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AN INTRODUCTORY REFERENCE ON SMALL-SCALE ENTERPRISE DEVELOPMENT

WORKING PAPER NO. 92

by

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The views and interpretations expressed in this report are those of the author and should not be attributed to the Agency for International Development.

INTRODUCTION

Purpose of the Report

This is an introductory reference that aims to summarize basic issues, experience, and lessons learned about small scale enterprise (SSE) development. The intended audience are A.I.D. staff who may be dealing with SSEs for the first time and who wish to familarize themselves quickly with the key concepts, issues, and findings on SSE project experience. It should also be useful to others in development agencies, such as the Peace Corps, PVOs, intermediary organizations, and other donor organizations, that are interested in a preliminary overview of what A.I.D. has learned about SSE development.

Information Sources

The information, findings, and observations in this reference were based primarily on A.I.D.-funded research and studies on SSE development, A.I.D. policy papers, and on A.I.D. evaluations of SSE projects. However, it also draws on the experience with SSEs of other development organizations, such as PVOs and other donor agencies. For a listing of the key sources used in this report, as well as a guide to further reading on SSEs, see the annotated bibliography in the Appendix 2.

Organization of the Report

The reference is organized as follows:

Section 1: SSE Background Information provides basic background information on small scale enterprises, such as their definition and issues of size, their key characteristics, and their economic efficiency compared to larger-scale enterprises.

Section 2: SSE Project Performance reviews findings on SSE project performance based on recent evaluation syntheses of A.I.D. and other donor projects. The various studies use many measures of project performance, including cost-benefit analysis, indicators of project impacts on SSE profitability and employment generation, project cost effectiveness and self-sufficiency.

Section 3: SSE Policy Environment examines key policies commonly found in LDCs that negatively influence the growth of SSEs; reviews lessons learned concerning SSE policy reforms; and outlines A.I.D.'s policy papers with relevance to SSE development.

Section 4: SSE Credit reviews A.I.D.'s experience with SSE credit projects, examines key factors affecting their success, and reviews lessons learned.

Section 5: SSE Technical Assistance and Training reviews A.I.D.'s experience with SSE projects providing technical assistance and training to SSEs, examines key factors affecting their success, and offers some lessons based on experience.

Section 6: SSE Service Delivery Organizations discusses the advantages and disadvantages of using alternative types of organizations for implementing SSE projects, including international PVOs, local and national PVOs, cooperatives, government agencies, banks and business associations.

Section 7: SSE Innovative Technologies reviews the role of appropriate technologies in stimulating SSE growth, examining in particular the importance of soft' technologies, such as organizational, financial, commercial, marketing, and management innovations.

Section 8: The Role of Women in SSEs examines the special role, opportunities, and constraints that women entrepreneurs present in SSE projects.

1. SSE BACKGROUND INFORMATION

The purpose of this section is to provide background information on small scale enterprises (SSEs); their definition, key characteristics and their economic efficiency.

1.1 Definitions of SSEs

There is no universally accepted definition of how large or small a business can be and still be classified as a small scale enterprise. One study (Neck, 1977) found more than 50 definitions of small scale enterprise in the 50 countries they surveyed. The following are some working definitions of what constitutes an SSE to provide a better sense of their parameters and general characteristics:

-- Both the World Bank and the Inter American Development Bank (IDB) define micro businesses as having 100 or less employees and total assets up to $20,000.

-- World Bank defines small scale enterprises as having over 100 employees and fixed assets under $250,000.

-- A.I.D.'s Office of Agriculture defines small enterprises as having a minimum of 20 workers and maximum of $5,000 in capital assets.

-- Save The Children Foundation defines small enterprises as having less than 10 people, needing less than $5,000 credit and lacking access to formal credit markets.

The diversity of these definitions is illustrative of the differences between A.I.D., PVO, NGO, LDC and international banking small scale enterprise terminology.

The definitions of micro, small and medium businesses most frequently used within A.I.D. are as follows:

-- Micro businesses generally have from one to four employees who are frequently family members.

-- Small businesses generally have from five to forty-nine employees.

-- Medium businesses generally have 50 to 100 employees.

1.2 Characteristics of SSEs

A 1986 paper entitled "Small Scale Industries in Developing Countries: Empirical Evidence and Policy Implications" by Carl Liedholm and Donald Mead presents empirically based findings about SSEs (in the manufacturing section only) based on surveys of small industries in a number of LDCs. Key points from the descriptive profile include:

-- The overwhelming majority of industrial establishments are small (employless than 50 workers). They account for the vast bulk of industrial employment. As table 1 indicates, in 13 of the 14 countries with data, SSEs account for more than 50 percent of total industrial employment.

