interest (as in Islam) may or may not discourage participationin schemes with such charges. The charges can sometimes be re-classed as administration fees or profit-sharing to the satisfaction of borrowers or lenders. Interest sometimes is concealed also by requirements that a loan issued in one commodity be repaid in another.

Some Inevitable Policy Decisions: Many donor agencies and resource institutions without explicit policies regarding ethnic groups have nonetheless found it necessary to make hard decisions about them. In most developing countries, ethnic groups have specialized in different kinds of enterprise. Inevitably, therefore, the choices of resource institutions about which enterprises to promote are therefore also choices about which ethnic groups to promote. Similarly, decisions between geographical locations for programs are often decisions between ethnic groups.

A central issue that arises is whether to try to build upon ethnic groups' entrepreneurial strengths, or to try to enhance them where they have been weak. The former strategy is usually the easier and the more likely to contribute to economic growth, but it risks widening socio-economic inequalities between ethnic groups within countries. This strategy may also heighten resentments and political instabilities. The second strategy, the harder one, is likely to promote equity between ethnic groups of a country, but it risks widening inequalities within ethnic groups. Compromise strategies are possible, and each resource institution must set its own course according to context. The choices should be made knowingly.

Regardless of whether resource institutions explicitly consider cultural or ethnic factors in the selection of beneficiaries, they commonly find it helps that the ethnic group(s) of the intended beneficiaries be represented on their own staffs, at the level of contact agents if not also at management levels. This seems particularly important in credit schemes, but also of training, extension, and other kinds of projects.

In sum, ethnicity presents some of the most politically sensitive and ethically difficult issues in enterprise development, but inevitably these must be faced. The potentially explosive nature of ethnicity in the politics of developing countries is a reason for donor agencies and resource institutions to limit explicit references to it in their public presentations and documents. But it is also a reason never to ignore it.

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[16]Weber's classic analysis (1930) remains unsurpassed on the links between Protestantism and entrepreneurial behavior. Long (1968) provides a full-length ethnography of the effects of Seventh-day Adventism on micro- enterprise in Zambia; Geertz (1963) does this for Islam on Java. See also Benedict (1968) on Ismaelis in East Africa. For shorter general introductions on scriptural, ecclesiastic, and laical attitudes towards work in the larger religions, see the separate chapters on Hinduism, Buddhism, Judaism, Islam, Catholicism, and Protestantism, in Bieler et al. 1983. Brown (1985) discusses influences of local religions on client participation in the well-known Partnership for Productivity enterprise support project in Burkina Faso (formerly Upper Volta).

Gender

Official surveys have tended to miss the kinds of businesses women run, or to define them out of existence.[17] In most settings, the observations made earlier about invisibility, part-time and intermittent careers, and close relations between business and family are especially true of women's work.[18] Filling information gaps between women entrepreneurs and resource institutions is a task for both women and men.

Gender issues are closely tied to issues of enterprise scale. "In general, the smaller the size of the business reached by a project the larger the proportion of women business owners" (Farbman,ed. 1981:ix). Changes in enterprise size may be accompanied by shifts in the division of labor and of rewards. In much of sub-Saharan Africa and some other regions, food processing and marketing tasks performed by women are commonly taken over by men when these tasks become mechanized or when marketable quantities rise. So programs that aim to raise food production or make processing more efficient in regions like these should include measures to include women directly in incremental earnings.

Societies vary greatly in the extent to which husbands and wives share cash earnings, or information about these. (In some African societies there is almost no such communication.) Sharing between spouses may diminish as incomes rise. It is never a foregone conclusion, therefore, that increased earnings of one sex will find their way also to the other. Among other things, female-headed households should not be neglected in programs aiming at one participant per household (Buvinic and Youssef 1979).

Projects requiring literacy, knowledge of European languages or regional *linguae francae*, collateral, or fixed premises of enterprises before clients can take loans are likely to discriminate *de facto* against women. So too may projects requiring legal status as adults, since in some countries women, or unmarried women, are legally defined as minors.

Age

Most of sub-Saharan Africa, most of central Asia including China, and parts of several other regions have systems of respect or reverence for elders, and gerontocratic patterns of authority. (This tends to be the pattern in unilineal societies, i.e. those where kin groups are composed by reference to ancestors in the male line or the female line exclusively.) Some of these societies have formal organizations of elders as community leaders. Even in the most gerontocratic

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[17] Surveys are particularly likely to miss women's businesses when they begin by enumerating businesses, rather than by enumerating people and then their businesses.

[18] For reasons of space, only a few of the many important issues of gender and small enterprise development can be touched upon here. For other recent literature of general geographical import, see Boserup 1970; Buvinic and Youssef 1979; March and Taqqu 1982; Dulansey and Austin 1985 (this source includes a useful literature review and list of questions) and their bibliographies, and Crandon 1985.

societies, however, formal education usually is seen as at least a partial compensation for the inexperience of youth.[19]

Most of the Hispanic, Lusophone, and indigenous societies of Latin America are characterized by rather less emphasis on age seniority than one finds in Africa or central Asia. In these regions project designers and implementers usually will have more scope to use juniors effectively in training, extension, and credit.

The societies where elders are most respected (and control the greatest share of resources) are likely to be those whose junior members seem most in need of extra income-generating activities, and vice versa. Here, as in some issues of gender equity, the perspectives of insiders and outsiders are likely to conflict.

Where men or members of a particular age group are found to monopolize project resources intended for equal distribution, it may help to split the projects into separate men's and women's projects, or separate elders' and juniors' projects. Doing so puts the authority for allocation more firmly in the hands of the resource institution.

Perceiving What Kinds of Assistance are Appropriate

There are many useful manuals and ready-made survey questionnaires available for determining the needs of small and micro-entrepreneurs (e.g. Ashe 1978; Dulansey and Austin 1985; Allal and Chuta 1982). To a degree, these can be adapted to fit local circumstances. A set of "rapid rural appraisal" techniques is also evolving for cost-effective yet fairly systematic surveys.[20] But many experienced field officers believe that "slow is beautiful"; that there is no substitute for in-depth interviewing, participant observation, and creative thought together with members of the client population. These things take time.

Entrepreneurs' Perceptions of their Own Needs

As Harper has observed (1984:26), entrepreneurs when asked about their problems will most commonly cite a single need whose fulfillment they feel would solve all their problems, and they will tend to choose one whose solution they feel is beyond their control. Understandably, they most often announce lack of funds

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[19]Trainers and extension agents in the more gerontocratic societies should be as senior as possible within the requirements of new knowledge, literacy, or energy for work and travel. Scarce vehicles should be allocated preferentially to older qualified field agents to avoid resentments and misunderstandings. Young officers in charge of credit allocation may be pressured for loans by elders in a community, but elders used as loan collectors will be better able than juniors to exert moral authority over defaulters. Sometimes it is inevitable to use juniors as contact agents in a gerontocratic society for reasons of education or demanding work requirements. In such cases strict scheduling and supervision may be needed to ensure that social frictions with their clients do not discourage them from doing their jobs.

[20]Collinson 1981; Carruthers and Chambers 1981; Chambers 1981, 1983; Hildebrand 1981; IDS 1981; Longhurst 1981; Moore 1981; Rhoades 1982; Swift 1981.

(see Chuta and Liedholm 1979: 75; Harper and Soun 1979; Kilby and D'Zmura 1984). This response is especially likely to be voiced in the first meeting with researchers; one-shot surveys often get no further. These needs can be partly illusory and partly real. Certainly shortages of working capital exist everywhere, and Africa's problems in this respect are unusually acute (Geiger and Armstrong 1964: 49; Hart 1972: 47). But entrepreneurs are much less likely to identify their own managerial shortcomings or gaps in their knowledge where these exist; often they do not know what kinds of information and skills they may be missing. Similarly they rarely mention lack of demand for their goods or services, but this is a problem often clearly evident to the outsider.

One reason why entrepreneurs mention capital shortage so often in surveys may be their expectation that training, extension, or other non-financial services will be inappropriate for their contexts. They may be right, particularly where resource institutions are new to an area or are not expected to stay long. For situations like these, financial assistance or other approaches may in fact be more appropriate than training or extension, though these approaches are not mutually exlusive.

Existing Informal Financial Systems: Already Adequate?

As noted above, the ubiquitous clamor for credit among small entrepreneurs around the world should be taken seriously, but not taken at face value. The preponderance of small businesses in developing countries appear to arise with little or no help in the form of institutional credit.[21]

Before deciding that intitutional loans are necessary, wise resource institutions examine and understand the existing local systems of credit. As Firth and Yamey (1964) and others have pointed out, there is no society that does not have borrowing and lending, but the forms these take, and the reliance on credit in general, vary enormously by place and by type of enterprise.

Moneylenders: Moneylenders may be present or absent; where they exist they may lend for production, distribution, and consumption (as in much of West Africa), or only consumption (as in most of East Africa). Frequently small-scale moneylenders are landlords -- an especially common pattern in India and elsewhere in South Asia -- or shopkeepers. In many countries, people who lend money do not specialize in this as a sole occupation.

Interest rates of moneylenders in these countries often appear usurious to their borrowers and to foreigners, but they may be at least partly justified by high rates of inflation, high risks of lending, high costs of borrower supervision or overhead, and the opportunity cost of capital. Moneylenders from minority groups often lack the social networks of kinship, friendship, or other informal associations by which

[21] See e.g. Marris and Somerset 1971; Liedholm and Chuta 1976; Chuta and Liedholm 1979:68-9. This last source reviews several others on the topic. See Anderson 1982 for a cautious approach to the comparative evidence.

pressure can be exerted on borrowers to ensure loan repayments.[22] They may therefore need to charge higher interest than other lenders. Of course, new resource institutions often find themselves in the same position, for the same reasons.

Rotating Credit and Savings Associations: Among analysts of rural credit there has been much enthusiasm lately about the perceived successes of rotating credit associations, variously called rotating savings and credit associations, or contribution clubs (in French, *tontines;* in Spanish, *tondas).* Anthropologists have found that these locally organized groups occur in all major regions of the developing world, though not in every society (Geertz 1962; Ardener 1964).[23] The groups are based on the simple principle that in periodic meetings, all members contribute except one, who takes home the total amount, and that each member has a turn as recipient.[24] Commonly occurring as women's organizations (March and Taqqu 1986), the associations provide credit to borrowers likely to be ineligible to borrow from institutional sources, usually in smaller amounts than the latter lend.

Some governments may discourage these associations, because their assets are hard for them to tax and control. But rotating credit associations combine multiple useful functions for borrowers. They provide not only credit (for borrowers early in the cycle) but also savings (for those later in the cycle); they provide a form of insurance (the order of disbursements may be altered in emergencies); and they serve as a vehicle for social gatherings. Among the advantages that they offer over more formal credit organizations are that they are conveniently located, accessible to the illiterate, and not intimidating as institutional offices. Also, their funds are hard to embezzle. Where rotating credit associations exist, members commonly belong to several simultaneously; the associations thus serve to circulate funds through a capital-short population in useful sums. Because they spring from local initiative, they can generate greater incentive and loyalty than other kinds of lenders. They are participatory development in the strictest sense.

Little is known about the durability of rotating savings and credit associations. Nor is it yet clear whether rotating savings associations can serve as useful links between formal financial institutions and small entrepreneurs, though there are some preliminary signs from Nigeria and Cameroon that they can. They may in any case serve as useful models for group-based institutional credit.[25]

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[22]Cohen (1969); Nafziger (1977); and Strickon (1979) discuss how, in regions with entermixed ethnic or religious groups, informal credit follows ethnic, religious, or kinship lines. These ties form a basis of trust and confidence that ensure borrowers against default.

[23]Geertz 1962; Ardener 1964. The latter includes a useful list of questions for research on rotating credit and savings associations. More recent literature on indigenous savings and credit associations is surveyed in DeLancey 1978, and articles therein; in March and Taqqu 1982; and, for Africa, in Rielly 1985.

[24]Occasionally there may be more than one recipient. There are many other variations. The contributions may be fixed or variable, and so may the order of rotation. Interest may or may not be paid. The most complex arrangements occur in East Asia.

[25]See Siebel 1984 on Nigeria, and Haggblade 1978 on Cameroon. March and Taqqu (1982:52) recommend considering rotating credit associations as among the most appropriate women's

In some regions there may be no readily apparent sources of credit at all. Yet credit may occur inconspicuously, in the form of inter-familial exchanges, tributes to and redistributions by local authorities, bridewealth and dowry, share contracting, and other practices often not recognized as credit. Absence of a lively formal or informal credit market does not necessarily signify absence of need, demand, interest, or potential. But it is a caution to program designers to proceed slowly and with carefully watched pilot phases.

Institutions intending to lend in cash should observe the sums of money that their potential borrowers are accustomed to handling ordinarily. As a rule, they should not lend them much greater amounts of cash than these at the outset. They should also learn whether their clients are used to interest charges. Small-scale businesspeople in regions that have used money for several centuries tend to be familiar with interest charges, if only from dealing with moneylenders or wholesalers. But those in newly monetized economies often are not. Lending to them at high interest might lead them deeply into debt and cause misunderstandings and resentments.[26] Context is almost everything.

Savings: The experience of numerous projects suggests that savings components, incorporated into credit projects, not only can provide for capital accumulation but can help lenders screen borrowers and can generate a sense of commitment on the part of project participants. A savings component also adds members' scrutiny to an organization's management (Tendler 1987:20) The integration of savings and credit projects is the subject of a separate ARIES working paper (Rielly 1986).

Despite much enthusiasm about savings projects in recent literature, much remains to be learned about their role in small-scale enterprise development. For most regions there is little firm evidence on the effects of increased savings on family well-being.[27] Resources saved or re-invested in an enterprise are resources at least temporarily denied to family members or others. Studies on individual savings should consider opportunity costs broadly defined: are dependents of the

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informal associations for intervention, on the grounds that they can assert themselves in independent action (as opposed to being merely defensive or reactive), and that they are well-bounded as groups, focussed in their purposes, good for acquiring productive resources, and highly equitable in their authority, representation, and distribution of resources. The authors further suggest that associations like these provide models for resource institutions to work with by analogy: whether one uses them directly or not, they are patterns of organizations that work. See Ashe 1985,especially Chapter IV and ILO 1983 for several concise summaries of lessons from group-based institutional savings and credit experiments.

[26]This admonition is not meant to deny that high interest charges (those at or near market rates) have some advantages. A new orthodoxy in rural credit literature has made these clear. It is epitomized in Von Pischke *et al.* 1983, and other writings by that book's three co- editors. See also Chapter IV of this paper.

[27]Meyer (1985) and several articles in Von Pischke *et al.*,1984, give current views on rural savings potentials and on needs and strategies for intervention. In recent years the fashion has been to applaud the savings potential of the poor, and to call for more institutional savings opportunities.

saver losing part of their living, and if so, for how long and with what hope of returns?

In assessing needs for savings schemes, institutions should recognize that savings can be converted into non-monetary assets, and that these need not be related to the purposes of an enterprise. Diverse holdings like land or livestock may produce higher yields than investment in the enterprise. Moreover, in egalitarian social systems, accumulating social credit by lending or giving away resources may be a more rational alternative than savings. In highly inflationary economies, or those where currency is subject to abrupt manipulation by governments, accumulating non-monetary assets can make sound sense. Thinking about savings should not be confined to rigid notions of enterprise boundaries, or even to "sectors" of an economy. Even where savings institutions appear lacking, some more subtle form of saving or resource accumulation may be taking place.

Existing Training through Apprenticeships

In nearly all developing societies, children learn valuable production and service skills in childhood by assisting their older relatives. Commonly these skills are supplemented in adolescence or later with apprenticeships lasting from a few months to several years. Often they are paid arrangements between non-kin. In much of West Africa, apprenticeships are highly institutionalized. In a Michigan State University survey in Sierra Leone, 90 per cent of small business proprietors sampled had previously served as apprentices (Chuta and Liedholm 1979:50; see also Mabawonku 1979). Other studies have found little relation between formal education and entrepreneurial success, suggesting the importance of informal training (Kilby 1965; Liedholm and Chuta 1976; Chuta and Liedholm 1979).

There is little that can be said in general about the adequacy or inadequacy of local training practices for small and micro-entrepreneurs. A frequent finding in some regions, however, is that apprenticeships are gender-specific. Also, handicapped children and youth are not given the family attention that others receive for acquiring technical skills. They may therefore need special formal training.

Local patterns of apprenticeship can be duplicated or incorporated in training projects.[28] Residential apprenticeships may be particularly appropriate for areas of low population densities, where having to travel long distances discourages participation in courses that do not meet every day. They are less suitable, of course, for people wanting to pursue several business activities simultaneously, or for women or men with child care responsibilities at home.

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[28]The youth polytechnics that numerous organizations sponsor in Kenya are an approximation; they keep students in close working contact with a master of a trade for several months or more. These can apparently be effective though seldom inexpensive. A problem they have sometimes faced is market saturation for their particular products in their communities. This problem highlights needs for market research as discussed in the following section.

Market Research

One of the most universal needs of small and micro-entrepreneurs is for better information about market conditions in places with which they cannot easily communicate directly (Dulansey and Austin 1985:82). They need more reliable information on supplies, demands, prices, qualities, competition, regulations, and the status of transporters and routes. For these kinds of information, small producers and traders most often rely on travelling relatives and acquaintances who do not specialize in their trades (and those in their trades may prefer to keep the information to themselves). Much of their information comes late and third-hand. To improve their information is to render their ventures less risky: altogether a happier approach than trying to make them more tolerant of risks.

Some ministries of agriculture and parastatal marketing boards compile detailed records of food prices in local markets at regular intervals. As a short-cut to doing their own research, NGO's may be able to obtain these prices and help disseminate them to the public as they are compiled. They should recognize, however, that others close to the sources of this information may wish to monopolize it, or manipulate the statistics, for personal trading ends.

In countries that receive food aid or other material assistance from overseas, resource institutions may provide a valuable service to small traders by finding out and announcing when these shipments are expected to arrive, so that the traders can plan and will not buy too much from local sources then to distribute in those places (Morris 1985:30).

Providing information about export market demands, including product preferences and specifications, is a role that international resource institutions are well placed to serve. Better-established, literate businesspeople appreciate being put in contact with potential buyers or distributing agents for their goods; this simple information can be extremely hard to obtain in developing countries. But most small-scale entrepreneurs would need more comprehensive assistance to prepare for exporting (or importing). They might need help organizing themselves into producers' groups. They may need accurate information about tariffs and quotas, shipping logistics, currency regulations, and exchange procedures. Further, they may need help filling out forms until they can arrange to have this done for themselves.

For publicizing market information of simple kinds, like domestic food prices, the radio and other mass media are particularly appropriate. Access to these media too will usually depend on working relations between resource institutions and national governments. But as noted earlier, the mass media are especially attractive as a way of reaching informal and even illegal traders who wish no contact with officialdom.

Other Needs

The needs discussed above -- financial assistance, training, and market research -- are the ones resource institutions most commonly try to address in assisting small and micro- enterprises, but they are not necessarily the best choices. Conventional approaches focusing on credit and individual or small-group training may be too narrow; certainly their cost-effectiveness and coverage are always limited. Other more or less urgent needs, to name only a few, may include small-scale infrastructure (comprehensive industrial estates, or more selective improvements such as power, light, water), tool services, grants, legal representation, the organization of guilds or unions, subcontracting assistance, demonstration projects and fairs, newsletters, and educational radio broadcasts.[29]

One final need deserves note: small businesspeoples' lack of information about the resource institutions themselves. This shortage affects entrepreneurs in all countries. One of the most useful contributions is to prepare directories of all the institutions active in a country, giving their names, addresses, and staff contacts, and describing their policies and preferences, kinds of support offered, geographical and sectoral specializations, volume of lending, training, or other assistance, and giving examples of completed application forms for each. A few examples are currently available.[30] Some government ministries keep directories of PVO's and NGO's for political or administrative purposes; with permission, resource institutions may be able to adapt these for wider dissemination. Directories are most usefully published uncopyrighted.

