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Comparative Experience with Microenterprise Projects

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COMPARATIVE EXPERIENCE

WITH

MICRO-ENTERPRISE PROJECTS

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COMPARATIVE EXPERIENCE WITH MICRO-ENTERPRISE PROJECTS

Micro- and small-industry projects have been pursued as a means to tap the potential micro-industries represent for efficient use of capital to secure production and employment and thus address the problems of the poor in society. To what extent these merits are present will undoubtedly be the focus of other papers at this meeting, so I will limit myself to recounting the experience of various sorts of micro-enterprise promotion programs and their impact. My own discussion of the issue of the merit of micro-industries is contained in an article of mine published elsewhere, for those who are interested. (Thomas A. Timberg, "Small Loans for Micro-Enterprise: Anti-Poverty and Productivity.")

Though programs of assistance to very small scale cottage enterprises and hawkers, especially credit schemes, have a hoary tradition, and exist in some form in almost every country in the world -- it is only in the last two decades that they have become critical elements in poverty elimination strategies and widely employed as such. Even now, the general experience with extensive programs for very small non-agricultural enterprises is quite limited. Several of the countries of Asia -- India, Indonesia, and Sri Lanka -- have launched massive efforts; and in Bangladesh efforts of similar magnitude have been launched by autonomous and voluntary organizations. These Asian efforts have involved hundreds of thousands of beneficiaries and permit some general conclusions on the potential society-wide impact of such programs. Programs of assistance to such very small enterprises in Africa are many fewer and newer -- and have typically emerged as a result of assistance to vocational school graduates or of cooperative credit activity -- or the income generating programs of voluntary organizations, and sometimes two or three of these sources simultaneously. Among the most extensive efforts have been those funded by various NGOs in Kenya, the SEDOM Project in Malawi, and the various programs of the former Partnership for Productivity.

Latin American programs in recent years have typically been launched by voluntary organizations, sometimes with expatriate funding and sometimes with support from the local elite, or in the case of Brazil, Colombia, Peru and now potentially Mexico, are partially publicly funded programs building on the experience of such voluntary groups. The volume of such Latin American programs among non-agriculturists is still small enough in the most extensive of programs so no systemic, society-wide effect can yet be recorded. The prototype programs are those promoted by Accion, National Development Foundations (often affiliated with the Pan American Development Foundation or Solidarios), the Carvajal Foundation in Cali, and ADMIC in Monterey in Mexico.

Though some of the methods and aims of these micro-enterprise programs are the same in all three continents there is some difference of motivation among the promoters. The Asian efforts are typically promoted primarily as equity measures and derive their support from those concerned about poverty in their societies. Much of the Latin American effort is informed by the work of Hernan de Soto and others about the informal sector, and the political need to integrate it into the broader society. The African efforts are also concerned with the welfare of the poor -- with less of an interest in systemic impact than in Asia.

I will now outline as best I can from available sources the experience of some of the most interesting and influential programs: first, the Indian IRDP program which is probably the most extensive and which is based on the longest experience, the Grameen Bank in Bangladesh and then the BKK in Indonesia. I will then give an overview of some recent programs in Africa, though the experience there is generally too recent to be conclusive, and a shorter review of the Latin American experience which is being covered more extensively elsewhere in these sessions.

If people wish a more detailed account of some of these programs they may find some material in the publications of the two PISCES and the ARIES projects as well as other bibliography appended to this paper.

