

PA - 1988-4.33

CSM/No. 58

COMMITTEE OF DONOR AGENCIES FOR SMALL ENTERPRISE DEVELOPMENT  
World Conference on "Support for Microenterprises"

Washington, D.C. U.S.A.

June 6th - 9th, 1988

1011 57279

Serving Micro-Businesses in Two African Countries  
By Michael Schulz

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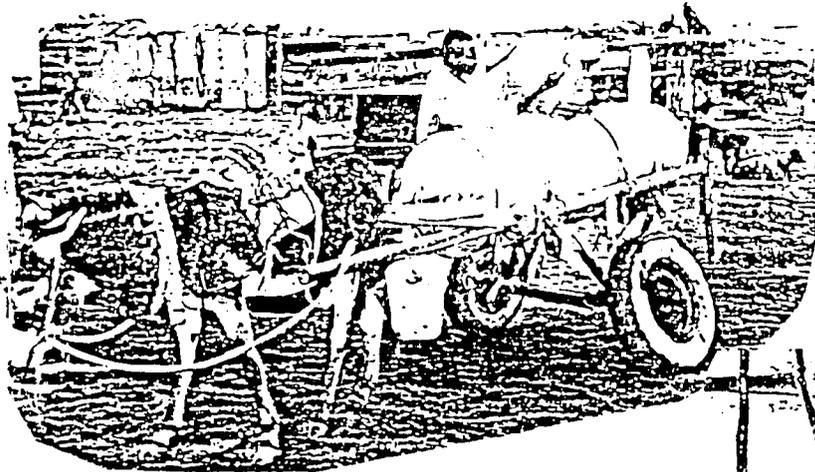
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Secretariat and Mailing Address, 1818 H Street, N.W., Room N-9033  
Washington, D.C. 20433, USA  
Telephone: (Area Code 202) 676-1695/676-0354  
Cable Address—INTBAFRAD

Michael Schulz

SERVING MICRO-BUSINESSES  
IN TWO AFRICAN COUNTRIES

-- - Some elements of successful planning -



A discussion paper

prepared for

Deutsche Gesellschaft für  
Technische Zusammenarbeit (GTZ) GmbH  
Postfach 5180

D-6236 Eschborn 1

Wiesbaden / Khartoum  
May - December 1986.

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## INTRODUCTION

This paper, for the author, marks the temporary end of four years of intensive work in micro-business development. For its intended readers, it is supposed to stimulate their ongoing work, be it as implementers or as planners. They will bear with the author for allowing some of the chaos of daily life in a project jamming this presentation without being able to capture the real fabric of this exciting life.

The empirical material is taken mainly from two projects which differ in all major aspects, except their *approach* to micro-businesses and programme development. To quite some degree, this approach is the product of cross-fertilization between these two and a budding third project, as the author, for more than a year, worked with them almost simultaneously. Begun consecutively, operating under different politico-economic conditions in different socio-cultural environments and, perhaps more important, in totally different institutional set-ups, these projects have elaborated certain elements of this approach to varying degrees. They provided mutually encouraging experience to strengthen the author's confidence in

- *selling* services to micro-businesses; and
- synchronising research, staff development and programme design,

which this paper is all about and which the author, with varying success, could convey to his colleagues in the field and at the desks.

The paper further attempts to show that

- micro businesses need *permanent access to certain services*;
- this, in turn, requires highly *specialised service agencies*;
- which *can and must sustain their operations from the returns on the sales of these services*;

and what methods and tools have emerged in two of the three projects as being instrumental in getting anywhere near these objectives.

The *Port Sudan Small-scale Enterprise Programme* (PSSEP) was initiated by Euro Action ACORD, London. It operates with 28 local senior staff from five branches which today reach out to all squatter and fourth-class residential areas of Port Sudan. As of June 1986, i.e. two years after it delivered its first service to a client, the PSSEP has reached out and sold a variety of services to appr. 1,800 micro-business operators. Appr. \$ 800,000 have been turned over in loans, the overall principal outstanding been raised to appr. \$ 300,000 and the default rate has continuously dropped, to currently below 0.3%. The interest on the loans together with fees collected for other services, some time next

year, may pay for all recurrent field expenses of the agency. Together with an increase in charges to also cover inflation, the 28 senior staff, as a collective entity, will then have to finally decide on the institutional future of the PSSEF. Over the past three years, they have prepared themselves thoroughly for a transformation of all local operations into an independent private service agency and the ultimate discontinuation of all outside financial and managerial inputs.

*Yambani Fang'ono - Ndikukula Kwambili* (start small - grow big) is a small unit of the Kalingalinga Integrated Upgrading Project in Lusaka/Zambia. It is administered by the Lusaka Urban District Council (LUDC) and financed by the GTZ. After some unsatisfactory attempts to promote economic activities through local NGOs, a new approach was launched in June 1985, based on the Port Sudan experience. The first loan was disbursed on October 31st, 1985 and by March 21st, 1986 a total of 84 loans had been received by 40 clients, of which 47 had been fully recovered already. With only 3 field staff and a portfolio in the Revolving Loan Fund gradually increasing to merely \$ 5,000, it is expected to have turned over appr. \$ 20,000 and have served perhaps 130 clients by the end of 1986. In the process of being fully integrated into the local government administration, the project would not necessarily have to depend on recovering its recurrent expenses. However, with interest rates ranging from 60% to more than 400% p.a. and at the present growth rate, it will recover all expenses, including inflation, some time early next year. Particularly in this respect, *Yambani Fang'ono - Ndikukula Kwambili* has well applied the lessons learnt in Port Sudan. In addition, the LUDC is considering the replication of this pilot project in other low-income areas of the city. As a means of financing this replication, the LUDC is pursuing forms of mixed financing, probably with the Small-scale Enterprise Promotion Ltd., a private lending institution, founded by the Development Bank of Zambia, the Netherlands Development Finance Company (FMO), the Zambian Trade Union Congress and the Friedrich-Ebert Foundation.

It is particularly this latter approach to financing the risk of inflation through State-subsidised loans from commercial lending institutions, which may be of interest in a third project. ~~The same concept was also encouraged by the experience in Port Sudan, and was the author's two brief assignments in 1985 to prepare the grounds for a pilot project to promote micro-businesses in Egypt.~~ The final outline suggests to create special units or, preferably, separate branches with a relevant and interested bank in one or a number of Egyptian middle-towns which would serve micro-businesses only and would recruit half of its staff in the area(s) to be served. Interest rates and other charges would ultimately have to cover all recurrent expenses, i.e. to be perhaps double as high as the government-prescribed rates. Currently (May 1986), the scheme is seriously considered for implementation by the governmental Principal Bank for Agriculture Credit and Development branch in Dumiat and the private-sector National Development Bank in Sharkeya. The credit portfolio and all recurrent expenses will be borne by these banks, while the Ford Foundation may pay for the costs of research and part of the training, and, in the build-up phase, may guarantee for 25% of all defaults.

The three projects aim at and two of them already reach out to the lowest level of economic activities and operate in more or less clearly defined urban low-income areas. They neither claim to provide a general solution to urban poverty nor to represent a universally applicable model for micro-business promotion.

They may, however, give one or the other idea of how to get out of the dilemma that plague so many ongoing micro-business promotion projects: trying to respond to a growing need and preaching the Gospel of Self-reliance, but eternally depending on outside assistance, having only limited outreach, facing exploding overheads and shocking default rates etc.

Unavoidably, the paper is an intellectual hybrid, neither entirely descriptive nor entirely conceptual. It reflects the mutually reinforcing relationship between conceptual refinements and practical improvements that characterises genuine experiments.

## Meeting Micro-businesses on Their Own Terms

For years now, the informal sector has been the focus of hot debates, in academic circles and in development agencies, as much as between the two on the one hand and national governments in Third World countries on the other. Their irrelevance to the survival and growth of the informal sector is becoming increasingly apparent. And the few successful programmes of assistance to the informal sector have come about mostly not because but despite of these debates.

Academics have been busy to indiscriminately collect masses of data, to create universal concepts and models or to refute them. The dualist concept of the informal sector as a traditional remnant, as opposed to a modern industrialised economy, for example, was first developed in Africa, yet is criticised with reference to the totally different Asian context. Neo-liberals are looking at the informal sector as a market paradise lost. Romanticists of all creeds declare it as an alternative to modern evils, such as "mass production", "bureaucracy", "consumerism" etc. And for some self-styled Marxists it represents all evils of capitalist modes of production, ranging from false class consciousness over child labour to exploitative dependency.

~~Development agencies, led by the **SIU**, stress the economic growth potential of the informal sector and, at will, expect it to solve the problems of underemployment, to accelerate original accumulation, to spearhead technological innovation, to re-distribute wealth or to achieve similar miracles. Community-oriented grassroots organisations have chosen the informal sector as a target for "affirmative action" in favour of either ethnic minorities or women, and, in return for harnessing it for a common good, demand subsidies and protection for the informal sector.~~

National governments, implicitly or explicitly, regard particularly the urban informal sector as a nuisance and an eye-sore, which they may not manage to get rid of but which they have no intention to actively and effectively encourage.

The one trait shared by all is, that they do not meet informal sector or micro-businesses on their own terms. To varying degrees they have failed to realistically

- appreciate the socio-cultural and socio-psychological aspects of their environment;
- assess their opportunities for growth, income generation, job creation, innovation etc. or rather identify the level at which such opportunities can be exploited;
- specify and rank the constraints on them;

- suggest objectives for intervention; and
- design appropriate methods and measures of intervention

in a particular and defined economy. This failure is rooted in the deep institutional, conceptual, operational and aspiration gap that separates what, for good reasons, has been called the *informal* sector from the *formal* agencies that wish to study, rescue or even demolish it.

What we have come to learn in Port Sudan and Lusaka and will be applied in Egypt is that the informal sector has no room for extravagancies, no need for imported "appropriate technologies", group experiments or book keeping systems; that its operations escape the instruments of feasibility studies and marketing research; that there is a thin and delicate border line between under- and overcapitalisation; that serving informal sector businesses is an informal and personalised undertaking; that, in short, there is no blueprint for assistance to the informal sector. Regional, national, local and personal circumstances shun standard responses.

Depending on regional and national economic conditions, histories etc., micro-businesses and the informal sector in Third World countries have reached different stages of development and, on the surface, are linked to the formal sector in different ways. At core, however, and in whatever shape, the informal sector is the indispensable functional complement of its terminological opposite, the formal sector. In any given overall economy and in varying forms, the informal sector serves the same function the *homelands* are supposed to have in the *Apartheid* system: it is instrumental in keeping the costs of producing and reproducing the commodity "formal sector labour" down, both directly, for the formal employers, and indirectly, for the State. As such it is an integrated social system, not confined to purely economic activities but encompassing health, housing, schooling, training and other amenities. Altogether they provide

- shelter from un(der)employment;
  - retirement from formal sector employment;
  - complementary sources of income for underpaid formal sector labour;
- and, most important,
- cheap and sub-standard housing food stuff, consumer goods, transport, entertainment and social amenities.

The population of most Third World countries is growing at rates between 2% and 4% p.a.; their urban populations grow by multiples of these rates. Particularly in Africa, the officially measured rates of economic growth and employment, however, are declining. And yet, these exploding masses of urban poor seem to be surviving far better than their supposedly food-growing rural

cousins. This miracle of true self-reliance and self-help has come to be called "the informal sector", and it is here to stay. The informal sector may look ugly and defy all models of a just and healthy society, but it grows and develops according to its own laws.

The basic decisions underpinning the three programmes described here are

- to support this spontaneous development of the informal *economic* sector; and
- to focus on *micro-businesses* as its smallest units;

i.e. to start with and appreciate the needs of existing micro-entrepreneurs, their individual aspirations and potentials for growth, change and innovation, and to respect their outlook on business and life in general.