General Conclusion

The central implication of this multi-purposed discussion is the need for those engaged in enterprise development work to take time to listen on the ground. The features small or micro-enterprises have in common are important but few, and assessing their needs beyond these takes time. Thorough and deliberate planning, careful research, patient implementation, limited staff rotations, and realistic project cycles all can heighten the effectiveness of both entrepreneurs and resource institutions, and maximize the benefits of assistance to small and micro-businesses. Trainers train best when they have first stopped to listen; lenders lend best when some of their methods are borrowed from local populations. In the end, it is perhaps by slowing down the pace of development planning that agencies will be most able to accelerate development.

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[29]Chuta and Liedholm (1979:67) give another more detailed list of types of assistance to small-scale businesses.

[30]Two good examples are Baer *et. al.* 1985 for Senegal, and Mazingira Institute 1985 for Kenya. Resource institution field officers can use these to refer prospective clients to other institutions.

Chapter III

Assisting Small and Micro-entrepreneurs, I: The Resource Institutions

Numerous organizations -- private and public; local, national, and international -- pursue programs to assist small and micro-enterprises in the expectation that they are helping raise incomes and levels of welfare among low income people and generating much needed employment in developing countries. The number of such organizations is impossible to know with precision. A recent directory lists 1,702 private organizations operating at the international level; a significant portion of these institutions pursues enterprise assistance programs (OECD 1981; Smith, Baldwin, and Chittick 1981:167-180; TAICH 1983). A listing of developing country government agencies, national business associations, private voluntary organizations, banks, and cooperatives providing similar services would be many times more extensive. Some organizations focus entirely on enterprise development programs while others carry out a variety of other development activities in addition to enterprise support programs. These resource institutions vary considerably in size, visibility, and effectiveness. At the same time, they share many concerns, such as the desire to improve program design and the need to ensure that they are effective and efficient in pursuing their goals.

This chapter describes several broad categories of small and micro-enterprise resource institutions and assesses their characteristics as organizations providing development assistance. The chapter will also describe some of the most salient features of the task environment of the resource organizations that make their goals more or less difficult to achieve. Outlining the comparative characteristics of the organizations and describing critical aspects of their environment should assist organizations to assess better which type of program is best suited to their resources, goals, and context. Chapter IV provides greater detail on the content of the assistance programs undertaken by resource institutions.

Comparative Characteristics

The vast majority of institutions that provide assistance to small and micro-enterprises fall into six general categories:

- International private voluntary organizations
- National and local private voluntary organizations
- Cooperatives (private, public, and semi-public)

- Banks

- Government agencies

- Business associations

While there are considerable differences in the activities and standards of performance within categories, each type tends to share a set of similar characteristics.[1] The following pages characterize the six major institutional types. There are many exceptions to the generalizations. Moreover, what may appear to be limitations on particular types of institutions (small size, for example) often contribute to their effectiveness in other ways (adaptability to local circumstance, for example). The characteristics assessed are:

- Size: Number of employees and size of budget

- Scale: Extent to which the organization can serve large numbers of beneficiaries

- Institutionalization:[2] Durability and the extent to which the organization operates on the basis of routine procedures and regulations

- Adaptability to local circumstance: Extent to which the organization is able to adapt in response to a changing and varied environment.

- Socioeconomic emphasis: Extent to which the organization emphasize community development and social welfare goals as contrasted to a primarily business orientation.

- Dependence on donors or government subsidies: Extent to which the organization generates its own operating budget.

- Ability to influence the policy environment: Extent of ability to put pressure on government decision making processes.

The following pages review the comparative characteristics of the six categories of resource institutions.

1. International Private Voluntary Organizations

A large number of well-known institutions are in this category, organizations such as CARE, Church World Service, Catholic Relief Services, the Foster Parents Plan, World Education, International Voluntary Services, the Institute for Cultural

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[1] The identification of institutional characteristics is based on a review of the literature on small and micro-enterprise assistance programs and on the more general literature dealing with institutional analysis. Numerous examples of such institutions are provided. To the extent possible, we have drawn these cases from the PISCES studies so that readers can easily refer to more extensive analyses of empirical examples. We have also drawn examples from other easily accessible sources. In addition, we have added a few examples from field interviews with resource institutions in Latin America and Africa. In general, examples refer to institutions that had demonstrated some success in carrying out small and micro-enterprise programs, at least at the time they were studied.

[2] Institutionalization has both positive and negative connotations. "According to organization theory, (institutionalization) can produce greater efficiency, reliability, and accountability, but an organization's need for control often results in rigidity, inertia, and resistance to change, as well as in ritualism and insularity" (Kramer 1981:265).

Affairs, American Friends Service Committee, Oxfam, and many more (see especially Sommer 1977; OECD 1983; Smith and Elkin 1981; TAICH 1983). In addition, there are many smaller and less well-known private voluntary organizations that have an international focus (see for example TAICH 1983). Many of these organizations have long and distinguished records in community development, disaster assistance, and relief work. Increasingly, they have become convinced that development assistance must have income generation as a central component if it is to have a sustained impact on the poor majority in developing countries (see Montgomery 1986:5).

Often, international private voluntary organizations work through local chapters, local affiliates, or local grantees in developing countries. Increasingly, they tend to belong to umbrella organizations of similar institutions, such as Private Agencies Collaborating Together (PACT), Interaction, and the Union of International Associations (Brussels). These organizations have been among those most concerned to develop useful and replicable models for enterprise assistance because of their multi-country focus. They are notable for the extensive commitment of their leaders and staff (see OECD 1983; Sommer 1977; Kozlowski 1983; Tendler 1982). Such individuals generally work long hours, maintain demanding travel schedules, and accept salaries that compare unfavorably with those they might receive in other fields (Wilson 1983:19).

Size: International private voluntary organizations range from very large to small. They may employ as many as several hundred staff people or as few as twenty, ten, or even fewer. A significant portion of their staff often resides in developing countries. Budgets range from several million dollars a year to a few hundred thousand dollars or less (see TAICH 1983).

Scope: The activities of individual organizations in this category may reach a large number of developing countries and the number of individuals and families they assist through their programs can be quite large. In general, however, the scope of their activities in any one country, and thus the number of people they are able to assist locally, is quite limited.

Institutionalization: Large international organizations tend to be well institutionalized, with procedures and regulations guiding hiring, travel, grant making, reporting, budgeting, and other routine matters. They tend to be durable organizations that can take advantage of modern management techniques, including computer-based information and monitoring systems. Smaller international organizations tend to be less well institutionalized.

Adaptability to Local Circumstance: When such organizations work through local grantees, they may be able to support particularly well programs that are flexible and that demonstrate creative responses to the needs of small and micro-enterprises at the local level (Wilson 1983:19-20). On the other hand, they may be somewhat less flexible when they operate through local affiliates that must clear many of their decisions with central headquarters. Their commitment to specific models of how to carry out enterprise assistance can affect their adaptability (see Kozlowski 1983).[3] Many international organizations are concerned particularly

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[3]For example, a director of one international organization observed, "...NGO's [Non-Governmental Organizations] sometimes "idealize" their roles and believe that theirs is the only or the best

with program evaluation, an interest that increases their willingness to adapt or try new approaches (see for example ACVAFS 1985).

Socioeconomic Emphasis: There is considerable variation and debate among international organizations about whether they should emphasize community development and social welfare goals or the stimulation of business as a principal objective. Many organizations such as CARE, Oxfam, and Foster Parents that have a long history of efforts in community development and relief efforts tend to emphasize social welfare goals and programs that will benefit communities and groups rather than individuals. Organizations more specifically focused on enterprise or technology development, such as Appropriate Technology International, Partners for Productivity, and Technoserve, tend to be more oriented toward the goal of stimulating entrepreneurship and appropriate business skills and technology.

Dependence: International private voluntary organizations receive funds from a variety of sources, including private citizens, corporations, national and international aid agencies such as USAID, and private foundations (see Sommer 1977; Weisbrod 1977; TAICH 1983). They have often developed sophisticated fundraising techniques and may have long-term funding relationships with particular granting agencies. In general, they tend not to be extremely dependent on any one donor; this has helped many of them to endure. At times, these international organizations comptete for funding, even while they maintain collaborative relationships in other areas. Moreover, as has been made clear in recent famine situations in Africa, "The public fund-raising imperative...influences NGO [non-governmental organizations] priorities and tends to result in a concentration on situations that lend themselves to dramatization" (Kozlowski 1983:13).

Ability to Influence the Policy Environment: Almost all international organizations publicly eschew any intent or capacity to influence government decision making in countries where they are active. They are very concerned to promote the image that their activities are humanitarian, not political. In countries where they have large programs and provide large amounts of money, however, they may have some capacity to influence government policy by bargaining over grant conditions. In general, however, their influence is limited.

2. National and Local Private Voluntary Organizations

There are more national and local private voluntary organizations than there are institutions in any other category considered here. These organizations include national institutions such as the Fundacion Dominicana de Desarrollo in the Dominican Republic (DDF), the National Christian Council of Kenya (NCCK), and the National Development Fund of Jamaica. There are also a very large number of more specific or local organizations such as the Carvajal Foundation in Colombia, the Centre d'Education a la Promotion Collective in Cameroon, the Brazilian Center

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solution to the particular problems at hand. This attitude does not normally ingratiate them with host country officials nor does it facilitate understanding of, or cooperation with, official aid agencies" (Kozlowski 1983:13).

for Assistance to Small and Medium Enterprises (CEBRAE), and the Working Women's Forum in Madras, India.[4]

Many of these national and local efforts began as organizations with community development and social welfare goals; they often focus specifically on the needs of a particular group of people or the needs of a particular locality. These institutions are frequently the creation of zealous or charismatic individuals whose "vision" of development helps sustain the organization (see Tendler 1984, 1982, 1981). They tend to hire individuals who are committed to social action, trusting that specific technical skills can be learned but that motivation and social concern cannot. Staff are frequently poorly remunerated but often continue to offer diligent service because of their commitment. It is becoming more common for national and local private voluntary organizations to join national level umbrella associations or networks of similar institutions (see Montgomery 1986:5). Many have strong links to international donor agencies or international institutions such as religious organizations (see TAICH 1983; Farbman, ed. 1981:passim).

Size: National and local private organizations tend to range in size from those with staffs of 100 or more people to those with 10-12 people. The very smallest often operate with a staff of 2-3 people and a number of unpaid volunteers. Their budgets are generally small, rarely exceeding two to three million dollars annually and often having as little as $25,000-$50,000 a year with which to operate their programs.

Scope: Such organizations tend to specialize in intensive service to a very specific clientele. When they are small, they may have only a hundred clients; large organizations may benefit directly as many as 5,000 to 8,000 clients over the course of several years (see Farbman, ed. 1981:passim; Smith and Tippett 1982).

Institutionalization: While there are a number of well institutionalized national and local private organizations providing enterprise assistance, there are many more that are loosely organized and casual about the accomplishment of routine procedures such as record keeping and monitoring of programs. Often, their level of informality may be appropriate to their size and may encourage creative response to the changing needs and opportunities of their beneficiaries (see Tendler 1982 for a discussion). In some cases, however, lack of institutionalization affects sustainability and increases the chances for making poor management decisions (see for example Gupta 1977:18).

Adaptability to Local Circumstance: Because of their size and focus, national and local organizations are frequently adaptive to local circumstance and responsive to the needs of their beneficiaries. Nevertheless, some of them share with their international counterparts the tendency to be highly committed to a particular model of enterprise assistance, a factor that may impede their ability to adapt to changing needs and circumstance.

Socioeconomic Emphasis: These organizations vary considerably in terms of the emphasis given to social welfare and community development objectives as distinguished from more specific business assistance. The Urban Community Improvement Program (UCIP) of the NCCK, for example, is principally concerned

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[4]Each of these organizations is described in Farbman, ed. 1981 as a part of the work done under the PISCES Project or in Smith and Tippett 1982. On the DDF and the NCCK, see also AID 1985.

with the broad community and family welfare impact of its activities among residents of squatter communities in Kenya, while the Carvajal Foundation in Colombia strongly emphasizes the development of business management skills and entrepreneurial talent among its beneficiaries.[5] Often, the difference in emphasis corresponds to the needs of the particular clientele they serve (see Ashe 1981:21).

Dependence: Private national and local organizations often tend to be dependent on donor assistance, and many are highly dependent on one or two principal donors. A large number are dependent almost exclusively on international donors. As we will see in Chapter V, dependence is a serious problem for them. A few organizations, such as the Carvajal Foundation in Colombia, the Fundacion Costarricense de Desarrollo (FUCODES) in Costa Rica, the Tahanan Foundation in the Philippines, and the Northeast Union of Assistance to Small Businesses (UNO) in Brazil, have demonstrated an ability to mobilize local sources of funding.[6] Others, such as the Village Polytechnic Program in Kenya and the Calcutta "Y" Self-Employment Center have been subsidized by government.[7]

Ability to Influence the Policy Environment: With the exception of a few of the larger institutions, private organizations are not able to exert much pressure on national decision making processes to bring about a more favorable context for small and micro-business. They are likely to feel vulnerable to government "retaliation" if they become "too political" (see Tendler 1984).

3. Cooperatives

Public and private cooperative organizations are widespread in developing countries. Those most concerned with enterprise development are savings and loan associations, often serving a specific clientele such as farmers, small merchants, or market vendors. Some, however, are production and/or marketing cooperatives, and some have been formed for the purpose of helping members acquire production materials or inventory at reasonable prices. Cooperatives tend to be heavily regulated by governments and often are initiated by them (see Peterson 1982; Quick 1980). The commitment of cooperative leadership to the achievement of organizational goals is often considerable. At times, however, these organizations encounter difficulties at local levels in attracting well-qualified staff (see Peterson 1982; Miller 1977: 92). Cooperatives are normally affiliated into national federations or confederations.

Cooperative organizations have been criticized for being inappropriate for the cultural context of some countries or for being dominated by more well-to-do individuals (see especially Peterson 1982; Tendler 1983b; Lele 1981; Widstrand 1970). However, there are well-known success stories among cooperatives such as the village milk cooperatives organized into the Indian National Dairy Development Board (Korten 1980; Paul 1982:15-36).

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[5] The UCIP is described in O'Regan and Hellinger 1981:60-81; the Carvajal Foundation is described briefly in Chapter IV. See also Sanders 1983a and 1983b.
[6] FUCODES is the subject of a teaching case developed by HIID/ARIES. The Tahanan Foundation is described in Brown 1981b:307-316. UNO is described in Tendler 1983a.
[7] These are described in O'Regan and Hellinger 1981:83-99 and Brown 1981b:367-373.

Size/Scale: Individual cooperatives rarely grow beyond a few hundred members, but national federations and confederations can have memberships numbering in the thousands. This is particularly the case with government-sponsored cooperatives that are often heavily subsidized by the state. National staff can be large; locally, one to five individuals generally form the paid staff of individual cooperatives. Cooperatives organized on a national scale often reach even remote communities. In some cases, a significant portion of the population may belong to cooperative organizations. In Costa Rica, for example, approximately thirty percent of the economically active population belongs to cooperatives promoted and regulated by a government agency, INFOCOOP.[8]

Institutionalization: National federations and confederations of cooperatives are often well institutionalized. At times, they have been criticized for being overly bureaucratic and rigid (see Peterson 1982; Quick 1980; Lele 1981). At the local level, poor management and a lack of appropriate procedures or trained staff at times have resulted in cooperatives that are poorly institutionalized and subject to failure or corruption.[9]

Adaptability to Local Circumstance: The necessity of maintaining cooperative forms of organization and the existence of considerable government regulation tend to limit the adaptability and creativity of these institutions. At the same time, effective cooperatives demonstrate the capacity to reflect the needs of their members in initiating projects for them (see Tendler 1983b). Because institutional forms and local economic relationships may make cooperative services more accessible to some than to others, this type of organization may be particularly well-suited to certain types of entrepreneurs (better-off small merchants, for example) and less well-suited to others (see Peterson 1982, Tendler 1983b, 1984; Lele 1981). Where cooperatives are effectively controlled by their members, they can be responsive to local needs.

Socioeconomic Emphasis: Cooperatives strongly emphasize the community and social welfare benefits that result from cooperation and the pooling of benefits and risks. As organizations, however, they depend on the capacity to increase economic performance among their members (see Tendler 1983b:192-195). The services they provide often are directed to the benefit of individual businesses of the membership. Thus, the emphasis in cooperatives tends to be inclusive.

Dependence: Cooperatives are often very dependent on government subsidies and/or donor support (Tendler 1983b). Successfully managed cooperatives, however, have considerable potential to become self-sustaining and productive enterprises. This has been the case with El Ceibo in Bolivia (Tendler 1983b), and the milk producers' cooperatives in India (Korten 1980; Paul 1982:15-36)

Ability to Influence the Policy Environment: In countries where cooperative associations are large and have the potential to be politically important, they may have the capacity to influence government policy with regard to cooperative activities and support. In many cases, governments have developed specific bodies of laws and policies to regulate cooperatives and the influence of the institutions

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8 Interview, San Jose, Costa Rica June 17, 1986.

9 Judith Tendler (1983b:224-229) argues that evidence of corruption often surfaces in a cooperative as a result of other problems or dissatisfactions among members.

often is limited to this specific set of regulatory measures. In general, public policies often affect cooperatives more than cooperatives affect public policies.(see Peterson 1982).

4. Banks

Public and private banks often are recommended as potentially appropriate institutions for providing credit to small and micro- businesses. There are some indications that this potential can be realized: the Multiservice Centers of the Bank of Baroda; the Banco del Pacifico in Ecuador; the Grameen Bank in Bangladesh; the BKK in Indonesia; and various branches of Women's World Banking are good examples from recent studies (see Brown 1981b:345-347; Brown 1981a:215-223; Harley 1983; Houghton 1985; Goldmark and Rosengard 1983). However, in general, few small and micro-entrepreneurs have access to these formal financial institutions. Thus, except in the cases of special development banks or special bank programs for small business assistance (e.g., the Bank of Baroda, the Grameen Bank of Bangladesh, and the Banco del Pacifico), bank leadership and staff are not committed to assisting small and micro-enterprises (see Fraser and Tucker 1981:216). Banks prefer to deal with larger clients and argue that they cannot afford to lend to the poor (see Fraser and Tucker 1981:216; Miller 1977:72-83; Johnston and Clark 1982:102). Nevertheless, a number of experiences with bank lending to small entrepreneurs as groups or individuals suggest that banks have some advantages for assisting small and micro-entrepreneurs.

Size: Banks tend to be large, with extensive staffs and large amounts of financial resources.

Scale: Banks have the capacity to operate on an extensive scale, particularly in urban areas. Because of added costs, they tend to resist offering services to clients in rural areas, particularly to those in very remote areas. Banks need to operate on an extensive scale in order to keep their administrative costs low and they are often highly competitive with other institutions that offer the same services.

Institutionalization: Banks are highly institutionalized, to the point that it has often been claimed that they are too rigid and bureaucratic to resond to the needs of small and micro-entrepreneurs. Their procedures, regulations, and loan criteria often exclude small and micro-entrepreneurs (see Von Pischke, Adams, and Donald 1983). Development oriented or special banks, such as the Grameen Bank and the Banco del Pacifico, generally must develop special procedures and hire and train special staff to respond to low income client needs (see for example Goldmark and Rosengard 1983).

