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Institutional Aspects of Microenterprise Promotion
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Institutional Aspects of Micro-enterprise Promotion

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I. INTRODUCTION

The process of micro-enterprise support is highly complex, a consequence for the main part of the nature of the microenterprises themselves.

The sector is vast and varied, covering a multitude of trades and incorporating unknown numbers of people from all segments of society. As most micro-enterprises operate in the informal sector, without being officially registered, documenting their numbers, needs and constraints is a virtually impossible task. What we do know is that they tend to be very small, often consisting only of family members. The people involved are usually very poor indeed - often being landless and assetless and turning to petty manufacturing or trade as the only way of scraping a living. In most countries, women account for a high proportion of the owners and workers in the sector: most of these women come from the poorest households which are dependent on the women's earnings for survival.

Micro-enterprises are widely dispersed and are often mobile or located within the household. Especially in rural areas, and especially when the proprietor is a woman, they are usually not operated on a full-time basis. Generally, they are sparing in their use of capital, draw heavily on local skills and resources and produce basic consumer and producer goods demanded by the bulk of the rural and urban population. Tools and techniques utilised tend to be less complex than in larger enterprises and access to improved technologies and techniques is limited. They have little, if any, contact with formal training, credit or technology institutes, and they tend to survive in spite of rather than with the help of government policy measures.

Given the difficulty and magnitude of the task in hand, it is hardly surprising that the attention of assistance agencies has, until recently, been focussed on relatively easier target groups such as modern small-scale industry and small farmers. And, even those agencies which have attempted to start working with microenterprises have tended to concentrate on the

relatively easier segments within it. Thus, they tend to be biased towards urban rather than rural enterprises; retail and service rather than manufacturing enterprises; better off clients rather than poorer; and men entrepreneurs rather than women.

Exactly what sort of assistance or support microenterprises need is an issue of some considerable debate. Methods of assistance range from the provision of a full package consisting of credit, business and technical training, production and technology advice and assistance, social promotion and political lobbying, to the provision of a single input such as credit or training.

The single input approach is obviously the simpler one to contemplate, and there is now considerable evidence to suggest that valuable assistance can be delivered relatively quickly in situations where a group of microentrepreneurs have a common, identified problem which can be addressed by an external assistance agency. By contrast, assistance programmes which seek to provide a whole package of inputs to a diversity of enterprises tend to be costly and incapable of reaching large numbers of people.

Of course, direct assistance programmes do not operate in a vacuum - the policy environment is also of great importance. Generally, government economic policy discriminates in favour of large-scale enterprise, and policies such as artificially low interest rate ceilings, overvalued exchange rates, and extensive regulation of business tend to make it harder to assist microenterprises. Other factors which have an impact on the effectiveness of assistance programmes include the presence or absence of a tradition of entrepreneurship in society, and the general state of the local and national economy.

Whatever the nature of the assistance programme, and whatever the nature of the policy and socioeconomic environment within which it is delivered, the remaining issue to be addressed is that of the institution or institutions which are best qualified to give effective support to microenterprises. Here, two questions need to be asked:

- What type of institutions can assist/support microenterprises, and what are the strengths and weaknesses of each;
- What institutional arrangements can be made to combine the strengths of some or all of these institutions in the service of the microenterprise sector.

Simply put, who is best at doing what and how can they all be brought together?

Obviously, there can be no blue-print for a successful institutional framework since different types of institutions are more or less useful in different combinations depending on the type of microentrepreneur being assisted, the type of assistance programme needed, the nature of the external environment within which the programme is operating, and the stage of the programme's life cycle.

Generally, a whole range of institutions would need to be involved in some way, at some time during an assistance programme. They include: microentrepreneurs' own organisations and cooperatives; local NGOs; research institutions, training institutions and technology centres; large commercial companies and business associations; commercial banks and other financing institutions; government departments and agencies; international NGOs; and bilateral and multilateral donor agencies.

It is impossible here to go into the relative strengths and weaknesses of each of these in any great detail, but some of the more relevant points and issues can be summarized.