-- Most of the employment was concentrated at the smallest end of the size spectrum. Approximately two-thirds of the manufacturing enterprises in these 14 countries employed fewer than 10 persons.

-- SSEs generate a significant portion of the value added by the manufacturing sector, averaging about one-third of total manufacturing GDP. On average SSEs contribute about 5 percent of total national GDP. (see table 2)

-- SSEs tend to be concentrated in the production of light consumer goods; especially food/beverages, textile/wearing apparel, and wood products, which account on average for over three-forths of small enterprise employment (see table 3). Most of these SSE good and services are sold directly to local household consumers, rather than to intermediaries, the government, or the foreign sector. (table 4)

-- In most countries, the vast majority of small industries are located in rural areas, and generate more employment than urban manufacturing firms. In 10 of 13 countries with data, the rural areas accounted for more than half of total manufacturing employment. (see table 5)

-- The overwhelming majority of SSEs are extremely small. In six of eight countries with data, over half of the SSEs are one person firms and over 85 percent employed fewer than six persons. (see table 6)

-- The total amount of capital used by small enterprises is rather modest, ranging in stock terms from $654 to

$4,225 in the countries studied (see table 7). The initial capital stock required to establish small firms is rather small, ranging from $49 to $1,404 in the countries studied (see table 8). Although not a dominant element in the capital stock of small enterprises, working capital shortages were frequently the most pressing problems perceived by SSE proprietors.

-- The overwhelming bulk of funds for establishing SSEs were obtained from personal savings or from friends or relatives. Funds obtained from the government or commercial financial institutions accounted for less than 1 percent of initial funds. Money lenders also contributed less than 1 percent of initial funds for establishing SSEs. (see table 8)

-- Employment in small manufacturing enterprises is generally increasing in absolute terms more than in larger firms, although the rate of increase is sometimes faster and sometimes slower in SSEs compared to larger-scale firms. (see table 9). However, one-person firms tend to be the slowest growing segment.

1.3 Economic Efficiency of SSEs

This section reviews the empirical evidence of the relative economic efficiency of large and small scale enterprises, examining commonly used partial and comprehensive measures of efficiency.

1.3.1 Partial Efficiency Measures

These measures usually relate output to one factor only, such as output-capital or output-labor ratios. Output is usually measured in value added while labor and capital are measured in stock terms. Given that capital is considered the scarce factor in most LDCs, output-capital ratios are most often used. Because output data are frequently missing, capital-labor ratios are also sometimes used. These measures are only partial, and results should be interpreted with extreme caution.

-- Empirical evidence utilizing capital-labor ratios indicate that generally small manufacturing enterprises are more labor-intensive, using less fixed capital per worker, then their larger-scale counterparts. (see table 10). Since LDCs generally have a large pool of

underutilized labor and scarcity of capital, this indicates that encouraging SSEs to generate employment is an economically efficient strategy.

-- Examination of output-capital ratios in 12 countries with data presents a mixed picture of the relationship between capital productivity and size of the enterprise (Table 11). Capital productivity is highest for SSEs in 9 of the 12 countries. However, large scale industries have higher capital productivity estimates in several Asian countries.

1.3.2 Comprehensive Efficiency Measures

Only a few studies in LDCs have used the analytically more correct, comprehensive efficiency measures to compare the economic efficiency of small versus large enterprises. Measures of total factor productivity relate the enterprise's value added to a weighted average of all of its scarce factor inputs, using shadow prices for these factor inputs to reflect their economic scarcity value. These comprehensive measures of economic efficiency include total factor productivity measures (e.g., social-benefit cost ratios and frontier production analyses) and related economic rate of return measures.

-- A study by Michigan State University in three countries (Sierra Leone, Honduras and Jamaica) calculated social benefit-cost ratios for various sized firms using domestic prices. They found that small scale enterprises are more efficient (higher benefit-cost ratios) than their larger-scale counterparts in the majority of the industrial groups considered (see table 12).

-- In Sierra Leone, data was available to calculate social benefit-cost ratios at world (shadow) prices, in addition to domestic prices. The results were that SSEs continued to be more efficient than larger scale enterprises in all industrial groups considered. (table 13).

-- While in the aggregate SSEs are efficient, their economic profitability varies markedly among different types of producers. SSEs which are most likely to be economically viable tend to: (1) use hired workers, (2) operate workshops away from the home, (3) operate in localities with more than 2,000 inhabitants, and (4) operate in product lines with better economic prospects, such as tile, furniture, baking and repair activities.

2. SSE PROJECT PERFORMANCE

The purpose of this section is to provide information on the performance of projects aimed at assisting SSE development. Most typically, SSE projects have focused on the provision of credit and/or technical assistance and training efforts aimed at transferring technical, managerial, marketing or other skill gaps to SSEs.

