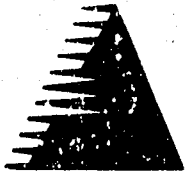
ACCION INTERNATIONAL

ACCION INTERNATIONAL/AITEC: A METHODOLOGY FOR WORKING WITH THE INFORMAL SECTOR

MIRTHA OLIVARES



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ACCION INTERNATIONAL/AITEC: A METHODOLOGY FOR WORKING WITH THE INFORMAL SECTOR

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FOREWORD

This ACCION International/AITEC Discussion Paper No. 1 represents the first in an occasional series of documents in which ACCION staff and others working with the informal sector present and discuss issues of interest to the current debate. The idea emerged when it became apparent that those persons working in the day-to-day implementation of programs lack a vehicle for articulating what they perceive as significant issues that should be discussed by a broader audience.

The discussion in these documents emerges from current ACCION-affiliated programs, and is based on observation and years of experience in implementing credit and training programs. Since these are not research efforts, they are not designed to add to the body of data. Rather, they are meant to stimulate thinking in these areas, and to suggest approaches based on the lessons of experience.

We initiate this series with a presentation of ACCION's method and approach to working with the informal sector. Future papers will delve into issues related to impact, credit, institutional factors, and program beneficiaries, among others.

William Burrus
Executive Director

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I. INTRODUCTION

This discussion paper evolved as an effort to consolidate in one document the elements that sustain the most significant methodological aspects of ACCION International/AITEC's (ACCION) work in the informal sector. After more than two decades of experience with the smallest productive units of Latin American and Caribbean economies, ACCION can point to an approach that is grounded in certain methodological factors which recur in all ACCION-supported programs.

The material used for this document emerges from the field work of ACCION staff in Latin American and Caribbean countries. In all cases, the programs that ACCION assists seek to reach the poor economically active population in the main and secondary cities. Broadly categorized as members of the informal sector, these persons employ themselves as very small-scale producers, such as shoemakers, carpenters, artisans; as traders and hawkers, such as street and market vendors; and as service providers, such as appliance and equipment repairers. Defined as micro-enterprises, most of these productive units employ no more than ten workers and gather the characteristics attributed to micro-enterprises in most of the literature (Ashe, 1985; Blayney and Otero, 1985; Parra, 1985; etc.). The effort in this discussion paper is to focus on the methodological specifics of the programs that reach this population, rather than to analyze the population itself.

II. THE INSTITUTION

ACCION International/AITEC is a private non-profit organization headquartered in Cambridge, Massachusetts, and founded in 1961. Its principal goal is to assist in the creation of job opportunities and in the improvement of quality of life for low-income families in Latin America and the Caribbean by developing programs that respond to the needs of those in the informal sector.

Although ACCION also conducts studies, research and evaluations, its main thrust focusses on the design of programs that reach the poor urban populations. ACCION does not implement programs directly; rather, it forms an affiliation with local private development organizations and provides them with technical assistance both on the methodologies for program implementation and on institutional development.

Currently, ACCION works in 13 countries -Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Guatemala, Honduras, Mexico, Paraguay, Peru and the United States. ACCION's presence in each country varies. In some cases, such as Costa Rica and Guatemala, ACCION maintains a full-time technical assistance director who advises one or more program directors; in others, such as Bolivia and Paraguay, the ACCION representative also directs the program; and in others, such as Honduras and the United States (Arizona), ACCION does not have a full-time technical advisor, but works closely with affiliated organizations. ACCION currently includes 35 non-profit organizations as its affiliates, which in the aggregate reach nearly 40,000 micro-entrepreneurs in about 60 cities in the Americas.

Among the institutional characteristics of ACCION, the following merit mention:

- ACCION has maintained the same definition of its mission and objectives during its 27-year history: to provide income and job creation opportunities for the low-income populations by using proven and ever evolving methodologies.

- ACCION places considerable emphasis on methodological innovation, within the overall framework of its existing program approach. By applying lessons learned from experiences, ACCION today assists programs that are very different, and better, from those even five years ago.

- ACCION relies on a decentralized organizational structure and management style. Its country directors operate with great autonomy, which allows them to experiment and to encourage new approaches with the technical and institutional backing of the Central Office.

- ACCION develops a collaborative relationship with local organizations that share its vision, approach and goals, and fosters a climate of mutual support among affiliated institutions. This emphasis on collaboration of which technical assistance is one component has contributed to improved technical skills, the introduction of new ideas, and a greater commitment to common goals.