Adaptability to Local Circumstance: Banks tend not to be adaptable to local circumstance because their procedures and regulations must be uniform and must be applied to broad categories of clients if their activities are to be efficient. A few innovative banks with particular concerns for low income clients, such as the Grameen Bank in Bangladesh (see IFAD 1984; Harley 1983; Houghton 1985), or particular bank programs, such as that of the Banco del Pacifico in Ecuador, have managed to avoid these general tendencies.

Socioeconomic Emphasis: Of all organizations providing enterprise assistance, banks tend to have the firmest commitment to business performance. As impersonal institutions, they can be effective in establishing and maintaining strict criteria for loan repayment, a characteristic of well-functioning programs (see Ashe 1981:42). As single purpose financial institutions, banks are largely unconcerned with achieving community development or social welfare objectives. Special development banks, such as the Grameen Bank or the BKK in Indonesia, are, of course, exceptions to this general tendency.

Dependence: Generally, banks operate for profit and are not dependent on direct government subsidy or donor funding. Government banks, however, may receive subsidies from public revenues and particular programs of private and public banks may receive subsidized capital from government, donors, or international lending agencies.

Ability to Influence Policy Environment: Banks have considerable capacity to affect government policy related to interest and exchange rates. They also may have some capacity to influence decision makers about industrial and commercial policy. Because a very small portion of their loan portfolio is likely to involve low income entrepreneurs, however, banks are not likely to have much interest in affecting government policy toward this group. Again, special development banks are an exception.

5. Government Agencies

Most governments have programs to assist small and micro-enterprises. These may take the form of technical assistance bureaus, credit agencies, and training institutes. Often such organizations are assigned to the ministries of labor or industry. In some cases, they may be parastatal institutions, such as agricultural banks. The extent to which they are effective or visible varies by country, by administrations within a country, and by agency. Traditionally, these organizations have received funding from international agencies such as AID, the World Bank, the ILO, or international regional banks like the Inter-American Development Bank.

Size: The staff and budgets of government agencies tend to be relatively large, although they often are starved for funds relative to the scale of operations they are expected to accomplish. Inefficiency in the use of funds is a frequent complaint against government agencies.

Scale: Government programs have the potential capacity to reach large numbers of beneficiaries, even in remote rural areas. Although they are similar to banks in size and scale potential, they also have the capacity to provide a multi-service program to beneficiaries, something that is difficult for banks.

Institutionalization: Government agencies tend to be highly institutionalized and many verge on the rigidly bureaucratic. With effective leadership or strong political support, some have been able to maintain their institutionalized characteristics while remaining responsive and adaptable to the needs of their low income beneficiaries. This appears to have been the case with the Tanzania Small Industries Development Organization and PRIDECO in El Salvador (see O'Regan and Hellinger 1981:107-120; Fraser and Tucker 1981:167-191).

Adaptability to Local Circumstance: While bureaucratization tends to inhibit adaptability, some government agencies have been able to be responsive to local circumstances because of the multi-service approach they adopt. A good example of this was the Ministry of Social Services and Development in India reported in the PISCES Studies (Brown 1981a:293-306). In other cases, government agencies can be slow to adapt to beneficiary needs or a changing environment because of the laws and official regulations that shape their activities, including important staffing and administrative decisions.

Socioeconomic Emphasis: Many government agencies have a bias toward community development and social welfare goals. In part, this is a result of their frequent political mandate to mobilize political support among the low income population. Similarly, for political reasons, government agencies may have trouble applying strict criteria of loan eligibility and repayment to clients.

Dependence: Government agencies providing assistance to small and micro-enterprises generally operate with a deficit and receive considerable subsidies from government and from international donors. They often must devote considerable energy to maintaining their public visibility and to promoting agency interests in competitive government budgetary decision making processes.

Ability to Influence the Policy Environment: In spite of their identification with the public sector, government organizations generally have little capacity to influence national decision makers because of their lack of power when compared to organized economic interests representing other sectors of the economy. However, they may have some capacity to shape decisions about issues that apply specifically and uniquely to small and micro-enterprises.

6. Business Associations

In a number of countries, associations of medium and large businesses have become interested in small and micro-enterprise programs. Usually they set up special foundations, funds, or institutes to carry out these programs (see for example Tendler 1984).[10] At times, business associations are motivated by concern over the potential for social unrest if incomes are not raised among large sectors of the population. At other times, they may be interested in engendering links with the smaller enterprise sector in order to provide themselves with a broader base of political support. Or, they may see economic advantages in fostering entrepreneurship in the society, in developing subcontracting arrangements for their own enterprises, or in benefitting from tax incentives that favor philanthropy. Examples of these business associations are COSEP in Nicaragua, the Indonesian Chamber of Commerce, and the Indian Merchants' Chamber of India (see Tendler 1984; Alliband 1983:56-57; Indian Merchants' Chamber 1977). The commitment of business associations to a low income clientele generally is tempered by their commitment to the economic and political interests of the medium and large scale entrepreneurs which make up most of their membership.

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[10]Associations of small and micro-entrepreneurs are becoming more common in developing countries. These are generally organizations formed by entrepreneurs in already existing firms who come together for the purpose of discussing and resolving common problems, political representation, joint advertising, or joint purchasing or marketing. A good example is CANAPI in Costa Rica, which represents its membership politically, provides training courses, organizes artisan fairs, operates shops to sell products made by its members, and publishes an advertising directory. There is little information available on these kinds of associations and they are not included in the text discussion. We have limited our focus to business associations formed by medium and large entrepreneurs that have initiated programs for small and micro-enterprises.

Size: The programs of business associations tend to be small and and operate with modest budgets. They are often very similar in size and operation to the local private voluntary associations previously discussed.

Scale: The number of beneficiaries of such association programs is also limited, with most of them concentrated in cities. At times, it has proved difficult to increase the size of these programs because they may not be a high priority for a significant portion of association members.

Institutionalization: In many ways, the assistance programs supported by business associations resemble those of the national and local private voluntary organizations. They vary in terms of their degree of institutionalization and their durability.

Adaptability to Local Circumstance: These programs can be quite adaptive to local constraints and opportunities. Their management is generally well-informed of laws and regulations that affect business operations and they may have a good understanding of marketing and production opportunities. They offer the potential to link formal and informal sector operations. At the same time, however, some may have rigid ideas about what small and micro-entrepreneurs need and want, drawn from their experience with larger enterprises.

Socioeconomic Emphasis: Programs supported by business associations tend to have a strong bias toward training in business skills and engendering entrepreneurship.

Dependence: Business associations tend to be relatively autonomous, depending mainly on the support of their membership. The programs for small and micro-enterprise support, however, may be very dependent on the good-will and orientation of the association's membership or on donor assistance (see Tendler 1984). Particularly when the business association has a strong ideological commitment and the program is extremely dependent on the parent organization, it may have limited scope for responding creatively to beneficiary needs.

Ability to Influence the Policy Environment: Business associations often have great capacity to influence public policies. However, they may not be particularly motivated to influence the policy environment for small and micro-enterprise, particularly if this might mean altering the advantages that medium and large enterprises receive from that environment or if small enterprises are seen as a competitive threat (see Haggblade, Liedholm, and Mead 1986).

Comparative Characteristics and Clienteles

All types of resource institutions have produced both successes and failures in carrying out small and micro-enterprise assistance programs. On the basis of a considerable literature, it appears that no particular organizational form is uniquely qualified to pursue such programs. Decisions about which organizational form to adopt or assist generally will depend on local conditions, experiences, available resources, and the particular strengths and weaknesses of existing organizations.

However, there is some evidence that the balance among the characteristics of organizations results in differing capacities to reach particular clienteles. For example, private voluntary organizations, because they tend to be small, focused, and adaptable, and inclined toward community development and social welfare goals, may be the most appropriate institutions for reaching the Level I and Level II entrepreneurs who have been identified by the PISCES projects.[11] Government agencies with a social welfare orientation also may be appropriate for this level of entrepreneur. Cooperatives and government agencies, because of their scale and institutionalization, may be most appropriate for reaching Level II type entrepreneurs. Banks and business associations, because of their business orientation, capacity to influence the policy environment, and relative autonomy may be most suited to assisting entrepreneurs at Level III and above. When organizations wish to reach other levels of entrepreneurs effectively, they may have to alter their organizational structures, management styles, or program components. These issues are addressed more fully in Chapter IV.

The Task Environment

In addition to the relative characteristics of the organizations providing enterprise support programs, it is important to consider the task environment that confronts their assistance efforts. The task environment refers principally to the clientele of the organization, the policy environment, and the socioeconomic context. A task environment may be more or less difficult for the organizations as it affects their capacity to achieve program goals. Thus, clienteles can be more or less easy to assist, a policy environment can complicate or facilitate the organization's activities, and a socioeconomic context can be more or less favorable to small and micro-enterprises. Assistance to easier-to-reach clients in supportive policy and socioeconomic environments will be less time consuming, less expensive, and more immediately successful than assisting clients who are more difficult to reach and who are in unsupportive environments. At the same time, from a development perspective, assisting easier-to-assist clients may be less important than assisting more needy entrepreneurs in a more hostile environment.

Clients

Client characteristics are important to resource institutions because they affect how well the organization can respond to beneficiary needs. Organizations wishing to assist more difficult-to-reach groups may have to adopt particular program components, hire specialized staff, and spend more time and effort in reaching them. The special problems of helping difficult-to-assist clients can be addressed through organizational structure and management and program design. The literature on resource institutions reports that among the most significant characteristics of the clientele for assistance organizations are: the newness of the enterprise; the size of the enterprise; the sector in which it is operating (retail, manufacturing, or service); the income level of the beneficiary; and the location of the enterprise. Each of these factors can be summed up in a general working hypothesis about the ease or difficulty of assisting those who share the particular characteristic. They are denoted working hypotheses because the literature provides us with a reasonable sense that they accurately reflect a wide body of experience but

[11]See Ashe, 1981:19-23.

they have not yet been subject to rigorous testing. These hypotheses are presented below.

Existing enterprises are more easily assisted than enterprises that are newly created through the project. There is a high failure rate for new businesses. Entry barriers and start-up problems are often great. Frequently, new enterprises fail because their owners are not committed to or skilled at a particular activity or may have misjudged a business opportunity. Existing enterprises, on the other hand, have proved a minimum level of survivability and indicate the business acumen and aptitude of the owner. Existing enterprises also have collateral that can serve as the basis for formal institutional assistance.

Larger enterprises are more easily assisted than smaller ones. Tiny enterprises, often involving only one person, may require more intensive assistance than larger ones (see Ashe 1981:19-23). The entrepreneurs are generally poorer and suffer more from the cumulative disadvantages of poverty -- malnutrition, illiteracy, vulnerability to personal disasters, and other problems. Larger businesses, in contrast, tend to have owners with some cushion between themselves and dire poverty and to have collateral that makes them more riskworthy for financial assistance. Some experience suggests that the larger small firms have a greater impact on employment while tiny enterprises have the potential to affect welfare levels (see Farbman, ed. 1981).

Retail and service enterprises are more easily assisted than manufacturing enterprises. The amount of capital, technical assistance, and marketing expertise required for manufacturing is greater than for other sectors. Assistance programs for manufacturing enterprises will therefore need larger amounts of capital and more sophisticated technical assistance for production and marketing than is the case for other types of enterprises. At the same time, manufacturing enterprises generally have the greatest capacity to generate productive employment and to make positive contributions to economic growth (see Haggblade, Liedholm, and Mead 1986; Anderson and Leiserson 1980).

Better-off beneficiaries are easier to assist than less well off ones. As indicated in the PISCES studies, very poor beneficiaries generally require extensive commitment to the time-consuming development of group solidarity and social welfare benefits. The poorer the clientele, then, the more effort must be expended in organizational activitites, training, support functions (nutrition and health programs, for example), and monitoring client performance. More advantaged clients may need only one or two types of assistance and are less vulnerable to the kinds of problems caused by extreme poverty -- ill health, lack of permanent residence, debt, discrimination, etc. At the same time, assisting poorer clienteles tends to have a greater humanitarian and distributional impact.

Urban enterprises are more easily assisted than rural enterprises. The urban location of beneficiaries often means they are more integrated into a national economy, have more access to markets, and have more opportunities for development and growth (see Tendler 1982b). For resource institutions, an urban clientele means that less time and resources are expended in getting to where the clients are and in assisting them and monitoring their performance. In many countries, however, the majority of small enterprises are located in rural areas and stimulating urban enterprises can add to already high rates of rural-to-urban migration (see Dennis and Leiserson 1980; Chuta and Liedholm 1979; Steel and Takagi 1983; Page 1979).

Women entrepreneurs are more difficult to assist than male entrepreneurs. Women are often excluded from the institutions, resources, and skills that are necessary to make a going concern of their business activities (see Obbo 1980; March and Taqqu 1982; Bourque and Warren 1981). Because they often undertake entrepreneurial activities in addition to heavy household responsibilities, their time, energy, and interest may be constrained. In general, women are less educated and poorer than males and in many countries may not have control over personal property. At the same time, assisting women can have considerable impact on socioeconomic structures and can result in real developmental advances (see March and Taqqu; 1982, Crandon, 1984; Dulansey and Austin, 1985).

Resource institutions should not be discouraged from undertaking programs to help more difficult-to-assist clients in favor of programs for those easier-to-assist. If this standard were followed, inequities in resource distribution and access to benefits of programs would become even more highly skewed than they already are in developing countries. However, when resource institutions make decisions about the types of clients they wish to assist, they are also choosing a series of needs they will have to address if they are to be effective. They will need to consider the special requirements of the clientele they decide to serve and to shape their organization and service delivery programs accordingly. In some cases, resource institutions may lack the resources, personnel, or experience necessary to address the problems of particular groups, however extensive their commitment. In such cases, they should be encouraged to make alternative choices or to modify their goals to fit the institutional and contextual reality.

The Policy Environment

There is increasing consensus that aspects of a national policy environment strongly affect the nature and existence of small and micro-enterprises (see Haggblade, Liedholm, and Mead 1986). A list of the policies thought to affect enterprise and employment is presented in Table III-1. Aspects of the policy environment also affect how resource institutions operate and the degree of ease or difficulty with which they assist small and micro-entrepreneurs. As yet, there is little direct evidence of these effects, however, and specific statements about the policy environment must be treated as hypotheses. It is important to present these hypotheses because they can aid resource institutions in becoming sensitive to the factors in the policy environment they need to consider when making choices about organizational structure, activities, and program design. Thus, just as organizations need to plan on what the characteristics of the clientele mean for the institution, they must also consider how the policy environment will affect their activities.

The policy environment may affect small enterprises differently from how it affects the resource institutions. Many studies indicate that government regulation -- minimum wage legislation, licensing, trade restrictions, mandatory social insurance programs -- often leads to a flourishing of activities in the informal sector, where there are fewer barriers to entry (see for example Greaney 1986:18; Portes and Benton 1984). But for resource institutions, government regulation means that it is more difficult for their clients to "graduate" to the formal sector or to become clients of formal sector institutions such as banks. Extensive government regulation also means that small and micro-entrepreneurs can be extremely vulnerable to police and official harrassment.

Among the most important aspects of the policy environment for resource institutions are interest rates, regulation, exchange rates, and scale discrimination. A set of hypotheses about how these factors affect the task environment of the resource institution is presented in the following paragraphs.

Government policies that set artifically low interest rate ceilings or credit controls increase the difficulty of assisting low income clients. Artificially low interest rates tend to exclude low income borrowers from formal financial markets (Von Pischke, Adams, and Donald 1983; Steel and Takagi 1983). This can increase client dependence on the resource institution, curtailing their ability to "graduate" to formal financial institutions, and limiting the ability of the organization to serve more clients. Moreover, when resource institutions lend money to their clients at subsidized -- even negative -- rates of real interest, they increase their costs and the likelihood of dependence on donors or government subsidies (see Tendler 1984). This makes them more vulnerable to failure. Low interest rates also discourage savings mobilization, which is increasingly recognized as an important mechanism for helping low income people help themselves (see Rielly 1986; Meyer 1985).

The more extensive the government regulation of business, the more difficult it is to assist small and micro-enterprises. Government regulations about wages, taxation, social welfare contributions licensing, and other business related issues are among the important reasons why informal sector businesses develop. Entrance into the formal sector is too expensive and raises too many barriers for low income people. Of course, governments have the right and duty to ensure that workers are not exploited, that businesses contribute to national security and welfare through taxes, and that certain kinds of information on business activities are available. However, extensive regulation also can create a hostile environment for the work of the resource institutions. Resource institutions can be most effective when they can "graduate" some of their clients to the formal sector and deter them from becoming dependent on the programs of the resource institution. Conforming to laws, regulations, and reporting requirements or helping their clients do so also can be time consuming and expensive for resource institutions.

The more overvalued the exchange rate, the more difficult it is for resource institutions to help small and micro-enterprises to develop and grow. Overvalued exchange rates reduce the price of imported goods and generally lead to rationing of foreign exchange or import restrictions which in turn generally discriminate in favor of large firms (Haggblade, Liedholm, Mead 1986:23-29; Greaney 1986:19). Thus, small and micro businesses often cannot compete with larger firms because of differential access to foreign exchange; they may be restricted to producing goods that do not require imports of machinery or raw materials. While this enforced reliance on indigeneous resources may provide informal businesses with a niche in the economy, it also tends to limit the market available to such firms, thus hindering their expansion. In such a context, resource institutions serving small and micro-enterprises must increase their marketing and production assistance services, especially to their manufacturer clients. Providing services thus becomes more costly and technically complex.

The less government policy discriminates on the basis of scale, the easier it is to assist in the development and growth of small scale enterprises. Policies to encourage industrialization often result in access barriers for small scale enterprises (see Tokman 1985). Interest rates, exchange rates, import restrictions, tax benefits, and other policies, in addition to infrastructure development, often favor larger firms and make it more difficult for small firms to compete effectively in national and international markets (Haggblade, Liedholm, and Mead 1986). Such factors impede the potential for growth of the smaller firms. Moreover, such policies generally require small and micro-firms to operate illegally, greatly increasing the chances that they will be harrassed by police officials and subjected to "shakedowns" and other pressures. Indeed, often it is municipal level regulation and discrimination as much as national that works against the interests of small and micro-entrepreneurs. Again, in this kind of a policy environment, resource institutions must generally provide more services to their clientele than they would in a more neutral policy environment.

As indicated in the first part of this chapter, resource institutions have variable capacity to press policy makers to alter an unfavorable policy environment. Generally, they are wary of becoming "too political," for they fear retaliation by government (see Tendler 1984). A recent trend toward the creation of national umbrella organizations of private voluntary institutions may, of course, increase the leverage of non-governmental organizations in representing the interests of small and micro-entrepreneurs (see Montgomery 1986). There is also a general trend of greater political support for the economic and social welfare contributions of the small enterprise sector that may translate into an impetus to change existing policy where it is discriminatory or unfavorable. Currently, however, most institutions must take the policy environment as a given for their short and medium term activitites and work within it as best they can. Where policies discriminate substantially against their programs, resource institutions need to consider adopting special compensatory features in the programs they design. Where interest rates are kept artificially low, for example, resource institutions can assess modest user charges that will help ensure their own financial viability (see Rielly 1986).

The Socioeconomic Context

There are, of course, factors in the general socioeconomic environment that make it more or less difficult to assist small and microenterprises, factors such as the dynamics of economic growth, the extent of infrastructure development, existing domestic and international market linkages, and societal traditions of entrepreneurship. Many of these more general factors are discussed in the PISCES reports (see Ashe 1985:20-22; see also Blayney and Otero 1985). They are summarized here to complete the picture of the task environment that has been developed in this chapter. Ironically, aspects of the socioeconomic context that increase the difficulty of assisting small and micro-enterprises at times may help the enterprises themselves in the sense that growth of the informal sector is often encouraged and stimulated by poor socioeconomic conditions. Important aspects in the socioeconomic environment can be stated in terms of a series of hypotheses about the ease or difficulty with which resource institutions carry out their assistance programs.