These are only the first (mental) steps towards practically doing away with the institutional, conceptual, operational and aspiration gap *and* creating a highly specialised service agency, which can provide permanent access to services and can sustain its operations from the sales of these services.

However, in actually

- trying to get close to the customer - the micro-business operator -;
- fostering commitment to service and reliability in the agency; and
- increasing sales of services and profits from them;

we soon learnt to almost ignore the general descriptions and solutions offered by the growing body of studies, reports and papers on the informal sector. We increasingly became informal businesses in our own rights and adopted business-like practices in product design, marketing, management and recruitment.

We learnt to meet micro-business people as business people and have thus narrowed the gap. 95% of our customers may not possess what is called the achievement-motivated personality or represent the passionate and instinctive entrepreneur. In fact, most of them hate their occupation, have little confidence in its future and would prefer a job with a steady income. But they know pretty well that there is no alternative. They have overcome apathy and resignation and they are out to make money and to fend for themselves and their families. More importantly, we appreciated that as business people who live on the margin of existence and have learnt from bitter daily experience, they know the language of money, they know their market, their opportunities and constraints, their strategies of staying in business far better than we may ever be able to

know. Micro-business operators—have a lot to teach and can perhaps learn very little from, normally ill-equipped, development agencies.

The projects described here stand for an attempt at face-to-face cooperation, *based on equality*, between a promotion agency and micro-businesses, characterised by mutual benefit, clearly defined functions and for clearly defined purposes.

The projects confine themselves to those services which are

- *too big* as to be managed;
- *too complicated* as to be understood; and/or
- *too costly and long-term an investment* as to be advanced

but which, appropriately dismembered and wrapped up,

- *can be paid for*

by micro-business operators.

YAMBANI PANG'ONO - NDIKUKULA KWAMBILI  
Economic Promotion in the Kalingalinga  
Integrated Upgrading Project

PROJECT BACKGROUND

Kalingalinga, as a settlement, is one of the oldest squatter areas of Lusaka. It provides village-type housing for apprx. 2,500 families or 12,000 to 13,000 individuals. In almost all households at least one person earns a regular income from wage labour or other if low-paid employment (domestic service, watchmen, etc.). Historically a stronghold of the former (ANC) opposition to the ruling and now only political party, the UNIP, Kalingalinga, for long, had been neglected by the local authorities, in terms of town planning and development. More recently, it had become both an eye-sore and an attractive piece of land for expansion, as it is located in a strategic position along one main road to the international airport and near high-income quarters, the university, the mass-media complex etc. Despite five years of upgrading, the quest for its demolition is still a recurrent theme in the press and in parliament.

At the initiative of a resident German missionary and advisor to the Ministry of Agriculture the GTZ got involved with the Lusaka Urban District Council (LUDC) to jointly improve the area. The GTZ ultimately signed an agreement to technically assist the LUDC in the upgrading of Kalingalinga in 1980. The project itself was to be administered by the LUDC, but funded by the GTZ, through a grant under the bilateral aid programme. Apart from pursuing conventional upgrading tasks, the project agreement stipulated to also promote economic grassroot development and to sub-contract this component to a supposedly competent local NGO.

While the physical upgrading progressed for almost five years, economic promotion never appeared to have produced tangible results. Two local NGOs, after more than two years of experimenting with a group approach, women's work and general community development efforts, had failed to meet even minimal expectations. In addition, the first German shuttle expert, assigned to assist in the physical planning for a number of months every year, had taken on to also look after economic promotion. His ideas of economic promotion were shaped by "appropriate technology" concepts which he felt were relevant for the overall physical upgrading and could create economic opportunities in Kalingalinga. What amounted to his interference and impositions undoubtedly increased the general confusion over what economic promotion was all about.

Finally, in late 1984 another German architect replaced the first expert, and the LUDC took the economic promotion component in their own hands, without necessarily knowing what to do about it. The Zambian coordinator for the overall project, at the suggestion of the GTZ, visited the Port Sudan Small-scale Enterprises Programme for two weeks in early 1985, and it was

subsequently agreed between the LUDC and the GTZ, that the author, in a two-stages consultancy, should help the project in designing a new approach to economic promotion, based on the Port Sudan experience.

The author had worked in Zambia before and knew that this country does not provide a very conducive politico-administrative environment for assisting truly informal activities. All relevant laws, by-laws and regulations prescribe licensing, observance of European-standard health regulations, safety measures etc. and ban hawking, peddling, street-selling of cooked food in general and all economic activities in residential areas. The cadres of the ruling UNIP are particularly hostile toward what is officially called profiteering and exploitation, and the Party has published a 1986 calendar that on twelve pages portrays micro-businesses as the incarnation of exploiting the masses. A Youth Vigilance Force has been given the power to take action against, among others, street sellers.

Generally, development agencies regard Zambian employees as not trustworthy and inefficient, "beneficiaries" of development projects as overdemanding and overdependent and borrowers in credit schemes as particularly bad risks.

On his arrival, two women, one employed with Project funds, another seconded by the LUDC, were administering more or less listlessly the approach to economic promotion that the last local NGO and the previous shuttle expert had left behind:

- a group of six to ten women coming to the Project premises to make candles and soap and knitting together was on the brink of total collapse after the death of one key member;
- a newly "recruited" group of six men was waiting for the disbursement of a loan to start producing laterite-cement blocks within the Project premises;
- three interest-free loans with a principal of almost K 2,000 in arrears for more than a year;
- workshop facilities within the Project facilities provided free of charge to a carpenter and a motor mechanic.

No clear records were available of financial or non-financial transactions. The staff complained of

- lack of guidance and purpose
- general negligence for their job on the part of the LUDC administration
- constant interference from and favouritism demanded by local

Party officials.

They had never done any systematic analysis of spontaneous economic activities in Kalingalinga. Neither their own experience in similar undertakings nor their common sense in such matters had ever interested anybody.

In short, the situation very much confirmed both expectations and prejudices.

## RESEARCH AND STAFF DEVELOPMENT

As a first measure to contain the situation, all ongoing and planned efforts at training skills, forming groups, setting up new "businesses" with new technologies in new trades were stopped. The author designed and carried out a three months training course in micro-business promotion for the two women plus a group of four young men, who had been employed as trainees for the overall Project. In content and basic methodology, the course resembled the one developed in Port Sudan (below), only that the lower level of education and life experience of the Kalingalinga staff, their initial lack of motivation and the short time available appeared to require a more active input from the consultant who ended up doing the actual classroom teaching. Aiming at their full participation in planning a new design of economic promotion and developing their capacity to implement and manage it on their own, the course consisted of three major elements:

- studying and discussing general issues related to micro-businesses and their assistance;
- getting to know micro-businesses and their operation in Kalingalinga;
- learning the basics of business management.

All course materials were prepared locally and with reference to local conditions. They are available as a set and for further use at Project level, from the LUDC Peri-urban Section as well as from the GTZ - FB 312.

The first element was meant as an introduction, partly using excerpts from publications on the informal sector, partly visiting local agencies and banks supposedly concerned with small business promotion and partly inviting experts on the matter.

The second element consisted of two distinctly different methods:

- a complete census of all self-employment activities noticeable in Kalingalinga; and

- two field placements of ten days each with a micro-business in Kalingalinga;

which together served the double purpose of *taking an inventory of and exposing* the course participants *to actual micro-business operations*. Due to lack of time and discretionary funds, the idea of letting the participants develop and carry out a defined business project on their own had to be dropped.

The third element, while touching upon such topics as marketing, costing, credit management etc., in the course of events concentrated on how to set up, keep and analyse records etc. as a preparation for an independent and rigorous financial management of the micro-business promotion programme to be designed.

In retrospective, it looks as if the second element of exposing the participants to actual micro-business operations could have been expanded at the expense of the third element. Mainly due to their poor performance in basic arithmetics and the false but deep-seated accountancy concepts two of the brighter participants had picked up at colleges, too much time was spent in the classroom that could have been spent in the field.

Through the combination of small material incentives, motivation exercises, recurrent achievement control and a tight time table, most participants developed a sense of discipline otherwise unknown in the overall Project. At the suggestion of the consultant, the LUDC transferred one participant from the project for continuous indiscipline, another failed to follow the course and was removed by the Project Coordinator. A third participant left Project employment for further education, after successfully completing the course.

At the end of the course, the participants together with the Zambian Project Coordinator and the author sat together for a week-long workshop to practically apply the lessons learnt in the classroom and in the field to designing a programme of micro-business promotion for Kalingalinga.

#### **MICRO-BUSINESSES IN KALINGALINGA**

The census and other field exercises had revealed the following situation characterising the informal economic sector in Kalingalinga (figures as of June 1985 at the exchange rate of the US\$ at the time):

- there were appr. 400 micro-businesses in operation (or temporarily hibernating);
- more than 80% of all micro-businesses were engaged in some form of retailing, 12% in manufacturing and 6% in repairs and services;
- appr. 3.5% of the 2,500 households received their main income and

another 12% or so a supplementary income from some sort of micro-business;

- almost 80% of the micro-business operators were women, of which 93% were engaged in petty trading;
- investment in micro-business with a total value of appr. \$ 60,000 came second to housing (with a stock value of appr. \$ 500,000);
- micro-businesses provided appr. 200 jobs in addition to the one of the owner and a total monthly income of appr. \$ 16,000 (equivalent to 2,000 jobs casual labour jobs in the formal sector); and
- they turned over appr. \$ 27,000 in consumer income every month.

The main constraints on micro-businesses in Kalingalinga were identified as

- heavy undercapitalisation compounded by lack of access to credit;
- legal, administrative and political discrimination compounded by lack of stability and general confidence;
- limited management capacity.

The main opportunities were seen in

- tapping a greater proportion of wealth earned by Kalingalinga residents;
- increasing the market shares of manufacturing, repair and services businesses.

#### OBJECTIVES AND CRITERIA

With the considerations as outlined in the introductory chapters of this paper in mind, the participants in the workshop set out objectives, related to (1) programme operations, (2) micro-business promotion and (3) community benefits. It was decided to aim at

- 1 - eventually recovering all recurrent field expenses, overheads and the inflation rate from fees, interest etc. charged to the clients;
- eventually extending services to virtually all existing and budding micro-businesses in Kalingalinga;
- facilitating strictly impartial and non-selective appraisal of all

applicants who meet the basic criteria;

- maintaining a high degree of flexibility and expediency in designing individualised business plans with clients;
- 2 - increasing incomes from micro-businesses in Kalingalinga;
- stabilising and increasing the number of jobs and on-the-job training facilities provided by micro-businesses in Kalingalinga;
- 3 - widening the range of commodities and services rendered by micro-businesses in Kalingalinga;
- producing and keeping more wealth in Kalingalinga;
- and eventually reducing the (relative) prices of commodities and services available from micro-businesses through increased competition.

The criteria to be applied were based on a number of considerations, such as the LUDC approval to operate, the security of Project funds, the feasibility of a business(idea), the personal prerequisites for survival in business, the need to spread the impact and benefits and the logistic impracticability of providing programme services beyond the community boundaries. An applicant wishing to buy services from YAMBANI PANG'ONO - NDIKUKULA KWAMBILI must prove that she/he

- is a Zambian citizen in possession of a valid National Registration Card;
- has family responsibility in Kalingalinga;
- has been continuously residing in Kalingalinga for the past three years;
- is operating (or planning to operate) a viable and socially and culturally acceptable business in Kalingalinga (ruling out gambling, loan sharking, prostitution, black magic, dealing in stolen goods, distilling alcohol etc. but leaving legal definitions in suspense).

The research into micro-business operations in Kalingalinga had further suggested that

- access to credit was more important than the *costs* of credit;
- no business had an actual turn-over period for working capital of more than five weeks;

- women faced great difficulties to safeguard their little capital and cash against family demands or their husbands' interference.