- There is a constant sense of "a long road ahead". The ongoing attempt to evaluate existing policies, question methods and approaches, and assess institutional development has succeeded in creating a general attitude that what the programs do today can and should be improved if they are to constitute part of the answer to informal sector issues.

III. EVOLUTION OF ACCION'S METHODOLOGY

After more than ten years' work in development projects in Venezuela, Brazil, Colombia and Peru, ACCION noted a growing number of very small businesses in the cities. These were started by recent migrants from the rural areas who turned to self-employment as the only alternative to survival. It became obvious that creation of job opportunities and income enhancement for this population should include assistance to their productive activities. The UNO program in Recife, Brazil (União Nordestina de Pequeñas Organizacões) in 1973 was the first ACCION program in Latin America to attempt to reach these tiny businesses. It was then that the term "micro-enterprise" was coined to refer to program beneficiaries. UNO began providing credit at commercial interest rates, and extending technical assistance to micro-entrepreneurs.

In 1978, after a similar program was initiated in Salvador, Brazil, a conference on micro-enterprise development was sponsored by UNO and ACCION, which awakened great interest among the conference participants from seven Latin American countries regarding ACCION approach.

In the early 1980's, the level of interest in micro-enterprise development grew among both international donors and local private organizations, many of which requested ACCION's assistance. Programs in Colombia, Mexico, Dominican Republic, Peru and Ecuador emerged during this period.

Based on the accumulated experience of its programs, and on its involvement in the A.I.D. -sponsored PISCES project, ACCION redefined its methodology for working with urban-based micro-enterprises by incorporating those "elements of success" that surfaced in programs throughout the developing world. In particular, ACCION's design found resonance in the experience of the Grameen Bank in Bangladesh and the Badan Kredit Kecamatan (BKK) program in Indonesia. From the outset, both Asian programs sought to reach increasingly larger numbers of the poorest among the economically active, and at the same time to move the programs toward self-sufficiency. These goals mirrored ACCION's, which drew from the Asian experiences to improve its own work in Latin America and the Caribbean, and most recently in the United States.

To reach the poorest, ACCION incorporated street vendors into its programs, made a concerted effort to reach more women, and first introduced the "solidarity group" concept of group lending in the Dominican Development Foundation in the Dominican Republic. In the following years, the programs grew dramatically, reaching thousands of micro-enterprises in each city while also seeking to cover their operational costs.

Today, there are about 35 programs in 13 countries that reach nearly 40,000 micro-entrepreneurs directly in 60 cities, using ACCION's methodology. Between 1982-1986 these programs extended nearly US$20 million in credit with losses of less than three per cent. In 1988 alone, ACCION-affiliated programs extended over US$15 million in credit, a measure of the continued growth of these programs.

IV. OPERATIONAL GOALS OF ACCION-AFFILIATED PROGRAMS

A. Reach the Smallest Entrepreneurs with the Potential to Grow

Although ACCION has been working with micro-entrepreneurs for 17 years, the emergence of this type of program is recent -in the last eight years. The early experiences were oriented toward well-established small

firms with fixed assets of around US$10,000 and about ten salaried employees. Most of these firms worked in the industrial sector. No mechanisms existed to reach the poorer entrepreneurs without assuming huge risks. Today, the ACCION programs assist micro-enterprises in manufacturing, commerce and service, enabling them to stabilize or expand operations without creating losses for the programs.

As one moves down the scale to the smallest firms, the amount of capital that a firm uses to operate decreases, the number of enterprises increases, and the number of programs that address this population becomes smaller. ACCION attempts to reach these persons often outside the grasp of other institutions, and which comprise the bulk of entrepreneurial activity in Latin American and Caribbean cities. It is important to note that it is among the smallest firms that one finds the concentration of poor women, so that an average of about 55 per cent of ACCION's program beneficiaries are women.

B. Expand the Number of Firms Assisted

During the early years, ACCION set out to demonstrate that one could create jobs and income through credit and technical assistance to the informal sector without suffering unacceptable losses in the credit fund. During this first stage, the experimental programs reached up to 200 or 300 micro-entrepreneurs each year. Recognizing the magnitude of the problem, ACCION revised its approach to reach more and more people. While still "a drop in the ocean", some of the current programs reach several thousands per year. This expansion has been the result of important changes in the methodology, as well as in the nature of local institutions that implement these programs.