India-IRDP

India has a long history of attempts to assist craft and cottage producers including providing credit to them. This assistance was a concern of the Indian Nationalist Movement under the inspiration of Mahatma Gandhi and others, as well as of officially sponsored cooperative efforts before independence. Since independence, the Government has extended the scope of services to small producers and the provision of credit to them through a wide variety of sources. For almost two decades, the Differential Rate of Interest scheme has provided extensive commercial bank funds for such small producers; whole categories of production have been barred to larger units, and various protections extended to specific small-scale industries (see Little, I.M.D., Dipak Mazumdar and John M. Page, Jr. <u>Small Manufacturing Enterprise: A Comparative Study of Indian and Other Economies</u>. NY: Oxford University Press, 1987). The latest material on the Differential Rate of Interest Scheme indicates that as of December 31, 1984 the number of accounts were 4.3 million and the outstanding credit 4.4 billion Rs. (over $300 million or about 1 percent of total bank advances. The Banking system also extended 8.4 billion Rs. (over $600 million) of credit to 3.8 million IRDP beneficiaries during 1984-85. Over 200,000 beneficiaries under the Self-Employment Scheme for Educated Unemployed Youth received 2.8 billion Rs. (over $200 million). These 15.5 billion Rs. (over $1.1 billion) were out of a total credit extended of about 500 billion Rs. ($37.5 billion).

Table 1. Indian Loan Programs
(Approximate figures)

	Number	Amount		Average	
DRI	4.3 million	4.4 billion	$300 million	1,000 Rs.	($300)
IRDP	8.4 million	3.8 billion	$600 million	2,000 Rs.	($600)
TRYSEM	.2 million	2.8 billion	$200 million	14,000 Rs.	($1,100)

In addition to the amounts advanced under these social programs some of the 40 plus percent of advances to "priority sectors" also served micro-units -- particular notable were schemes to assist handloom weavers, silk growers, and scheduled tribes and castes ("former untouchables"). (Reserve Bank of India Annual Report, 1984-85, Supplemented to Reserve Bank of India Bulletin June 1985 and Report on Trend and Progress of Banking in India, Supplement to Reserve Bank of India Bulletin, September 1985). Though these efforts have not reached all small-scale producers, in some contrast to many other countries, the proportion benefited directly is often quite large.

In the 1960s, there emerged a concensus that poverty could be eliminated in India, through a combination of guaranteed public works employment and assistance to self-employment efforts, and public policy has moved in the direction of supporting these two thrusts. Dandekar and Rath in their pathbreaking, Poverty in India, in 1964, costed what applying these two thrusts would entail if they succeeded in ending absolute poverty. Mrs. Gandhi's commitment to end poverty in her 1971 election campaign led to a number of state programs and forerunners of the present national program. These programs were continued through the Antyodaya of the 1977-80 Janata years, and with resumed enthusiasm by the Congress governments since then.

Under the IRDP, the poorest in each village are supposed to be selected each year, and assisted to rise out of poverty either by pension, loan, or job depending on what seems feasible. According to the official Concurrent Evaluations the majority of beneficiaries meet the eligibility requirements and are benefited though this finding has been challenged by some observers. (Sanjay Sinha, "Poverty Alleviation: Anything Goes," Economic and Political Weekly XXI, May 10, 1986, pp. 823-824.

In the Sixth Plan (1980-85) the Program was intended to serve 15 million families. In fact, there were reported to be 16.56 million beneficiaries, on whom 16.6 billion Rupees (about 1.3 billion dollars) were spent. The total investment mobilized, including bank resources was 47.6 billion Rupees, or 2975 Rupees per beneficiary (about 3.6 billion dollars, or $220 per capita). (A.P. Saxena, "Concurrent Evaluations of IRDP: Selected Aspects for Administrative Follow-up," Economic and Political Weekly, September 26, 1987, A-121-124, citing Government of India, Department of Rural Development, Ministry of Agriculture, "Annual Report 1985-86" and Planning Commission, "Seventh Five-Year Plan, 1985-2990," October 1986). The Concurrent Evaluations show that 7 percent of actual beneficiaries were over the income cutoff of 4800 Rupees (about $360) a year annual family income. Earlier studies reported an average misidentification of 15-20 percent. (Saxena, Ibid., citing Annual Reports on "The Main Findings of the Survey," for the Concurrent Evaluations of October-November 1985, December 1985, January, February, March and April 1986 released by the Department of Rural Development and some monthly print-outs and schedules). These misidentification figures seem far lower than those in the one or two detailed studies I have located, as you will see below, but perhaps these smaller studies are unrepresentative. The monthly survey for the Concurrent Evaluations cover a rotating sample of 1440 beneficiary households and is certainly well designed, but questions can always be raised about the accuracy of primary data gathering in this sort of survey (Linda Stone, Ramesh Shreshta and J. Gabriel Campbell "The Use and Misuse of Social Science Research Methodology in Nepal," manuscript since published by Tribhuvan University in Kathmandu) and cross-check surveys are certainly desirable. Unfortunately, the only general survey of such a sort with which I am familiar is the Consumer Expenditure Survey, collected every five years. The last one done in 1982-83 showed some apparent decline in absolute poverty, attributed by some observers to the various anti-poverty efforts of the Government.