2.1 Measures of SSE Project Performance

Various indicators are used to estimate SSE project performance and measure different project objectives, including impacts on SSEs, such as income and employment generation, savings, mobilization, and reinvestment. Other measures are concerned with coverage (i.e., the number of SSE clients served, number of loans extended, etc. or with bias in coverage (i.e., the characteristics of the clients, such as size of enterprise or sex of the owner). Another type of indicator examines the cost effectiveness and the financial viability of SSE projects (i.e., loan repayment rates, administrative costs as a percent of loan value, cost per job created, comparison of project operating costs to revenues generated, etc.) Finally, benefit-cost ratios of projects estimate and compare the indirect and direct economic benefits of the project with the project costs.

2.2 Findings on SSE Performance

Several recent studies have synthesized evaluations of a number of SSE projects, providing new information about their performance:

-- A review of the evaluations of 19 SSE projects of various donor agencies by Blayney and Otero (1985) found generally positive project impacts on SSE firms' profitability, reinvestment of earnings into new productive activities, saving mobilization, and employment creation. The total number of loans made by these projects surveyed ranged from a ;pw pf 33 tp a jogj pf 300,000. The average loan size ranged from a low of $37 to a high of $1,545. The costs per job created range from $400 to $7,000.

-- A study by Kilby and D'Zmura (1985) examined the direct and indirect benefits and costs of five SSE projects

lending primarly to micro-enterprises, and found the benefit-cost ratios of all the projects to be greater than one. The study concluded that programs which lend working capital to micro enterprises are "among the most successful categories of all types of foreign aid programs." Four of the five projects evaluated had internal rates of return over 100 percent. (see table 16)

-- A review by Levitsky of 10 of the World Bank's small and medium enterprise lending projects found they had fared no worse, and in a few cases better, than the conventional loans to development finance institutions. Small and medium enterprises (SMEs) were generally found to generate jobs at a lower investment cost than larger industries in the same country. The average cost per job of World Bank SME projects ranged from $3,000 to $14,000. Arrears rates tended to be fairly high in the Bank's SME projects, but apparently were no more "high risk" than lending to larger enterprises. The Bank's lending to SMEs in general did not benefit the smallest (micro) enterprises.

-- An examination by Liedholm of 11 small enterprise credit-only projects designed to provide small enterprise loans below $5,000 found that the administrative costs per loan were below 10 percent for several schemes. Moreover, the arrears rates percent of loans outstanding) were typically below 10 percent. In a few instances, however, the arreas rates have exceeded 40 percent. The average loan size for these projects varied from $101 to $5,961, while the administrative costs per loan varied from about $2 to $1700. The administrative costs per loan, the administrative costs as a percent of the loan, and arreas rates, tended to be higher in projects with both credit and T.A. components and lower in credit-only projects. (see table 17).

-- A review by Stearns (1985) gathered information on various SSE programs from around the world, assessing their effectiveness in meeting objectives of increasing employment, raising incomes, reaching large numbers of clients, and becoming financially sustainable. Impact on employment was considered to be medium to high in 13 of the 17 cases for which data were available, and only low in 4 projects. All 17 projects were considered to have a medium or high impact on income. However, in terms of cost-recovery (i.e., the amount of operating costs which the program covers itself) only 10 projects were considered to have medium to high performance

while 7 projects had low financial sustainability. Loan repayment rates were generally very high, with 14 of the 17 programs reporting 90 percent or better. In terms of program coverage, the total numbers of clients reached ranged from a low of 211 to a high of 211,738. The number of average clients served per year ranged from 62 to 22,080. (see table 18).

3. THE SSE POLICY ENVIRONMENT

This section examines key policies commonly found in LDCs that negatively influence the growth of SSEs. It then gives some lessons learned from experience pertaining to SSE policy reform efforts. Finally, it outlines key points in A.I.D.'s policy papers that pertains to SSE development.

3.1 Policy Factors Affecting SSEs

Most efforts to encourage the growth of SSEs have emphasized project interventions. However, such efforts have often been frustrated by a policy environment that is biased against the small entrepreneur. Frequently LDC government policies and regulations to promote industry favors larger enterprises, while smaller producers with less access are placed at a disadvantage. Because many of these same policies distort factor markets, the longer term growth and sustainability of the whole economy is negatively affected.

There are a surprising array of policies that impact SSEs differentially than their larger-scale counterparts, including capital market distortions, foreign trade and exchange regulations and policies, labor market policies, agricultural policies, tax policies, industrial policies, and zoning regulations. Some examples of how LDC policies and regulations affect SSEs follow:

-- SSEs have great difficulty untangling the red tape required to get necessary licenses and to qualify for benefits provided by some LDC investment tax credits.