C. Operational Self-Sufficiency

In the universe of Latin American private non-profit organizations, the concept that a program that serves a poor population can and should be able to cover its operating costs is an innovative and controversial one. ACCION defines operational self-sufficiency as that point at which all direct program costs, including a reserve for bad debt, are covered by the income generated through the services provided to the program beneficiaries. Most of ACCION's programs reach this point, or come close to it, in their credit provision, after three or four years of operation. The challenge to them is how to maintain the value of their portfolios in inflationary environments.

D. Growth Among the Beneficiaries

The programs' ***raison d'etre*** is: impact on the lives of the beneficiaries. This impact can be economic, social and human, and occurs through continued assistance to each beneficiary's source of livelihood. This process leads to stabilization and growth among the firms that are assisted, as witnessed by the growing amounts of working capital loans that each firm can absorb. The programs, then, attempt to reach small firms that can grow. Through the provision of credit and assistance on credit management and other areas, the programs seek to make the firms more financially viable, and larger.

E. Promotion of Organization Among the Beneficiaries

Through its experience, ACCION has noted that in most cases, informal sector micro-entrepreneurs operate in isolation, lack representative organizations that can advocate on their behalf before local and national governments, and seldom share a forum to exchange information and concerns. ACCION has experimented with various ways of promoting organization among program beneficiaries. One such effort, MIMEXA, is an Association of Micro-entrepreneurs in Monterrey, Mexico, and has emerged into an important marketing and advocacy link for its members.

Most programs agree that the organizational structure chosen by beneficiaries is less important than the fact that they organize. The impetus for organization must emerge from the beneficiaries themselves, and ACCION's role, as well as that of its affiliates, should be to support and strengthen the process.

While ACCION considers that it is vital for the programs it assists to reach the above goals, it also recognizes that the process of integrating all these goals can generate certain tension at the operational level. For example, the search for self-sufficiency may mean that a program lacks the resources to provide meaningful support to the beneficiaries' organizing efforts. Or it may mean that once a program reaches the neediest among the beneficiaries, it finds that they require more intense assistance, resulting in higher costs for the program. In practice, each organization establishes its goals, and in light of the program's maturity and resource availability, it also determines its priorities.

V. MAJOR COMPONENTS OF ACCION'S METHODOLOGY

The methodological components described in the following pages were designed so that programs can reach the operational goals summarized previously. While these goals underlie all the programs, even among ACCION affiliates there is no one methodology, nor is reference made to an "ACCION model". From country to country, even from city to city, there are considerable methodological variations among the programs, most adapted to suit a wide spectrum of contexts and cultures.

One factor that varies among programs is the mechanism for credit delivery; that is each program reaches the informal sector through the individual or through groups. Most programs operate with both types of credit, but the tendency among the newer programs is to concentrate on the group method for reasons that are discussed in this chapter.

These programs operate in a highly dynamic environment in which competition requires that the micro-entrepreneur constantly use his or her creativity to continue producing. For this reason, the programs must also reassess continually their approach to assure that they are responding to the needs of the beneficiaries. One could say that the only constant in ACCION's programs is change itself.

Five major areas are discussed in this chapter as components of ACCION's methodology: 1) efficient management; 2) a mix of services that includes at least credit and technical assistance; 3) credit terms and procedures that are in line with the needs of the micro-entrepreneurs; 4) technical assistance designed for the micro-enterprise level; and 5) promotion of solidarity.

A. Efficient Management

From the moment that a program establishes the goal of expansion -often referred to as "massification" -it accepts the fact that it will process tens of thousands of financial transactions a year. This challenge implies that at a minimum a program must:

1) have an effective accounting system;

2) maintain an agile flow of needed information;

3) maintain a healthy portfolio;

4) have a functional organizational structure;

5) rely on a decentralized management style; and

6) install a system for ongoing evaluation.

ACCION's programs prepare annual budgets on which they report on a monthly basis. Each month they present a financial report that in most cases includes an income statement and a financial statement. In most of the programs the accounting system is computerized and based on fund accounting. An annual external audit is mandatory in every program.

Portfolio management is also computerized. The data base includes information on the micro-entrepreneur and the firm, which is drawn from questionnaires completed by the field workers. Each time that the beneficiary applies for a loan, the information on the firm's production and output is updated.

Every month, each program should generate a computerized report on its credit operation. Some programs also produce this information for technical assistance, training and economic indicators of impact. Each week, the system in these programs provides every field worker with all the pertinent information to manage his/her own loan portfolio.