Leakages according to some observers through mistargeting and poor administration are high enough to lead them to doubt the value of the program. In one study in Uttar Pradesh, only 45 percent of the beneficiaries were actually eligible according to the income criteria. The costs of securing the benefits, including bribes, ranged as high as 400 Rupees per loan. However, repayment of loans was 50-70 percent, far higher than with normal bank credit. No impact data was collectible. (Sanjay Sinha, "Monitoring Poverty Alleviation: Information Systems for the IRDP in Uttar Pradesh, Economic Development Associates for the Rural Development Department, Government of Uttar Pradesh). In Rajasthan, a survey indicated that 48.6 percent of IRDP beneficiaries were above the income cut-off and there seemed a tendency for this percentage of ineligibles to rise over time. Despite provisions in the programs, neither Uttar Pradesh or Rajasthan seems to have utilized village level mass meetings to select beneficiaries as was prescribed. According to official sources (Saxena) only 60 percent of beneficiaries were selected by village assembly, but the individual studies at hand indicate that these assemblies are often pro forma and poor attended, and held away from the village itself even when they are conducted. Even those poor who were properly targetted had great difficulty maintaining the assets purchased, often livestock, (Deepak Gianchandani, Rakesh Sharma, and D.D. Narula, "A Target Missed: An Evaluation of IRDP in Northern and Eastern Rajasthan." Institute of Development Studies, Jaipur, 1987.)

Nonetheless, the scope of the IRDP program is larger than anywhere else in the world; and the program has largely included in its scope most of the kinds of voluntary agency activity recorded elsewhere. Two notable and well reported exceptions -- the Working Women's Forum of Madras and the Self-Employed Woman's Association of Ahmedabad were founded before the IRDP. (Jennifer Selbstad, "Struggle and Development Among Self-Employed Women: A Report on the Self-Employed Women's Association, Ahmedabad, India," USAID, March 1982; Mrs. Jaya Arunachalam, "Credit Needs of Women Workers' in the Informal Sector: Case Study of the Working Women's Forum, India.)

Bangladesh-Grameen Bank

Bangladesh has had various government programs for small producers over the last several decades -- but recent attention has focused on the Grameen Bank, a registered bank for very small borrowers which has had great success in reaching the poor. Though Grameen certainly has its roots in previous Bangladesh experiments such as the Comilla Project in the 1960s -- and is paralleled by several other large volume small loan programs, none of these can claim its success, or the verified impact it has recorded. The Grameen Bank is not a voluntary organization; juridically, it is a government owned bank. But it operates largely autonomously of the rest of the government.

The Grameen Bank was started as a pilot project in 1976, and formally launched in 1979. Since 1982 it has been operating in five of the country's 24 old districts. Since April 1983, it has operated as a specialized credit institution for the rural poor. It has an authorized capital of 30 million taka (about $900,000), 40 percent contributed by its members, 40 percent by the Government of Bangladesh, and 10 percent each by two nationalized banks.

Only those owning less than a half acre of land or with total assets worth less than an acre of land are eligible to become members. Bank Workers organize these members into groups of five with their own elected officers, which hold weekly meetings. Groups are organized separately for men and women, and relatives may not belong to the same group.

After a month during which the group functions properly according to Grameen Bank's rules -- undertaking credit and social education, collective physical exercises etc., at their weekly meetings -- two members are permitted to take a loan for any productive activity of their choice, to be repaid in equal weekly installments. After the first two group members make payments regularly for several months other loans are extended to group members. If a member defaults on a payment all loans are stopped to other group members.