-- LDC trade policies such as rationing imports and over valued exchange rates frequently discriminate against SSEs. Larger firms are better positioned politically and economically to receive rationed import permits, tariff rebates and foreign exchange.

-- LDC import protection policies which place high duties on luxury consumer goods and very low duties on intermediate and capital good frequently disadvantage SSEs. For example, large garment producers in Sierra Leone were able to import their machines duty-free because they were covered by incentive and import-substitution policies. But, small-scale tailor shops found that the sewing machines were taxed highly as luxury consumer imports. Duty-free imports of used clothing also undercut markets.

-- LDC governments which impose interest rate ceilings to keep interest rates artificially low, trigger excess demand for cheap loans. Banks responds by rationing scarce funds to large scale traditional clients. SSEs are forced to seek funds from their families or local moneylenders whose annual interest rates often exceed 100 percent.

-- LDC agricultural pricing policies which reduce the income of farmers also hurts rural SSEs which produce a significant amount of available low-cost consumer goods. When small farmers can't afford to buy these goods there is no demand to fuel increased SSE production or profits.

3.2 Lessons Learned About SSE Policy Reform

-- Before approving SSE project designs an analysis should be completed of the probable effects of the current policy environment on SSEs. If this environment is too negative and likely to block chances for project success, the project should be vetoed.

-- More empirical research needs to be undertaken about the interactions between specific government policies and regulations and their impacts upon the SSE sector.

-- Policy reform dialogue efforts with LDC governments is unlikely to be effective within the context of specific SSE project negotiations. They may, however, be appropriate within the context of broader, non-project assistance efforts.

-- A program designed to assist LDC governments in analyzing the effects of their policies upon SSEs, and in planning and implementing policy reform programs, may have significant implications for SSE growth and employment that individual projects targeting SSEs

could not hope to attain. However, the difficulty and obstacles to successfully negotiating and implementing policy reform measures should not be underestimated.

3.3 A.I.D.'s Private Enterprise Policy

The overriding intent of A.I.D.'s private enterprise policy is to promote the establishment of a climate conducive to LDC private sector activity.

The two-pronged objective of the policy, to reach the ultimate goal of growth, is the establishment of viable, competitive markets and the expansion of private enterprise in LDCs. These objectives may not be met by establishment of a particular firm unless that:

-- Leads directly towards the development of a competitive market in the LDC; c

-- Becomes a demonstration project that can readily attract private sector replication.

3.4 Key A.I.D. Policy Papers

The three policy papers that are most closely related to small and medium scale enterprise development are:

-- Private Enterprise Development (March 1985)

-- Institutional Development (March 1983)

-- Approaches To The Policy Dialogue (December 1982)

The topics covered in the Private Enterprise Development Policy Paper include:

-- Constraints established by government policy;
-- Constraints related to commercial and country risk;
-- Policy dialogue;
-- Legal and regulatory constraints;
-- Assistance to the private sector in LDCs;
-- Private provision of traditionally government services;
-- Parastatals and government authorized monopolies;
-- Capital saving technology;
-- Training;
-- Infrastructure; and,
-- Research.

The Institutional Development Paper deals with:

-- Analysis and reform of the policy environment;
-- Organizational alternatives;
-- Training;
-- Local capacities; and,
-- The role of institutions in the development of supporting infrastructure.

Approaches To The Policy Dialogue, covers, inter alia:

-- Assessing the potential of aid as a policy dialogue vehicle;
-- The nature of A.I.D.'s program;
-- Project and program assistance;
-- Formulation and implementation of conditionality; and
-- Limitations on the effectiveness of policy dialogue.

The policy papers contain a great deal of useful guidance and should be utilized by A.I.D. Mission staff. It will be noted that there is much complementarity among the three papers.

For example, the Private Enterprise Development Paper recognizes that "A.I.D.'s private enterprise policy is intimately related to the need to conduct our programs in an environment of policy dialogue with the host country." By designing a small or medium scale enterprise project in conjunction with the broader policy dialogue issues of economic policy reform, A.I.D.'s resources are much more effectively directed to the goal of introducing a favorable policy environment.

This point is clearly made in he Approaches To The Policy Dialogue Paper. It states that the formulation of a specific development assistance project is incomplete if it does not include explicit consideration of the economic policy environment within which it is expected to function. This environment also has an inevitably large effect--positive or negative--on the developmental impact of the assistance.

4. SSE CREDIT

4.1 A.I.D.'s Experience with Key Credit Factors Affecting Success

Credit is a major component in the design and implementation of most small enterprise development projects. A.I.D.'s experience with these projects underscores the importance of the following key issues:

-- Interest Rates

-- Repayment Rates

-- Access to Credit

-- Administrative Procedures

4.1.1 Interest Rates

Interest rates are one of the most important factors in establishing and sustaining viable SSE credit programs. A.I.D.'s experience with credit programs indicates that using market-determined, commercial interest rates are necessary for sound business practices to avoid decapitalization. Interest rates charged to borrowers should cover the real cost of unsubsidized money, administrative costs, and a sufficient spread in the interest margin to create incentives for the intermediary institutions to continue and expand the loan program.