Maintaining a healthy portfolio is the focus of attention for the whole staff. The quality of the credit fund is determined in part by the initial selection of the borrowers, the orientation they receive, the level of efficiency of the monitoring systems, and the degree of follow-up of each borrower.

The structure of the implementing organization also evolves as the program grows. Gradually, the field staff assumes more and more decision-making responsibility. Other staff -regional coordinators, directors and other mid or upper level managers- meet regularly to review and support the decisions made by field staff. With time, the executive director intervenes less and less in day-to-day operations.

The programs assess their activity on a continuous basis. Every month they review the key aspects of implementation, every quarter or six months they evaluate staff, and yearly they conduct an assessment of the programs' impact at the beneficiary, institutional and contextual levels.

B. Mix of Services, Credit and Technical Assistance

In all the countries where ACCION has conducted studies, the micro-entrepreneurs relate most of their needs to the lack of access to credit and training. For example in a survey in Guatemala in 1987, these two items appeared in 90.8 per cent of the answers. The traditional approach to micro-enterprise support, and characteristic of ACCION's earlier programs, placed more emphasis on training than on credit. The newer programs, however, have emphasized credit far more than training, and given their success, will continue this trend. The "Asociación Para el Desarrollo de la Micro-empresa" (ADEMI) in the Dominican Republic, which started in 1984, is a good example of the latter tendency.

ACCION asserts that both services are essential and that the mix must be established by each program. Since there is no empirical evidence to point to the "perfect" blend, the ACCION programs demonstrate considerable diversity in the way they combine these services, always within the common framework of expanding programs and increasing self-sufficiency.

C. Credit Terms Adapted to the Needs of the Beneficiaries

1. Streamlined Loan Application Procedures

According to ACCION studies conducted in the Dominican Republic, Costa Rica, Peru and others, when one asks a micro-entrepreneur who resorts to a moneylender what he likes the least he answers, "the high interest rate", and if asked what he likes the most, the reply is "the speed with which I get the loan".

Traditional programs that reach micro-entrepreneurs often take between two months and one year to process a loan request. The familiar result is that by the time the loan is disbursed the need no longer exists, or the business has disappeared.

By and large, the highest cost of development programs on the beneficiaries resides in the opportunity cost emerging from transaction-related activities. In the case of micro-enterprise programs, there is no reason to impose these costs; in fact, they are detrimental to the program.

ACCION programs in general take less than ten working days to disburse credit for the first time. Subsequent loans take less than three days to process, and in some cases are disbursed the same day that the previous loan is paid.

2. Minimum Collateral Requirement

The main obstacle micro-entrepreneurs face in obtaining bank loans is their inability to meet collateral requirements. The smaller the business, the harder it is to satisfy this prerequisite. ACCION believes that the micro-entrepreneurs have collateral to back up their loan request, but that this is seldom in the form of cash or assets. Therefore, programs must adjust their lending requirements to align with informal sector reality, and must create innovative mechanisms to assure repayment.

ACCION-affiliated programs consider the firm's fixed assets as acceptable collateral. Most micro-enterprises have some type of equipment or tools as their capital base. Given the scale at which these firms operate, the value of these assets to the micro-entrepreneur is difficult to compute; to lose these would mean losing the means of sustenance for the family. Additionally, as discussed below, the programs include educational and motivational components to assure that the borrower will assume responsibility of the loan and pay back in a timely and voluntary fashion.

The group credit method also comes into play here. When the group assumes responsibility for its three to eight members by vouching for the moral character of each, and by managing the group loan, assuring that each person pays back his or her share, there is no need to require additional collateral. There is a mutual dependence established between the program and the group. A responsible group makes its payments on time, and the program in turn continues to provide its members with loans.

3. Loans for Working Capital

The entrepreneurial sector in all developing countries is shaped like a pyramid, with very few large enterprises at the top, and the large majority -sometimes close to 80 or 90 per cent- of the enterprises at the base, with medium and small firms in between. Obviously the needs of each firm vary according to size, level of development, technology, type of activity and other variables. If one analyzes only the micro-enterprise sector, one finds enormous variations and complex differences among the firms that comprise it. ACCION's experience demonstrates that despite

this heterogeneity all micro-enterprises share a common need for credit. The smaller the firm, the greater the urgency for working capital.