### SERVICES AND CONDITIONS

In response, it was therefore agreed to offer the following services at the described conditions (present rate of the Zambian Kwacha appr. \$ 0.16):

#### Micro working capital loans

Maximum loan volume	25% over previous requirements (or loan) but not more than K 200 at a time;
Maturity	equivalent to previous turn-over period, but no longer than 9 days;
Repayment	equal daily instalments, beginning the day after loan disbursement;
Interest	1% of total loan value (instead of principal) per day;
Security	<i>personal</i> movable assets equivalent to the loan value and a guarantor residing and owning a house in Kalingalinga and with a steady income of more than K 300.

#### Working capital loans

Minimum loan volume	K 200;
Maximum loan volume	no fixed ceiling (practically appr. K 1,000), but not exceeding 25% of previous requirements for one turn-over period (or previous loan) at a time;
Maturity	equivalent to previous turn-over period, but no longer than 5 weeks;
Repayment	equal weekly instalments, beginning the week after loan disbursement;
Interest	2% of total loan value (instead of principal) per week;
Security	<i>personal</i> movable assets equivalent to the loan volume and a guarantor residing and owning a house in Kalingalinga and with a steady income of more than K 300.

#### Hire purchase of tools and equipment

Maximum loan volume	K 1,000 at a time;
Maturity	no longer than 20 months;
Repayment	equal monthly instalments of not less than K 35, beginning the month after loan disbursement;
Interest	4% of total loan value (instead of principal) per

Security — month;  
all implements bought from the loan and, if felt necessary and advisable, a guarantor.

All charges for the loan facilities include payment for the compulsory advisory services (below).

#### Business advisory services

Available also to applicants not receiving loans. It includes on-the-spot advice during regular business visits on:

- how to make best use of the loan(s) received;
- how to manage cash, stock, capital investment and labour more effectively;
- how to diversify and mix stock profitably;
- how to attract more customers through improved cleanlines display, advertisement etc.;
- how to develop and make good use of appropriate basic records;

wherever it applies and makes good sense.

The service as such, at pressure from the LUDC, is free of charge and available to clients for a limited period of time only. The length will depend on individual needs and is expected to be longer in the case of start-ups.

In some cases of loan applications the staff may deem it necessary for an applicant to subscribe to a period of advisory services before she/he can qualify for a loan or a client can receive a subsequent loan (in case previous loan use was regarded ineffective).

#### Marketing and supply assistance

- Identifying alternative sources of supply;
- negotiating bulk contracts (particularly with the Project and the LUDC);
- securing availability and delivery of supplies with bulk suppliers (State wholesalers, commercial farmers etc.).

Fees: 2 to 10% commission on the total value *added*.

#### Shop facilities

YAKBANI PANG'ONO - NDIKUKULA KWAMBILI also lets a limited number of business premises to micro-business operators at a rent set by the LUDC which, however, is directly plowed into the Revolving Loan Fund. These premises are either underutilised Project facilities or could be developed for a specific applicant and viable purpose within the Project premises.

### Further conditions

The registration fee of K 2 is non-refundable.

An applicant must re-register and pay another K 2 registration fee if during the appraisal process she/he misses any appointment without prior notification.

Equally, an officer missing any such appointment has to pay K 2 to an applicant from her/his own pocket.

An applicant or client is required to fully cooperate in establishing a true picture of her/his home situation and the state of the business(idea/plan). This entails (sometimes repeated) home and business visits by the staff *and* independent enquiries from neighbours etc.

Any attempt at deceit will result in discontinuation of services and, wherever applicable, appropriation of security and remaining goods bought from the loan (until full payment of the loan plus accumulated interest) and disqualification for any future assistance.

All payments have to be made at the field office. Continuous late payments requiring follow-up visits by the staff will result in disqualification or suspension of services.

### RECORDING AND DOCUMENTATION

Simultaneously, a system was set up to record particularly financial transactions, as the ordinary LUDC accounting system does not allow expedient handling of cash and has no procedural provisions for revolving funds. This system comprises of

- registration forms
- numbered receipts and invoice books
- loan and rental agreement forms
- the working ledger with provisions for instant analysis
- the client account cards
- the client log books

which are required to be filled or entered into as the respective transactions take place and, thus, facilitate instant checks and balances and immediate auditing, if deemed necessary.

In addition, a client will sign any changes in her/his principal in the client log book.

Twice a month a balance sheet, a profit & loss statement and a cash flow statement are prepared by the field officers, and regularly checked and verified by the LUDC Audit Section *in the field*. The field staff also prepare fortnightly cash flow projections for their own information, reflecting expected instalments to be paid in and new loans to old clients to be paid out.

Furthermore, all household and business data elicited during and after the standard appraisal process (home visit and business analysis) are entered in the client log book, providing a growing body of data, case histories and socio-economic information and facilitating easy monitoring and evaluation as well as further planning.

#### PROCEDURES AND JOB DESCRIPTIONS

The basic procedures to be followed in dealing with applicants and clients were laid down as follows (and specified in more detail in the actual programme document):

- 1 general promotion of services
- 2 individual calls on prospective applicants
- 3 careful explanation of criteria, services and conditions and the — purpose of a revolving loan fund in the appropriate vernacular
- 4 filing of application and collection of registration fees
- 5 home visit; establishing family composition, income, general living conditions, residential history and personal trustworthiness of applicant (as judged by fieldworker responsible for case)
- 6 enquiries in neighbourhood as to an applicant's trustworthiness
- 7 business analysis; establishing basic business data and its history as well as the (potential) viability of the business(idea/plan), outlining a more detailed business plan with client etc.
- 8 presenting findings and the joint client-fieldworker's request to — the micro-business promotion team for discussion, refinement and appraisal
- 9 deciding on kind, volume and particular conditions of assistance
- 10 relating team decision to applicant and finalising contract
- 11 disbursing the loan
- 12 monitoring the development of a client's business; advising the — client in the process
- 13 recovering the loan
- 14 determining volume and conditions of new loan with full team etc.

If for any reason the respective fieldworker or the team as a whole in the process feel a client is not reliable, they may disqualify her/him or suspend services for any period of time.

The job descriptions were designed and worded in such a way that they are closely related to the specific task of micro-business promotion and reflect the service- and achievement-oriented approach of YAMBANI PANG'ONO - NDIKUKULA KWAMBILI. As such they do not specifically state the routine duties of a LUDC officer, but take their proper and timely execution for granted. And while the overall assignment is highly structured, it is understood that, for the sake of smooth operations, everybody must be capable of filling in for everybody else (be it attending to somebody else's case load, record keeping, report writing or any other duty).

*Objectives, services, procedures, job assignments and recording devices form an integrated system in which one element supports the other. Any minor change in one element will instantly require appropriate changes in all other elements.*

The procedures, techniques and the whole system was practised with phony cases and transactions and dummy cash, forms, books etc. for two weeks, until the LUDC administration, rather unexpectedly, approved the experimental implementation of the programme in the form presented above.

A Revolving Loan Fund of initially K 5,000 (plus K 1,000 for staff incentives) was to be set up, and the staff had outlined a special programme to recover the old arrears and selling assets left redundant by scrapping the old approach.

After agreeing with the staff on certain target figures to be achieved by January 31st, 1986, the consultant left the country in early September 1985 to return in early January for another 3 months.

## SERVICE DELIVERY AND MANAGEMENT

In terms of sustainability it may be too early to declare YAMBANI PANG'ONO - NDIKUKULA KWAMBILI a success. Its sustained success, however, is closely linked to the wider institutional set-up of the LUDC. YAMBANI PANG'ONO - NDIKUKULA KWAMBILI is only a minute part of the overall LUDC operations. It is rather unrealistic to expect an institution (employing more than 6,000 people and spending several million US\$ every year) to change its long-established and cherished bureaucratic culture, style and procedures for the sake of a small unit employing 4 staff and a prospective budget of not more than \$ 12,000. And there is an undeniable basic incompatibility between the LUDC and micro-business promotion in Kalingalinga that will remain a constant source of mutual irritation. To allow YAMBANI PANG'ONO - NDIKUKULA KWAMBILI to work the way it is working at present, is perhaps taxing the ultimate limits of the LUDC administrative tolerance. That key officers seriously consider to replicate the

Kalingalinga experiment in other low-income quarters of Lusaka demonstrates an unforeseen sense of innovation and commitment on their part. If the basic incompatibility would be appreciated by all parties concerned, it could be reduced to an ordinary managerial matter to live with.

A look at the current achievements from the perspective of narrowing the gaps between the world of the informal sector and that of formal institutions will indeed disclose that, apart from appropriately designed services, management and style are the crucial elements. YAMBANI PANG'ONO - NDIKUKULA KWAMBILI strives for becoming an intermediary agency which requires

- a clear sense of purpose,
- clarity of structure,
- expediency in procedures,
- modesty in style and
- empathy on the part of the staff.

To maintain and elaborate these characteristics in delivering services requires effective management.

Micro-business operators are not different from other business operators in that they appreciate *the purpose* of business, which in the final analysis *is to make money*. To lend money is also a business, yet a particularly risky one. Therefore, to lose money means to lose reputation as a business. The clients in Kalingalinga do seem to understand the need for rigorous appraisal of loan applications. They express their confidence in YAMBANI PANG'ONO - NDIKUKULA KWAMBILI as a business by their general acceptance of the charges, sincere negotiations of detailed conditions and through steadily increasing demand and punctual repayments. More than half of the clients have another client as guarantor. The staff demonstrate salesmanship by actively soliciting new clients and constantly calling on business operators and residents not yet served. They let service and attention to clients supersede "office work".—

The clarity of structure is based upon a set of well-defined criteria and conditions and is reinforced by the deliberate and comprehensive guidance prior to accepting an application. Most importantly, however, the clarity lies in the instant and impartial appraisal process that is in the hands of the field staff only and which is not blurred by sometimes incomprehensible committee decisions. So far, only two out of 47 applicants had to be turned down because they had not met the criteria. One early applicant withdrew because she had lost confidence in her ability to meet the strict conditions, but re-applied later and has become a reliable client since. Two others, who had missed appointments and therefore were dropped, also re-applied and are now being served. Only two applicants were turned down, because the staff felt they would

take advantage of their position in the community and not use the loan for a business purpose.

Expediency in procedures merely expresses the overall business-like approach at another level. For any business operator time is money, and to apply for an expensive loan is a clear enough sign of an acute need, the response to which cannot be delayed. The process of appraising an application in Kalingalinga, despite its rigorous requirements and the amount of data to be collected, does not take longer than two or three days, after which the actual disbursement, signing of contracts, issuing of invoices and receipts etc. is done in less than 30 minutes. The payment of instalments takes no longer than 10 minutes.

Modesty in style expresses itself in various ways: attitude and approach of staff towards clients, location, outlook and furnishing of the field office, setting of office hours and rendering services at the clients' places of operation. The staff are polite, considerate and show respect for their clients. The field office is located in a former carpentry shop, with neat ceiling nor proper windows, but with a sufficient number of comfortable chairs for visitors. It is open and attended to all day round, and the staff take turns in field assignments and in breaking for lunch.

Micro-businesses are deeply rooted in and, in a sense, are extensions of their operators' family life, culture and society. To achieve improvements in micro-businesses requires devising highly individualised strategies. Respect and modesty on the part of the staff must therefore be complemented by a growing understanding for the particular socio-cultural environment in which they are working. This empathy is likely to flourish if staff deal with clients on business terms, i.e. on equal footing, and if their jobs depend on their achievements in selling services and making sufficient money so as to maintain their jobs.

#### CLIENT RESPONSE AND CURRENT ACHIEVEMENTS

For the sake of simplifying the presentation of figures as per 17. 5.1986, only rounded figures are given.