-- Subsidized credit policies enable firms to undertake capital investments which may lead to inappropriate capital-intensive production technologies. For example, some World Bank projects subsidized loans for investment in equipment that was subsequently underutilized. Subsidized credit programs for small entrepreneurs tend not to work because such programs can ot cover operating costs and decapitalize. Also, they encourage larger firms to complete for the low-cost loans meant for small entrepreneurs. Charging commercial interest rates for SSE loans does not discourage borrowing, because most SSE owners would pay much higher rates if borrowing from traditional moneylenders.

-- Interest rate ceilings meant to protect borrowers from usury, frequently result in limiting the availability of credit to SSEs. Financial institutions discriminate against SSEs when interest rate ceilings prevent them from recovering the higher administrative costs and percieved risks associated with lending to SSEs.

4.1.2 Repayment Rates

The Agency's experience shows that most micro, and small sized businesses have low loan default and delinquency rates.

SSE loan portfolio performance tends to be competitive with or superior to the repayment and default rates of larger enterprises.

A review by Liedholm of 11 credit only SSE projects found arreas rates (percent of loans outstanding) ranging from 4.3 percent to 14.5 percent. However, for 5 credit and technical assistance SSE projects, the arreas rates ranged higher than 40 percent in some cases. A study of 17 SSE projects found very high repayment rates, of 90 percent or better in 14 of the cases. (see tables 17 and 18)

4.1.3 SSE Access To Credit

A.I.D.'s experience shows that micro and relatively small sized businesses, with the greatest need for credit, are often denied access. These SSEs need to borrow working capital for production supplies, fixed assets and equipment. SSE owners are often denied access to the credit of financial institutions because of negative biases and dysfunctional loan administration procedures.

These biases include the mistaken belief that SSE borrowers aren't reliable and won't repay their loans. Administrative procedures such as confusing and overly complex loan applications and high levels of inflexibility curtail their access to credit.

When free of LDC political pressures to subsidize loans, financial institutions determine interest rates on the basis of perceived risk, availability and cost of money and demand for loans. However, in practice, these financial institutions often discriminate against SSEs and prefer to offer credit to larger scale borrowers because:

-- They prefer high minimum loan amounts and SSEs tend to borrow lesser amounts of money;

-- They prefer to lend money on long-term repayment schedules and SSEs tend to favor short-term loans;

-- They prefer very high collateral requirements, ranging from 150 to 200 percent of loan value, and tend to secure these loans on the basis of land, building or equipment. SSEs tend not to be able to provide high collateral and prefer using character references or group guarantees.

-- They prefer receiving detailed business records with sophisticated input-output accounting sufficient to convince them that the risk of lending funds is minimal. SSE record-keeping is often informal and incomplete, with some smaller business people keeping mental rather than written records. Some SSE owners are reluctant to keep accurate financial records because they want to understate their income to avoid taxes and government regulation.

-- They prefer to lend money to their traditional established customers and want to avoid high administrative costs on large numbers of small, short-term loans. SSEs tend to have high transaction costs when traditional loan review, analysis and supervision systems are used.

-- They are risk-averters and avoid challenging social traditions by lending money to women who have been denied access to credit within male dominated societies. Women play a major role in SSEs and often must overcome significant socio-cultural obstacles to gain access to credit. Members of religious or ethnic minorities face similar constraints. Their access to government and commercial credit services is so disadvantaged they have established alternative systems.

4.1.4 Administrative Procedures

The Agency has learned that poor administration has caused some well designed SSE credit programs in LDCs with supportive policy environments to become ineffective. Problems with credit administration procedures include, but are not limited to, the following:

-- SSE borrowers often seek alternative sources of credit, such as traditional money lenders at excessive interest rates, because the loan applications use in projects are overly complex and time consuming.

-- Loan procedures are often inflexible and financial institutions are unwilling and/or unable to meet the changing needs and priorities of SSE borrowers. This includes an insistance on traditional collateral and unwillingness to reschedule payments when necessary.

-- It is often difficult for borrowers seeking SSE loans to travel to centralized loan offices or they feel uncomfortable and out-of-place in these unfamiliar and seemingly luxurious surroundings.

-- Moneylenders in LDCs do not loan money only for productive purposes rather than for consumer goods or services. Nor does the borrower need to be able to convince them they are a good loan risk. Lenders in the formal sector place these and other conditions on access to loans. This puts them at a competitive disadvantage because loan requirements are considered overly complex, demanding and rigid. SSE owners will often pay higher interest to avoid these constraints. These are some reasons why programs offering cheaper loans do not displace the moneylenders.