Disbursements and collections are all handled by the salaried Bank Worker at the weekly meeting. A male Bank Worker should serve about 250 members, a female Bank Worker about 150. (These numbers may not be achieved in practice.)

The members must bring 1 taka in savings every week. They also deposit 5 percent of the loan amount at the time of disbursement to form the Group Fund from which members can borrow on an interest free basis with group permission to meet emergency needs. Only one sixth of the money available in Group Funds has in fact been borrowed. In addition to interest, now charged at 16 percent, a sum of 25 percent of the interest is due at the end of the cycle of equal weekly installments -- i.e., accounting for the last several payments. This sum is paid into an Emergency Fund, again available to meet emergencies threatening default. The Emergency Fund serves partially as a guarantee fund.

By December 31, 1986, the Grameen Bank had 295 branches and 234,000 borrower members and covered more than 6 percent of the villages, and 3 percent of the eligible borrowers in the country. The figure was 10 percent of the eligible borrowers in the five districts Grameen Bank in fact served. Disbursement of loans in 1985 was 428 million takas (about $13 million) leaving an outstanding of 331 million takas (about $10 million) by the end of 1986. The Group and Emergency Funds amounted to 137 million taka (about $4 million) by the end of December 1986. On a per member basis savings amounted to ___ takas (about $92) versus an average loan size of 3040 takas (about $85) (as a matter of policy individual loans were limited to 5000 takas (about $150), though larger loans are permitted on a collective basis).

Sixty-nine percent of the members are women, accounting for 55 percent of the cumulative loan amount. Both proportions are rising rapidly. In 1985, livestock and fisheries accounted for about one-third and manufacturing and trading about a quarter each of loan disbursements.

The Grameen Bank, despite what might be described as high administrative costs (14.2 percent on loans and advances) makes a profit on a cash basis, with about half of its income coming from idle balances it keeps on deposit with other banks. It also benefits from two or three accounting practices which have been criticized. Grameen Bank's profit is also enabled by access to lower than average cost funds (an average annual cost of funds provided in 1985 of 5.8 percent versus 8.5 percent charged by the Bangladesh Bank for agricultural advances made by other banks). The Bank also benefits from a tax holiday, in contrast to other Bangladesh banks. Grameen Bank's returns should improve, however, as it no longer has to bear start-up costs for new branches. Those branches which are more than two years old just break even when charged with a 10 percent cost of funds and not charged for Central Bank overhead.

In this audience, we should probably address one or two concerns raised by recent reports on the Grameen Bank which are not yet public. First, though overall arrearage (overdue more than two years) are indeed rising, they are still well under 3 percent -- to say nothing of the 5 percent originally planned for. However, one can agree that the Grameen Bank should make the proposed loss provision, and agree that its capitalization of training costs rather than expensing them is perhaps not called for. We should recognize that this costing of training is at least an open question in the case of a rapidly expanding program like the Grameen Bank's -- had these two provisions been made the Bank would have been sustainable in the long run (presuming the persistence of the slight interest and tax subsidies.)

One could suggest, though I gather this is not the thinking of the current Grameen Bank leadership, that a 5 percent arrearage rate is quite acceptable given the high risk nature of the ventures in which many borrowers are engaged, and that the Bank has over-reacted in terms of curtailing its expansion, particularly among male borrowers. Ultimately Grameen Bank's viability may be as threatened by an inability to generate a sufficient volume of credit as by a slightly higher level of arrearages. The leadership may be right, however, that an attitude which accepts 5 percent easily leads to an attitude which accepts more. The rot has to be addressed at the start. The success of the Bank leads all of us to be chary about challenging the managers' own decisions on these matters.

The fact that recent expansion has almost entirely been among women may also be a correct decision, given social and commercial priorities -- but ultimately the Bank will have to deal with men as well, if it wishes to face overall poverty problems.