The census estimated the total number of small and micro-businesses in Kalingalinga to be appr. 400. In a matter of less than 5 months, with an original portfolio of less than \$ 1,000 and with only 3 staff YAMBANI PANG'ONO - NDIKUKULA KWAMBILI had reached out to 40 (or 10%) of these businesses, extending 84 loans or a total loan volume of more than K 33,000 to them. Of these, 47 loans, representing K 22,000 have been fully recovered already.

The average single loan amounted to roughly K 400 with a maturity of 3 weeks.

65% of the clients were engaged in some form of retailing (as opposed to 82% in the total business population as covered by the census), 25% in manufacturing (census: 12%) and 10% in repairs and services (census: 6%).

42% (or 17) of the clients were women.

35% (or 14) of the clients were start-ups of which only one failed to survive.

The actual repayment rate amounted to 100%. The only default of K 300 was fully recovered from the guarantor, and all accumulated interest paid by the field officer responsible for serious flaws in appraising this application.

Not one Kwacha was lost to financial mismanagement or imbezzlement by the staff. All accounts are properly balanced and have been verified by auditors.

The Revolving Loan Fund was started (with a 12 weeks delay) in November 1985 with an initial transfer of K 6,000 from the main Project account into the separate bank account for YAMBANI PANG'ONO - NDIKUKULA KWAMBILI. Of these a sum of K 1,000 was set aside for staff incentives and petty expenses. The remainder of K 5,000 can be considered the initial portfolio.

As of 17. 3.1986, the portfolio has grown to K 12,500, or by 150% over and above the initial net investment. The increase stems from three separate sources:

- K 3,400 have been generated by selling redundant assets;
- K 1,800 have been collected in old arrears (while only K 150 in old arrears had to be written off);
- K 2,200 have been raised in fees, interest and commissions.

It is this latter figure in relation to funds actually revolving as loans that is of real value in assessing the viability of the Revolving Loan Fund and its chances to be safeguarded against de-capitalisation. As of 12. 3.1986 K 12,000 are actually revolving, i.e. are outstanding as principals with clients. On the other hand, appr. K 900 are expected to be generated in fees and interest between April 1st and 30th, 1986. This would equal a monthly revenue of appr. 7% (or 80% p.a.). Such a rate of return together with the present rate of growth in the total principal outstanding (appr. 20% per month, increasing the outstanding principal to more than K 30,000 by the end of 1986) would cover all devaluation caused by inflation and a major share of the direct field expenses and overheads.

Assuming K 15,000 p.a. in direct running costs and overheads, 35% inflation p.a., 3% defaults to be written off and a yearly return of 80% on the principal, the actual break-even point for the Revolving Loan Fund would be somewhere near

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K 35,000 outstanding as principal. It is expected to reach this point some time next year. This growth rate is not altogether unrealistic and operations just beyond break-even point probably define the limits of manageability.

Except for a few items, all redundant assets have been sold and all outstanding arrears have been collected. At present, there are three sources for continuous expansion of the portfolio:

- the Project budget which is reserving a total of K 50,000 for economic promotion in Kalingalinga;
- rental income from business premises of appr. K 250 a month or K 2,500 for 1986;
- revenues from interest and other fees, conservatively estimated at K 13,000 for the remainder of 1986 (or K 15,000 altogether).

The LUDC has already decided to gradually increase the portfolio by K 8,000 between March and June 1986, and by another K 15,000 before the end of 1986, if the June/July evaluation confirms the viability of YAMBANI PANG'ONO - NDIKUKULA KWAMBILI.

As no business operator would disclose her/his actual profits and investments, we depend for an assessment of improvements achieved on two reliable indicators only: sales of services and repayment performance. These can be supported by more casual observations by the field officers.

In case of justifiable difficulties, clients are given the opportunity to re-schedule their loans, if within limits of days or a week only. And since we have no reason to assume that the clients are not rational human beings, the repayment pattern provides sufficient evidence of the effect the loans had on a business. Equally, the request for a higher subsequent loan does not indicate more problems, but increased business volume and other budding or actual improvements.

Out of 40 clients and 84 loans (disregarding the one fraudulent default), the staff had to follow up only 5 clients because they had fallen in arrears for a few days or a week. Late payers, however, are outnumbered by early payers, who not only wish to save interest but want another (usually bigger) loan.

In fact, 95% of those who had completed a loan cycle and were not disqualified have come for another loan, some as many as 5 times. And 80% of the several-time borrowers have increased their subsequent loan by 25%, while another 20% have said they had topped up their lower or same loan volume with increased profits.

In addition, eleven start-ups had been firmly established in business, another five, which previously had experienced long periods of closure, have become

permanent operations and, at least, three are known to have made substantial capital investments from cash freed by working capital loans, one can safely assume that, as a rule, the loans have contributed to improving the business concerned.

As it is expected to have reached out to, at least, 130 (or 30% of all businesses in Kalingalinga) by the end of 1986, one can further assume substantial indirect improvements as a result of increased competition, stimulation through mutual transactions between different trades within Kalingalinga and a higher degree of general confidence in the viability of micro-businesses as such, which, in turn, may produce political ramifications in favour of micro-businesses, at least at neighbourhood level.

Apart from the 14 start-ups (including 1 failure, 2 businesses still vulnerable and 11 relative successes), 15 new paid jobs have been created with the help of the loans. Only one of the start-ups had given up his previous job, all others had no secure income prior to assistance. This together with the served general increase in investment may again justify the conjecture, that also family incomes have been stabilised, if not improved. This assumption is confirmed by the overall satisfaction clients express when casually asked about the general effects of the loans on their life.

Ten of the forty clients served so far are grocerers. The impact of YAMBANI PANG'ONO - NDIKUKULA KWAMBILI on the supply of Kalingalinga with basic commodities is probably the most dramatic, and nobody had expected it to be achieved in five months only. Through the loans, the variety of commodities available has increased substantially, and growing competition has forced even those grocerers who have not yet come for a loan to sell mealie-meal, sugar, salt, cooking oil, washing powder etc. in standard quantities and at reduced (i.e. standard) prices.

THE PORT SUDAN —  
 SMALL SCALE ENTERPRISES PROGRAMME  
 Serving the Informal Sector  
 of an Entire City

PROJECT BACKGROUND

Euro Action ACORD (EAA), the implementing agency of the Port Sudan Small-scale Enterprises Programme (PSSEP), is a rather unique organisation in a number of aspects. These have to be described briefly so as to appreciate the not very common institutional history and outlook of PSSEP as a budding local agency.

EAA is an international consortium of 26 Western European and Canadian NGOs that have neither religious nor overt political ties (such as Oxfam, Radda Barnen, Mani lese, or Deutsche Welthungerhilfe). Founded in 1972 as a response to the Sahel drought, it confines its operations to a limited number of African countries only. EAA, in contrast to most of its members, is a strictly implementary agency and has no funds of its own. A project is financed by member contributions, on a yearly basis, to this particular project. The headquarters, presently located in London, and its few local representative offices are maintained by a 10% taxation on actual project expenses. Thus, the whole organisation depends on the success or failure of its projects. The total EAA budget has reached an unprecedented peak of appr. \$ 11 million in 1986.

The general mandate of EAA is indicated in its acronym ACORD, i.e. Agency for Cooperation and Research in Development. In more detail it stipulates to

- carry out research and development
- with the poorest of the poor
- to achieve more self-reliance
- in geographic or sectoral areas where grassroot structures are either non-existent or particularly weak.

The agency, being comparatively young and vulnerable, has remained unbureaucratic and is generally known for innovative programming and efficient management.

The PSSEP is EAA's first and only urban development programme. It emerged from a rather vague pledge by EAA to the Sudanese government in 1980 to stimulate self-employment activities among spontaneously settled refugees in Port Sudan. In mid-1982, the author and his wife, Judith Schulz, were charged with the task to design an appropriate programme and guide its initial implementation. They

were faced with a conceptual and structural *tabula rasa* and given nine months time to come up with an outline to be presented to prospective funders.

#### RESEARCH AND STAFF DEVELOPMENT

The two programme coordinators had very little experience in what became programming for the informal economic sector. On the other hand, the complexity of the situation in Port Sudan was recognised at an early stage. Together with the dearth of experience in urban urban programming and the generally high regard for research within EAA, this required extensive original studies prior to designing the programme outline.

Equity considerations and the fact that refugees were spread all over town and economically not necessarily worse off than their Sudanese neighbours, in terms of programming, suggested an integrated, non-discriminatory and town-wide outreach. Because the data available on Port Sudan in general and its informal sector in particular proved not to be very reliable, genuine and had first-hand field research appeared to be necessary.

After 2 months of informal familiarisation for themselves, the two project coordinators had outlined a comprehensive plan for an initial research programme and hired 15 Sudanese and refugees to carry out the actual fieldwork. They were women and men of all walks of life, different ethnic origin, age, education, experience and political creed. The research covered six major so-called refugee affected areas in town - wide-spread squatter and fourth-class residential areas with a population of appr. 300,000. It was not intended to meet any rigorous scientific standards but to help establishing a clearer general picture of living conditions, sources of income, occupational careers, residence patterns etc. This first phase comprised of

- a complete inventory of government and semi-private services (education, health, transport, sanitation, water and electricity supply, police, recreation etc.);
- an inventory of political organisations and politico-administrative bodies at neighbourhood level;
- a household survey based on a questionnaire with 70 topics (n=373);
- in-depth studies of 70 different micro-businesses in 38 different trades (each taking between 2 and 3 days), based on a questionnaire with more than 200 topics;
- lengthy discussions with administrators, nurses, teachers, police officers and political and religious leaders at neighbourhood level.

While these data were compiled by the local researchers and before embarking on a training course in micro-business promotion, the total number of staff was

brought up to altogether 24, half women, half men, so as to fill certain ethnic, age, gender or professional gaps in the composition of the staff team.

The actual analysis of the data, as part of the subsequent classroom training, helped to identify areas and topics for further research to be woven into the training course. It was this process that produced the idea of subsequently *combining the taking of an inventory systematically with exposing the course participants to actual micro-business operations*. All of the 24 staff originally came from a more or less poor urban background, but through education had just managed or were aspiring to escape its worst aspects. They obviously found it difficult to go back to this same background and to avoid a patronising attitude towards people who had not managed to escape it. Exposing them to this life again somehow helped to instil more respect and a humbler approach towards them. Taking inventory of everything they always had taken for granted facilitated an entirely new perspective on their own environment. The various research exercises produced

- a census of all noticeable micro-businesses, except trading in any form or shape (n=5,600);
- 120 more in-depth studies of altogether 47 trades;
- 45 different monographs of selected micro-businesses, based on two field placements of altogether 6 weeks for each participant;
- a women factory labour survey (n=28);

which substantially broadened the understanding of both the coordinators and the local staff.

The classroom teaching, apart from preparing and analysing these studies, covered general topics of planned development in Third World cities, small business management and micro-business promotion. The major part was based on Malcolm Harper's *Consultancy for Small Businesses* (Intermediate Technology Publications, London: 1976).

All lectures and classroom sessions were prepared and held by selected participants. The coordinators confined their contribution to introduce role plays and strategy games as means of instruction. In addition, the national, ethnic and political heterogeneity of the staff required constant efforts to create and maintain an if delicate spirit of cooperation and team work. In the process, three employees had to be dismissed and replaced, because they obviously had problems to respect other cultures or political creeds.

Simultaneously with the outline of possible services to be offered to micro-businesses in Port Sudan, a comprehensive system of procedures, records, reportage and accounts was developed and its operation trained. Finally, the

services were advertised in all areas initially selected for assistance and 1,200 applications received in a matter of three days only.

With no exception, field workers were met with great cooperation and furnished with all data required. Particularly government officials at local and neighbourhood level were positively delighted about the interest shown in their work. Only once or twice had the coordinators themselves to ask for official permissions; in all other cases the fieldworkers relied on their own means.