Microentrepreneurs themselves have much knowledge and skills to contribute to their own development. All too often, however, they have not been consulted or enabled to participate because of the top-down methods of many implementing agencies and because of factors (such as lack of transport

or inability of male extension workers to reach women entrepreneurs) which inhibit effective communication. One way of drawing on this otherwise wasted resource is to assist microentrepreneurs to form their own organisations which provide a channel between their members and assistance agencies seeking to help them. Such organisations include the Self-employed Women's Association and the Working Women's Forum in India which have a membership of thousands of rural and urban women who rely on them for a range of technical and financial services and indirect support.

NGOs also have an important role to play. Many are based in the rural and urban slum areas where most microenterprises are located and they usually have a dedicated staff who have lived and worked for many years with the people they seek to assist. As such, they have a capacity to understand the needs of microentrepreneurs and to induce trust and cooperation. They also tend to be flexible, willing to take risks and are less subject to political controls and intervention than public development institutions. They do, of course, have their problems. Their 'community development' orientation often means that their generalist staff lack the necessary understanding of technology or business management to give effective advice and assistance to microentrepreneurs. And generally, they are too small to have an impact on large numbers of people through direct intervention. Many wish to remain small so that they do not become subject to government interference. A wish to remain 'invisible' also means they often have little interest in influencing the policy environment.

There are many types of research and training institutions and technology centres ranging from those in the formal sector with no interest in or capacity to do anything about microenterprise, to those which have been established by Government, Universities or NGOs with the specific purpose of working with such sectors. Generally, they tend to be distanced from the clients they are supposed to be assisting. Thus training is done in a centre rather than on-the-job, and often involves the use of inappropriate equipment or materials. Technologies are designed in a vacuum without the necessary involvement of the microentrepreneurs who are supposed to use them.

Commercial companies and financing institutions can play a number of roles in microenterprise development including research and development, subcontracting to microenterprise, and provision of credit. Obviously, such institutions only become involved if they can see some financial advantage in doing so, and there is usually the need for an NGO or public sector agency to work as a catalyst in bringing this situation into being.

Government agencies are important at a number of levels. First, they can set up special agencies which give support to the microenterprise sector. Generally, however, government support agencies have related to registered small industries rather than reaching the unregistered informal sector (which in any case is nervous of dealing with government). Secondly, it can help other agencies to assist microenterprises through removing direct constraints such as harassment of 'illegally' located businesses. And thirdly, they can set up committees or units to assess the effect of government economic policies on microenterprise and introduce macro policy reforms which support the sector. Evidence suggests that government agencies can be more effective in giving indirect support rather than direct support to microentrepreneurs.

Finally, bilateral and multilateral donor agencies can help by earmarking loan funds specifically for support of microenterprises, and through providing funds for the replication of programmes developed on a small-scale by NGOs.

A successful support system for microenterprise involves bringing together the strengths of all these various agencies, helping to overcome their weaknesses, and establishing institutional relationships when necessary. Factors which need to be considered in this process include:

Criteria for choosing a focus agency which can coordinate all the various inputs and methods by which this coordination can be achieved;

Method for implementing a truly collaborative approach to development, whereby knowledge travels up from the microentrepreneurs to the assistance agencies, and the international agencies learn from and listen to the local agencies, as well as the other way round.

These points are not unrelated since the choice of focus agency will, by and large, determine the extent to which a 'trickle up' approach to microenterprise development is likely to occur.

Generally speaking, while government institutions have tended to be the focus agency for small industry promotion, evidence suggests that they are less well suited to playing a lead role in offering direct support services to microenterprises. NGOs, starting with their understanding of and commitment to poor communities, are much more likely to be able to coordinate effective support programmes in this sector, providing they can be persuaded to move away from their normal resource-intensive, comprehensive approach to assistance, and start acting more as a catalyst and lobbying force.

In the following section, some specific experiences in microenterprise support are summarized in an attempt to illustrate some of the above points and to emphasise the importance of getting the institutional framework right. Particular attention is given to the process of transferring improved technologies and techniques to microenterprises since of all the types of assistance which microentrepreneurs are offered, this is the one which has received the least attention.

II. EXPERIENCES IN MICROENTERPRISE PROMOTION

A. Micro-hydro in Nepal

This programme began with the efforts of two agencies - the United Missions to Nepal (UMN), and a Swiss government supported engineering

company (BYS) within the Department of Industrial Development. Both were interested in finding an appropriate way of driving grain mills in remote areas based on abundant supplies of water power.