The more dynamic the local and national economy, the easier it is to stimulate the creation and growth of small and micro-enterprises. Economic growth tends to increase the size of markets available to enterprises and creates opportunities for growth. This provides resource institutions with more options for assisting their clients and may facilitate their graduation to greater independence and linkages to formal sector institutions.

The lower the rate of inflation, the easier it is for resource institutions to manage their finances effectively. High rates of inflation increase the difficulty and frequency of assessing, setting, and revising interest rates, staff salaries, credit limits, and budgets. Hyperinflation may require a resource institution to adopt a barter system, as has occurred in recent years in Bolivia. Organizational management, record keeping, and administration are more difficult under such conditions.

The more developed the physical and social infrastructure, the easier it becomes to stimulate the creation and growth of viable small and micro-enterprises. Resource institutions can limit the services they must provide for their low income clients when markets are easily accessible, when businesses can get access to basic services such as electricity and water, and when schools, clinics, and social welfare agencies are widely available. In such conditions, the small and micro-enterprises that develop must be able to compete with the production of goods and services of larger enterprises.

The more extensive the market linkages, the easier it becomes to stimulate the creation and growth of the small and micro-enterprise sector. Extensive market linkages open up opportunities for the creation and growth of enterprises and facilitate client graduation.

The more extensive the societal tradition of entrepreneurship, the easier it is to pursue assistance programs for small and micro enterprises. Entrepreneurial traditions reduce resource institution expenditure of time, talent, and budgets on training and technical assistance in their programs.

With the exception of the last factor -- entrepreneurship -- most resource institutions in developing countries face a socioeconomic context that is closer to the "more difficult" side of the continuum than to the "less difficult" side. Moreover, these aspects of the task environment change only slowly and cannot be altered through the activities of the resouce institutions. Nevertheless, it is important for resource institutions to assess the socioeconomic context for elements which may pose problems for their assistance programs. How to cope with such problems then can be considered explicitly in organizational decision making and program design.

Conclusions

Resource institutions have a variable set of characteristics that affect their capacities to carry out small and micro-enterprise assistance programs. Whatever their comparative advantages as institutions, however, they must address a task environment that will ease or impede their efficiency, effectiveness, and sustainability. The choices they make about how to assist a low income population should be shaped by an understanding of both their own institutional characteristics and the aspects of the task environment that will affect their activities: the characteristics of the clients, the policy environment, the socioeconomic context. Despite the complexity, there are recognizable patterns and some clear choices. However, the easiest options are not always the most charitable; the most charitable, not always the most cost-effective. Every institution must trade-off some objectives for others it deems more important. Even the nature of the trade-offs themselves will vary with the task environment. It is no surprise, then, that the resulting assistance programs themselves vary widely. Within this variety, nonetheless, one can discern patterns and categories of approaches. Some which we believe useful are suggested in Chapter IV

Table III-1

Inventory of Policies, by Functional Groupings, Affecting Employment and Enterprise Growth

1. Trade Policy
   - a. import tariffs
   - b. import quotas
   - c. export taxes or subsidies
   - d. foreign exchange rates
   - e. foreign exchange controls
2. Monetary Policy
   - a. money supply
   - b. interest rate
   - c. banking regulations
3. Fiscal Policy
   - a. government expenditure
     - -- infrastructure
     - -- direct investment in production, marketing, or service enterprises
     - -- government provision of services
     - -- transfers
   - b. taxes
     - -- corporate income
     - -- personal income
     - -- payroll
     - -- property
     - -- sales
4. Labor Policies
   - a. minimum wage laws
   - b. legislation with regard to working conditions, fringe benefits, etc.
   - c. social security
   - d. public sector wage policy
5. Output Prices
   - a. consumer prices
   - b. producer prices

6. Direct Regulatory Controls
   a. enterprise licensing and registration
   b. monopoly privileges
   c. land allocation and tenure
   d. zoning
   e. health

Source: Haggblade, Liedholm, and Mead 1986

Chapter IV

Assisting Small and Micro-entrepreneurs, II: Program Components and Models

No single program design is "best" for assisting small and micro-enterprises. Rather, there are a variety of ways of aiding this sector of the economy. Indeed, program designs should be varied in order to meet the specific needs of diverse types of small and micro-entrepreneurs. For example, some enterprises may require credit more than any other service, some may be particularly in need of technical assistance, and others may need several services offered together in order to improve operations. In addition, programs that assist small and micro-enterprises should respond to the changing needs of their clients over time. For example, at one point in its development, a business may need credit in order to expand; at another point, its principal need may be marketing assistance. Because needs differ and change over time, responses to them will also be varied.

The resource institutions discussed in Chapter III use a variety of approaches to assist small and micro-enterprises. Among these, several have been widely adopted. This chapter describes the components of various types of assistance programs. The resource institutions combine or package these components in distinct ways, resulting in at least six principal program models. Each of these program models has implications for cost, staffing requirements, and the type of beneficiary most easily assisted. The chapter considers the characteristics of the various models in a way that should help resource institutions assess their capacities to adopt individual models and to pursue them. The chapter concludes with a discussion of recurrent problems found in the design of many of the problem models.

Program Components and Models

Four components are widely found in various combinations and sequences in small and micro-enterprise assistance programs: 1) financial assistance; 2) technical assistance, also called extension; 3) training; and 4) social promotion. Provision of financial assistance is found in almost all such programs, although its importance within a program "package" may vary considerably. The other components are adopted or not, sequenced differently, and delivered with varying degrees of seriousness. A single resource institution may adopt only one program type or it may pursue two or even more types for different kinds of clients. Moreover, a resource institution may try out and discard different assistance programs as it develops and discovers more effective modes of operation (see, for example, Tendler 1983a; Montgomery forthcoming:Chapter 5).

The Components: Ingredients of Assistance Programs

Financial Assistance: Almost all small and micro-enterprise programs include means to provide credit to their clients. Nevertheless, there is considerable debate about whether small entrepreneurs need as much access to credit as is frequently claimed. Certainly the entrepreneurs generally claim they need credit, but this may reflect their own realistic assessment of what they consider to be an immediate and tangible benefit. The emphasis on credit should not be allowed to obscure factors such as marketing or technology assessment which may be just as critical to the success or failure of small and micro-enterprises. (See Marris and Somerset 1971; Liedholm and Chuta 1976; Harper 1984.) Why, then, does credit figure so centrally in assistance programs?

Resource institutions most often answer that lack of access to capital is a critical constraint on small and micro-enterprises (Chuta and Liedholm 1979:68-69; Blayney and Otero, 1985). This corresponds closely to what the entrepreneurs generally say they need most and to what donor and lending agencies have traditionally supported (see Farbman,ed. 1981:xii). A second answer appears to be that many resource institutions are convinced that they must offer credit if they are to attract clients.[1] Thus, even programs in which credit is not a central ingredient make access to capital available to their clients as an inducement for them to benefit from the other services. Yet another reason is that credit should generate income for the institutions and allows them to sustain themselves more effectively. Thus, even where resource institutions emphasize other services, they believe that offering credit will enable them to support these activities more effectively.

Credit is offered in two ways, to individuals or through group mechanisms. With individual credit, the entrepreneur usually presents some form of collateral, a guarantor of the loan, or personal testimony to his or her character and serious intent (see Blayney and Otero 1985). In group credit programs, small groups of individuals co-guarantee loans for specific members. Subsequent loans to any member of the group are made contingent upon repayment of prior loans. Peer pressure and group cohesion are considered important to the success of repayment (see Ashe 1985:40-41 for an example; see also Houghton 1985). This kind of credit system is generally used with the poorest entrepreneurs, while individual credit tends to be offered most frequently to better-off businesspeople. Most resource intitutions offer credit directly to their clients, but some act as conduits to formal institutional credit by preparing their clients to be effective in applying for such loans. There appears to be a growing consensus among resource institutions that, to the extent possible, credit should be disbursed through formal financial intermediaries.[2] Often, this can be done through special program funds for

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[1]This observation results from interviews with directors and staff of a number of resource institutions in Latin America and Africa.

[2]This observation is also based on interviews with resource institution leaders.

enterprise development. Both clients and financial intermediaries learn how to deal with each other more effectively through such credit disbursement mechanisms and client graduation to formal sector institutions is thereby made easier.

Other forms of financial assistance, such as mechanisms for mobilizing savings effectively, are much less frequently adopted. As savings mobilization becomes more widely appreciated as an effective means to assist the poor -- the research literature strongly supports this idea -- resource institutions are likely to begin adopting it more widely.[3] Currently, many appear to hold the "too-poor-to-save" belief. This has blinded them to the important role savings mobilization can play in assisting small and micro-businesses (see Rielly 1986).

Technical Assistance: The second most frequent ingredient of enterprise support programs is business extension or technical assistance.[4] Frequently, it is provided as an aspect of a credit delivery program. Technical assistance is a broad label that includes assisting small and micro-entrepreneurs with routine business practices such as bookkeeping and costing of inventory and more specialized forms of aid on issues such as marketing, production, and choice of appropriate technology. In general, business extension is provided on a one-to-one basis, with program staff working individually with the enterprise owner at the site of the business. The most common pattern is for technical assistance to be provided free to the clients; many resource institutions fear that if they charge for such services, clients will not utilize them (see Tendler 1984). Unfortunately, in the absence of user charges, resource institutions often have no way of knowing if the technical assistance is needed, appropriate, effective, or efficient. (For a discussion, see Blayney and Otero 1983.

Generally, resource institutions have staff -- often called promoters or extensionists -- who school beneficiaries in routine business practices. For more specialized assistance, resource institutions either hire a full or part-time specialist in a particular area -- marketing, for example -- or contract on a need-specific basis with an expert from an appropriate consulting firm or a technical or training agency. Technical assistance efforts often are criticized as inappropriate to the needs of beneficiaries or for being carried out in an overly casual or haphazard manner (see for example Fraser and Tucker 1981:169-182). At the same time, few resource institutions believe they can do an effective job of assisting their clients without it.

Training: A number of resource institutions are committed to providing group training to their beneficiaries. Training components emphasize business skills and entrepreneurship or are geared toward inculcating job-related skills. In the case of business training, the resource institutions frequently claim that the entrepreneurs have a specific skill -- repairing bicycles, for example -- but lack skills such as bookkeeping, cost accounting, marketing and sales, and enterprise administration

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[3]The research literature is extensive. See, for example, Von Pischke 1983; Meyer 1985; Vogel 1982, and Rielly 1986.

[4]Technical assistance, as the term is used here, is distinguished from training activities. Both technical assistance and training may stress the same content -- business skills, for example -- but we use technical assistance to refer to one-to-one encounters between staff and clients, usually at the site of the entrepreneurial activities, and training to refer to more formalized classroom type learning experiences.

(see Ashe 1981: 42-43). Entrepreneurial training often contains a strong motivational dimension. The resource institutions believe that business and entrepreneurial skills can be taught effectively to small scale entrepreneurs, even those with very low levels of schooling. Manuals and workbooks using simple concepts, bright colors, and cartoon figures are frequently used in this training. A sequence of formal or semi-formal courses often is offered for which entrepreneurs pay a small sum to defray part of the costs or to encourage their commitment to learn something from the course. Teachers usually come from the staff of the resource institution or may be employed part-time as they attend university or teach in other jobs. Training modules at times are integrated with individualized extension components.

In the case of job skills training, the emphasis is placed on preparing students for employment opportunities in the formal or informal sectors through teaching specific job-related skills such as metalworking, masonry, tailoring, weaving, mechanics, and baking. The purpose is to allow trainees to find employment or to begin their own small businesses. Some programs combine job skills training with employment advisory or placement services. The costs of this type of training program can be significant because of the costs of equipment, repairs, and replacements. Trainees may pay a fee for participation in a course or they may generate program income from the activities they undertake to learn a specific task (for an example see O'Regan and Hellinger 1981:83-99).

Social Promotion: Resource institutions often add a social promotion component to their programs to assist small and micro-entrepreneurs. Such a component most frequently is part of assistance programs to the poorest or most marginal groups in society. Social promotion activities stress the provision of social welfare and community development benefits to a particular clientele or locality and the inculcation of attitudes and behaviors such as cooperativeness, mutual trust, and self-esteem. Social promotion efforts require considerable commitment of staff time and are difficult to measure in terms of their effectiveness. Moreover, the effects of even very successful social promotion efforts probably do not become evident in the short-term time frame of many funding or evaluation cycles. The resource institutions that undertake social promotion efforts believe they are particularly important if the very poor or groups such as women or low castes are to develop the capacity to generate income (see for an example see Brown 1981:293-306). Resource institutions offer social promotion services free of charge by staff who have community development or social work training.

Other Ingredients: In addition to the four principal ingredients of enterprise assistance programs -- financial assistance, technical assistance, training, and social promotion -- some resource institution programs offer other services. For example, beneficiaries may be able to join into groups for joint purchase of raw materials or supplies. Alternatively, resource institutions may make raw materials or supplies directly available to individual beneficiaries. Some programs include the opportunity to form or join associations that promote small business interests, publish advertising directories, or meet to discuss common problems. Still other institutions have developed special "incubator" programs for new enterprise as a specialized service. Some programs with a very specific clientele may make services available to their unique needs, such as day care centers for the children of market women beneficiaries (see Tendler 1984). The forms of service delivery and the effectiveness of these assistance components vary considerably among resource institutions.

The Models: Combining the Ingredients

The four components most frequently found in enterprise assistance programs are combined in several ways and sequences by resource institutions. Particular combinations and sequences of service delivery are instructive as alternative forms of assistance. Moreover, when combined into particular models, they may differ in how appropriate they are for meeting the needs of particular types of clients. Setting out several of the most frequently adopted models, and discussing particularly successful ways in which they have been used, should assist resource institutions and others in assessing how programs to reach particular clienteles might be designed most effectively.

Six principal models are used by a large number of resource institutions:

- Individual financial assistance
- Integrated financial assistance and technical assistance/social promotion
- Integrated and sequenced financial assistance, technical assistance, and training for individuals
- Integrated and sequenced training, technical assistance, and financial assistance for individuals
- Group-oriented social promotion, financial assistance, and technical assistance
- Training

Each of these models is described briefly below, along with a specific case of a program that uses the model and a brief discussion of the strengths and weaknesses of each. The data for this discussion are drawn from the literature on small and micro-enterprise assistance programs, especially those that have been relatively effective in delivering services to a low income clientele. Table IV-1 provides a listing of a number of the more well-known programs using particular models and a bibliography of where additional information about each can be found. Resource institutions may pursue more than one model in order to benefit different types or levels of entrepreneurs. Thus, individual lending models often are pursued side-by-side with a group-oriented social promotion, financial assistance, and technical assistance model as a way to assist both better-off and less well-off clients. Resource institutions often "try-out" models before settling on one that best suits their resources and the needs of their clients.[5] The models are not rigid and there is considerable capacity to innovate in terms of services and sequences within each one.

The models can be compared in terms of their cost, the level of beneficiary they serve most easily, the kinds of skills they require of program staff, their labor intensity, their appropriateness for new or established business, and the extent to

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[5]This observation was confirmed in a number of interviews with resource institution leaders.

which they require the active involvement and time commitment of beneficiaries. These criteria for assessing the models are defined in the following way:

- cost: program resources, including staff time and resources, necessary to deliver a standard "package" of services

- beneficiary level (adopted from the PISCES studies): Level I: subsistence level with very limited potential for growth; Level II: micro-enterprise level with some basic skills and limited potential for growth; Level III: micro and small enterprise level with basic skills and some potential for growth

- skill requirement of staff: Extent to which program requires business of skills and/or community development skills

- labor intensity: Extent to which the program requires the commitment of staff time and resources to provide a standard "package" of services

- new or established enterprises: Appropriateness of the program for assisting new or established enterprises

- beneficiary commitment : Extent to which clients must actively participate in program services in order to receive benefits.

The discussion in the following pages will compare each model to the others in terms of these factors. Table IV-2 presents a comparative overview of their relative characteristics.

Model 1: Individual Financial Assistance: This model often is adopted by banks and large government programs for enterprise assistance. The model focuses on the delivery of credit to a specified population, usually small businesses that can offer loan collateral or that have been in existence long enough to make them more credit-worthy than new businesses. This type of program generally operates with ear-marked or subsidized capital which forms the basis of a loan fund. In principle, this kind of program can be relatively cost effective to pursue as it minimizes costs for specialized staff and eschews some of the more labor intensive components of the other models. With careful design of interest rate or user charges, strict repayment monitoring, and escalating loan amount procedures, this model has demonstrated considerable potential for reaching small and micro-entrepreneurs. Its effectiveness can increase when savings mobilization efforts are added to the financial assistance offered (see Rielly 1986).

The Banco del Pacifico makes particularly effective use of this model. It is a private commercial bank in Ecuador, studied by the PISCES Project (see Fraser and Tucker 1981:216-223). The bank offers loans to very small businesses that have a physical locale (not street vendors, for example), that produce goods of acceptable quality, whose owners have reputations as "serious" people, who can provide suitable documents about their business and personal credit-worthiness, and who present a solvent co-guarantor of the loan. Small loans are made in two tranches per year and part of the funds are deposited in the client's savings account. Strict repayment and collection procedures are used. According to PISCES researchers, the emphasis of the Banco del Pacifico program is on rapid delivery of loan funds to suitable clients; the process takes as little as ten days for many applications. The study indicates that costs to the institution are kept very low. The entrepreneurs assisted are generally those with fairly well established businesses and program results have been positive.

Model 1 is the simplest of the six discussed. Compared to the other models, it is likely to have the lowest cost, assuming it is properly designed and managed (see Goldmark and Rosengard 1983; Houghton 1985; see Table IV-3). It can be appropriately designed for beneficiaries at all three levels of enterprise development, although it is perhaps most easily directed at entrepreneurs at Level III and above, as in the Banco del Pacifico example. Model 1 does not require a highly skilled staff; those with a good basic understanding of financial operations and routine procedures can be effective, as long as they have personal qualities that allow them to interact easily with low income clients (see, for example, Goldmark and Rosengard 1983). The Banco del Pacifico program utilized university students who worked part-time. This model is not as labor intensive as other models, as each staff person may be able to attend to a significant number of clients. It is generally appropriate only for already existing businesses. Beneficiaries need only commit the time necessary to apply for a loan and to make repayments. If the experience of the Indonesian BKK is any indication, it is a model with considerable potential for scaling-up. The weakest point of Model 1 appears to be its limited ability to assist small business clients in making the best possible use of loan capital (see Wines 1986). Institutions adopting the model need to be particularly concerned about client selection and the potential for default and failure rates among beneficiaries.

Model 2: Integrated Financial Assistance and Technical Assistance/Social Promotion: This is a model that is designed to provide services to individual entrepreneurs. It is similar to the first model except that as part of a credit application or monitoring process, entrepreneurs receive individualized assistance with bookkeeping, marketing, or other needs. Alternatively, entrepreneurs become members of groups that meet to discuss and resolve a series of similar problems. In such cases, community development and group cohesion goals are emphasized. A number of cooperatives conform to this model, whereby individuals join a group in order to receive individual credit but also are expected to contribute to the institution through their participation in its activities. Associations of small businesses may utilize a similar model. At times, groups may cooperate to acquire access to raw materials or necessary inputs or to establish and maintain projects to benefit the community such as fair price stores, wells, roads, or productive projects. An institution maintains a corps of business extension or social promoters and specialists to carry out these activities.