Careful surveys indicate that 95 percent of Bank members meet the explicit target criteria, and that performance in this respect seems to improve over time. Success in this matter is partly due, according to Mahabub Hossain to the fact that the effective borrowing rate is higher and terms and conditions of borrowing more onerous than in other programs to which the wealthier have access. 96.8 percent of the loans were repaid within one year and 99.1 percent within two years of due date at the time of the Hossain report. The average overdues rise to 8.3 percent for older, more mature branches. Members increased assets and employment and had 50 percent higher incomes than potential target group members in control villages where the Bank did not operate and 17 percent higher income than non-member target group people in their own villages. (Mahabub Hossain, Credit for Alleviation of Rural Poverty: The Experience of Grameen Bank in Bangladesh. BIDS abd IFRPRI. September 1986.)

Though Grameen Bank's achievements are particularly impressive, it is only the most successful of numerous micro-enterprise schemes in Bangladesh, most of which are organized in roughly analogous fashion, though each one has some peculiarities. A survey of such schemes done for the Bangladesh Bank listed 22 such programs ranging from those with under 100 to those with several hundreds of thousands of borrowers, and effective interest rates of up to 30 percent, with many reporting repayment rates of 90-100 percent. (Clarence Maloney, "Report on NGO Programs in Rural Savings and Credit in Bangladesh," May 1985; S.M. Al-Hussainy, Bridging the Gap: Experience of Swanirbar Bangladesh in Self-Actuation and Employment Generation," November 1986.)

Indonesia-BKK

The BKK in Indonesia, by contrast, is closely integrated with the local government organization, which oversees its detailed functioning. It, too, has succeeded in extending and collecting a large number of loans to poor people, and improving their lot though no study of its general impact -- in contrast to the case in India and Bangladesh -- has yet been published. In addition, its target is less insistently the poorest of the poor in the society it serves than the Indian and Bangladeshi programs.

The BKK (Badan Kredit Kecamatan) was created to provide small, short-term "loans to rural families for off-farm productive" purposes. Between 1972 and 1982, it made 2.7 million loans amounting to over $55 million (an average of $20 each). The program involves 486 BKK (subdistrict bodies) which are separately administered and autonomous though supervised by both Central and Provincial governments.

Small loans are made on the basis of character references from local officials and the amounts of such loans are raised with each repayment. Interest rates on loans are set to cover expenses including the cost of funds. (Rates ranged from 5.6 to 10.8 percent per month). On current loans, delinquency was only 6 percent, but an overhang of old overdues represents 14 percent of outstandings. The program as a whole was making a profit (even after allowing for subsidies) of $333,000 in 1981, a seven percent return on its portfolio. One-third of BKK's, however, were either operating at low levels or closed.

Of the clients, 60 percent were women, one-half owned some land with an average holding of .8 hectare (about average for the region), most were primarily engaged in trading, almost all used their loans for working capital and had increased the scope of their activities. Seventeen percent of borrowers had hired someone since joining the program. The average borrower created .3 full-time and .4 part-time jobs. The intended and effective target was somewhat better off than is the case for Grameen Bank and IRDP, though still way below those reached by most rural credit programs. (Susan Goldmark and Jay Rosengard, Credit to Indonesian Entrepreneurs: An Assessment of the Badan Kredit Kecamatan Program. May 1983. USAID, May 1983.)

In many ways, a program more comparable to Grameen Bank in the size of credit extended is the KUPEDES program founded in 1984. This program is, however, explicitly limited to landowners, or at least those who can provide collateral, usually land (47 percent of the adults in Java are landless). Under the KUPEDES program, by the end of 1986, 1.2 million borrowers had a total credit outstanding of $202 million or an average of $168. Cumulative payments missed as percent of due was 2.3 percent in April 1987. The program was turning in a profit with what appears to be 15-20 percent interest charges and generating the bulk of its loanable funds as savings.

The loans are extended through Unit Desa, village banking units, of the Bank Rakyat Indonesia (BRI) for any productive purpose, though the bulk are taken nominally for trading and a fair number for livestock raising and 28 percent for cultivation. However, since many households engage in a number of these activities the actual use of funds may be hard to identify (Richard H. Patten and Donald R. Snodgrass, Monitoring and Evaluating KUPEDES, Development Discussion Paper No. 249, November 1987. HIID, Harvard University, Cambridge, MA).