The whole process, between the arrival of the project coordinators and the first round of applications received, took 16 months in time and a total of appr. \$ 120,000 in expenses (incl. all overheads). Even in retrospective, it would be hard to tell what components of this extensive period of preparation could have been shortened. Not delivering tangible results for so long, however, definitely taxed the patience of EAA and the project funders to its limits.

#### PORT SUDAN AND ITS INFORMAL SECTOR

After independence Port Sudan had about 50,000 inhabitants; in 1964 the estimate was 80,000 and by 1971 this had doubled to 160,000. Today, with an estimated population of 450,000, Port Sudan is the second biggest town in the Sudan. The actual yearly growth rate of its population fluctuates between 8% and 9%, while the natural growth rate is estimated to be 2.3% p.a. (or 0.9% below national average!).

The basic services (water, electricity, health and education) have lagged far behind this growth, and its present vulnerable demographic, economic and social position could not be understood in the original terms of refugee influx. It had to be put into a more general perspective of rapid urbanisation.

The town itself is historically young and has gone through significant phases in its development, each leaving its mark on the present lay-out of the city, its economy and its demographic structure.

The founding period was characterised by the consolidation of Anglo-Egyptian colonial rule in the Sudan. Geopolitical considerations and the need for an outlet for the exploitation of raw materials merged and laid the foundations of Port Sudan. In 1904, the Arbaat wells, some 40km northwest of the town centre, were first tapped to provide water to the budding town. The railway line connecting Atbara and Suakin, the old Turko-Egyptian shallow-water port 60km further south, was completed in 1906 and soon extended to Port Sudan. Three years later the first docks in the new harbour were inaugurated. With the accelerating decline of Suakin, also pilgrims on their way to Mecca found a new transit point in Port Sudan. The development of the town centre itself continued until the mid-twenties, and these buildings still give shape to the visible part of the townscape.

The beginning of World War II underlined the strategic position of Port Sudan, particularly in the conquest of Eritrea and other battles of Northeastern Africa and the Horn. Population growth had been rather slow in the first forty years of its existence. As a result of the war the town grew rapidly in size and population during the forties. The first fourth-class housing areas not restricted to particular employment were constructed near the town centre, mainly for retired soldiers and the increasing labour force in the docks which used to camp in nomadic tent settlements at the far fringes of the town before.

Although growth rates stabilised between 1950 and the late sixties, vast illegal settlements emerged in the north and northwest of the town. Whether by coincidence or not, plans for upgrading these squatter areas on a large scale began to materialise at a time when the first bigger industrial estates were set up in the northern industrial area of Port Sudan.

The importance of the port itself began to decline rapidly with the closure of the Suez Canal in 1968. Yet the population kept growing at an accelerated speed, by no means proportional to the industrial development. The changing ecological conditions in the Red Sea Hills, however, and the beginning influx of refugees from the Eritrean lowlands in Northern Ethiopia had a major impact on the growth in numbers of town dwellers. In 1965 the Ethiopian government had begun area bombing of the lowlands, expelling thousands of nomadic Muslims from their homeland. And whereas in the beginning of the sixties the population of the Sudanese Red Sea Province was equally divided into rural settlers, nomads and urbanites, the dramatic changes in rainfalls since then has upset this balance. Today perhaps 70% of the citizens of the Red Sea Province are living in urban centres, 50% in Port Sudan alone.

In fact, the desert is encroaching on the town from the north and northwest where there used to be vast thorn tree forests. Since the end of the sixties this has led to a clear switch in the pattern of town expansion. This new move was spearheaded by spontaneous illegal settlement on the southern and south-western fringes of town, followed by the construction of a ring road and the establishment of some major industries on the road to Suakin. Today, industrial development has taken the lead and deliberately accommodates further town expansion in the south and southwest. The ring road connects these new sites, in a wide half circle around most of the squatter areas, with the old industrial centre and the port facilities in the north.

Almost 90% (or 400,000) of the town's inhabitants live in squatter or so-called fourth-class residential areas. The latter differ from the slums proper in various aspects: plots were originally standardised in size (usually 16 x 14m) and organised in rectangular blocks with 30 to 40 plots. Leasehold of plots is legalised, though renewed only yearly. Public water supply has been extended to them and communal taps are supposed to be situated in every other block. 30% of the population are not connected to the public power supply. Transport and primary school facilities, though by far not adequate, are in general better. In

total, only 40% of the children at school age actually go to a government school: *khalwas* (Koranic schools) cover only a minute fraction of this shortage.

In terms of density, housing standards, sanitation and refuse disposal, however, the fourth-class residential areas do not differ very much from squatter areas. Plots have been subdivided, and three or four families, each occupying one room, share the yard.

Probably 70% of Port Sudan's population do not have access to lavatories. The others use pit latrines. Garbage heaps are found everywhere within or around residential areas. They are used as playing grounds by children and as grazing grounds by animals. In fact, the growing number of goats, donkeys, camels and cattle has become the most effective scavenger service in town. The high density of people, the cohabitation with animals and the health hazards stemming from the generally insanitary conditions have created aggravated health problems: intestinal complaints, tuberculosis, kidney malfunctions and, most recently, malaria and the so-called backbone fever are more common in Port Sudan than in any other town in the Sudan (thus, the low natural growth rate).

The delicate ecological position of the town is deteriorating rapidly. Being surrounded by the Red Sea in the east and by vast deserts in the north, west and south, it can meet only appr. 10% of its demands for food from agricultural produce grown or raised in the province. The major bulk of vegetables, fruits, meat and grain has to be imported from places 600km or more away from town. Since Port Sudan is connected by tarred road and by rail to the main agricultural areas, this has not led to serious food shortages but to the highest prices for these commodities in the country.

There are no natural local housing materials. Summers are too humid and the soil too salty and sandy for the construction of mud houses. Thatching and reinforcing materials would have to come from the Kassala - Gedaref area. Thus, packing materials from the port are the most common building materials: sacks, flattened tins and drums, scrap timber etc. At the same time, these are becoming scarce and dear due to increasing containerisation in the port.

The growing demand for fuel had created a substitute economy for the nomads in the Red Sea Hills but also denuded them and accelerated desertification.

The most serious problem of Port Sudan, however, is shortage of water. The present demand is undersupplied by two thirds. The spontaneous system of distribution of water through water vendors on which 70% of the population relies may have made water the most expensive single commodity for the poor (consuming between 10% and 20% of an average household budget), but has proven to be the only way to contain the situation. The last legal stand pipes were built in 1974.

Fluctuating labour demands, the high costs of living, totally inadequate public services, adverse climatic conditions, severe shortage of water and generally

appalling living conditions make Fort Sudan a place where few people would stay voluntarily - if they had a choice. This is reflected in the settlement patterns and in the eventual permanency of supposedly temporary housing structures.

Spatial segregation along socio-economic lines is generally reflected in the grading of residential areas. Within the fourth-class residential and squatter areas spatial segregation follows ethnic lines. Whole blocks and sometimes half quarters form tribal clusters. The local nomadic population that has come to settle in town is particularly notorious for their struggle for ethnic purity in their three main quarters. In their case ethnic segregation sometimes overrules socio-economic differences, and rich families are known to live among their own people in fourth-class residential areas. Ethnic groups form castes, and social interaction between them is severely restricted.

This is not only the background but also the very fabric of the informal sector in Port Sudan.

Micro-businesses cover almost all household demands in the low-income areas; not less than 70% of an average household budget is spent in or channelled through the informal sector. Its yearly turn-over is estimated to be more than \$ 25 million.

Appr. 18,000 micro-businesses provide more than 40,000 jobs. Incomes in the informal sector are usually far higher than those in government or stata -employment.

More than 70% of all micro-businesses are engaged in some form of retailing (including appr. 2,500 water vendors), followed by catering businesses, tailors, carpenters and laundry shops.

In some quarters between 40% and 50% of the households receive their main income from operating a micro-business or from employment in the informal sector. At least, another 35% earn a supplementary income from the informal sector.

Only 15% of the micro-business operators are women, mostly engaged in petty trading and food processing.

Less than 15% of the micro-businesses are licensed. Licensing itself does not seem to be related to the legal status of the owner, the conspicuous location or the size of a business.

While capital investment is generally restricted to the barest minimum, differences of 500% or more can be found within one and the same trade. And yet, the difference in capital investment is not necessarily related to profits generated. The same applies to working hours within a trade or between trades. Sometimes half the effort can produce double the return.

Rental of means of production at inflationary rates or profit-sharing with an absentee owner of means of production is a wide-spread phenomenon.

Manual work is regarded as menial. A number of trades tend to be reserved for ethnic groups of black African origin which do not enjoy high esteem in Northern Sudan. Southerners, Nuba and Fellata predominate in trades related to dirt (scavenging, garbage collection, laundry, tanning, pottery). The Sudanese gipsies monopolise tin-smithing. West Africans form a guild of aluminium casters etc. It is from these groups that most of the women and children come from who publicly are engaged in some economic activity. In other groups women and children are inhibited to do so by ruling socio-cultural norms and only utmost destitution could force them into some business or menial employment. Inversely, the comparatively high incidence of women in micro-business and menial employment and of children engaged in micro-business, scavenging, begging etc., for a conservative Muslim society such as Port Sudan is an indicator of the generally destitute situation.

This is appreciated by most local government officials who defy the national policy of total disregard for the informal sector and all relevant laws, by-laws and regulations (which, in good British colonial tradition, are not different from those in Zambia) by generously tolerating its mushrooming - and actively supporting what became the Port Sudan Small-scale Enterprises Programme.

Acknowledging the complexity of the situation, the analysis eventually put forward in the project document did not dare to give little more than a description of the constraints on the informal sector. To rank them was left to practical experience with the response to the variety of services proposed to be offered. The constraints were mainly seen in

- the fragmentation and instability of micro-businesses and the immobility between the trades;
- the lack of capital investment and access to credit;
- the lack of infrastructural facilities, such as transport, water and electricity;
- the lack of shop and workshop facilities at reasonable rents;
- severely reduced management capacity, combined with a very low level of technical skills;
- total lack of confidence in the informal sector.

## OBJECTIVES AND CRITERIA

The original design was not particularly opportunity-oriented, but suggested to initially attempt to respond to all constraints and let the demand and further insights determine the final programme design. It was in this process that our Law of Parsimony was born: as a micro-business development agency not to compete with micro-businesses and to stick to the knitting - remaining with the services the agency knows best (above chapter 2).

On the other hand, EAA's general mandate and the original pledge to assist refugees caused some degree of agonising over the formulation of objectives and criteria. There was strong pressure to take affirmative action in favour of rather vaguely defined "target groups", such as women, refugees or "the poorest of the poor". Initially, the organisation also found it difficult to appreciate the objective of mainly stabilising existing micro-businesses. Instead they would have preferred an emphasis on creating new businesses. As a result, while the objectives and criteria have never officially been changed, their interpretation and application has.

The broad objectives are to assist in

- the development of the local informal sector;
- stabilising and creating micro-businesses;
- stabilising and increasing employment opportunities in the informal sector;
- keeping and producing more wealth in the squatter and fourth-class residential neighbourhoods;
- improving the supply of services and commodities in these areas.

This required an equally broad approach on various levels:

- capital inputs;
- infrastructural investments;
- management assistance;
- confidence building.

Assuming a high demand for, at least, some of the services, expecting to operate with limited financial and managerial resources and providing a certain degree of subsidy, the PSEEP was put in the awkward position to confine access

select "beneficiaries". Part of the research was designed to establish some sort of poverty line, and it was found that a monthly income of LS 80 per head of household was just enough to survive. As a result, applicants are considered who

- have a viable business proposition;
- have family responsibility in Port Sudan;
- have a monthly income of less than LS 80 per head of household;
- have been resident in Port Sudan for more than two years;

Everything equal and resources still short, preference is given to

- women in general and female heads of households in particular;
- refugees and other ethnic minority groups;
- applicants whose business provides for the more basic needs, such as supply of fresh water, clothing, shelter etc.;
- applicants who would create immediate additional employment.