4.2 Lessons Learned About SSE Credit Programs

The following provide some key lessons learned about SSE credit programs taken from A.I.D. evaluations, special studies and research reports. The lessons focus on the need to: clarify SSE program objectives, streamline administrative procedures, design better loans, improve loan administration , and mobilize domestic savings. Of course, these lessons must be adapted to fit the specific operational environments of SSEs.

4.2.1 Clarify Program Objectives

-- Programs should decide on a primary objective such as increasing production at a low cost-per-job by mechanization or increasing employment by using labor intensive strategies.

-- Credit programs should define specific SSE targets, rather than trying to work with all sizes and types of loans.

-- Programs should decide whether to loan to low income groups who depend on the SSE to make a living, or focus on middle-class clients with multiple income sources.

-- SSE credit programs should decide whether assistance should be offered to new businesses or only to on-going businesses considered to be better loan risks.

4.2.2 Streamline Administrative Procedures

-- Traditional financial systems for loan review, analysis and supervision have high transaction costs and are

poorly suited to processing a high volume of small SSE loans. Alternative methods with more rapid response time and much less paperwork are needed. For example:

- Reduce the need for expensive, time consuming travel by providing loan application services in more convenient locations.

- When the amount of time required to recover loans becomes prolonged, establish a system to automatically adjust interest charges to compensate for inflation. Otherwise, loans are paid so late that inflation has devalued the currency which penalizes the lender.

- Character references tend to be a more effective and and much quicker means of determining loan eligibility than collateral availability or lengthy feasibility analyses.

4.2.3 Design Better Loans

-- Establish loan criteria which reinforces the loan program's objectives and review them periodically to see if they respond adequately to SSE needs.

- Make short-term SSE loans from one to six months.

- Make SSE loans incremental. When clients pay back their initial small loans they become eligible for larger loans.

- Do not Require technical training to qualify for the first small loan: this generally lowers the number of borrowers. Reliable data is not available on whether or not training lowers the loan default rate.

- Make loans only for working capital at the outset: make loans for fixed assets only after growth occurs.

4.2.4 Improve Loan Administration

-- Charge market-determined positive real rates of interest to prevent loan funds from becoming decapitalized and help cover overhead costs. All administrative functions should be closely monitored to maximize efficiency and control costs while remaining responsive to SSE needs.

- Establish consistent rescheduling and write-off procedures for delinquent and defaulted loans.

- Be flexible in helping delinquent borrowers reschedule their loans provided there is a commitment to repay and conditions warrant it. Borrowers should know they are expected to repay loans.

- Write off "bad debts" after what is judged to be a reasonable amount of time depending on local circumstances affecting repayment potential. Carrying "bad debts" as delinquent distorts the real default rate and raises false hopes of incoming assets.

- Develop an accounting system that accurately estimates the administrative cost per loan and overhead expenses.

- Encourage grouping SSE clients into self-selected groupings with members guaranteeing each other's loans and providing peer pressure for repayment.

4.2.5 Mobilize Savings

-- A.I.D. is interested in helping to mobilize domestic savings to use as investment capital for SSEs and other private sector initiatives. A.I.D.'s project experience has shown that LDC investment capital is available but doesn't surface because of high risk, low gain disincentives. For example, the interest rate LDCs pay on savings is lower than what could be earned by investing in real estate or other investments whose value appreciates rapidly with low risk. Also, rampant inflation often negates earnings from interest on savings.

-- Some SSE credit program have mobilzed savings by requiring minimum deposits to maintain accounts and other forms of "enforced savings". These savings can be used as loan collateral or for investments.

-- Project designers and managers are free to use whatever types of A.I.D. funds or assistance are available for SSEs. This includes: grants, local currency generated by PL-480, Development Assistance funds or Economic Support Funds used alone or in combination. The lack of restrictions is intended to stimulate flexibility and innovation.

4.3 Successful Credit Approaches

Several innovative credit schemes have been successful in providing credit to micro and small scale enterprises. They frequently had the following characteristics in common:

-- Loans were provided primarily for working capital rather than for fixed assets.

-- Loans were screened by local organizations on the basis of the applicant's character rather than possession of traditional forms of collateral.

-- Loans were made for small amounts over short periods to encourage good repayment rates. The loan amounts and time periods were extended when repayment was prompt.

-- Financial institutions streamlined their application and oversight procedures to become more responsive to SSEs.

-- Generally, there is a higher success rate assisting existing SSEs than establishing new ones.

-- Generally, SSE program designers and managers increase the probability of success by analyzing the ways in which money-lenders, market women and othe indigenous groups select clients and recover loans.