Since the majority of ACCION programs are directed to the smallest of enterprises, most loans are channeled to meet their immediate need for working capital. By making small short-term loans for this purpose, and at much lower cost than what they can get otherwise, the programs generate instant savings and benefits for the micro-entrepreneur. Additionally, the small loans encourage gradual change in the firm's structure and operation, without an exaggerated and inopportune emphasis on equipment purchase. Otherwise, the borrower can be overburdened with payments he or she cannot meet, thus prejudicing the firm as well as the credit program. As the firms grow, the programs can provide loans for equipment purchase through a separate line of credit.

4. Size of the Loan Grows Gradually

To establish a methodology for extending credit, ACCION started from the premise -now supported by experience- that the micro-entrepreneur manages efficienty the sums of money that he or she is used to handling. Deviation of resources from firm to other purposes occurs primarily when the borrower has an excess of cash at his or her disposal.

With this in mind, ACCION designed a system of loan provision that in itself represents an educational process in credit management, and which also enables the firm to expand gradually.

The first loan covers the working capital needs of the firm for a short period of time, at the present level of operation. Most enterprises that ACCION programs assist have been in existence for no less than one year. Although it varies from program to program, most of the programs then require that the borrower makes weekly, bi-weekly or monthly payments for two reasons. First, the amount lent was based on the repayment capacity of the borrower. Second, the infusion of new capital into the firm implies that the micro-entrepreneur may now have some disposable money which he or she previously invested in the firm, which can be used to increase production even slightly.

Several days before making the last payment, the borrower completes a second application form, building into his loan request some additional marketable production. Hence, the second loan is larger than the first. This process of gradually larger loans can be repeated until the borrower

reaches the maximum amount allowed by the program, assuming the loan repayment has been according to the established terms.

5. Length of Loan

The first programs that made small loans (Peru, Dominican Republic, Colombia, Ecuador) observed a considerable expansion of business activity among the borrowers. After conducting some case studies, the following conclusions emerged. First, short term loans place in the micro-entrepreneur's hands amounts of money comparable to those he or she is used to handling efficiently and investing in the business. Second, the short-term payment schedule and the availability of additional funds allows the borrower to plan a gradual increase in production which can be marketed without great effort. Finally, this modality enables the program to inject appropriate amounts of money into the firm at opportune moments, thereby minimizing the borrower's risk. In other words, the program acts as a companion to the micro-entrepreneur in his or her business development.

Short-term loans also favor the program, permitting a high level of rotation of the credit fund, generating additional income and enabling it to accomplish its goals of expansion and self-sufficiency.

It should be noted that many programs also manage a fixed assets line of credit, which has a longer repayment schedule and is made available only to borrowers already in the program. Since the impact of new equipment on production takes longer, a borrower can continue assessing a working capital line of credit while also borrowing for new assets.

6. Loans to Groups or Individuals

Those programs that have decided to expand their activity to reach the smallest among the micro-enterprises have found that lending through the group approach is an effective way to do this. "Solidarity groups", started in 1978, consist of groups of three to eight members, each with his or her own firm, which come together to participate in a credit lending and training program. The self-selected group assumes responsibility for its members.

This simple concept revolutionized the approach to micro-enterprise programs. It enabled them to reach the lowest level of the entrepreneurial

pyramid, thereby assuring that the poorest among micro-entrepreneurs were included.

The programs evolved from supporting a few hundred beneficiaries to a few thousand in a very short time. Since women predominate among the smallest, the solidarity group mechanism led to the inclusion of many more women as beneficiaries. Finally, the programs entered a new stage of operational self-sufficiency.

The key advantage of the solidarity group approach can be summed up as follows. First, it reduces administrative costs by processing one loan for every three to eight persons. This way the program also expands spontaneously, by word of mouth. Second, the peer mechanism improves the repayment rate and increases the members' capacity to manage and account for their loans. Third, technical assistance has a multiplying effect, in which the stronger members of a group assist the others out of solidarity and desire to improve not only their own firms but those of their group members as well.

Additionally, solidarity groups give rise more easily to the formation of both first and second story associations. In Colombia, in 1985, seven organizations working with this methodology formed the Association of Solidarity Groups, today a nation-wide network of 13 organizations that work in a coordinated manner with the informal sector.