An example of a relatively effective integrated financial assistance and technical assistance program is ADEPE in Costa Rica (see Grindle 1986). This is a small private sector organization with a clientele that is primarily rural. It works with micro, small, and medium industry so that the small and medium categories provide subsidies for the micro-enterprise sector. It provides credits that are monitored closely by its technicians as a way of providing training in business management. Through considerable learning from experience, it has developed a model that appears to be flexible and efficient as well as relatively cost-effective. An example of a cooperative organization using a financial assistance and social promotion mechanism is CIDES in Colombia (see Fraser and Tucker 1981:194-210). CIDES stresses self improvement through a series of meetings, short courses, and group activities.

Programs based on this model generally are less expensive than other, more complex models. When effectively designed, they can generate income for the institution that helps defray administrative costs. They can be designed to be appropriate for all levels of entrepreneurs; staff need basic competence in simple business administration practices, the capacity to interact effectively with low income clients, and skill in community development. The model requires a larger staff then the first model because of the individual nature of the technical assistance delivered and the time and effort needed in social promotion. In many cases, part-time workers such as university students and volunteers have been incorporated into such programs. The model appears to be replicable, although its capacity for growth is limited by the need to maintain a staff commensurate with the services offered. It is appropriate for new or established business. Financial assistance and technical assistance programs require relatively little from the beneficiary; financial assistance and social promotion programs require considerably more commitment from them. A recurrent problem noted in the pursuit of this model is the need to ensure that technical assistance and social promotion are appropriate for the entrepreneurs and that suggested practices are actually adopted.

Model 3: Integrated and Sequenced Financial Assistance, Technical Assistance, and Training for Individuals: This frequently used model provides credit and, in addition, offers extension and training as options for borrowers. Individual clients are drawn to the resource institution through the availability of credit. In assessing their applications, program staff visit the enterprise, interview the owner, look at the books if any exist, and evaluate the credit-worthiness of the applicant. At the same time, an assessment is made about whether the entrepreneur should receive technical assistance and/or training. If accepted as borrowers, entrepreneurs are visited by program staff and offered assistance with routine business responsibilities or special problems they may have. Experts may be contracted to handle very specialized problems of production or marketing. After technical assistance has been initiated, the entrepreneurs are encouraged to enroll in an appropriate training course, for which a small fee is usually assessed.

An effective application of Model 3 is the integrated and sequenced financial assistance, technical assistance, and training program used by the Northeast Union of Assisance to Small Businesses (UNO) program in Brazil (see Tendler 1983a; Smith and Tippett 1982: 73-76). UNO assists existing Level III type entrepreneurs to gain access to formal institutional credit by helping them prepare proposals for submission to participating financial intermediaries. Business extension begins during the proposal assistance phase and continues after the loan is granted. Entrepreneurs are encouraged to participate in formal training programs after they have been accepted as borrowers; approximately half of the assisted entrepreneurs do so. According to researchers, administrative costs and default rates have been held reasonably low by this model and it is often cited as a success story for small and micro-enterprise assistance.

This model is relatively expensive because of the need to subsidize the technical assistance and training. It is probably a model that best meets the needs of Level II, III, and larger entrepreneurs because these individuals are most able to apply the business skills and training to their activities. Staff with an understanding of appropriate business practices is required as well as those who are effective in teaching and relating to low income clients. It requires a relatively large staff to deliver this package of services, although students and university teachers are often used on a part-time basis. Established businesses are usually those most effectively served through this kind of model and beneficiaries are encouraged -- but not compelled -- to devote considerable energy to learning. Model 3 programs may encounter difficulty in providing effective technical assistance and training as they have little leverage over the client once a loan has been granted. They must persuade the borrower to avail himself or herself of the additional services. Drop-out rates in the extension and training components may be high unless both are of high quality and relevant to the entrepreneurs.

Model 4: Integrated and Sequenced Training, Technical Assistance, and Financial Assistance for Individuals: This model is distinct in that training is emphasized as the most important need of small and micro-entrepreneurs. Training may consist of a sequence of courses interspersed with individualized extension that is linked to the content of training. Alternatively, a training sequence can be completed before the initiation of the extension. Only after a required training and technical assistance sequence has been completed do entrepreneurs become eligible for credit. In this way, credit-worthy clients are effectively identified and as a result, credit programs tend to have considerable potential to assist the enterprises most likely to survive and grow. The credit may be disbursed through a financial intermediary other than the resource institution. In this case, passing through the sequenced activities can qualify the borrower for particular lines of credit.

This model is identified closely with the DESAP program of the Carvajal Foundation in Cali, Colombia (see Grindle 1986; Sanders 1983a; 1983b). It has been adopted widely by other institutions in Colombia and in other Latin American countries. The Carvajal Foundation has become a training forum for the replication of this model; managers of resource institutions have attended seminars in Cali and elsewhere about the program and its components. In the model, entrepreneurs sign up to take a sequence of three courses, beginning with principles of accounting, then moving to cost analysis, and finishing with marketing and sales. Additional courses on investment projects and principles of administration are offered to those desiring further training. Trainees pay a small fee for the courses and use workbooks as an aid to semi-formal classroom sessions. After the trainee has completed each course, an extension agent visits his or her establishment to ensure that the course content is being applied in practice. Additional assistance is offered at these individualized sessions. Successful "graduates" of the training and extension phases are then eligible for special lines of credit made available by the Carvajal Foundation with a local financial intermediary. DESAP clients appear to have considerable potential for growth and graduation to formal institutional credit and other support. The Foundation also supports a number of other programs to which DESAP beneficiaries have access, such as a self-help housing scheme and provision and marketing assistance.

A model that emphasizes training and extension more than financial assistance is a relatively costly form of providing services to a low income clientele. Technical assistance is generally provided free and the cost of training programs to the beneficiaries may or may not be covered by fees. The model is most appropriate for enterprises that have some capacity to grow and to become part of the formal sector economy; generally those at Level III and above, although those at Level II can also benefit from this model. The relatively large staff is markedly business-oriented and stresses the inculcation of business skills and entrepreneurial motivation. Where resources are available to adopt this model, its replication is facilitated by the careful borrower selection process resulting from the sequencing of activities. That is, those selected as borrowers have become well-known to the organization through its training and assistance components. In comparison to the other models considered, it requires significant commitment from beneficiaries of their time and effort.

Model 5: Group Oriented Social Promotion, Financial Assistance, and Extension: This model focuses on the promotion of small groups that join together to guarantee loans for individual members of the group and to assist each other in resolving business problems that may face several of the members in common. Considerable effort is put into promoting the ideas of self-help and organization. Community development goals are stressed through promotional meetings with prospective group members. This model has been found particularly appropriate for very low income entrepreneurs or those who are termed pre-entrepreneurs. Small groups are believed essential, with no more than ten individuals participating per group. Credit is given in small initial loans, sometimes in amounts as low as $12-$25, often in amounts of $50-$250. When these initial loans have been repaid, subsequent loans may be applied for. Program staff accompany their promotional and community development activities with very simple technical assistance to individuals or groups of credit recipients.

This model is the basis of the "solidarity" group approach widely promoted by Accion International/AITEC and used by the Grameen Bank and Women's World Banking (see especially Ashe 1985:38-60; Houghton 1985). The "solidarity group methodology" explicitly recognizes "empowerment" as a program goal, encouraging group members to develop problem solving and leadership skills during their meetings and interactions. Small groups of 5 to 10 members meet for one to several months to prepare themselves for the responsibility of taking out a loan. They then formulate credit proposals and submit them to the enterprise support organization. Group members monitor their co-members because all co-sign for individual loans and no new loans are made to anyone in the group until a loan has been fully repaid. Extension is made available to groups through the organization as the groups require it. Accion experience with the approach, such as the PRODEME Program in the Dominican Republic, EUS in Costa Rica, and PRIDECO/ FEDECCREDITO in El Salvador, indicates that marginal entrepreneurs -- street vendors, market women, individual shoemakers, and others -- can be assisted effectively through this model. In Bangladesh, large numbers of extremely poor landless rural villagers have been assisted by the Grameen Bank program and others based on similar models.[6]

The solidarity group model is less expensive than the training model but still requires considerable resources to deliver a "package" of services to the groups. This model appears to be highly appropriate for Level I and II entrepreneurs and is effective in reaching very low income people. Staff need social promotion and community development skills more than strictly business related skills. Working with groups rather than individuals reduces the amount of staff time required for effective performance. Nevertheless, staff must spend much time working with individual groups or promoting the program. It is a model that appears appropriate for both new and established businesses. Beneficiaries must make a substantial commitment of time to their group.

Model 6: Training: This model concentrates on providing job skills training for low income people. It is less concerned with the promotion of small businesses and entrepreneurship than with the issue of employment. It is a model utilized by a number of government training agencies. Programs based on this model work most effectively when research has been done on the kinds of skills that are most in demand in a locality and when efforts are made to place graduates in appropriate jobs. Trainees usually receive the training free or pay only a nominal fee. Often, model 6 programs attempt to defray costs through the sale of goods and services produced by the trainees. Where goods are manufactured, programs may need substantial investments of capital for machinery and other equipment.

The PISCES projects describe the training programs of the Coptic Evangelical Organization for Social Services (CEOSS) in Egypt, the Calcutta 'Y' Self-Employment Centre, the CNPAR in Upper Volta and the Village Polytechnic Program in Kenya.[7] Each program had some success in providing skills training and channeling trainees into appropriate jobs. The Village Polytechnic Program, for instance, spread rapidly from four experimental projects to over 270 community projects in the 1980s. Courses are organized in each village center after a committee formed of community representatives and government officials has determined the demand for various types of skills. Local staff, numbering from five or six individuals to as many as twenty individuals, offer training in carpentry, masonry, tailoring/dressmaking, metalworking, motor mechanics, and other areas. This large program, which receives assistance from the government, international donors, and a variety of private voluntary agencies, trains some 20,000 people in various skills at the same time. Goods and services are produced through the program on contract and part of the proceeds are used to support the local program and to capitalize a trainee loan fund.

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[6]ILO (1984) and Hunt (1984:185-7 and notes) provide general discussions and further references on the merits of grouping beneficiaries for credit, training, and technical assistance. They discuss a number of innovative attempts that have had impressive results.

[7]These two programs -- the Calcutta "Y" Self-Employment Center and the CNPAR in Upper Volta -- also had extension components geared toward developing business skills and loan components.

Model 6 is an expensive type of program to operate, necessitating considerable investment in buildings, equipment and machines, and training staff salaries. Generally, programs using this model are subsidized by governments or donors. The model is appropriate for reaching Level I beneficiaries. The skills required by staff include special knowledge of production techniques or other technical skills, in addition to the capacity to teach low income clients effectively. The number of personnel required to teach courses may be modest if trainers have a wide range of basic skills. The Kenyan program has demonstrated the replicability of the program, but cost and technical capacity may slow the extent to which it can be effectively adopted. Model 6 probably is carried out most effectively on a large scale because of investment and staff expertise required. It may be an appropriate model for new businesses as it can give trainees the skills to initiate their own enterprises. As with other training models, it requires considerable commitment on the part of beneficiaries to learn and apply new skills.

Conclusion: Models and Resource Institutions

As noted earlier, there is no "one best way" to design an enterprise assistance program. However, program models can be selected that increase the chances for a resource institution to achieve its goal of serving a particular client group. Moreover, categorizing the typical characteristics and requirements of various models may help the organization determine the extent of financial and human resource commitment required to accomplish the goal.

In cases where resources do not match program requirements, support institutions have several choices. They may:

- Set out to acquire appropriate levels of financing and staffing to pursue a particular model;

- Adjust program components to tailor a particular model to the resources available;

- Adopt some combination of these two choices.

An institution lowers its chances of success when it offers a program that is inappropriate to its priorities, size, or resources.

Recurrent Weaknesses in Program Design

Regardless of the model adopted or the characteristics of the resource institution, small and micro-enterprise programs often experience recurrent problems rooted in program design. Poorly designed projects lessen the earning potential of clients; many resource institutions can relate histories of their own efforts that have ended in failure and disillusion. There are, of course, no fail-safe project designs. Nevertheless, most resource institutions can benefit from more knowledge of what has proven successful in credit and marketing services, frameworks within which to consider user charges and interest rates, examples of effective technical assistance required by small entrepreneurs, techniques to encourage participation, methods for selecting clients who will benefit from the project, means to monitor their performance, and assistance in reaching specific target groups such as women, refugees, the unemployed, or the very poor.

Appropriate Designs for Credit and Marketing Components

The provision of credit and marketing services requires considerable knowledge about how small entrepreneurs need, use, and repay loans and how their products or services are related to local, regional, national, and even international economies (Ashe 1985; Page and Steel 1984). A recurrent complaint among resource institution managers and evaluators is that the organizations have moved precipitously into projects that were ill-conceived or inappropriate to the needs of the client population (Lassen 1980; Wasserstrom 1985; McKean 1982; Scurrah and Podesta 1984; Korten 1980). Hobbled by basic design flaws, such projects often exhibit poor loan repayment records, as is apparent in Table IV-3; others fill warehouses with unsaleable merchandise produced by low income artisans. The most effective of the resource institutions know a great deal about the components of effective credit delivery and marketing projects -- scale of credit to be offered, interest rate structures, repayment schedules, channels of commercialization, performance monitoring. Helping them deepen this knowledge and share it more widely can help improve still further the performance of the resource institutions. The best project designers ask such questions as: "Do small entrepreneurs really need credit? What alternative sources of investment and operating capital are available to the small entrepreneur? Is there really a viable market for the good or service produced? Are input markets reliable enough for sustained operation?"

Pricing of Services

Resource institutions frequently charge little or nothing for the services they offer their clients (Tendler 1984; Ashe 1985; Anderson 1982). Frequently, this results from attitudes held about who the clients are and what their needs are: resource institutions desire to help the entrepreneurs, tend to see them as destitute, and assume they cannot pay market prices for the services they receive (see Rielly 1986). Often, resource institutions justify their work by pointing to the exploitative and usurious charges of middlemen or other financial intermediaries (Tendler 1982). They may believe that their primary purpose is to offer low-cost services to these exploited people. They may also believe that,however much clients may need the services, if higher prices are charged, they will not use them. Nonetheless, undercharging for services can increase dependence on donors, lead to the demise of a program for lack of sufficient income, make it difficult for the institutions to know if the clients value and benefit from the services, encourage clients to treat the services as free goods, and discourage client demands for improvement (Tendler 1984; Ashe 1985; James 1982). In contrast, appropriate user charges for services can contribute importantly to financial viability. Moreover, managers will receive better information on the use and effectiveness of services, and clients will be encouraged to provide better feedback to the institution as to their value.

Interest Rates

Interest charges in credit programs are a chronic problem in project design. Resource institutions typically charge below market rates for loans. Projects often lack components for savings mobilization (see Adams, Antonio, and Romero 1981; Blayney and Otero 1985). Particularly in highly inflationary economies, interest rates in credit programs tend to fall well below market prices and often mean that money is loaned at negative real rates (see Scurrah and Podesta 1984). Savings mobilization capacity that can be encouraged through appropriate interest rate structures is generally ignored (Meyer 1985; Vogel 1982). As with the more general problems of the pricing of services, supporting institutions frequently hold paternalistic attitudes about those they assist, consider that below market rates are just and that market rates are exploitive of the poor, and fear that client demand will dry up if higher interest rates are charged. In contrast to these perceptions, there is ample evidence that low interest rates distort programs intended to assist the poor, do not really reflect the ability of low-income entrepreneurs to repay, and impair the institutions' ability to plan for their own futures because they become chronically dependent upon outside funding (Von Pischke, Adams, and Gordon 1983). The consequences of charging low interest rates are generally adverse for resource institutions, affecting their ability to grow or even to maintain themselves in the medium to long term.

Appropriate Technical Assistance

Several of the models reviewed in this chapter include technical assistance components. Often, however, program clients complain that the technical assistance offered is not relevant to their particular business or is too general to be of assistance to them (Tendler 1984; Crandon 1984; Wasserstrom 1985; Fraser and Tucker 1981:167-191). In some instances, resource institutions assume that their clients are ill-informed or ignorant about business and that even cursory or extremely basic assistance will improve the performance of small businesses. The dangers of this assumption are compounded in cases in which the resource institutions have only rudimentary knowledge of business practices. This may lead to staffing with extensionists who have little experience in the small business field and assistance schemes that are uninformed as to what skills are most necessary and appropriate for the small entrepreneur. Waste of time and resources result. More damaging, however, is the potential harm that can result if a small businessperson adopts inappropriate or bad advice. Thus, assessing what kind, if any, of technical assistance is appropriate and designing projects in accordance with this information is a vital skill of successful resource institutions.

Participation

Effective and efficient projects to assist small and micro-entrepreneurs are designed with the particular needs of the clients in mind (see for example Paul 1982:201). They must reach the groups they are intended for, and they must inform potential clients of the benefits to be derived from participation. These requirements place a large burden on project designers. Acquiring information and feedback is important to improving project success. A cost-effective way to generate this result is to encourage the extensive participation of clients in project design, monitoring, and evaluation (Cohen and Uphoff 1977; Reichmann 1984; Korten 1980; Esman and Uphoff 1982). Project managers then receive continuous information directly from the clients, encouragingIn this way, flexibility and innovation when problems emerge. The reasons for encouraging participation are numerous but often are overlooked as resource institutions seek to begin projects as soon as possible or to pursue their own ideas about what is best for the clients (Lassen 1980; Tendler 1982; Kilby 1979). Moreover, techniques for securing constructive client participation in project design and implementation are not well understood or easily learned.

Client Selection and Performance Monitoring

Some projects incorporate elaborate methodologies for selecting beneficiaries, screening their needs, and monitoring their performance. Often, there is a strong component of control and even distrust of potential clients. The result frequently is to increase the administrative costs of projects and to delay unnecessarily the provision of services to the clients who are selected. Recent experience with small-scale enterprises suggests that program designs can be simplified by peer screening and reputational methods for selecting clients and through procedures that encourage peer and self monitoring (Ashe 1985; Reichmann 1984; Blayney and Otero 1985). In some cases, however, more complex measures may be needed if groups such as women or the very poor are the targets of business assistance programs. These groups often are not incorporated into programs because business assistance projects can be utilized most readily by better-off, usually male, small entrepreneurs (Ashe 1985; Crandon 1984; Buvinic 1984). Thus, good project design displays sensitivity to the issue of the inequality in benefit distribution that results from client selection procedures.

Program Evaluation

Donors and lending agencies often stress the importance of monitoring and evaluation of development programs, particularly those directed toward low income clienteles. This also represents a good source of project feedback for resource institution managers. There is a large number of monitoring and evaluation methodologies available, complete with "how to" manuals (see for example ACVAFS 1983; Cotter 1986; Markey forthcoming; DAI 1985). Resource institutions that deliver credit to small and micro-enterprises have demonstrated considerable capacity to improve their monitoring systems. Well-managed organizations almost always adopt systems for following-up on borrowers and encouraging prompt repayment. The same cannot be said for overall program evaluation, in spite of the ready availability of methods to do so. Typically, resource institutions feel pressed to assign scarce financial and human resources to the more immediately operational aspects of their programs. They may need and want evaluations of their activities and the performance of their clients, but believe they do not have the resources to undertake routine assessments. If program evaluation is to become more useful, methods are needed that use little staff time and resources.(For a *Guide to Guides* for evaluating small-scale enterprise programs, see Hennrich 1987.)