From small beginnings in the mid-1970's, there are now 450 turbines (with associated milling equipment) installed in rural areas and a total of nine companies producing, installing and providing after sales service to entrepreneurs investing in these. Uptake of the technology has been facilitated by the decision taken by the Agricultural Development Bank of Nepal (ABDN) to switch its loans from diesel mills to watermills, and successful operation has been ensured by the care taken by Bank and the two original (and still the major) producers of turbines to ensure proper selection of entrepreneurs and sites, along with adequate training of owners/operators and after sales follow up. Given the success of the project so far, the ABDN has negotiated a loan from the Asian Development Bank to facilitate the installation of a further 450 turbines and mills, and there are thought to be over 700 sites identified by ABDN and the manufacturers as suitable for installations.

In addition, the Government of Nepal's policy support has been essential to the success of the programme. It has decreed that no licence is required to generate and sell electricity below 100 Kilowatt, which has permitted local mill owners to join the UMN electrification programme.

Recently, the Government has made a subsidy of up to Rs 1 lakh for the purchase of electification equipment. Basically, the Government of Nepal has decided to support the independent, private sector approach to rural electrification as the most viable option for small, remote village applications, and has used legal and other policy measures to provide incentives for increased activity by UMN and its collaborators in this area.

The benefits of this project are numerous. Income and employment have been generated in the manufacture of turbines. Farmers (and particularly female members of farm households) have benefitted from the availability of a processing technology which is cheaper and more flexible than diesel mills and more efficient than traditional processing techniques (including traditional water mills). A more profitable source of investment has opened up for village entrepreneurs. Indigenous technical capacity has been greatly increased with technical skills being passed on from expatriates to Nepalis within the original agencies; and from Nepalis within these agencies to outside companies as well as to mill owners/operators and extension workers.

B. Fishing Boats in South India

This project is run by a number of closely linked non-government organizations which have spent a great many years working with the artisanal fishing communities of Kerala and Tamil Nadu. The lead agency, the South India Federation of Fishermen's Societies (SIFFS), is, as its name suggests, the apex organisation of a number of District Federations which are run by and for local fishworkers. Its major function is to assist its members to run viable businesses through the provision of technical advice and assistance.

The fishing boat project started in the mid-1970s in response to the needs of the fishermen for alternative boat-building materials and designs which could help them cope with the problem of replacing their traditional craft in the face of declining resources of timber. Over the years, the local organisations (drawing on technical assistance from international agencies when necessary) have worked with the fishermen themselves to come up with a range of improved boat designs (made from marine plywood) which meet the varying needs and preferences of communities along different parts of the coast.

There are now over 400 of these plywood boats in use and the three village-based boatyards which produce them have far more orders than they can cope with. The boatyards, which are owned by fishermen's societies, are well on their way to being self-financing even though an attempt is made to keep boat prices as low as possible. Together they provide employment for nearly 70 village youths.

Superimposed on the problem of decreasing timber supplies is that of declining yields of fish along the coast. This is ascribed largely to the introduction of the inappropriate techniques of mechanised bottom trawling and purse-seining. In response to this problem, many artisan fishermen have turned to the use of outboard motors on their boats to enable them to cover greater distances and fish in deeper waters. The new plywood boats are better suited to the use of engines than the traditional craft and this has increased their popularity amongst the fishermen. This means increased business for the boatyards, and although it presents artisanal fishermen with a way of competing with trawlers, the long term effect of even this lesser level of mechanisation on the fishing communities needs careful consideration. In the meantime, SIFFS is responding to the fishermen's needs for training in use and maintenance of motors and is engaged in a programme of training village youths in engine maintenance and repair - in part to provide an alternative source of income (along with building and repair of boats) to the next generation.

SIFFS has tended to rely on external agencies for specialist expertise and for small but timely sums of money in implementing this project. Results so far have led to more substantial funds being acquired from Central Government - initially for training relating to the use and maintenance of outboard motors. News of the project has also led to fishermen's organisations in other parts of South India requesting SIFFS' assistance in responding to fishing communities' needs for design and decentralised production of improved boats.