The approach also permitted the inclusion of micro-vendors into the program, usually the poorest and least able to present a guarantee. Finally, the solidarity group method provided a variety of non-measurable advantages that are key to any development effort. The weekly meetings, the training program, the responsibility assumed by the group, and the successful handling of credit turned the group into a nucleus of mutual support, a type of extended family so lacking in urban centers. Factors such as improved self-esteem, increased ability to analyze one's situation, and improved capacity to organize around common problems emerged as some of the important benefits that are difficult to measure but impossible to ignore.

While this methodology predominates among ACCION-assisted programs, some also choose to make individual loans, especially to the larger among the micro-enterprises. This way, the firms receive more personalized one-to-one assistance, and are able to evolve with more program support. Individual loans impose higher costs on the programs,

which can be lowered by rapid expansion and increased streamlining of internal operations.

7. Service Charges Comparable to Commercial Rates

All ACCION programs share in common the policy of not subsidizing the services they extend. The charge to the borrower reflects the direct costs of the program and a percentage for bad debt reserve. Operational costs are kept within a certain range, which requires a level of institutional efficiency based on well-trained and motivated staff and appropriate control systems. Commercial interest rates serve as a guide for the programs, even when these compete with the informal credit markets of moneylenders. Thus the programs' interest rates for those in the informal sector are much lower than any alternative. Additionally, it should be noted that these programs provide a "package of services", and the interest rate charged usually also includes training and technical assistance costs. In any case, even in those cases when the interest rates exceed commercial rate levels, they remain the lowest available to the micro- entrepreneurs.

As the informal sector gains notoriety, more and more programs emerge and sometimes compete to reach this population by charging interest rates that do not reflect their operational costs. Other organizations, grounded in social development philosophy, also choose to subsidize their credit funds. In fact, until recently, most private development organizations defined themselves as "service agencies working for the poor". Establishing some level of subsidy for services appeared only natural. While this approach is shifting, many organizations still align to this mode of thinking.

The base for ACCION's policy regarding unsubsidized interest rates can be summed up as follows:

- A survey on informal credit markets anywhere in Latin America would demonstrate that micro-entrepreneurs are paying usurious interest rates to moneylenders because they lack access to other sources of credit. These rates can vary from 10 per cent per month to 10 per cent per day. Hence, commercial level interest rates charged by the programs immediately yield savings for the micro-entrepreneur.

- Subsidizing the interest rate because "we are working with the poor" can also imply that recuperation can be lax for the same reason. Nothing will lower repayment rates faster than the perception that the program does not take it seriously.

- Charging for services assumes that the borrower will be able to pay these fees, and distinguishes the program from "charitable" activity. At the same time, it places the beneficiary on a more equal footing with the institution, and he or she can dialogue and make demands on the program with greater leverage.

- Perhaps the most important reason is to avoid creating programs that must maintain an outstretched hand to donors to continue subsidizing their activities.

8. The Seriousness of Late Repayment

Barring exceptions brought on by emergencies and other extenuating circumstances, the sanctions against those that are late with loan repayments are strong and demanding. This approach is necessary because of the implicit injustice of continuing to redistribute funds paid back by some to those who do not pay. Among the most important reasons for strongly discouraging late payments is to keep other borrowers from following suit. Those who are late cannot apply for a larger loan, may face additional charges, or may not be allowed to continue participating in the program.

Loans that are not recovered hurt the program in additional ways. They constitute funds that could have been rotating to cover the needs of other entrepreneurs, and they don't generate income for the program. Indeed, as most programs point out, extending credit is easy; its recuperation, however, is a symbol of the program's maturity.

D. Technical Assistance that Responds to the Needs of the Enterprise

Given the variety of needs of micro-enterprises, the programs have gradually adapted the manner in which they provide this service. Originally, training was offered only through structured courses, and in some programs, such as Colombia, training constituted one of the main activities. As discussed above, ACCION considers it essential to have a mix of credit with training and/or technical assistance, and all programs offer one or the other, or both.

1. Training

This component seeks to address those needs related to micro-enterprise activity which the borrowers share in common. It is offered through short courses, with varying degrees of detail, on subjects such as credit management, accounting, business administration, solidarity and leadership, and which are often obligatory for all borrowers. Other courses may also be offered on a voluntary basis and designed according to the expressed needs of the borrowers.

Most programs design their own curricula and train staff as trainers. The more advanced programs in this area, such as those in Colombia, have completed training manuals for solidarity groups. These have been distributed among the network of organizations and adapted as necessary.

This training approach is relatively low-cost, although it can have the disadvantage of not responding to the needs of all the beneficiaries. Gathering homogeneous groups together among a population with such varied educational levels is very difficult, and hence the level of learning can vary considerably.