Conclusion: Addressing Recurrent Weaknesses in Program Design

Improved program design capacity would strengthen the overall performance of resource institutions. Managers of resource institutions need program staff with the technical skills to provide them with timely information, advice, and sensible alternatives for program design. Relevant skills in program design can be improved through a variety of methods. Many skill-specific materials already exist for this purpose. The case method, described in Chapter VI, can be particularly useful in improving program design capacity. Case method workshops can help sensitize participants to the constraints and opportunities faced by small businesses and the particular rationales that lie behind the decision making of their owners. In addition, project designers need a good understanding of credit and marketing systems, interest rate structures, and appropriate user charges. Computer-based training with hands-on experience and immediate feedback can be useful in improving this understanding. In cases where computers are not available, workbooks and applied learning modules can be used. "How to" manuals and applied exercises can help to develop skills needed to improve technical assistance and client monitoring and evaluation. These training methods can be important tools for resource institutions moving toward becoming more effective, efficient, and sustainable in delivering needed services to small entrepreneurs. Table IV-4 presents a set of possible training aids that can be useful in increasing progam design capacity. The following chapter addresses the other recurrent problems faced frequently by resource institutions.

Table IV-1
Small and Micro Enterprise Assistance Models
and Examples of Programs That Utilize Them

Models

1	2	3	4	5	6
Banco del Pacifico[1]	CANAPI[6]	UNO[9]	DESAP[3] (Carvajal)	PRODEME[7]	Calcutta Y Self-Employment Center[8]
PCIB Money Shops[2]	ADEPE[6]	NCCK[10]	CNPAR[10]	PRIDECO/ FEDECCRE-DITO[1]	Village Polytechnic Program[10]
	CEOSS[7]	SEAP[12]	MSCI[2]	Working Women's Forum[8]	Lesotho Opportunities Industrialization Center[15]
Bank of Baroda[3]	NAESEY[8]	Carmona Social Development Center[2]	PROJUVEN-ENTUD[6]	CEOSS[7]	Rural Enterprise Extension Service[16]
ADEMI[4]		pfp/ Upper Volta[11]	COLMENA[6]	SEDE-MEX[11]	CEOSS[7]
			PRODEM[6]		
BKK[5]		ASEPADE[1]	Dominican Development Foundation[3]	Dominican Development Foundation[3]	
		SIDO[10]		FUCODES[6]	
		FUCODES[6]	pfp/ Botswana[12]	Banco Mundial de La Mujer[6]	
				Institute of Cultural Affairs Nairobi[10]	
				Women in Development Kenya	
				Grameen Bank[14]	

Table VI-1 (Notes)

Model 1: Individual financial assistance

2: Integrated financial assistance and technical assistance/social promotion

3: Integrated and sequenced financial assistance, technical assistance, and training for individuals

4: Integrated and sequenced training, technical assistance, and financial assistance for individuals

5: Group-oriented social promotion, financial assistance, and technical assistance

6: Training

Table IV-2

Relative Characteristics of Enterprise Assistance Program Models

Model	Cost	Beneficiary Level	Staff Skill	Labor Intensity	New or Established Business	Beneficiar Commit-ment
1	Low	I,II,III	Simple Business	Low	Established	Low
2	Moderate	I,II,III	Simple Business and Comm-unity Develop-ment	Moderate	New or Established	Low
3	Moderate to High	II,III	Business	High	Established	Moderate
4	High	III, and above	Business	High	Established	High
5	Moderate to High	I,II	Comm-unity Develop-ment	Moderate	New or Established	High
6	High	I	Specialized	Moderate	New High	High

Model 1: Individual Financial Assistance

2: Integrated financial assistance and technical assistance/social promotion

3: Integrated and sequenced financial asistance, technical assistance, and training for individuals

4: Integrated and sequentced training, technical assistance, and financial assistance for individuals

5: Group-oriented social promotion, financial assistance, and technical assistance

6: Training

Table IV-3 Administrative Costs of Small Enterprise Credit Schemes

Credit Organization	Country	Type	Administrative Cost Per Loan	Average Loan Value	Adminstrative Cost (% of Loan)	Arrears (% of Outstandings)
		A. Credit Only				
Krishi (1)	Bangladesh	Government-Owned Commercial Bank	$5.00	$126.00	4.0	10.5
Agrani (1)	Bangladesh	Government-Owned Commercial Bank	$5.27	$101.00	5.2	4.3
BKK (2)	Indonesia	Government	$2.37	$44.43	5.3	6.0
Janata (1)	Bangladesh	Government-Owned Commercial Bank	$6.60	$125.00	5.3	14.5
Rupali (1)	Bangladesh	Government-Owned Commercial Bank	$7.33	$119.00	6.2	6.2
F.D.R./Peru (6)	Peru	Development Bank	$531.00	$5961.00	9.0	8.0
Banco de Pacifico (4)	Ecuador	Commercial Bank	$140.00	$1100.00	13.0	7.0
D.B. Mauritius (4)	Mauritius	Development Bank	$108.00	$830.00	13.0	NA
Uttara (1)	Bangladesh	Government-Owned Commercial Bank (Cooperative)	$31.27	$122.00	25.6	12.1
Bank Money Shops (3)	Philippines	Commercial Bank	$197.00	$687.00	28.0	NA
SEDCO	Jamaica	Development Bank	$843.00	$280.00	275.0	NA
		B. Credit and Technical Assistance				
DDF/Sloidarity (6)	Dominican Rep.	PVO	$242.00	$1267.00	19.1	33.0
IDM (6)	Honduras	PVO	$561.00	$1724.00	32.5	42.0
DDF/"Micro"	Dominican Rep.	PVO	$739.00	$1680.00	44.0	42.0
UNO (7)	Brazil	PVO	$1700.00	$200.00	85.0	8.0
pfp/BF (6)	Burkina Faso	PVO	$1238.00	$670.00	185.0	23.0

Sources: 1. J. Brown (1983); The credit organizations listed (e.g., Krishi) are government-owned commercial banks; 2. S. Goldmark and Rosengard (1983); BKK is the Badan Kredit Kecamatan (the sub-district credit body) program in Central Java; 3 M. Farbman (1981); 4 V. Raghaven and T.Timberg (1982); 5 M. Wilson (1981); SEDCO is the Small Enterprise Development Corporation; 6 P. Kilby and J. D'Zamura (1984); F.D.R./Peru is the Rural Development Fund Program of the Industrial Bank of Peru; DDF/Solidarity is the Solidarity Group component of the Dominican Development Foundation. I.D.H. is the Institute for Honduran Development; PfP/BF is the Partnership for Productivity Project in Burkina Faso; 7 J. Tendler (1983); UNO is Northeast Union of Assistance to Small Business Project

Table IV-4
Topics and Tools

Diagnosis

Large numbers of programs for assisting small and micro enterprises suffer from inappropriate designs for credit and marketing components, unrealistic prices for services, inappropriate interest rate structures and technical assistance, inadequate participation of beneficiaries, overly complex or ineffective client selection and performance monitoring, and the failure to evaluate ongoing efforts.

Perscription

Cases

To increase understanding of the world of the small entrepreneur and the importance of economic and policy environments for their activities.

To understand and integrate components of effective projects and to link client needs with economic opportunities.

To understand desision making about alternative technologies, marketing, and production processes.

Computer -Based Materials

Diagnosis surveys for feasibility studies
Interest rate analysis
Market analysis
Program budgeting
Program planning and monitoring
Record keeping systems
Cleint monitoring systems
Program evaluation systems

"How to" Manuals and Workbooks

Feasibility studies
Rapid reconnaissance methods
Credit delivary modules
Market diagnosis
Business extension
Basic accounting for small businesses
Client profile records and progress indicators
Prototype programs
Program planning and budgeting
Program monitoring

Evaluation modules

See Chapters 6 for a discussion

Chapter V

Diagnosis: Recurrent Problems of Resource Institutions

A reading of the literature and discussions with professionals in the field suggest that institutions providing services to small and micro-enterprises share many of the same sorts of problems as they manage their organizations, design and implement projects, and interact with donors, governments, and other organizations. These problems vary in number and intensity among the resource institutions and they may be particularly abundant or acute in organizations moving from a social welfare orientation to an income generation strategy. If they remain unresolved, these recurrent problems seriously diminish the performance of the organizations, impairing efficient and effective operation. If, however, the problems can be addressed successfully through improved management, planning, and outreach, the resource institutions can provide more useful services to their clients, the small entrepreneurs.

Organizations are not static, but change over time as they are created, grow, respond to new exigencies and opportunities, and, at times, disintegrate. Organizations learn from their experiences, their failures, and their successes, often through a process that resembles "floundering around" (Tendler 1984). A successful organization, therefore, is not a "blue-print" of a perfect institutional prototype (see Korten 1980). Rather, an efficient, effective, and sustainable institution is one that learns from its experiences, that is adaptive and able to change and to improve its decision making processes and problem solving capacity. Such an organization is able to plan and carry out efficient, effective, and sustainable programs.

In Chapter I, a well-managed organization was described as one with the following characteristics:

- The capacity to establish goals, set priorities, and adopt policies to ensure that goals are achieved and priorities maintained.

- The capacity to adapt to a changing environment, to learn from experience, to apply these lessons to improve existing operations, and to make appropriate decisions about institutional change and growth.

- The capacity to become self-sustaining and to develop sufficient autonomy from donors and other sponsors to be responsive primarily to their beneficiaries, their own experience, and changing circumstance.

- The capacity to monitor finances effectively so that management can plan for the future, assess ongoing activities, and make informed decisions about strategic, programmatic, and administrative issues.

- The capacity to identify, attract, motivate, and retain committed and effective staff.- The capacity to work effectively with other organizations -- public and private, national and international -- to increase the impact of development programs.

- The capacity to learn from others pursuing similar objectives and to share successes, frustrations, and problem-solving ideas with them.

Recurrent problems faced by resource institutions often are responsible for the failure of institutions to develop these capacities. The purpose of this chapter is to identify a series of recurrent problems that directly affect the performance of resource institutions and to link these problems to the notion of capacity building within the organizations. Capacity building occurs in four interrelated arenas -- strategic, technical, administrative, and communications. Improved performance can be achieved among resource institutions by directing primary attention to improving the decision making and managerial skills of organizational leaders, that is, by strengthening their strategic capacity. As this occurs, improvements in technical, administrative, and communications capacities in the organization will be required to support improved decision making.

Through a review of the literature on resource institutions and the programs they carry out, we have developed a framework for examining the most significant problems faced by such organizatons. The data, which include problem identification, organizational implications, and problem solving responses, have been coded and organized in terms of the problems most frequently encountered. (For details on how this information has been analyzed and presented in the AskARIES knowledgebase, see Mann 1987.) Generalizations in this chapter about the problems, their sources, and their consequences are based on the data contained in AskARIES.

The information generated suggests that the most important recurrent problems fall into seven general categories: 1) setting objectives and priorities; 2) becoming efficient; 3) managing change; 4) creating independence; 5) project design; 6) accounting practices; 7) personnel and organizational management; and 8) information management. An eighth recurrent problem category, weakness in project design, is discussed in Chapter 4. Going beyond the diagnosis facilitated by the data, we will suggest in this chapter and the next that each of these categories can be addressed most appropriately through one of the four types of capacity building. Table V-1 presents an outline to clarify the relationship among capacity building arenas, problem categories, and specific problems. In the remainder of the chapter, each problem is explained briefly, its sources explored, and its implications for the performance of the resource institutions considered. The next chapter presents a prescriptive response to this diagnosis, suggesting methodologies and materials for addressing clusters of related problems.

Strategic Capacity Issues: Making Better Decisions

The literature suggests that the first priority for strengthening resource institutions is to improve the strategic vision of their leaders. The strategic capacity of an organization refers to the ability of its managers to establish goals, set priorities, and pursue policies to ensure that goals are achieved and priorities maintained. Strategic capacity includes the ability of managers to respond to questions such as: "What are we doing? Why are we doing it? Who are we doing it for? How can we do it most effectively and efficiently?"

Managers of resource institutions that provide services to small and micro-enterprises generally have become active in the field because of deep commitment to assisting in grassroots development efforts and humanitarian concern for the problems of low income people in the developing countries. Just as frequently, however, the commitment to aiding the poor and stimulating local self-help initiatives makes it difficult for these managers:

- to be completely objective about how much they need to know about small enterprises before initiating activities;
- to consider what is feasible for the organization to accomplish;
- to appreciate how much improved financial management can contribute to effectiveness; and
- to make good choices about growth and change in the activities of the organization.

Building strategic capacity within resource institutions is a critical step in translating idealistic motivations into effective and efficient implementation of programs to assist small and micro-enterprises.

Four problem categories can be addressed through efforts to improve management's strategic capacity. These are: 1) setting objectives and priorities; 2) becoming efficient; 3) managing change; and 4) creating independence. In responding to problems in each category, managers need the ability to identify goals and priorities that reflect real development needs and good financial management practices. These skills derive from an appreciation of the needs of their clients and the needs of the organization if it is to be efficient, effective, and sustainable. With this kind of information, managers are able to make better decisions about what goals are appropriate for the institution and how best to achieve them. Each of the four problem categories is discussed below:

Setting Objectives and Priorities

The principal task of all organization managers is to determine the goals and priorities of an institution and to ensure that its objectives reflect what is feasible to achieve. Yet, many institutions have only vague objectives or flounder for long periods while they experiment with different approaches and models (see, for example, Lassen 1980; Tendler 1984). Most are highly motivated to assist small enterprises, but may have limited knowledge about the dynamics of this sector or how the institution can most effectively aid its development (see Tendler 1982; Ashe 1985; Kilby and D'Zmura 1983).

Assessing the Need: Resource institutions, despite the best intentions, may have inadequate knowledge about small enterprises (Ashe 1985; Tendler 1984). There is ample reason for this lack of knowledge: information about small enterprises is difficult to collect and interpret (see Chuta and Liedholm 1979; Page and Steel 1981; Snodgrass 1979; Anderson and Leiserson 1980; Liedholm and Mead 1986; James 1982; Blayney and Otero 1985; World Bank 1978). By their nature, such enterprises tend to operate beyond the purview of census takers, tax collectors, and chambers of commerce. As discussed in Chapter II, many of them operate in homes, back alleys, and remote villages. Their links to the local, national, and international economies are often obscure or subject to debate even among academic specialists. Whatever the reasons for the problem, lack of knowledge about the small enterprise sector limits the effectiveness of institutional efforts and results in considerable waste of time and financial and human resources.

Knowing the Environment: Managers of resource institutions can fail to appreciate the importance of the policy and socioeconomic environments that surround small enterprise development (see Ashe 1985; Squire 1981; Marsden 1981; see Chapter III). But these issues are critical to the effectiveness of efforts to assist small entrepreneurs (Anderson 1982; Ashe 1985; de Vries 1981). The economic environment shapes opportunities for entrepreneurship and determines demand for the goods and services produced. Government policy provides a set of opportunities and constraints, determining tariffs, exchange rates, tax policies, and regulations that affect the day-to-day operation of small enterprises. Successful resource institutions have the capacity to catalogue the conditions of the economic and policy environment for small enterprises and to assess the potential for their development in the present and future.

Considering Feasibility: Resource institutions frequently attempt to achieve too much in relation to their resources (Lassen 1980; Smith and Tippett 1982). If they are underinformed about the sector they want to assist and the environment within which the sector operates, they may set unrealistic goals and establish infeasible time structures. Their motivation, drive, and high ideals can keep them working hard at achieving their objectives for long periods, but ultimately they become overextended and their projects begin to falter and fail. Carefully weighing client needs and environmental constraints against available and projected human and financial resources can do much to help management establish feasible program objectives and priorities.

Becoming Efficient

Resource institutions often lack good financial management (Tendler 1982; Scurrah and Podesta 1984; Kubr 1983). Their leaders have limited knowledge of budget analysis, program monitoring, and cost accounting. They have insufficient appreciation of how decisions about staffing and support or decision making structures affect the overall efficiency of the organization. These shortcomings can waste an organization's scarce funds and valuable human resources and endanger the sustainability of its projects. Organization managers must be able to put on a financial management hat and wear it effectively.

Cost Effectiveness: A considerable body of evaluation literature indicates that resource institutions typically have high unit costs for the services they offer to their clients (Tendler 1984; Ashe 1985; Adams, Antonio, and Romero 1981). In particular, costs per loan are often high in credit programs and technical assistance efforts generally operate in the red. High unit costs are coupled with approaches to small business assistance that generate little or no income for the institution, increasing their dependence on donors for operating expenses as well as investment capital. These problems point to the need to improve managerial skills in budget analysis, programming, and human resource allocation. Cost effectiveness in general is a strategic capacity issue both because resources are scarce and because many donors make it an important criterion in judging institutions and the projects they carry out.

Staffing and Support: Many resource institutions typically rely on volunteers and professional staffs who are not well-paid for the work they perform (Tendler 1983; 1982). Offices operate on shoe-string budgets and institution managers are loathe to expend their limited funds on equipment such as typewriters, vehicles, computers, and calculators. However, these very conditions can increase the costs of providing services. Volunteer staff, however well motivated, can be unreliable or poorly trained (see Tendler 1983). Low salaries can cause high turnover of professional staff, increasing the longer-term costs of hiring and training personnel (see Goldmark and Rosengard 1983). Lack of typewriters, vehicles, and computers can mean that staff -- both volunteer and paid -- spend inordinate amounts of time accomplishing even simple tasks such as completing reports or monitoring clients through visits to their establishments (Smith and Tippett 1982; Tendler 1983). Low morale and frustration can ensue, further diminishing staff performance.

The solution to these problems, of course, is not to lavish funds on salaries, office equipment, and transportation. Few resource institutions have the kind of budgets that would allow them such luxuries. The solution is rather an increased ability to make decisions about staffing and support on the basis of the criteria of efficiency, effectiveness, and sustainability, rather than counting on good will to compensate for the effects of minimal expenditures. The latter situation leads to high real costs, not low ones.

Centralization/Decentralization of Decision Making: Despite considerable rhetoric to the contrary, resource institutions themselves often have centralized and top-down decision making styles (Lassen 1980; Tendler 1982; Honadle and Hannah 1981; see also Goldmark and Rosenberg 1983). In some cases, the institutions may be the creations of their leaders who use them to fulfill a personal vision. Or, because of deeply held commitment and a certitude about their view of development, some leaders want to ensure that all decisions conform to their views. At the other extreme are overly decentralized organizations. In these cases, management may have little insight into what is occurring, who is benefiting, or in what direction the institution is moving.

The degree of centralization or decentralization in decision making is a cost-effectiveness issue because managerial time is expensive in terms of opportunity costs. Managers need time to assess alternatives, think through medium and long term plans, promote organizational commitment, determine policies, raise funds, and promote smooth relations with potential donors and governments. They will not be efficient in these responsibilities if they are heavily involved in day-to-day decision making, putting out "brush fires," and mediating minor conflicts. At the same time, they require information about the organization's progress and they need to stay in touch with the realities of management, requirements that argue against their complete aloofness from the day-to-day problems of the organization.

Managing Change

Serving small enterprises is an expanding field in development assistance. Many organizations originally established to promote community development and social welfare services are currently expanding or changing their objectives toward income generating projects. In addition, new institutions are emerging with the express purpose of encouraging the development of small enterprises and entrepreneurs. Well-established institutions are also expanding their operations. Managing change has therefore become a central ingredient of the effective management of resource institutions. Knowing when to expand, when to consolidate, or when to contract is a vital and difficult decision for organization managers. Changing an institution's orientation requires hard-headed decisions about staffing, skill requirements, and appropriate programs; these decisions have implications for who is assisted and how effective new programs are. More than any other set of decisions, bringing about change within an organization tests the strategic capacity of its management.

Expansion/Contraction: Managers of resource institutions often mistake the favorable short-term liquidity of the organization for its long-term solvency. They may decide to expand their operations without adequate attention to issues such as depreciation of capital assets and their future replacement costs, projections of old and new funding sources, and future personnel costs. As a result, after expansion, managers may find themselves hard pressed to maintain new programs, experiencing serious cash flow problems, and frantically trying to raise survival funds from donors. Knowing when to expand, when to consolidate, and when to contract is preeminently an issue of knowing how to interpret and make decisions on the basis of appropriate and timely financial information.