5. SSE TECHNICAL ASSISTANCE AND TRAINING

5.1 A.I.D's Experience with key T.A. Training Factors Affecting Success

Technical assistance (T.A.) and training for SSEs is frequently a key component in the design and implementation of small scale enterprise development projects. Experience underlines the importance for developing successful T.A. and training components of understanding the following SSE characteristics:

-- profile of the small entrepreneurs
-- characteristics of their small businesses
-- their business skills and capabilities

It is of key importance for T.A. and training program success that these factors be identified within the local

context of each project. Data should be gathered early in the project development process to clarify the target small entrepreneurs' business needs, skills and perspectives.

For the purposes of this introductory reference, some generalizations are made concerning commonly observed characteristics of small entrepreneurs, their businesses, and their skills.

5.1.1 Profile of small Entrepreneurs

Several institutions and individuals have prepared general profiles describing the average or "typical" SSE entrepreneur to help T.A. organizations better identify and supply their needs.

The following general characteristics have been identified in recently completed studies funded by AID and other organizations:

- -- Over 25 years old, with a family;
- -- Has little formal education (6th grade level on average);
- -- Engaged in a labor-intensive activity;
- -- Using a skill learned from a relative;
- -- Previous work experience limited to a menial labor;
- -- Hardworking (long hours and a seven day a week)
- -- Motivated by the desire to gain respect for their skill and support their families, rather than generating profit as and end in itself;
- -- A migrant not doing business in his or her place or birth;
- -- Regards record-keeping as irrelevant;
- -- Deeply suspicious about government regulations and providing information for census taking; and,
- -- Cynical about programmatic interventions which promise to improve the lives of SSE owners and workers or increase their political influence with government agencies.

-- Technical assistance and training programs should realize that SSE owners frequently resist advice to "scale up". Many small firms consider expansion to be imprudent and/or "unnatural" because hiring new workers could cause management problems and invite government interference.

5.1.2 Characteristics of small businesses

The following are general SSE characteristics offered to better understand the types of businesses T.A. and training is intended to benefit:

-- Micro enterprises (1 to 4 employees) are generally located within the home in make-shift facilities. Micro businesses are limited to hand tools, with the possible exception of small power tools such as sewing machines or a circular saw.

-- Small enterprises (5 to 49 employees) tend to operate from separate facilities adjacent to or near-by their homes. These facilities are usually rented. Small enterprises also use mostly hand tools and are labor intensive. However, they have more sophisticated power tools such as a lathe, drillpress and a welding machine.

-- Medium enterprises (50 to 100 employees) tend to maintain separate facilities which show that thought has been given to production lay-outs. Medium enterprises have a larger and wider range of power tools and light machinery. Their production lay-outs and processes are also more complex and sophisticated. This tends to make them more capital intensive and require workers with higher than entry-level skills.

-- This increased volume of production and sales has made medium sized enterprises visible to governments and it is no longer possible to avoid taxation. The need of medium SSEs to cope with LDC regulations regarding labor, licensing and export-import procedures requires better record-keeping and business systems. Needs for improved internal communication, service delivery systems and transportation accompany the growth of SSEs.

5.1.3 Business Skills and Capabilities

A.I.D's experience with organizations providing technical assistance and training to SSEs has been that most of their clients generally lack the following skills and capabilities:

-- Micro enterprises use highly informal cash flow bookkeeping with no formal record-keeping and little or no understanding of accounting principles or procedures. Most are unregistered and don't pay taxes.

-- Small enterprises use inadequate accounting and control systems to track sales, inventories and supply need. They make an attempt to do basic input-output and profitability record-keeping. However, bookkeeping is often innaccurate or assets are deliberately understated to avoid having to become legally registered, paying taxes or having their taxes increased.

-- Medium enterprises usually need to expand their markets. However, increased competition requires them to improve production and quality control standards. Their need to increase production volume makes backward and forward linkages more important because quantities of raw materials and supplies must be increased. They tend to have outgrown local markets and need regional or national market survey data as well as increased productivity, more labor and specialized personnel.

-- This increased volume of production and sales makes medium sized enterprises more visible to the government and it is no longer possible to avoid taxation. Their need to cope with LDC regulations regarding labor, licensing and export-import procedures requires better record-keeping and business systems. Improved internal communication, service delivery systems and transportation needs accompany the growth of SMEs.

5.2 Lessons Learned About Technical Assistance and Training Programs for Small Entrepreneurs

The following are some the lessons taken from the experience of A.I.D. and other organizations working in SSE T.A. and training projects. The lessons focus on the need to: provide on-site training, improve SSE entrepreneur selection criteria for training, identify good trainers, and design

courses that are relevant to SSE entrepreneurs' skills, capabilities and interests and that make use of innovative training techniques.