In summary terms, if the Asian programs did not reach the destitute, they did serve an absolutely poor clientele otherwise not reached by the credit system.

Most of the beneficiaries in Bangladesh and Indonesia were women; they were able to make productive use of the money advanced and increase their incomes. The bulk of the activity in Indonesia was in trading, one-third of that in Bangladesh, little in India (because of explicit policy). A good proportion of the Indian loans and one-quarter of those in Bangladesh were for animal husbandry. The remainder in all three countries was mostly for very small scale manufacturing.

The administrative and other costs were largely covered in Bangladesh and Indonesian cases, though elements of hidden subsidy remain. The Indian program includes by design a considerable element of subsidy.

The Asian program as a whole have relatively small size clients and loans -- which is logical enough given their relatively poorer economies as compared to those in other continents (see Table 2).

Table 2. Some Basic Comparative Data

			% of household	
Country name	Population (millions)	GNP per capita (1985) U.S. dollars	Income with highest 10%	Income with lowest 20%
Bangladesh	100.6	150	29.5	6.6
India	765.1	270	33.6	7.0
Indonesia	162.2	530	34	6.6
Philippines	54.7	580	37	5.2
Kenya	20.4	290	45.8	2.8
Senegal	6.6	370	--	--
Honduras	4.4	720	--	--
El Salvador	4.8	820	29.5	5.5
Ecuador	9.4	1,160	--	--
USA	239.3	16,690	23.3	5.3

Source: World Development Report 1987, World Bank, Washington, D.C. 1987.

Africa

In Africa, most of the successful programs that have come to my attention are run by voluntary organizations, typically with an overhead cost that would be hard to justify on a continuing basis. See the following table (Table 3) for some indications of what kinds of cost are involved. The promoters are very much conscious of the cost factor and have experimented with various ways to reduce overhead, even while arguing that the dynamic advantages from the program may justify them. Among these approaches are the "minimalist" approach now promoted by Malcolm Harper and several of his associates, and embodied in the CEDP project in Senegal, and an effort modelled on the Grameen Bank scheduled for implementation in Malawi. In the CEDP, costs were to be reduced by concentrating on the higher potential entrepreneurs and providing only the critical missing support for them -- in this case credit.

This higher cost burden in African programs is the case even where, as in the SEDOM program in Malawi, expatriate salaries are not charged to the program. SEDOM in Malawi (supported by the European Economic Community) can extend loans up to 50,000 Kwacha ($24,000 approximately) at an interest rate of 16 percent a year. As of August 1986, it had extended over 1,610 loans with an average size of under 2,000 Kwacha ($975). Four-fifths of all loans were to manufacturers. Repayment and administrative costs have both been high. Arrears, though rising are still under 10 percent of due. (New Directions for Promoting Small and Medium Scale Enterprises in Malawi: Constraints and Prospects for Growth. Malawi/USAID, Rural Enterprises

Table III. Cost of African SME Loan Programs

Organization	Average loan value ($)	Administrative cost per loan ($)	Administrative cost as a percent of loan	Arrears: Percent of loan outstanding
PFP/Burkina Faso	$ 670	$1,238	185	23
Kaolack (Senegal)	(1.3 million CFA) 4,333[a]	$ 881[b] $1,215[c] (with expatriate)	20 28	No defaults 2.3% in late payment
VITA (Chad)	$6,025[d] $ 72[e]	$9,640[f]	66 (credit activities) 94 (business advisory services)	25
Period 5/85 to 6/86			160	
REP (Kenya)[g]	$1,277	$ 638	50 - just started - very rough figure	20

a. At $1 = 300 CFA.
b. Without cost of expatriate staff (1).
c. With cost of expatriate.
d. Loans made in Ndjamena only.
e. Loans made in Bongor (rural).
f. Includes both the credit cost and the cost of business advisory services. Includes expatriate cost (46.5% out of 66% is expatriate cost).
g. This is only for the credit activities of the NLOs in the sub-projects. The report on the project has stated that the figures are very rough. The cost on training/T.A. and institution building of the NGOs have been excluded. The performance indicators being used are mostly employment generation, cost of training and cost of credit has not been worked out.

and Agribusiness Development Institutions (READI). Report, June 1987).