Reorientation: Offering services to small enterprises requires different objectives, priorities, and skills than those required in offering social welfare services. In particular, successful resource institutions learn to think like their clients, businesspeople whose future will depend on accurately identifying economic opportunities and weighing the risks of failure. Assessing the financial needs of small businesses, assessing market conditions, and determining the risks involved in production and marketing activities are important skills required in enterprise-oriented programs. They are not skills necessarily found among concerned and committed staffs of resource institutions that are initiating such programs. In assuming new objectives, organization managers may not anticipate the special skills and understanding required, and may not recognize that commitment and experience in dealing with low income populations cannot substitute for specific skills related to the economic management of small businesses (Lassen 1980; Crandon 1984). On the other hand, their greatest strength is their idealism and their skills in working with low income and disadvantaged groups. Business skills must not be purchased at the cost of these qualities or the organizations will endanger their identity. The deep sense of commitment that motivates these institutions must remain their central feature.

Creating Independence

For many reasons, resource institutions often are characterized by dependence. Many receive donor and/or government subsidies and in turn may lead their clients to become dependent upon subsidies from the resource institutions. Heavy dependence on donor or public subsidies can make the internal budgeting process mainly a frantic effort to manage recurring financial peaks and valleys in funding; soon, medium and long-range financial planning becomes virtually impossible. When the future depends heavily on donor support or official subsidies, programs may blossom and expire in short order and cycles of expansion and contraction may become both endemic and unpredictable. In addition, dependence of clients on the institution can lead to a failure to encourage self-sustained development.

Dependence on Funders: The godfather syndrome is one of the most frequently encountered problems in the management of resource institutions that assist small enterprises -- their heavy reliance on donor funding (Tendler 1984; Adams, Antonio, and Romero 1981: 224; Scurrah and Podesta 1984: 19; Sanyal 1987). Some institutions may be particularly dependent on the largesse of a very few donors or on government subsidies, a dangerous situation. Among other things, dependence means that organization managers spend too much time pursuing funders; budget cycles can be extremely erratic and characterized by unexpected shortfalls when funding sources do not come through as expected; institutions compete with each other -- often intensely -- for the attention of the funders; and program planning becomes vulnerable to the whims of the godfathers and the fads that affect development thinking among such donors. The management of the resource institution is affected by this kind of dependence but so, too, are the programs they initiate and pursue. Clients may discover that expected loans are not forthcoming, technical assistance is cut out at critical moments, or a program is redefined or eliminated.

Dependence of Clients: Resource institutions can fall unwittingly into a trap of dependence on donors; they may have their own organizational dynamic tending to promote dependence of their own clients upon them (Tendler 1984; Leonard and Marshall 1982; Lassen 1980). Resource institutions benefit from demand for their services by being able to point to widespread need in fundraising activities. They benefit from being able to demonstrate good performance on the part of clients -- loan repayment, for example -- which often is achieved through close supervision. They may feel that the small and micro-entrepreneurs they work with are unable to make decisions on their own or they may wish to instill a particular model of business development among them. For these reasons, resource institutions may not wish to see their clients graduate to other sources of credit, technical assistance, or related services. Where they exist, such institutional imperatives can thwart the very characteristics of self-sustained development among clients that the institution espouses.

Conclusion: Building Strategic Capacity

The four problem categories of setting priorities, becoming efficient, managing change, and avoiding dependence present institution managers with a series of recurrent problems. All of these problems can be addressed through improved goal setting, planning, and financial management. Building the strategic capacity of management should be a priority as resource institutions work to become more efficient, effective, and sustainable. There are, of course myriad ways to help people become better managers. There are also a number of technologies that can help, particularly in analysing information for decisions. Especially critical skills deal with decision making and its relationship to the analysis and application of appropriate information. Chapter VI considers appropriate methods for pursuing the goal of improved organizational management.

Technical Capacity Issues: Providing Better Information

In addition to improving managerial capacity to chart the direction of an organization's development and improve its financial health and stability, resource institutions often can benefit from increasing their technical capacity to monitor finances. Improving technical skills will result in better information for institutional managers to use in their strategic decision making activities. Thus, improved technical capacity is a vital support for organizational management and will have a direct impact on the efficiency, effectiveness, and sustainability of the organizations. To a considerable degree, improving technical capacity means learning to ask the right questions and to generate information appropriate for answering them.

Accounting Practices

Resource institutions providing services to small businesses often are weak in the very skills and practices they seek to instill in their clients – appropriate accounting procedures and systems for budgeting and planning (Scurrah and Podesta 1984; McKean 1982; Vogel 1982). Institutions' staff may have little interest in the seemingly mundane facts that appear on balance sheets and income statements or have limited patience for thinking about such issues as cash flow management or fund accounting and depreciation. They may be loathe to consider their organization, committed as it is to development and a vision of a better future, to be also a business operation that must make cold judgments about the best use of its capital and other assets. Staff may lack the skills to do much more than simple bookkeeping; they may not follow accounting practices that allow them to uncover problems of financial management and suggest alternatives to make better use of available resources. And ultimately, they may not appreciate the extent to which improved accounting practices can strengthen financial management at the level of institutional leadership. When they do not, resource institutions typically suffer recurrent budget shortfalls, their equipment wears out with no provision for its replacement, cash surpluses that could be generating income are not invested, liquidity is confused with solvency, and a host of other problems occur and recur. Improved accounting practices relating both to short-term budgeting and medium and long-term planning can help an institution address these problems and in doing so, increase the efficiency, effectiveness, and sustainability of the organization.

Short-Term Budgeting: Resource institutions often experience annual budget shortfalls. In part, this is related to their dependence on donors or government subsidies for operating and investment funds. If a grant proposal is rejected, donor monies delayed, or official subsidies cut back, a resource institution can experience several months of uncertainty and shortages before funding becomes available.

When this happens, its projects slow down and clients are left hanging on promises for the future. One solution, of course, is to become less dependent on donors, as discussed earlier. But accounting practices can also respond to the problem (Scurrah and Podesta 1984; McKean 1982). Improved capacity for keeping financial records, for managing annual budgets, and for considering options to avoid unexpected shortfalls means producing timely financial tracking reports so that managers know where the organization stands. Managers should know how cash surpluses can be invested to generate income and how short-term lending can smooth the typical pattern of peaks and valleys of funding needs and expenditures that arise during the course of an annual budget cycle. And, perhaps most important, improved budgeting capacity can clarify the difference between long-term solvency and short-term liquidity so that managers can make informed decisions about when to expand, consolidate, or contract the institutions' operations.

Medium and Long-Term Financial Planning: Resource institutions may be so absorbed in meeting short-term budget needs that they fail to consider longer-term options that could ease the overall resource shortage of the organization. Annual budgets may be produced, but these are often not derived from multi-year budgetary projections that are used for financial planning. Depreciation of equipment may not be considered in relation to encumbrance or fund accounting to absorb the financial drain of having to replace capital assets. Too frequently, locally available banking services are not used effectively and little thought is given to projecting future funding needs and opportunities. In the absence of better medium and long-term financial planning, resource institutions have little chance of escaping recurrent crises caused by the godfather syndrome or the need to respond to unexpected problems such as acquiring or replacing equipment.

Conclusion: Building Technical Capacity

Improved capacity to manage current and longer-term accounting issues can help to strengthen the overall management and performance of resource institutions. Many skill-specific training materials and methods exist to build technical capacity. For example, hands-on learning using computer programs for teaching accounting practices, linked to the use of an accounting workbook, can be an effective tool for strengthening technical capacity in accounting practices. In addition, some methods are available for helping those responsible for accounting understand how their expertise can most effectively aid institution managers. These approaches to technical capacity building are discussed in the next chapter.

Administrative Capacity Issues: Developing Human and Organizational Resources

Resource institutions assisting small and micro-enterprises require and generally have highly committed staffs. The hours are long, the work is arduous, the evidence of success is often far in the future, and pay and material support are minimal. Given these conditions, the evidence of enthusiasm, commitment, and creativity among the staff of a large number of resource institutions is impressive. But commitment and energy are not enough for effective operation. Good management requires the capacity to hire, train, and motivate staff and to deal with logistical problems arising from the need to visit clients, monitor their performance, and produce timely reports. Thus, another component of improving the management of resource institutions is improving their administrative capacity.

Personnel and Organizational Management

Hiring Staff: Resource institutions operate with highly motivated personnel who generally lack the business dimension of the skills for assisting small entrepreneurs (Scurrah and Podesta 1984). Again, this is particularly the case in organizations moving from a social welfare orientation to a small business development approach. Training can inculcate needed skills and performance, but hiring practices need to be strengthened also. Hiring appropriate staff is an especially pressing need for resource institutions in Africa, where expatriate personnel typically play a large role in organizational management and operation. In many cases, expatriates may not be well attuned to local problems or business practices or they can be so wedded to imported models that they do not recognize the possibility of their inappropriateness to local circumstance. In hiring new staff, the availability of skills, ethnic divisions, and gender may also need to be considered. When appropriate skills are not available locally, administrators need to be able to identify easy learners among applicants. In addition, effective personnel management includes being able to identify and contract short-term technical assistance to supplement staff resources. Improving personnel management skills can increase the possibility of identifying the right person for the appropriate task.

Training Staff: Because requisite skills often are in short supply, resource institutions must consider how to train their staff in appropriate skills. For example, promoters and extensionists often have been criticized for giving poor or irrelevant advice. Or, projects may be endangered because staff with important skills are not available. At times, project monitors may not know what is going wrong (or right) with a program unless they understand the complexities of operating small and micro-businesses. Once again, the need for requisite skills is often masked by enthusiasm and commitment among staff, but the failures that can result from this situation directly affect the lives and livelihoods of large numbers of clients (see Honadle and Hannah 1981). An important ingredient noted in successful programs is adequate and appropriate staff training (see Paul 1982:201).

Motivating Staff: Commitment to the "cause" is not enough to ensure effective and efficient performance. In particular, incentives are needed to encourage staff to continue to work actively in pursuit of common objectives in the face of difficult working conditions, considerable frustration, and frequent failure (Ashe 1985; Paul 1982; Goldmark and Rosengard 1983). Staff "burn-out", familiar in small enterprise support programs, can not only hurt and slow down service, but also quicken personnel turnover. Good and dedicated personnel are not an abundant resource in any environment and are in particularly short supply for the kinds of work done by small and micro-enterprise resource institutions.

Coordination: Resource institutions often grow and contract like mushrooms. They develop myriad projects, respond to numerous crises, and expand rapidly when they become flush with donor funding, only to suffer rapid shrinking when funds dry up. What often is sacrificed in the frequently tempestuous life of such organizations is coordination. When internal coordination is weak, however, financial management is made difficult and the organization may fail to learn appropriate lessons from its experiences. Administrative capacity building implies strengthening the ability to coordinate the activities of diverse groups of people and to establish enduring systems for monitoring their performance and for assessing problems as they arise. Organizational management can be greatly improved through the introduction of mechanisms to improve internal coordination.

Conclusion: Building Administrative Capacity

Improving staff quality, durability, and coordination takes managerial innovation. Among the tools to help improve performance are human resource planning, incentive systems, and organizational restructuring. Chapter VI suggests a series of concrete tools and methods for addressing these recurrent problems. In addition, increased communication among resource institutions can encourage sharing of ideas about how to deal with these recurrent administrative issues. This means building capacity in communication, the final capacity issue to be considered.

Communication Capacity Issues: Solving Problems Collectively

A frequent failure of resource institutions is their inability to learn from their failures or from their clients and field agents (Lassen 1980; Tendler 1982). Just as frequent is the need they express to contact other organizations in order to coordinate activities, share experiences, pool resources, or learn from common problems and mistakes. They often express the feeling of being cut-off from knowledge of kindred organizations, are reluctant to interact with governments, and unable to establish constructive working relationships with international donors. Each of these recurrent problems relates to the communication capacity of the resource institution. Improving communication capacity means increasing the ability to receive and impart information effectively and to learn from feedback and experience. Problems of information management, discussed below, indicate the importance of improving communication capacity and the impact such capacity would have on the issues that have been considered in previous pages.

Information Management

Learning from Feedback: In enterprise development, numerous pitfalls can beset resource institutions. Often very creatively, they may flounder around for long periods, trying to find a way out, searching for an appropriate model for service delivery, or experimenting with a variety of alternatives (Tendler 1984; Lassen 1980). Alternatively, they may be so committed to a rigid model that they do not listen to client complaints or absorb evidence of problems or failure. Many institutions do not necessarily learn from their experiences -- either successes or failures. The most effective organizations learn to listen and to ask the right questions so that they can monitor their own performance and that of their clients. Not only do they learn to listen, they develop the ability to interpret and analyze what they hear and then, where necessary, to change practices, personnel, or procedures (see Paul 1982: 201; Young and Nellis 1985).

Networking with Other Resource Institutions: A multitude of resource institutions provide services to small entrepreneurs. Some are more effective than others, some are larger than others, and some have a longer history than others. In spite of such differences, they frequently carry out remarkably similar projects and face remarkably similar organizational and environmental problems (James 1982; Kilby and D'Zmura 1983; Leonard and Marshall 1982). Together, their experience represents a vast store of knowledge about effective responses to the needs of small entrepreneurs. Isolated, they may have limited repertoires for responding to common problems that beset large numbers of organizations. What this means in practice is that each time an institution initiates a new project, the wheel may have to be reinvented, and many unnecessary failures may result. The process of learning to be more effective and efficient could be improved greatly through more contact among resource institutions. This possibility is discussed in greater detail in Chapter VI.

Dealing with Governments and International Donors: Private resource institutions typically believe that they provide better services at lower cost than public sector organizations offering similar services or that they provide services to groups that are forgotten, overlooked, or discriminated against by government (Tendler 1982; Sanyal 1987). Given this perspective, such organizations often display lack of interest or hostility toward government programs or the public sector in general. Nevertheless, many development specialists are concerned that private organizational efforts will never achieve a significant impact unless they can find ways for increasing their capacity to affect more beneficiaries. Such scaling-up of development efforts requires more effective collaboration between public and private sector programs. Barriers to such interaction need to be addressed.

Just as governments often are treated with disdain, donors often are treated with considerable circumspection. International donors are courted assiduously by resource institutions, but donors also monitor performance, send evaluation teams, insist upon reforms, and stipulate how their funds are to be spent. Governments and donors can provide useful services to resource institutions but they can also be seen as threatening outsiders that do not or will not understand the particular dilemmas or problems faced by the institutions or who may harbor desires to take over the programs of the organization. If such attitudes were overcome, resource institutions could often benefit. For example, government agencies might provide alternative sources of funding or might cooperate in useful ways in the achievement of common goals. There is even the possibility that, with better communication skills, resource institutions could play more effective roles in altering policies and regulations that discriminate against small and micro-businesses. In a similar vein, donor agencies could make technical assistance more available, offer other training opportunities, initiate institution building grants, and assist in providing access to other organizations if they were better informed about the problems faced by the institutions. The large donors could synchronize better the structures of their application and evaluation forms so that smaller institutions spend less time on paperwork for multiple funders. Greater capacity to communicate with the outside agencies could go far in resolving a number of the organizations' recurrent problems.

Conclusion: Building Communications Capacity

By increasing their communication capacity, resource institutions can become better informed, better able to apply the lessons of experience, and better connected with their environment. A greater knowledge of available technology can help. Learning to listen effectively is a critical skill that can alter attitudes toward clients, governments, and donor agencies. Specific tools and resources to help them to do so are discussed in Chapter VI.

Conclusion

There is no single or immediate panacea for addressing issues of efficiency, effectiveness, and sustainability in resource institutions. Rather, improving their ability to offer timely, useful, and low cost services to small entrepreneurs involves an on-going and simultaneous effort to build capacity in four interrelated areas, beginning with the priority of improving strategic capacity among institution managers and supporting this with improvements in technical, administrative, and communications areas. Increasing capacity in these four areas will not make the performance of the resource institutions faultless. It will, however, help them make problems more detectable, ease the difficulties in managing them, and help avoid their recurrence in the future. The next chapter offers some suggestions to help accomplish these improvements.

Chapter VI

Prescription: Capacity Building for Resource Institutions

How does a resource institution become more efficient, effective, and sustainable? In the previous chapter, a series of recurrent problems of such organizations was surveyed with the intent of indicating how they inhibited the management and operations of resource institutions, ultimately affecting the capacity to provide the best possible services to small and micro-enterprise clienteles. It was suggested that the problems that emerge repeatedly in resource institutions of all types -- private and public; small and large; national and international -- can be effectively addressed through building organizational capacity in four critical areas. Assisting them to strengthen their strategic, technical, administrative, and communication abilities will result in organizations better able to meet the needs of its low-income beneficiaries and more able to contribute to the process of development.

Helping resource institutions to strengthen their strategic capacity generally is the first step and highest priority for improved management and performance. This should be supported by improvements in technical, administrative, and communications skills within the institution. The relationship among the capacity areas -- presented graphically in Figure VI-1 -- is interactive. As managers improve their abilities to establish goals, set priorities, make effective decisions, and respond creatively to problems as they arise, they will need better financial information, a stronger and better organized staff, and more informational linkages to their clients, financial supporters, and sister organizations. But improved strategic capacities will also help managers set in motion the changes needed to get the information and responsiveness they need. Thus, helping to enhance strategic capacity in an organization can produce positive changes in other capacity areas.

In this chapter, capacity areas are discussed in terms of the approaches and methods that are most appropriate for strengthening the performance of resource institutions. The chapter suggests a series of tools that are available for improving organizational efficiency, effectiveness, and sustainability. Some of the tools are particularly appropriate for strengthening particular capacity areas, while others have more general application. Thus, it is possible to indicate what approaches are most useful for addressing particular recurrent problems and to associate topics with distinct categories of materials. The chapter concludes with some suggestions as to how resource institutions can initiate the process of capacity building for efficiency, effectiveness, and sustainability.

Tools and Topics

The four capacity areas are required in varying degrees by different personnel in the resource institution. Management, for example, needs to have a strategic vision of the organization to be able to see it in the context of its larger social and political setting, to have a coherent idea of its stengths and weaknesses, to appreciate where it is now and where it should be going, and to have a sense of the fundamental decisions about the nature and course of its development. Management is uniquely able to assess these factors and to make the big decisions about the institution's future, decisions that must be made correctly if the organization is to thrive and prosper.

Others in the organization require technical skills to implement its activities. An effective management information system, for example, may demand a certain level of systems design and computer expertise. Managing resources effectively requires expertise in answering questions such as: How will responsibility be delegated, performance supervised, results measured? How will staff be selected and trained? How will levels of resources be matched to tasks to be accomplished? Thus, the technical and administrative capacity building areas require organizational staff to increase their skills in relatively technical areas such as accounting, financial planning, personnel systems, and client-related knowledge in fields such as marketing and production.

Communication capacity often is perceived to be simply a task of getting management's messages out to others, both inside and outside the organization. A fundamental aspect of communication, however, is the ability to receive, process, and act upon information as well as to send it. Thus, enhancing communication capacity includes understanding and responding better to the situation and needs of clients, developing an ability to learn from the experience of sister organizations, interacting more effectively with those whose decisions set the policy environment for small and micro-enterprise development, and making funder-recipient relationships more mutually productive.

Effective approaches to enhancing technical and administrative skills often are different from the approaches to enhancing strategic and communications capacity. In the former case, there is generally a body of reasonably settled knowledge and technique to be transmitted. Various media, materials, and settings are known to be effective in transmitting knowledge and skills and can be adapted to local situations, resource constraints, and organizational needs.