C. Stovemakers in Kenya

This is a joint Government of Kenya/indigenous non-governmental agency (KENGO) project which was started in 1981 as part of the Ministry of Energy's programme for combating the adverse effects of the woodfuel problem. It has received external assistance from a variety of external agencies including including USAID, ATI, ITDG and CARE and has drawn on the resources of several Kenyan agencies to assist in various stages of implementation. KENGO has tended to take the lead in this project since the government had no mechanism for dealing with the informal artisan sector on which it is based.

Starting with the traditional metal jiko (already popular for use with charcoal in the urban areas), project staff worked with artisans and prospective users to come up with an improved stove design incorporating a ceramic liner. Although more expensive to buy (currently Ksh 55 - Ksh 120 as opposed to Ksh 20 - Ksh 55 for a traditional jiko) this stove offered substantial savings to households in terms of charcoal consumption (estimated savings of Ksh 60 per household per month).

Through a series of carefully planned activities designed to address constraints relating to both supply (training and credit for producers) and demand (demonstrations, TV, radio), the project had exceeded its original target of producing 5,000 stoves by late 1983, and by the end of 1985 it was estimated that 180,000 stoves had been sold and were in use in 52,000 households (mainly urban) representing the capture of 10% of the traditional jiko stove market.

Adopters of the improved stoves are obviously benefitting from this project - a benefit which is likely to increase as prices fall with increased production. At the national level, savings on fuel costs are estimated at US\$ 2 million per annum representing an equivalent of 1.5

million tonnes of cut trees - a saving which, when combined with the complementary reforestation programmes, is thought to more than compensate for any adverse effect in terms of substitution of efficient charcoal stoves for wood-burning stoves.

Artisan metalworkers have also been able to benefit through accruing substantial profits in the short term and a number of new and existing urban-based ceramic factories and rural-based groups of women potters have found a new and profitable source of income in the production of ceramic liners. More importantly, the involvement of artisans in the project has led the Government to recognise the importance of the informal sector in the development process and has resulted in a series of policy pronouncements and changes which promise to give it all necessary support.

Given the substantial reliance on existing production and marketing systems, penetration of the market is likely to proceed even without further external funding. However, external assistance will help to speed up the diffusion process within Kenya and is already proving useful in helping to replicate the project in other countries in the Region.

D. Pappad Rollers in India

Shri Makila Gricha Udyog Lijjat Pappad is a women's food processing cooperative with over 6,000 active, earning members. During 1978-79, the organisation manufactured and sold Lijjat Pappad, worth Rs 3 crores, through its 21 branches, throughout India. This was a remarkable achievement for the seven lower-income group women who first thought up the idea in 1959.

The originators borrowed Rs 80 to get started and paid this back with interest within six months. The institution opted for the goal of self-reliance and self-growth from the start and as a matter of principle no monetary help or donation was to be sought from any source. As such, the work started on a sound commercial footing as a small scale venture. This, together with the principle of maintaining a very high quality product, has contributed to the organization's success.

Lijjat is unique as an organisational model. It is a women's organisation, a public trust, a registered society and a cooperative. It is a commercial enterprise which manufactures and sells selected goods. Legally, Lijjat is registered simultaneously under the Societies Registration Act and the Public Trust Act in Bombay. But functionally, it has incorporated all the features of a cooperative society. Operationally, it has organised its business activity in a manner generally associated with commercial enterprises.

For women who are still not able to leave their homes for long hours and thus prefer work which can be done at home, Lijjat offers a way of doing this without the women having to endure exploitation or domination. In Lijjat, all the intermediaries are women and all are members. All workers are partners rather than employees.

The day for a Lijjat centre begins very early in the morning. The supervisor, normally risen from the ranks of the pappad rollers, has already prepared flour and spices the day before. At about 4 a.m., the women engaged in the preparation of the dough arrive at the centre and start work. Most centres have their own mini-buses which collect staff from home. By 6 a.m. the dough is ready for distribution to members, who bring with them the pappads they have prepared at home the day before. The pappads are weighed. The receivers tally the quantity of dough taken in the previous morning. Quality control checks are very thorough and very strict; if the pappads are not clean, white and

completely dried, they are rejected. They are then sent to the packing section for packing in polyethylene bags and labelling. Members are paid according to quantity and quality, and given the next consignment of dough. This will be rolled out at home in the afternoon, after the women have done their household tasks and when the sun is very hot, so that the pappads dry quickly. On an average, payment amounts to about Rs 7.20 for 6 kg of pappad with Rs 1.20 deposited in the compulsory savings account. A woman can earn anything between Rs 4 and Rs 40 per day.