SEDOM had lent roughly 3.8 million Kwacha ($1.85 million) during 1985. Arrearages of more than 30 days were 13.9 percent of dues. Overall administrative costs were about 2.1 million (about $1 million) Kwacha but about one-third of that could be allocated to pure training and extension activity. The rest is hard to allocate between credit connected and overhead activity with the data at hand, but perhaps we should say that the costs of credit aministrator amounted to 30-60 percent of annual loan disbursements (from computer printout of SEDOM) ($1=2.05 Kwacha).

There is some interesting experience in several African countries with small-scale support for technical school graduates and marketing assistance for craft producers, but I am not familiar with any impact studies on these programs. Among the programs of support to technical school graduates are the well-documented CNPAR in Bukina Faso (The Artisan Training and Credit Project of the Centre National de Perfectionnement des Artisans Ruraux), the Rural Vocational Training Centers program of SIDO in Tanzania, and the Village Polytechnic scheme in Kenya. Among the artisan oriented marketing schemes are those surrounding the National Museum in Niger and the Artisan Centers in Tunisia. Similar programs for technical school graduates and craft producers exist in Asia and Latin America as well.

Latin America

The Latin American experience with micro-enterprises is well enough represented at this meeting to require less attention in this paper. Many of the programs are credit and training programs for new and expanding entrepreneurs run by voluntary organizations often with considerable support from local businessmen. Often, as in the prototypical Carvajal Program in Cali, these have a training focus, and a bias toward manufacturing.

The business supported voluntary programs have varying experience, but typically high enough costs so some level of subsidy is required, and often provided by outside donors. The model is used elsewhere and one might cite efforts especially in the Philippines, MIDAS in Bangladesh, the Birla Institute Program in Ranchi etc. (Marilyn Carr, Developing Small-Scale Industries in India: An Integrated Approach: The Experience of the Birla Institute of Technology's Small Industry Scheme. London: Intermediate Technology Publications, 1981) The beneficiaries are typically much larger than in any of the micro-enterprise programs cited earlier. (The Informal Sector in Central America: A Preliminary Overview," PADF Washington, D.C. January 1986; Donald Rhatigan, "Evaluation of Solidarios and Selected National Development Foundations," by Miranda Associates, Washington, D.C. for USAID, January 17, 1986; Ignacio Deschamps, "Programas de Financiamento a Pequena Unidades Productivas Urbanas: Experiencia en la Reduccion de Costas de Administracion," IDB, July 1986.)

These business supported programs contrast with efforts which stick closer to the UNO-ACCION-DDF Model, involving groups, smaller enterprises, many more non-manufacturers, working capital credit focus, and lower administrative costs. These UNO programs, too, are often run by voluntary groups, sometimes with an ideological or religious coloration, but include the Brazilian and Peruvian government programs about which I have little data.

One Scheme of Classification

One way of looking at this diversity of programs is presented in a series of "ideal type" models that were developed in some recent work at Harvard and are presented here in tabular form (Table 4).

Table 4. Small and Micro Enterprise Assistance Models and Examples of Programs that Utilize Them

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

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/ FEDECCREDITO[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]	PROJUVENTUD[6]	CEOSS[7]	Rural Enterprise Extension Service[16]
					CEOSS[7]
ADEMI[4]		PfP/Upper Volta[11]	COLMENA[6]	SEDEMEX[11]	
BKK[5]		ASEPADE[1]	PRODEM[6]	Dominican Development Foundation[3]	
		SIDO[10]	Dominican Development Foundation[3]	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]	

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Characteristics of Enterprise Assistance
Program Models

Model	Cost	Beneficiary level	Staff skill	Labor intensity	New or established business	Beneficiary commitment
1	Low	I, II, III	Simple business	Low	Established	Low
2	Moderate	I, II, III	Simple business and community development	Moderate	New or	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	Community development	Moderate	New or established	High
6	High	I	Specialized	Moderate	New high	High

Key

Cost	Program resources, including staff time and resources, necessary to deliver a standard "package" of services
Beneficiary level (adopted frcm 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 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.