Building strategic and communication capacities is more difficult. By their very nature they require accumulating, assessing, synthesizing, and acting upon large amounts of information from multiple sources. This is particularly true of strategic capacity building. There is no "right answer" or settled body of knowledge for effective decision making and problem solving. However, there are ways of thinking, frameworks to help organize and understand problems more clearly, and general approaches for decision making that have proven useful. Nevertheless, helping managers to develop these broad-gauge skills will require approaches to learning that are more innovative and less well-established than those for technical and administrative capacities. Such approaches generally capitalize on the experience of similarly situated institutions and information about how their plans and strategic choices worked out in reality. For example, with the benefit of hindsight often it is possible to see key opportunities seized or missed, key decisions which opened or closed possiblities, and clear or cloudy perceptions of mission and strategy.

In the following pages, methods for building capacity in four areas are described. The case method, computer-based training, manuals and workbooks, and audio and visual training materials are the most appropriate tools for increasing strategic, technical, administrative, and communication capacities. Some of the tools are especially appropriate for addressing particular sets of recurrent problems.

The Case Method

In helping managers of resource institutions develop their capacity to think strategically, the case method is particularly appropriate. The centerpiece of the case method is "the case," sometimes called the case report. It is a carefully researched description of a particular problem or situation that has faced the management of an organization. An analysis of this situation is prepared by participants. Individual reading and reflection on the case is followed by small group analysis and discussion. This is followed by the case discussion, in which an experienced case leader orchestrates an exploration of the issues raised by the case. At the conclusion of the discussion, there is a brief statement of what actually was done to resolve the problem and the subsequent outcome of this action. Ideally, this is provided by one of the principals of the actual case (who may have observed the discussion), and may involve comments on the analysis and the conclusions of the group, as well as responses to questions.

Rather than focusing on specific subject matter knowledge, the case method emphasizes the ability to pull out of a welter of information the significant elements needed for decision, the skills to place these elements in an appropriate analytical framework that can serve as a guide to action, and the capacity to recognize limitations on courses of action caused by the societal, economic, institutional, and personnel context of the problem.[1] The fact that the analysis and understanding of the case take place through interpersonal give-and-take moderated by the case leader itself conveys an important message. In management situations, much information must be drawn out through discussion in which no individual has all the facts or knowledge required. Like the case leader (who in some sense serves as a role model), the manager must pull the information he or she needs from his or her personnel by astute questioning and discussion.

Several fundamental principles of effective learning underlie the case approach. First, people absorb knowledge most effectively by integrating it with their existing knowledge. The case approach encourages participants to draw upon their own

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[1]This pedagogy requires cases structured very differently from most of the "case study" literature of small enterprise development. Much of the latter consists of decriptive "stories" about particular projects or organizations. In contrast, the teaching case presents a particular decision situation, along with such background information as is necessary for a productive discussion in terms of specified teaching objectives. The ARIES cases, for example, are designed to analyze specific recurrent problems and responses to them. The idea is to create with the case and a good case leader an environment within which to examine various institutional responses to these problems, and the degree of success achieved.

experiences for insights, sharing these perceptions with the group. This encourages them to integrate new case material with their existing store of knowledge. Secondly, the approach emphasizes active learning, long recognized as more effective than passive learning. Participants constantly seek to relate each new contribution to their own analysis, to modify it, to extend it, to enrich it. In the process, they also come to see the value of seeking many different points of view on a given problem. Indeed, a major premise of the case method is that much of what is learned comes not from the "teacher" but from the group.

Managers of resource institutions assisting small and micro-enterprises face many common challenges and issues. A variety of differences in circumstances, pressures, beliefs, cultures, histories, and personalities, produce wide variation in institutional responses to these comparable challenges. Some responses have been more successful than others. For senior executives facing common problems in managing their organizations, the case method provides a framework within which they can learn from each other as they analyze and discuss cases with which they can identify. The role of the case leader is to catalyze fruitful discussion to help structure the input of the participants in a way that helps to clarify issues and facilitates the drawing of conclusions. The cases themselves are selected to highlight important decisions which faced real managers, decisions which shaped the evolution of the institution and/or its relationship to its environment.

The case method is an effective tool for strategic capacity building among managers of resource institutions. It can also be an effective methodology for staff to become more sensitive to the world of the small and micro-entrepreneurs and the decisions and dilemmas they face in their business activities. Effective use of the case method also can increase staff understanding of the components of effective assistance programs, the need for appropriate financial information, the consequences of alternative organizational structures and incentive systems, and the results of various forms of communicating with "significant others."

The method can be utilized in short training programs tailored to the needs, interests, and skills of managers and staff. Using cases that focus on the real world problems they face, the case methodology engages managers and staff both intellectually and emotionally. Moreover, good case teaching not only develops decision making abilities, it also contributes to communications capacity as well. Participants learn who has what sort of expertise, how it can be tapped and utilized, and what can be learned from the careful observation of the experience of others.

Computer-Based Training Materials

Increasingly, resource institutions are utilizing computerized systems for tracking finances, budgets, and client performance.[2] Although these systems continue to be out of the reach of the smaller organizations, particularly private non-profit ones, it is reasonable to expect that in the future computerized management and administrative systems will be adopted even more widely. Capacity building in response to particular recurrent problems can be done effectively through a variety

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[2]This observation results from field visits to resource institutions in New York, Washington, D.C., Latin America, Asia ,and Africa.

of computer-based training materials.[3] They provide hands-on experience for trainees that can build substantive skills, logical analysis of problems, and effective decision making. Well-selected materials have considerable potential to strengthen resource institution management and staff in the substantive areas of planning, project design, financial and administrative management, monitoring, and evaluation.

Computer-based training materials have several advantages for capacity building efforts. For institutions with access to computers, they are relatively inexpensive, generally ranging in price from less than a hundred dollars to five hundred dollars. Once this investment has been made, the materials are available for use by large numbers of staff. Compared to the cost of sending individuals to formal and traditional training sessions or organizing such activities locally, their cost is minimal. Computer-based training can be carried out on the premises of the resource institutions and tailored to other time demands on trainees.

Computer-based training materials are widely available and cover a large number of topics, such as accounting, planning, financial management, communications, inventory control, project management, proposal analysis, and personnel management.[4] Moreover, appropriate packages of training materials can be developed for the particular needs of specific resource institutions. Finally, extensive experience with this training format has resulted in a number of software packages of high quality that have proved effective in engaging participant interest and commitment. Some of the materials already in use are appropriate for the management of many resource institutions; in other cases, packages need to be developed to take into consideration language, culture, and educational differences. Initially, use of this training format should be limited to resource institutions that have access to computer systems. Software selection should be made carefully and with the guidance of an expert in the field. In time, particularly useful products will be identified or developed through such experiences, and they can be more widely adopted.

Manuals and Workbooks

A wide variety of manuals and workbooks for organizational management and substantive skill building exist that are appropriate for resource institutions.[5] In general, they tend to be less "engaging" than computer-based training. At the same time, they are inexpensive, widely available, and useful for subsequent reference after initial training has been completed. Manuals and workbooks are particularly useful for training in substantive areas and are appropriate for use by staff of various levels of education because they are available for a variety of skill levels. Some useful manuals and workbooks in substantive areas have been developed by the resource institutions that have training components in their assistance programs for small and micro-entrepreneurs. Some of these can be useful for basic

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[3]Within the ARIES Project, identifying and developing such materials for use by resource institutions is the primary responsibility of Control Data Corporation.

[4]An initial listing of a large number of possible training packages is available through Control Data Corporation.

[5]Control Data Corporation has identified and assessed a large number of these materials for their appropriateness in addressing the particular recurrent problems faced by the resource institutions.

orientation of non-technical staff in business activities such as basic accounting and business administration.[6]

Training Videos, Filmstrips, and Audiocassettes

A surprising number of resource institutions have equipment for displaying videotapes, filmstrips, and audiotapes. Often, the organizations have invested in the development of videos that explain their programs or present a history of the organization.[7] According to resource institution staff, videotapes particularly are useful for fundraising, the orientation of newly hired staff, and visitors to the organization. A few institutions that provide training for small and micro-entrepreneurs also use videos and filmstrips in classroom settings to complement the activities of teaching staff. Video and audio training materials exist that deal with issues such as business applications of computers, budgeting and accounting, communications skills, personnel supervision, financial analysis, organizational design and control, and other substantive areas.

Many existing training materials are most appropriate for staff with relatively advanced educational levels. Materials appropriate for staff with more limited educational attainments may be developed through the ARIES Project. These materials offer the advantage of stimulating the trainees through visual presentation. Nevertheless, they do little to encourage active and interactive learning. Thus, they are most appropriately used in combination with other teaching methods. For example, they can be used to support classroom teaching in substantive areas and the presentation of some aspects of the training cases could be effectively produced on videotapes.

Capacity Building Areas and Appropriate Tools

Case materials, computer-based training packages, manuals and workbooks, and video and audio materials are available to help resource institutions address the recurrent problems catalogued in Chapter 5. Where they do not yet exist or where they are not appropriate for meeting the needs of particular resource institutions, they can be developed. Indeed, a central objective of the ARIES Project is to develop such materials.

Resource institutions can be assisted in improving their effectiveness through tailoring capacity building in strategic, technical, administrative, and communications skills to the particular needs of organizational management and staff. For example, organization managers do not require intensive substantive knowledge building in accounting practices -- these skills should be developed among those responsible for accounting services -- but do need to develop a manager's-eye view of what financial information is needed, how to interpret such

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[6] For example, the manuals produced by the Carvajal Foundation in Colombia for Level III and above entrepreneurs might be useful in training staff with minimal educational attainments who are responsible for providing very basic technical assistance to Level I and Level II entrepreneurs.
[7] These observations result from field visits to resource institutions in New York, Washington, D.C., Latin America, Asia, and Africa.

information, and how to use it for long-range planning and strategic decision making. Different training approaches can be introduced to respond effectively to the distinct but interrelated needs of managers and staff. Tables IV-4, VI-1, VI-2, VI-3, and VI-4 present suggestive listings of the kinds of materials that can help to build capacity in project design and the four capacity areas. A brief discussion of each of these tables is presented below.

Addressing Weaknesses in Project Design (Table IV-4). As was suggested in Chapter IV, where the table is presented, training cases, computer-based materials, and various "how to" manuals can be appropriate for addressing the recurrent problems of program design. Cases can sensitize management and staff to the particular problems faced by small and micro-entrepreneurs, how various program components affect them and their businesses, and the potential consequences of making choices about investments in technology, marketing systems, and production processes. Computer-based systems can assist in program planning, monitoring and evaluation, effective allocation of program resources, assessment of marketing and interest rates structures. They can be particularly useful in encouraging thoughtful use of evaluation data. "How to" manuals are particularly appropriate for designing technical assistance components, carrying out feasibility studies, developing record keeping systems, and implementing and analyzing evaluation exercises.

Strategic Capacity Building (Table VI-1). The case method is particularly appropriate for building managerial capacity to set goals, establish priorities, and pursue policies that allow the organization to achieve its goals. Cases can introduce managers to the world of the small and micro-entrepreneur and sensitize them to the constraints and opportunities faced by small businesses, including the particular rationales that lie behind the decision making of their owners. This is useful for encouraging managers to develop skills in assessing the needs of small entrepreneurs, understanding the environment in which they work, and considering the extent to which the human and financial resources of the institution allow them to respond to the needs they measure. With greater capacity to gather and assess such information, institution managers will increase their ability to establish reasonable objectives and determine priorities for their organizations. Similarly, cases can help managers develop appropriate organizational structures by assessing what the most important decisions are, who are the most appropriate decision makers for various types of issues, and how to ensure that appropriate information flows in a timely fashion to these decision makers. In a more general sense, cases can increase managerial capacity to forecast, plan, and create new alternatives.

Computer-based training materials, "how to" manuals, and workbooks can help managers develop substantive knowledge in the areas of financial planning and organizational systems. For example, these materials can be packaged to help managers consider the cost effectiveness problems raised in Chapter V, investigate alternatives for raising operating and investment capital, scale their programs to a level of resources they can effectively command, and become aware of the issues of liquidity and solvency already discussed. They can become more familiar with issues such as user charges, investments in local financial institutions, and loan capital from local banks.

Technical Capacity Building (Table VI-2). The case method is also appropriate for building substantive skills among resource institution staff, although it is probably less important than other approaches. In particular, and where resource institutions have suitable infrastructure, they can use computer-based training materials in accounting fundamentals, cost analysis and cost reporting, budget control, program budgeting, cash management, inventory control, and financial analysis of programs. "How to" manuals and workbooks cover the same topics and can be used as supplements or where computer technology is not available. Video and audio material covering some of these substantive areas is most appropriately used to reinforce learning that is occurring through other methodologies.

Administrative Capacity Building (Table VI-3). Cases can increase the ability of management and administrative staff to make effective staffing and organizational decisions and to communicate more effectively within the organization. They can also encourage sharing of ideas about how to deal with these recurrent administrative issues. Computer-based training materials can be particularly useful in building skills in personnel planning, personnel record systems, resource allocation, and monitoring; skill-building seminars can stress issues such as those related to motivation and incentives within organizations. Modules for assessing needs and diagnosing administrative problems can be effectively presented in "how to" manuals. Visual and audio materials can be particularly useful in building skills in interpersonal relations, cooperativeness, and supervision.

Communication Capacity Building (Table VI-4). Case materials can encourage resource institution management to listen more effectively to the organization's clientele and use this feedback in program design, staffing, and communication. Moreover, by bringing managers together in short training courses structured around the case method, sharing of ideas, experiences, and responses to common problems is encouraged. Computer-based modules for program monitoring and evaluation can also increase utilization of feedback information. In addition, technologies are available for strengthening the ability of organizations to communicate with important individuals and groups in their environment -- clients, donors, governments, and sister organizations. For example, a communication technology such as CARINET can increase networking and make information retrieval and sharing less time-consuming and more effective. Similarly, the microcomputer based data system designed by ARIES and described in Appendix A can encourage greater communication related to alternatives for addressing recurrent problems. Seminars in information management, hands-on problem solving experiences, and introduction to already existing networks and services can do much to build this important capacity.

Conclusion: Taking the First Steps toward Diagnosis and Prescription.

Chapter V presented a structuring of the recurrent problems of resource institutions. In this chapter, the focus has been on capacity building in specific areas and the methodologies that are appropriate to this task. Often, resource institutions will be able to identify their own needs, particularly when these relate to one of the specific recurrent problems that have been discussed. When they do so, they may also be able to identify an appropriate means of addressing the probler area -- managerial training, staff training, reorganization, or the introduction of new accounting, personnel, and communication systems.

In other situations, however, managers of resource institutions will be aware that "something is wrong" in the performance of the organization and its programs, but may be too close to the problems to assess and address institutional or program malaise. At times, then, resource institutions will need help diagnosing their needs and prescribing appropriate remedies to recurrent problems. This is particularly the case when resource institutions require a "package" of capacity building efforts. In such instances, technical assistance provided upon request through ARIES is available for helping resource institutions identify needs, diagnose recurrent problems, and prescribe appropriate courses of action, including the design of specific packages of appropriate training materials.

As indicated at the outset of this Strategic Overview paper, even the most skilled and dedicated collaboration between outside agencies and resource institution staff to increase strategic, technical, administrative, and communication skills will not produce perfect organizatons and flawless programs. But such efforts can improve decision making, problem solving, and other abilities to produce more efficient, effective, and sustainable organizations. Improvement in these skills, using their own and outside resources, will help them to cope better with the recurrent problems that characterize this difficult, demanding, yet highly productive task of assisting small and micro-enterprises. Given the inhibiting effect that many of the recurrent problems have on the performance of the resource institutions, this is an important set of goals.

Figure VI-1
Capacity Building for
Resource Institutions

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Strategic
Capacity
Increasing the ability to establish goals,
priorities, and appropriate policies;
making more effective decisions

Technical Capacity
Generating better
information

Administrative Capacity
Improving human and
organizational resources
and skills

Communications
Capacity
Improving information management
and collective problem-solving

Table VI-1
Strategic Capacity Building

Diagnosis

Many resource institutions suffer from failures to: 1) set priorities, because they lack appropriate understanding of client needs, environmental constraints and opportunities, and organizational capacities; 2) be efficient in their financial management, human resource use, and decision making structures; 3) make appropriate decisions about changes resulting in expansion, contraction, or reorientation of the organization; and 4) establish their independence from funders or graduate their clients.

Prescription

Cases

To increase understanding of the world of the small entrepreneurs and the importance of economic and policy environments for their activities

To develop appropriate goals and priorities

To assess institutional capacity for program management and implementation and for programming institutional needs

To understand alternatives for organizational and program change

To increase decision making skills related to cost-effective managment

To increase problem solving repertoires

To communicate more effectively with staff and "significant others"

Computer-Based Materials

Financial planning
Basic financial management and accounting
Basic program planning and budgeting
Decision making tools
Organizational design

Communications skill
Budget analysis
Feasibility and organizational analysis of proposed activities

"How to" Manuals and Workbooks

Financial planning
Introduction to feasibility studies
Basic financial management and accounting
Program planning and budgeting
Organizational design
Communications
Budget analysis
Fundraising

Table VI-2
Technical Capacity Building

Diagnosis

Many resource institutions suffer from a lack of attention to appropriate accounting practices that would permit effective short-term budgeting and medium/long-term financial planning.

Prescription

Cases

To increase understanding of the ways accounting practices can aid and strengthen managerial decision making and planning

Computer-Based Materials

Accounting fundamentals
Cost analysis
Cost reporting
Budget control
Program analysis and budgeting
Cash management
Inventory control
Model budgets

"How to" Manuals and Workbooks

Accounting fundamentals
Cost analysis
Cost reporting
Budget control
Program analysis and budgeting
Cash management
Inventory control
Model budgets

Audio and Visual Materials

Issues in financial planning

Issues in accounting and budgeting
Issues in cash management and budget control

Table VI-3
Administrative Capacity Building

Diagnosis

Many resource institutions suffer from failures in personnel and organizational management, particularly as these are relevant to hiring, training, and motivating staff and coordination.

Prescription

Cases

To improve decision making skills in identifying hiring and training needs

To increase understanding of the impact of incentive systems of employee performance

To increase understanding of appropriate organizational forms for effective and efficient operation

To increase awareness of communication skills and interpersonal relations

Computer-Based Materials

Personnel planning
Personnel record systems
Performance monitoring and supervision
Training needs diagnostics
Specific skill training
Incentive systems
Organizational systems

"How to" Manuals and Workbooks

Problem diagnosis
Personnel planning
Personnel record systems
Performance monitoring and supervision
Training aids
Organizational systems
Communications systems

Audio and Visual Materials
Communications skills
Supervision
Interpersonal relations
Staff problem identification and responses

Table VI-4
Communication Capacity Building

Diagnosis

Many resource institutions suffer from poor information management that inhibits their capacity to learn from their own experience, utilize the experiences of others, and deal effectively with donors and governments.

Prescription

Cases

To increase understanding of the world of the small entrepreneurs and the importance of economic and policy environments for their activities

To increase ability to assess program experience and apply lessons for improved performance

To understand how the experience of others can be applied to the organization and its programs

To increase capacity to share experiences and communicate with "significant others"

Computer-Based Materials

Program monitoring
Program evaluation
"How to" introductions to existing networking technologies
Communications systems

"How to" Manuals and Workbooks

- Communication
- Problem diagnosis
- Training aids
- Supervision and communication
- Fundraising
- Catalogues of resource institutions
- Program monitoring
- Program evaluation

Audio and Visual Materials

- Communications skills
- Interpersonal relations
- Supervision

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