Production is never carried out on the cooperative premises. In the case of rural centres, this necessitates some positive adaptation of the system since members' homes did not have the space or are not clean enough for food processing. Here, the organization provides the women with sheds to work in. It is also considering extending into products such as matches, agarbattis (incense sticks) and leather goods to overcome this constraint and enable rural groups to set up more centres, thus creating more jobs in these areas.

In a pragmatic departure from the accepted practice of co-operative endeavours, which rely on official marketing outlets (e.g. Khadi Village Industry Commission (KVIC), or on other semi-official organizations), Lijjat adopted a strictly commercial marketing technique from the very beginning. It appointed agents on a commission basis, ensuring that only those who had previously enjoyed a reputation for successful business dealings were selected. By offering a commission per packet sold, the Lijjat organizers involved the agents directly in the sale of pappads, and created conditions in which maximum sales would be ensured. This deliberate choice of a commercial marketing network reflects the instinctive commercial orientation of the Lohana community which founded the Lijjat enterprise.

E. Informal Sector in Ghana and India

This is a comparative account of two autonomous University based R and D centres, both of which have impressive support programmes for small and microenterprises. The Technology Consultancy Centre (TCC) at the University of Kumasi in Ghana has tended to work with existing microentrepreneurs. By contrast, the Small Industry Research and Training Organization (SIRTDO) at the Birla Institute of Technology in Ranchi, has worked in an area in which there is no tradition of entrepreneurship and has tried to assist the landless to establish microenterprises.

Established in 1972, TCC was intended primarily as research and development facility for outreach to Ghana's ailing industrial sector. From the start, attention was focussed on Kumasi's large informal (with about 20,000 artisan units) - initially through the establishment of campus-based experimental training and production units for the manufacture of nuts and bolts, soap making equipment and other light engineering processes, and later through the establishment of off-campus Intermediate Technology Transfer Units (ITTUs) sited within the informal industrial areas themselves.

TCC relied on small amounts of funds and technical assistance from external agencies (primarily NGOs) during its early years and has gradually built up the amount of core funding it receives from the Government (near 60%) and its own earnings (sale of products, consultancy fees, etc). With the advent of the ITTUs however very large sums of money were required to meet capital costs. This was beyond the means of NGOs and bilateral donors were approached. Although the Government has directly supported the work of the TCC, many of its policies over the years have hindered the process of transferring appropriate technology to the informal sector.

TCC has undertaken most support activities itself given the absence of other suitable agencies in Ghana which are able and willing to work with the informal sector. Despite this 'direct' approach, it is able to deal with about 1000 clients per year.

It would be difficult to quantify the benefits of TCC's work: since its clients are involved in the production of machinery, the multiplier effects in terms of output, employment and income in other industries are enormous. Of greatest importance is the fact that some of TCC's clients are now mini-TCCs themselves - developing products, testing practicability and viability in the market place and then putting them into production. This represents the beginnings of the informal sector's ability to carry out its own technology development and diffusion rather than relying on a research institute to perform this task for it.

SIRTDO is a joined venture of the Birla Institute of Technology, the Birla Institute of Scientific Research and the State Government of Bihar. Established originally to assist BIT's engineering graduates to set up modern small-scale industries, it later turned its attention to reaching a wider and less-well off clientele through helping the landless poor to establish rural microenterprises.

In 1983, a special rural programme was established in a poor rural area to provide technical and managerial/business training to landless men and women and to help them establish their own business. At the first training centre to be established in the area, courses of three to six months were given in a variety of trades including leather working, radio and TV assembly, brick making and food processing. Although technical skills have been successfully transferred, graduates have failed to proceed to establish businesses owing to a lack of confidence in their own ability. As a consequence, the Centre has been reorganized to cater for trainees to stay on in production units until they feel confident enough to leave.