General Summary

Micro-enterprise promotion programs differ in terms of the actual clientele they serve -- of the size and type of enterprise they target -- services needed, etc. They range from those which support peripheral income generating activity especially for women, often in retailing and animal husbandry, to those which support units with several employees, some limiting themselves to manufacturing units. These differences in target groups are likely to have impact on the administrative costs of the programs, and the extent to which they find themselves providing various social services. In Bangladesh, of the enterprises surveyed in the small and cottage sector, approximately a third were not making a profit if labor costs were fully charged at the wage of an agricultural laborer, but the other two-thirds appeared to have a modal return of 50 percent (The Bangladesh Development Studies XII, March-June 1984, Special Issue on Rural Industrialization in Bangladesh, ed. Q.K. Ahmad; more generally see Selim Jehan, "Income Generating Activities of Private Voluntary Organizations in Bangladesh," CIDA, DANIDA and MIDAS, July 1985).

Even the loosing enterprises, typically employed labor whose actual reserve price was quite low, much lower than that of agricultural labor. In fact, data from several sources including the Grameen Bank indicates that agricultural laborers may be less interested in small loans than others of the rural poor. In general, we know from our study of pre-modern economies (including neighboring India's) that many activities were conducted at a loss when labor was charged at the normal market rate. Since most labor does not have alternative market use, when a labor market comes into play "the market price of wage labor is incredibly high." (Witold Kula, "The Economic Theory of the Feudal System: Toward a Model of the Polish Economy 1500-1800, transl. Laurence Garner, London: Verso, 1976, pp. 28-44.)

Since the goods sold by small micro-enterprise operators are typically sold in unsubsidized markets -- sometimes in competition with subsidized goods from larger scale factories, we can presume that the enterprises are efficient and productive. In many countries, larger units have access to cheaper capital, subventions from the government budget, and cheaper than market inputs, though their labor costs may be inflated through legally mandated higher labor costs and manning levels beyond those justified by market returns. In the cases where larger scale units are subsidized and smaller scale ones survive in competition with them, the economic efficiency of SME is likely to be all the higher.

The situation might be different in a country like India where in some industries a significant share of the inputs used by small units are subsidized and the resulting products sold in protected markets, but India's is an almost unique situation (Little, et al. op. cit.).

In any case, from a pure productivity point of view, the value of a subsidy where one is provided as compared to the other use of public funds needs to be examined. Where the amount of subsidy is small, and to some extent simply countervails subsidies for others present in organized financial markets, it is hard to argue with. (In economists' jargon it is a second best -- i.e., optimal achievable -- solution). Where subsidized inputs are more extensive, they need to be judged as are other human capital investments, in terms of the increased productivity they bring over the long run. Investments of this human capital sort are powerful, contain a considerable element of "public good" in them, but suffer if too rapidly discounted. Societies which invest in education, training, research and development of the right sort -- like Japan -- may outperform those with a shorter term perspective.

From a social point of view, and it seems that is what dominates the debate on micro-industry, investments in micro-enterprise programs that work, may be justified because of their effects on income distribution and social integration, even at some cost in productive efficiency. The specific resolution of how much to spend for micro-enterprise will obviously differ according to the circumstances of each program, country, and set of policies adopted.

The character of the micro-units, obviously, also effects the level and type of services which are required -- minimalist approaches such as that of the Grameen Bank are based on the existence of a clientele which has usable technologies and has access to markets. Minimalist approaches imply as well, a pessimism about the potential for outside engineered improvement in the technologies used by small units. On the other hand, more ambitious programs, generally envisage some of their clients growing and graduating into larger size categories. The question is clearly how realistic either of the set of assumptions are and how functional to the general social and economic goals society wishes to pursue.

APPENDIX I

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APPENDIX II

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APPENDIX III

Exchange Rates Used

$1 = 13.3 Rs. India

$1 = 33 taka Bangladesh

$1 = 2.05 Kwacha Malawi