The safeguarding of funds against decapitalisation and the whole question of financial sustainability of operations became a concern only when the institutional options for the PSSEP began to emerge - and the initial implementation had suggested that micro-businesses require permanent services.

It is hoped that with an increase in service charges of appr. 75% some time in 1986 the PSSEP operations can be guided by more business-like objectives and criteria.

## SERVICES AND CONDITIONS

In the light of this latter development, even the original ideas with regard to the range of services to be offered suffered from trying to "overdo" it. They entailed transport pools, repair and development shops, sheltered employment facilities etc. Some of these services were ultimately scrapped, even before their sale had been promoted; in other cases they never sold and were redesigned or died a natural death. In the case of the repair and development shops, a year of rather abortive attempts to provide direct assistance in technical and engineering matters, through an expatriate "appropriate

technologist", made us giving in to circumstances. We resorted to mobilising locally available engineering expertise in locally established workshops only. Quite unexpectedly, the local technical solutions turned out to be far more creative, appropriate and cheaper. They often took much shorter time to be accomplished and, perhaps at the expense of some doubtful aesthetic qualities, could be reproduced and copied easily. The few technical solutions that could not be found we soon learned to accept as not feasible and, thus, dispensable.

Born out of insecurity as to the actual demand, the principal openness of the PSSEP structure not only allowed to redesign or simply scrap an idea, but also to positively respond to client demand. The introduction of home improvement loans and the inclusion of trading, for example, was suggested by recurrent client demand. Once in the process of implementation, the programme could develop in response to opportunities offered by client demand and increasingly by applying the Law of Parsimony. Whenever a service could be offered by another micro-business this was pursued as a first option.

Parents in two neighbourhoods, for example, approached the branch offices and suggested the PSSEP should open sewing courses for their daughters. They were familiar with the general philosophy of the PSSEP that every service had its price and prepared to pay. The PSSEP knew that some women in the respective neighbourhoods earned their livelihood as tailoresses and instructors. Both parties were brought together to discuss the matter. While they eventually set the course fees and agreed upon a time table, the PSSEP provided part of their branch office facilities and two additional sewing machines, against an hourly rent. In addition, the PSSEP charged the instructors a fee for assisting them in planning and organising the details of the first courses. With a minimum of effort and a maximum of mutual advantages for all parties, a low-cost non-institutional solution was found, that will last only as long as it is required.

In another neighbourhood, a similar response was arranged to a widespread demand for literacy courses for girls and women, today providing a supplementary income for two teachers.

As of today, the PSSEP provides

### *Loan facilities*

#### Home improvement loans

Maximum loan volume	equivalent to the current value of a wooden cabin of not more than 20m <sup>2</sup> in size (at present LS 1,200);
Maturity	no longer than 20 months;
Repayment	equal monthly instalments of not less than LS 25, beginning the month after loan disbursement;
Interest	2% of the total loan value (instead of principal)

Security per month;  
consent of landlord and a guarantor from the neighbourhood.

#### Micro working capital loans

Maximum loan volume slightly higher than previous requirements and depending on size of group; practically not more than LS 50 per group member;

Maturity depending on turn-over cycle; no longer than 1 month;

Repayment equal daily or weekly instalments, beginning the day or week after loan disbursement;

Interest 0.1% of total loan value (instead of principal) per day or else 1% per week;

Security group contract with joint and several guarantee of all members.

#### Working capital loans

Maximum loan volume slightly higher than previous requirements for one turn-over cycle; practically not more than LS 1,500;

Maturity depending on turn-over cycle; no longer than 2 months;

Repayment equal monthly instalments, beginning the month after loan disbursement;

Interest 2% of total loan value (instead of principal) per month;

Security a guarantor from the neighbourhood;

#### Home purchase loans

Maximum loan volume not fixed; maximum single loan so far LS 16,000;

Maturity no longer than 20 months;

Repayment equal monthly instalments of not less than LS 25, beginning the month after loan disbursement;

Interest 1% of the total loan value (instead of principal) per month;

Security all goods bought from the loan (the purchase is done in the name of the PSSEP) and a guarantor from the neighbourhood.

#### *Management Consultancy*

Advice on general business and financial management, marketing and supply matters, loan use etc. are part of every assistance offered by the PSSEP,

normally in conjunction with one or the other facilities. Periods and fees are negotiable and range from 1 to 6 months and LS 1 to LS 7 a month.

In some cases of applications for loans or other facilities the PSSEP may deem it necessary for an applicant to subscribe to a period of management consultancy services before she/he can qualify for further assistance. In most cases the first loan is combined with a certain period of management consultancy.

The management consultancy process exposes staff to and facilitates a daily structured communication with clients. Initially, it also established a reputation for closely monitoring loan use and repayment. In terms of quality of the advice given, management consultancy is probably the most questionable service rendered by the PSSEP. In terms of staying close to the customer - learning his preferences and catering to them -, however, it is probably the most indispensable.

### *Infrastructure*

So far, market places with a total number of 80 (work)shops and 2 communal shelters for appr. 30 women have been developed in two of the five areas. Similar complexes are planned in the three remaining areas and wherever need may arise. The (work)shops are simple wooden constructions with a slab floor and let at a rate of LS 3 per m<sup>2</sup>.

The communal shelters, in accordance with the Law of Parsimony, are each sub-contracted to a woman with a more permanent business. She receives a 30% commission for collecting the daily rent of LS 0.30 from the changing groups of women utilising the shelters.

Similarly, water reservoirs have been built and sold, on hire purchase basis, to interested individuals from the respective neighbourhood. It is their business and therefore their responsibility to ensure sufficient supplies of water.

The supply of electricity to most of the (work)shops in the market and, in one case to as many as 120, houses in the neighbourhood is also an independent commercial undertaking of individuals who have bought generators from the PSSEP on hire purchase basis.

### *Marketing and supply assistance*

Whenever possible, the PSSEP negotiates discounts with suppliers, particularly in cases of tools and machinery sold on hire purchase basis.

During the food crisis in 1984/85 when sorghum was short in supply and prices extremely high, most food-selling businesses operated by women were threatened

by extinction. The PSSEP bought sorghum in bulk directly in the grain-growing area 900km southwest of Port Sudan at a reasonable price and sold it on credit to groups of women already in business. The experience in dealing with these groups, in turn, encouraged the introduction of the micro-loan scheme.

The PSSEP also secures bulk orders, slices them up in equal smaller sizes and, through the sub-offices, sub-contracts them to tailors, carpenters, aluminium casters etc. Both parties are charged a commission of between 5% and 10% of the total value *added*.

These bulk orders require careful quality control, which also is sub-contracted to a particularly competent craftsperson in each neighbourhood.

Any sub-contractor failing to deliver on time or to meet the required standards of workmanship is disqualified for any further sub-contract.

#### *Promotion and lobbying*

This is a rather informal and continuous task, mostly on behalf of groups of micro-business operators or the informal sector as a whole with no particular mandate from the clientele. Obviously no fees can be charged for this service which can range from reporting corrupt health inspectors or policemen to their superiors to sending the senior town clerk of Port Sudan, together with one staff member of the PSSEP, on a course on micro-business development in Third World cities to England.

In most cases, promoting the PSSEP as such with the government, raising the understanding of administrators, politicians and senior officers in the army and the police for the programme objectives and increasing its operational freedom also means to improve conditions for the informal sector. The increasing administrative and political tolerance for the informal sector very much depends on the reputation of the PSSEP.

#### Further conditions

Applicants have to pay a non-refundable registration fee of LS 2.

An applicant must re-register and pay another registration fee if, during the appraisal process, she/he misses any appointment without prior notification.

An applicant or client is required to fully cooperate in establishing a true picture of her/his home situation and the state of the business(idea/plan). This entails (sometimes) repeated home and business visits by the staff *and* independent enquiries from neighbours, the local grocer etc.

Any attempt at deceit will result in discontinuation of services and, wherever applicable, appropriation of remaining goods bought from the loan (until full payment of the loan plus accumulated interest) and disqualification for any future assistance.

All payments have to be made at the branch office. Late payment, requiring a physical follow-up by staff, is fined with LS 5, in case of loan repayments in addition to accumulated interest. Continuous late payment results in disqualification or suspension of services.

#### RECORDING AND DOCUMENTATION - PROCEDURES AND JOB DESCRIPTIONS

Basically, the system set up in Port Sudan does not differ very much from the one described above for Kalingalinga. However, the institutional set-up being different, the scale of operations far bigger and the services being delivered from five semi-independent branch offices required first one, now two full-time accountants at the central office and an additional system to secure a smooth flow of cash in both directions. At branch office level, for example, money collected is completely separated from cash received for loans or expenses, and each has its own system of handling and accounting. At core, however, it rests upon trust and confidence. Sometimes cash amounting to LS 50,000 or more is in suspense. To maintain financial discipline, the group leaders meeting decided to fire one member of staff for rather minor irregularities.

Except for the accountant, all positions in the PSSEP rotate on a regular basis. The four or five group members at branch level rotate every six months to become group leader. The group leaders take turns every other month to act as deputy programme coordinator.

The accountant, the group leaders, the deputy coordinator and the coordinator together form the main decision making body and meet once a week, after normal working hours, to discuss the further development of the programme, staff matters, employment, salary structure and increases and other managerial or conceptual issues.

Targets to be achieved are laid down on a yearly basis by the irregular general staff meeting which also discusses general matters of staff development, working conditions etc.

#### SERVICE DELIVERY AND MANAGEMENT

The question of managerial sustainability, i.e. the independent continuation of the PSSEP by the staff collective, is still overriding the matter of financial

sustainability. As in most institutions in the Third World introduced by foreign agencies, it depends on its internal structure as much as on the expatriate management to what degree managerial sustainability can be achieved.

With the current management style, adopted in the early days of the programme and refined as it developed, there are good chances for a smooth transition to local ownership and management. The realisation that this may also be feasible financially is increasingly shaping the aspirations and the attitude of the local staff. Increasing sales of services and saving operational costs has become a major aim and instrumental in guaranteeing business-like service delivery. Individual fieldworkers take on a growing case load of presently between 35 and 50 at a time.

Effective service delivery was said to require effective management based on

- a clear sense of purpose,
- clarity of structure,
- expediency in procedures,
- modesty in style, and
- empathy on the part of the staff.

— However, in Port Sudan it took quite some time to appreciate these requirements.

Although becoming clearer, the purpose of the PSSEP is internally still blurred by what could be, and by some observers is, perceived as "charitable" aims: giving preference to refugees, women etc. And yet, that the PSSEP even charges if token fees for advisory services saved it from being destroyed by the constant attacks from religious quarters which insinuated the agency was out to turn Muslims into Christians. In fact, combining this accusation with that of charging interest (*riba*) defeated their own objective. For clients and applicants the supposed profit motive in lending money, although breaching Islamic concepts, ruled out any ulterior motives, such as proselytizing. They regard and appreciate it as a sign of honesty. Equally, that legal action is taken against defaulters or penalties were introduced for late payers has been rewarded with increased numbers of applications. In one case, a client was taken to court and subsequently imprisoned for two weeks - over a debt of only LS 50! - with the effect of growing demand for services the next day. On the other hand, certain inconsequential elements persist. Clients, for example, are structurally discouraged to apply for subsequent loans. In contrast to Kalingalinga where clients can ask for 25% higher subsequent loans, the PSSEP so far offers decreasing subsequent loans only; the idea being to avoid dependency.