2. One-to-One Technical Assistance

This approach attempts to respond to the particular needs of each beneficiary, and it is provided in the place of work. For this reason, this assistance is very costly, but perhaps more effective. In general, most programs that have solidarity group components tend to lean toward training programs, while those with individual loans also provide one-to-one assistance.

It is important to note that in ACCION programs, all training is linked to credit. There are no participants who receive only training. In fact, it is after receiving a loan that beneficiaries begin to participate in training activities.

E. Promotion of Solidarity

The programs offer the beneficiaries the opportunity to end their isolation both as economic units and members of their community. Particularly the solidarity groups, but also the individual loan programs, enable the participants to engage in discussion on subjects such as solidarity, collaboration, collective action, legal environment, and other subjects that

affect their lives. The mere act of participating in analyzing these concepts contributes to improved motivation and belief in the capacity to solve problems. The emergence of associations in Mexico, Colombia and other places are indications of the degree to which the program beneficiaries have assimilated these concepts.

In general, activities related to promotion of associations or increased solidarity are more informal than the credit and training components, and depend much more on the beneficiaries themselves. The programs unleash a process of change within the beneficiaries which may or may not manifest itself in collective action.

VI. ISSUES RELATED TO ACCION'S METHODOLOGY

In the last five to ten years, social, economic and political developments in Latin America have greatly changed the informal sector landscape and the issues surrounding it. Migration to the cities and population growth have created a stronger link between demographic concerns and the informal sector, which has absorbed many of these new urban dwellers. The economic recession of the 1980's has also pushed growing numbers into self-employment. Not surprisingly, as the numbers have grown, governments have begun to pay attention to this significant sector and to ponder solutions.

In this rapidly changing environment, organizations such as ACCION that have a track record or work with this population, must fine tune their approaches and explore innovative alternatives for the coming decade. The following is a short synopsis of some of the issues surrounding this process, which are at the heart of ACCION's own efforts to improve its work.

A. Institutional Profile

What characteristics should one look for in organizations that will work effectively in the extension of services, especially credit, to the informal sector? This is not a new question, but the answer changes as the context and circumstances evolve. From ACCION's perspective, it is clear that private development organizations, which have been the pathbreakers in reaching the informal sector, will continue to play a significant role, not only as program implementors but also as innovators. Nevertheless, it becomes imperative to ask, ***inter alia***, what these organizations should

look like, what degree of growth and development one can expect after one, three or five years of program activity, and what role technical assistance institutions should play in this regard.

There is no one answer to this probing. ACCION's approach has been to develop and refine the philosophical, political, managerial, financial and technical profile of any organization as it progresses through various facets of maturity in its work with the informal sector. This emphasis on understanding effective institutional development is an ongoing process that constitutes an important step toward realizing significant impact on the informal sector in Latin America.

B. The Role of the Commercial Banking Sector

In general, the banking and financial sectors of Latin American countries are reluctant to work with the informal sector. The reasons are varied: high transaction costs, unacceptable levels of risk, more appealing alternative investment opportunities are among the most familiar. Nevertheless, since efforts to achieve significant impact in the informal sector will require large infusions of capital, the role of the banking sector is a key issue. While we are a long way off from active participation by this sector in promoting the economic activities of the urban poor, the challenge before us is to find innovative approaches that draw from experience and create an attractive investment possibility as well as a sound base for continued work.

C. The Role of Government

The increased attention that governments are beginning to give the informal sector signals another key area for discussion and raises complex and urgent issues. National and local governments have the power, and in many cases can exert the will to redistribute resources, change policies, enact legislation and generally modify the informal sector panorama in each country. For this reason, government interest in informal sector activities can become a double-edged sword. Resources can be squandered in ill-defined projects that have quick political payoffs, laws can be rewritten but not enforced, and the informal sector can become a playground for political activism.

Private development organizations and others knowledgeable about informal sector issues must assist governments to understand the informal sector, to define reasoned, equitable and manageable policies, and to

determine what its role should be in implementing programs. Unless organizations become involved in this process, their work as credit and training institutions will not be translated into broader social change within their societies.

While there are many other issues to study and resolve in the coming years, the ones above will shape the discussion related to informal sector activity. As the complexity of the informal sector becomes increasingly apparent, clarity in approach and methodology on the part of development organizations becomes paramount. This document represents one effort in that direction.

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