There are plans to establish four more centres, each of which will produce 300 prospective entrepreneurs each year.

Both TCC and SIRTDO have shown a willingness to move away from a limited concentration on technology development to a wider technology diffusion approach. They have both also moved away from a campus orientation to work with and in the midst of their clients. The major difference is that TCC has insisted on working with existing entrepreneurs, whereas SIRTDO has set itself the more difficult task of trying to create them.

III. LESSONS LEARNED

The experiences described in the previous sector illustrate that quite substantial numbers of existing or potential microenterprises can be given valuable assistance through properly designed support programmes. Together, they allow a number of conclusions to be drawn about the elements which lead to success or failure.

First, the experiences support the view that private organizations make good lead agencies in microenterprise support programmes. All those mentioned have provided some assistance directly, but have also acted as a catalyst in bringing the resources of other agencies to benefit microenterprises when they themselves could not help. They have coped well with the business and technology aspects of microenterprise and have also actively forged links with government and public institutions as a way of securing funds for replication or of affecting policy change.

Second, it does seem that the most effective programmes are those which concentrate on a single sector (metal workers, fishworkers, etc) and which seek to provide varying degrees of assistance to existing entrepreneurs who have clearly identifiable problems.

Third, an important aspect of most of the programmes is the fact that funds have been invested in developing a technology which is appropriate to local conditions, rather than simply relying on commercially available alternatives. Significant amounts of funding from government and development agencies have been used to undertake research into improved stoves, improved boat designs, micro-hydro plants and light engineering process. Without this funding local NGOs and technology centres such as KENGO, SIFFS, UMN and TCC would be unable to do the necessary research - and obviously microenterprises are not able to invest resources themselves in undertaking R and D work. An equally important point, however, is the way in which the microenterpreneurs have been fully involved in the technology development process.

Fourth, the programmes show a good understanding of the nature and location of training needed to support microenterprise. In the Kenya stoves programme, great care was given to choosing and providing the most appropriate type of training for artisanal producers - this being given on the spot through a mobile training unit. In the South India boats programme, provision is made for training of village youths in boatmaking and engine maintenance and repair, as well as training of fishermen in use and preventative care of engines. Again training is given at the village level. In the micro-hydro programme in Nepal, extensive formal and informal training is available for owners and operators of turbine-powered mills as well as for agency and bank personnel involved in site selection and mill installation. In Ghana, TCC provides on-the-job training in its campus production units to the workers to be employed by entrepreneurs adopting its technologies.

These are all thought to have contributed to the success of the programmes concerned.

Fifth, the programmes show evidence of having built up an indigenous technological capability within the microenterprise sector which will allow it to adapt to changing circumstance without continued dependence or external advice and assistance. For example, the artisan boat yards in South India are producing variations on the original improved boat design to meet the varying

needs and circumstances of fishermen along different parts of the coast. Small commercial companies in Nepal have sprung up in response to the market for water powered devices and are devising and producing a range of technologies to suit varying circumstances. Many of the microenterprises assisted by the TCC in Ghana have now become product design, testing and diffusion agents in their own right. In all these cases, the transfer of technical skills from expatriates to nationals within projects and then to nationals outside projects has been quite remarkable.

Sixth, the programmes demonstrate that while credit is a crucial component of micro-enterprise support, it is often quite unnecessary to set up special credit institutions or schemes, since programme implementors can successfully gear up existing credit mechanisms to provide the needed loans. Often, the technical assistance agency is used by commercial or government banks to provide technical and financial assessments of loan applications from their clients.

Finally, the experiences show how important it is to think in terms of integrated systems of support which rely on a range of different agencies for a range of different purposes. At the micro-level, more thought needs to be given to ways in which these various agencies can be enabled and encouraged to collaborate on support programmes. Proper attention also needs to be given to the fact that a high proportion of people involved in the sector are women and that they usually face even more constraints than men in running enterprises. Evidence suggests that agencies with significant numbers of women extension staff are best able to reach women microentrepreneurs. At the macro-level, strategies are needed which encourage and enable governments and donors to introduce policies which make it easier rather than more difficult to assist micro-enterprises.

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