As in the case of Kalingalinga, the clarity of structure, in the eyes of the clientele, rests upon well-defined criteria and conditions, and the instant and impartial appraisal process that is in the hands of the field staff at branch level. Only cases which, for some reason or the other, do not fit into the existing catalogue of services and criteria are submitted to the weekly group leaders meeting for further discussion. That fieldworkers and branch offices can commit themselves and in 99% of the cases are backed up by their main office, puts them on equal footing with a micro-business operator who would not hide his lack of self-confidence behind some anonymous body either. The fieldworkers do have the ultimate authority and, of course, convey this in their attitude to the clients. After the introduction of registration fees, the previously experienced high number of frivolous applications could be reduced to a mere 5%. Hardly any applicant is turned down for not qualifying; and since a number of legal actions against clients have been taken no attempts at fraud had to be reported. On the other hand, the well-known openness of the programme, of course, invites all sorts of applications which their proponents and often the fieldworkers regard as exceptions. Perhaps at the expense of clarity, this reinforces the client perception that they can shape and influence the programme development.

It is the expediency in procedures and the notion that also to a micro-business operator time is money which took the longest to be established. Partly because of initial insecurity and the felt need for further training, partly because of a bottleneck in the cash flow from overseas, the first round of more than 1,200 applications was processed strictly in stages: first all home visits, then all business analyses and, in the end, all final appraisals were done together with the whole team of then 23 senior staff. While this gave an opportunity to identify shortcomings of the training and to systematically sharpen the understanding of the fieldworkers, it overstretched the patience of most of the applicants, as the process took more than 4 months. As a result, more than 400 applicants had lost confidence in the PSSEP before their case was decided upon. Another 300 or so turned out to be frivolous applications which took most of the time as they missed appointments and delayed either the home visit or the business analysis. In retrospective, it appears to be an expensive way of learning the need for expediency and how to avoid wasting precious time. It is perhaps an indication of the destitution in Port Sudan's informal sector that this did not eventually destroy the reputation of the PSSEP before it even started. Today it takes an average of 4 to 5 days to process an application and to deliver the service required. Sometimes, however, accepting applications in a particular sub-office has to be suspended for a week or so, as it may have a back log of applications or the case load capacity has reached its limit.

Circumstances in Port Sudan almost involuntarily impose modesty in style, and it is this element that has been elaborated to quite some perfection in the PSSEP. The first round of applications was received, from male applicants, in certain well-known tea shops and, from female applicants, in the equally well-known houses of midwives in the respective area. For more than 6 months clients were met in the same or similar places. Only after the first round of

applications was over, the staff began to search for strategically placed premises in their respective area that could be rented and serve as offices.

These offices, in size, standard and furnishing do not differ from their respective surrounding: one is made from scrap timber, sacks and flattened tins, another, in an old fourth-class residential area, is from concrete and, like some of the neighbouring houses, even connected to water and electricity supply. The programme as a whole serves an area with a radius of 8km. Most sub-offices serve areas with a radius of 2km to 3km. The adverse climatic conditions, the dust and the narrow and rugged streets make movements between client homes, the sub-office and the main office difficult. The women on the team use public transport, the men have bought motor scooters on hire purchase basis from the PSSEF. After more than three years of daily presence in their area of operation, the fieldworkers have become well-known public figures who are invited to family feasts, attend funerals and have made personal friends. One Christian refugee, for example, working in a "Muslim only" quarter, has been given a Muslim name by the community and is accepted as an equal. In the quarters, (Muslim) women fieldworkers have begun to take on men as clients in Port Sudan, where women of similar status would never even leave their offices, almost a sign of close family relationship. The sub-offices each have their own little budget for entertainment so as to answer the generous hospitality with which they are usually met at their clients' places.

The empathy on the part of the staff is structurally secured by the heterogeneous composition of the team as a whole and the groups in the sub-offices. As a rule and whenever possible, a client from a particular ethnic or linguistic group is attended to by one of his own, a woman is usually attended to by a woman. The long process of creating a team spirit in a group that combines not only different cultures and political beliefs but also age differences of more than 20 years is now reinforced by the rotation of positions within the team. To work in such a team, to be permanently located in one and the same sub-office, to be in close daily contact with the clients and to share their modest life, at least for the major part of the day, instils more than the required respect and understanding for the clients. That the staff salaries are tied to their performance and achievements and re-adjusted twice a year perhaps does not totally remove the typical attitude of a salaried employee. The perspective, however, of ultimately becoming their own bosses does develop the staff awareness for the distinctive and characteristic issues in business which has increasingly replaced their previous patronising approach to clients.

#### CLIENT RESPONSE AND CURRENT ACHIEVEMENTS

Again, only approximate and rounded figures are given.

After two years of operation, the PSSEP has reached out to 1,800 clients. Of these, the majority (1,400) have utilised the credit facilities. More than 100 are permanent or daily tenants in the so far two market places. Another 300 clients have had sub-contracts. A small number of clients have subscribed to the management consultancy services only. Since, unless operated by women, grocery shops, restaurants, tea and coffee shops are still excluded from assistance, as are micro-businesses owned by bachelors or generating a monthly income above LS 80 per head of household, the actual outreach of the PSSEP is difficult to measure. Certain is only, that from time to time as a result of overdemand the registration of applicants has to be suspended. This perhaps may justify to discourage, for example, recurrent loans or to stick to the selection criteria.

In accordance with the objectives and criteria and the general policy of preferences

- 80% of the clients are engaged in manufacturing, services and repairs, while the remaining 20% are petty traders;
- 40% of the clients are women;
- between 30% and 35% are refugees;
- between 25% and 30% are start-ups.

The actual (re)payment rate amounts to 99.7%. So far only one client has escaped with the hire purchased tools with no chances for the PSSEP to recover any of the outstanding arrears. Incidentally, this was a refugee and, at that time, the local office of the Commissioner for Refugees had insisted on signing as guarantor all contracts with refugees. As could be expected, the office did not honour its commitment in this case and, realising that the PSSEP meant business, the Commissioner subsequently refrained from any direct involvement in contractual relationships with clients. In four other cases, the implements had to be compounded for a week or so until outstanding arrears were cleared. In two cases of faltering start-ups, implements had to be repossessed and sold to cover outstanding arrears. Once a guarantor had to pay more than two thirds of a loan as the client had died and her family had taken the sewing machine. In another case, a refugee had returned to Ethiopia but left the donkey and cart with his guarantor. The donkey and cart were sold and the guarantor paid the difference of LS 50 between the original buying and the eventual selling price. A number of times, fieldworkers had asked the police to accompany them to see a late payer which, together with the one defaulter imprisoned, ultimately established the no-nonsense reputation of the PSSEP.

Despite the heavy volume of cash flowing back and forth between the sub-offices and the main office (at times more than LS 200,000 in a month), no incident of financial mismanagement or imbezzlement has occurred as yet. One staff member who had made it a habit to delay client receipts or advances for expenses was dismissed. He brought the case before the Labour Office which eventually decided

that his irregularities were too minor to warrant dismissal and decreed that he should be either re-employed or paid a compensation equivalent to almost 9 monthly salaries. The case was discussed in the general staff meeting which, in turn, decided to pay him off instead of encouraging further irregularities.

The interesting difference between the Port Sudan and the Kalingalinga project is the clear preference of clients in Port Sudan for hire purchase loans. Almost 90% of the volume for business loans have been hire purchase loans, i.e. capital investments. This must be explained by a number of factors: the less than rudimentary capital investment in those businesses qualifying for assistance, the Islamic acceptance of hire purchase as a means of financing, as opposed to cash loans against *riba*, i.e. usurious interest, and, most important, the widespread practice of hired equipment or profit-sharing arrangements (almost 30% of the hire purchase loans have been used to free operators from such dependency).

The impact on income again is difficult to measure. Apart from the general problem to establish income figures, the situation has been further complicated by the year of starvation, on the one hand, and the subsequent business opportunities, on the other hand, created by the numerous relief agencies, for which Port Sudan is the logistic centre. 1984/85, the major aim of the PSSEP had been to keep as many operators in business as possible. 1985/86, the aim was to capture as much of the relief agency market for the programme clientele as possible: ten thousands of women's and children's dresses, pallettes, office furniture, cooking pots for relief camps etc. were sub-contracted. Repayment performance and general sales of services, however, suggest that incomes must have been stabilised, if not increased.

In addition to the roughly 400 start-ups which survived the most difficult first months and have now settled in, more than 200 other jobs were created by clients, either as a direct or an indirect effect of the assistance given.

Whether or not the wider community has benefitted as yet, in terms of higher competition, better quality and lower prices, is more than questionable. The town, as a result of last year's starvation, and with it the demand for cheap consumer goods has grown much faster than before. The grocerers do not qualify for assistance. And those businesses which qualify for assistance are probably not competitive enough to seriously influence the market. The only general improvements have been achieved by a combination of increasing competition and direct intervention: water being the dearest commodity in town is normally delivered by donkey carts. The PSSEP, simultaneously with freeing these water vendors from profit-sharing contracts through hire purchase loans, also constructed and sold a number of water reservoirs in each quarter. The higher number of donkey carts operating and the shorter distances between their suppliers and their customers brought down the (relative) prices for water by a fraction.

Including the families of the micro-business owners, their paid workers and their families, the PSSEP has had a direct impact, in one way or the other, on more than 16,000 people.

The most elusive but nevertheless probably most important achievement, however, is the effect the PSSEP has on the benevolence with which the local and provincial government is regarding the informal sector in Port Sudan. This, in turn, together with the impartial and instant access to its services has immeasurable impact on the general confidence of micro-business operators.

SOME CONCLUDING OBSERVATIONS  
FOR PLANNERS AND PRACTITIONERS  
The Quest for Creativity and Hands-on  
Approaches in Design and Management

To draw conclusive lessons or a blueprint for immediate application from the above would contradict both the spirit of the two projects presented here and the author's firm belief in conceptual openness and the need for creativity and hands-on management in development.

However, it may offer some guidelines as to what to look out for and perhaps some provocative assertions to stimulate discussion.

#### SOURCES AND VOLUME OF FINANCE

Most developing countries are ridden by inflation which forbids a saving of money, particularly for the poor. At the same time, it is making it the most critical cost factor in calculating the service charges on loans in a Revolving Loan Fund which cannot let savers bear the risk of inflation. In order to reduce the cost of inflation to that of (usually subsidised) official interest rates, one should try to finance a Revolving Loan Fund through a loan from a local bank. The scarce project resources in foreign exchange could be used as a guarantee fund for this loan, frozen in a separate account. The actual project guarantee should apply to single loans only (and not to the overall fund) and its rate should degress as the Revolving Loan Fund establishes the credibility of its clientele - from, let's say, 50% in the first year to 40% in the second to 25% in the third and so on. The same amount in foreign exchange which otherwise would have been lost to inflation could thus

- keep the service charges on loans from the Revolving Loan Fund low;
- facilitate continuous growth of the Revolving Loan Fund or even the creation of one or two more.—

The volume of finances required depends on a number of factors, such as

- size of the community served;
- volume of micro-business activities in the community;
- kind and degree of undercapitalisation;
- general reputation of a project etc.

but is ultimately determined by the limits of manageability. A team of more than 5 extension officers eventually (i.e. after two or three years of practice) serving more than 200 clients at a time is most likely to become unmanageable and to lead to intolerable default rates. If operations become bigger than can be tackled by 5 extension workers the teams need to be split up and to be re-established as (semi-)autonomous profit centres. The volume of a Revolving Loan Fund in each profit centre thus would not exceed the equivalent of 200 times the maximum average loan volume set or required in a given area (plus some percentage for contingencies).

### INSTITUTIONAL SET-UP

The tricky issue in projects under bilateral government agreements usually is the institutional framework. Invariably,

- (commercial and stata) banks shun the informal sector, development banks in particular;
- government agencies (such as community development departments) apply procedures too cumbersome to accommodate an efficient Revolving Loan Fund;
- local NGOs have developed out of community development or social work and find great difficulties in accepting and pursuing a hard-nosed business approach.

In addition, there are usually legal constraints on banks charging more than a certain interest rate and government agencies fear political ramifications from charging cost-covering interest rates. Community-based Revolving Loan Funds, on the other hand, are not legally constrained and could overcome political objections. It therefore appears that building up small units of committed and competent staff around such fund ought to be complemented by some creative institutional solution in its own right, combining

- commercial operations and
- achievement-oriented management

with the advantages of non-profit making community organisations.

These institutional set-ups could vary according to the local circumstances, opportunities and constraints or those of the implementing agency - as incidentally they do in Fort Sudan and Kalingalinga. They must not necessarily be rushed into but could be explored and probed in the process of building up staff and finances. In fact, keeping the institutional options open is one of the main reasons why a low-profile take-off should be pursued. Both the Fort

Sudan and the Kalingalinga experience suggest that nothing is as convincing as practical success in a context of low expectations. This provides a firm base from which to argue for some form of independent institutional solution.

## PROJECT OUTREACH

*Geographic:* The limits of manageability and the need for a low-profile start but also the wish to keep costs low and to secure repayment of loans by informal means would favour a clearly defined geographic area in determining the project outreach. This could be a neighbourhood, a quarter or certain blocks in a quarter. Preferably, any point in the area chosen should be within walking or cycling distance.

*Social, ethnic, gender, sectoral:* Ideally, a service project to micro-businesses should not discriminate against any micro-business within the area chosen. However, in some cases one may have to give in to pressure from donors or other interested parties to give preference to certain income groups, to productive rather than distributive trades, to women or certain other disadvantaged or minority groups. Any such restriction will ultimately defeat its own purpose: emphasis on the lowest income groups or women usually results in low rates of job creation; emphasis on productive trades discriminates against the majority of women and shuns the challenge to fight usury distribution practices particularly in low-income areas; emphasis on certain ethnic groups (or refugees, for example) increases their segregation and therefore diminishes their chances of survival in business in the long run etc., etc.

If such restrictions cannot be avoided, they must be transformed into simple and clear criteria that are widely propagated and can be understood by all members of the community. Unfortunately, it is not always possible to discriminate against the only group that deserves to be discriminated against and which discrimination would be immediately appreciated in a community: i.e. the politicians.

## RESEARCH AND STAFF DEVELOPMENT

In this paper, the term "research" has been used in a rather broad sense: as a means of entry into and establishing rapport with a community, as a means of exposing staff to and "sensitizing" them for the needs and opportunities of micro-businesses, as a means of instilling respect in the staff for micro-business operators, but obviously also in the narrow sense of establishing the base line data required to design a programme outline and to monitor its appropriateness. As such, research was referred to both as an instrument and as a frame of mind on the part of all those involved in the planning and execution of a project. In the latter sense, research is a form of disciplines

and harnessed curiosity, integrating staff development and project development and remains the only safeguard against the blueprint approach.

As such it must be based on the principle that research, planning and execution should be done by the same people. It is a continuous process which shares characteristics similar to those of what in social sciences has come to be called "action research".

#### OBJECTIVES AND CRITERIA

Whatever the overall aims and goals of the implementing or financing agencies, they must be transcribed into a set of clear and simple objectives and criteria. The more these objectives and criteria are rooted in the daily experience and the understanding of a micro-business operator, the better are the chances that these will be appreciated.

Nothing is better understood by a business operator than the determination not to lose money - and hence safeguarding the fund should enjoy top priority. In this respect, length of residence, family status, house ownership, the theoretical viability of a business proposition, honesty in explaining a business (idea) etc. are well-understood and necessary pre-requisites. Of course, they are by no means conclusive and sufficient. As in any other business, such formal criteria need to be complemented by the field staff's own judgement as to the personal reliability and to the applicant's capability to carry out the business proposition.

Preferably, the objectives and criteria should be tainted as little as possible by considerations as lined out above (project outreach). These may only come in if - due to pressure from the financing agency - subsidies cannot be avoided. However, one should bear in mind that subsidies, preferences to certain groups etc. open the door for corruption and can thus be self-defeating not only in terms of objectives but also in terms of costs. Usually, the costs of corruption easily exceed those of the subsidies. And then, of course, any suspicion of corruption is already a killer disease for a micro-business project.

#### SERVICES AND CONDITIONS

Above all, one needs to observe the Law of Parsimony when considering the nature, scope and range of services to be offered to a particular community of micro-business operators through a specialised agency. The best service to a micro-business is usually rendered by another (micro-)business.

Only those services which are either

too costly

too long-term and/or

too big

to be afforded or to be managed by an individual operator should be taken up by such an agency. This law, however, implies more than matters of scale or sophistication. Usually, there are good reasons for a service not to be available in a certain community. In most cases, factual demand, i.e. demand honoured by actual surplus to be invested in such a service, does not warrant the supply, or complementary other services are not available, or the costs and risks unpredictable, if probably low etc.

Thus introducing a new service requires extra pre-caution, particularly for an agency that is new and foreign to the community and, by taking up such a business approach, is in a state of fundamental change. Results of surveys into so-called constraints of micro-businesses must be analysed with particular care. Often there is a wide gap between "expressed needs" and actual capacity to absorb, for example, a loan or to make full and profitable use of common service facilities (centralised markets, repair shops, equipment rental etc.).

This is particularly true for credit facilities. Invariably, respondents would ask for too much for too long - often four or five times their present total investment for ten times their ordinary turn-over cycle.

As a rule, micro-business operators in Africa have a rather limited management capacity and true entrepreneurs may not constitute more than 5% of any micro-business community. All services and conditions to be introduced have to take into account and reflect the fact that

- mobility in and out of a trade is as common as between different trades;
- the hazardous environment and short turn-over cycles correspond to and perhaps reinforce a rather short time perspective on the part of micro-business operator.

Consequently, services have to come in small doses or in such a form that it makes intermittent or recurrent use possible.

Small loans, for example, over short periods with a tough repayment schedule (ending before the turn-over cycle is completed) are no problem, if one can get another loan another time. Renting workshops and shops often proves to be preferable to owning such premises and requiring or tying considerable investments or conflicting with an operator's status (e.g. refugee) or

aspirations (e.g. investing in cattle back home). Particularly women can make better use of communal market stalls or shelters let on a daily rental basis etc. etc.

Certainly, services to be rendered to micro-businesses must be within the means of the clientele. But if, in general, assistance is given in small doses, conditions are tough and services expensive they may serve as a deterrent for frivolous applications. Thus, they keep away people who are not actually needy or otherwise want to take advantage (cf. above). Ultimately, such approach saves a lot of agonising over criteria and selection procedures.

### SERVICE DELIVERY AND MANAGEMENT

Both programmes presented in this paper rely on face-to-face cooperation with clients, their operations are rooted in geographically and socially defined communities, neither staff nor facilities differ from their environment and they display an awareness for the credibility and reputation of their respective programme. Clarity, modesty and accessibility are supplemented by active salesmanship, expediency in procedures and personalised relationships with clients.

To develop such qualities in the staff, they not only need to be exposed to their working environment through research exercises and other staff development measures, but by delegating as much authority and powers to them as possible. One major characteristic of a micro-business operator, regardless of his or her entrepreneurial qualities, is to have to take independent decisions almost constantly. Such a person finds it difficult to relate to a civil service type of field worker who cannot decide and act without reference to some higher authority. Lack of powers on the part of field staff not only makes procedures cumbersome, but also undermines and destroys their, and ultimately the programme's, credibility.

Individual and collective credibility of the staff and their capability to take independent decisions can be maintained and enhanced by yet another if related set of measures. Where certain specialisations in a programme appear to be indispensable, these should be rotating at regular intervals among field staff. This prevents functions from assuming status and serves to instal internal checks and balances on the behaviour of individuals.

If services are expensive and the jobs of the staff ultimately depend on the sales from the services, it should not be too difficult to establish a business-like appearance and to communicate in a language that both clients and field workers understand: time, money, costs, profits etc. Individual salaries must be tied to individual performance and be revised accordingly at regular and relatively short intervals. It is also imperative to apply terms of employment which allow even minor financial misconduct to be punished by immediate dismissal. Again, the business-like approach to clients would be reflected in

the internal management approach. Being soft on clients encourages self-indulgence on the part of the staff and vice versa.

#### RECORDING AND DOCUMENTATION

Where trust, confidence and credibility are of such importance, utter transparency and control need to be established. The backbone of transparency and control is a purpose-designed and always up-to-date accounting system, supported by fake-proof receipt and invoice books, immediate accountability for collections, disbursements, advances and imprests as much as on-the-spot recording of activities carried out or information received.

In both Port Sudan and Kalingalinga, a sort of individual log book for each client was developed in which all visits to or from, all financial and other transactions, all staff discussions held and decisions taken on this particular client, all changes in a client's household or business, regular business performance reviews etc. were entered, too. This not only gave clients and fellow staff an opportunity to actually reconstruct all dealings between a case worker and a client. It also allowed easy transfer of a case to another member of staff and to accumulate an increasing wealth of data and information on the basis of which the programme design could be continuously refined and adapted. By being comprehensive and carefully structured these log books had an educative effect on the staff as well as on the client.

In addition, all staff need to be involved in establishing the programme's and the individuals' performance. Monthly analysis of the programme's profit and loss account, its balance sheet and cash flow, regularly working out the costs of particular categories of assistance or clients or isolating certain cost factors (such as sick days, transport allowances or the like) not only sharpen the staff's mind for business matters. Measures, for example, to curb certain cost categories or to be more careful with certain categories of clients or assistance which may arise from such efforts are usually understood better and applied more rigidly if developed collectively and on the basis of full transparency. This is particularly true when these measures are put in the context of determining salaries according to individual performance (for example, on the basis of case load and repayment rate).

Such exercises are most helpful in creating control and commitment if a programme is operating in such a way that it allows comparison between two or more competing groups of field workers. The comparative perspective allows to identify shortcomings or financial malpractices at an early stage and, simultaneously, fosters a healthy spirit of competition and sportiveness among the groups concerned.

## MONITORING AND EVALUATION

The recording and documentation devices applied to monitor, evaluate and thus manage the internal operations of a programme (cf. above) are equally helpful in monitoring and evaluating it in terms of its overall objectives, goals and aims. While on the one hand these may require a deeper analysis of and a slightly different perspective on the achievements and the non-achievements, they need to be measured against a set of quantifiable targets. These must be realistic and challenging at the same time and be expressed in unmistakable terms; e.g. so many clients under service, so many jobs helped to be created, so much more value helped to be added or wealth helped to be created, so much volume of loans disbursed, such a rate of repayment achieved, so much costs per case saved etc. at such and such a point in time. Dealing with micro-businesses has the advantage to be able to do away with so-called social cost-benefit analysis as all indicators can be expressed in figures.

Again, the staff not only need to set these targets by themselves on basis of transparency and careful analysis of past performance. They also need to judge the achieved performance on their own. The point here is that one cannot delegate authority and power within a programme but, at the same time, subject the programme as such to external evaluation as is usually the case. This would undermine and defeat the aspirations for business-like self-determination.

In addition, monitoring and evaluation are worthless unless they substantially, and in relation to their costs, contribute to improving performance. As such they must be done on a regular and almost continuous basis - raiding experts often come too late to rectify wrong doings, are usually resented by programme staff and are prone to either over- or underestimate both the constraints and the opportunities of a particular programme situation.

If programmes are designed in a business-like manner, the accounts should ultimately tell the (only) truth of its performance. In such case, there is hardly any external monitoring and evaluation exercise which could justify itself by reference to its own standards. And if the accounts are in order, there is nothing wrong in a programme team becoming as suspicious and resentful of outside experts as business operators are of the tax man.