5.2.1 Provide On-Site-Training

-- When conditions allow, it's advisable to provide training in places where SSEs exist in clusters. SSEs usually can't afford the travel costs to send managers away for short training sessions. Also, SSE trainers can function as extension agents by visiting local SSEs to offer help solving problems in their early stages. An AID memo on Design of Private Enterprises Promotion (September, 82) advises against training SSE managers in centralized locations. "They seldom get the chance to apply their skills in operational settings" and central training centers become "low status enclaves of irrelevant activity."

-- On-site training should be provided often throughout the life of the SSE project. This should be supplemented by regular feedback sessions so that training programs can be revised in a timely manner.

5.2.2 Improve Entrepreneur Selection Criteria

-- SSE entrepreneurs should be required to show that they are serious about receiving training. This is especially true when participating in training is a precondition for becoming eligible to receive T.A. or credit.

-- Indicators that SSE owners are serious include, but are not limited to, the following: having an established business, providing a needed service or product and reputation for being trustworthy.

5.2.3 Identify Good Trainers

-- The most effective T.A. advisers and trainers are those men and women who see themselves as working with a client rather than telling him or her what to do.

-- Attitudes of educational elitism and the use of jargonm interferes with communication and receptivity to technical advice. Terms such as "amortizing

investment" should be replaced by discussing the SSE owner's plans to get back the money they used to start-up the business.

-- Trainers should teach trainees how to do local market research analysis to identify economic opportunities SSE owners may later want to pursue.

5.2.4 Design Relevant Courses

-- Great care should be taken not to transfer U.S. private sector management systems and procedures without adapting them to the operational constraints of different LDCs. In many cases, these methods are too sophisticated for local conditions and make excessive demands on SSE managers, intermediary organizations and trainers. These can include SSE problem-solving requiring computerized record-keeping, automated production techniques, aggressive advertising and cash flow projections.

-- Care should also be taken to avoid being unconditionally responsive by giving SSE entrepreneurs what they ask for without analyzing what is really constraining success. SSE owners often say what they need is more capital and equipment on concessional terms when what's needed is improved management expertise to use available resources more cost-effectively.

-- In some LDCs, management trainers cannot assume that profit-making is the SSE owner's priority motivation or measure of success. A more relevant criterion may be community recognition of his or her contribution to the village. Some communities believe that profit-seeking is an activity appropriate only for foreigners.

-- The sequencing of management skills training components and the degree of sophistication should respond to the trainee's priority needs and abilities. For example, when the SSE gets new machinery or equipment, training should be provided in operation and maintenance skills. Also, provide training about adequate security if trainees express concern about theft.

-- SSE entrepreneurs tend to be strongly individualistic and resent being told or pressured to do something when they don't see the immediate benefit of following that

advice. Technical assistance and training programs should begin by clearly stating the short and long-range benefits of participation.

-- A management training program should not administer credit or collect loans because that can strain relations with trainees who may have unpaid debts.

-- SSE owners tend to learn from role-playing how to handle situations in which they feel uncomfortable. For example, how to courteously turn down a customer's request for credit or delegate work responsibilities effectively.

5.2.5 Use Innovative Training Approaches

Several organizations have developed simple and innovative techniques for basic financial accounting often a priority training need of SSEs. The following is a brief description of three very simple accounting systems, successfully used for training illiterate small entrepreneurs in the basics of financial bookkeeping.

The basic assumption is that accounting is separating SSE money for one purpose from money for other purposes. Rather than keeping that money in separate written accounts, these simple systems keep it in several different physical places such as envelopes and boxes.

The Envelope System: The SSE owner is given separate envelopes for the rent, loan payment, raw materials purchases and all of the bills he or she will have to pay each month. Each envelope has a picture or symbol so the owner can know which envelope to use.

The SSE owner can fill these envelopes either one at a time or put a little in each one as money comes into the business. When all of the monthly expenses are covered, additional money is put into envelopes designated for savings and profit

At the end of the month, the SSE owner decides what portion of the money in the profit envelope will be invested in the business and what portion will be used for family needs. When profits are generated on a somewhat regular basis the SSE owner can decide pay him or herself a designated salary. The amount of profit remains after deductions for salary and savings should be put into the business for supplies, repairs and growth.

The symbol System: The symbol systems uses one piece of paper to record the cash received by the SSE and another for what is paid out.

Down the left margin of paper has symbols (simple drawings) of every type of transaction the SSE will make in his or her business. Across the top of each sheet of paper are symbols for each of the different types of currency the SSE owner could receive.

The SSE owner makes a check mark in the appropriate column which indicates the type of transaction and the currency amount received or paid out for it. The amount remaining is the profit.

The Two Box System: The two box accounting system uses one box for operational expenses and the other for surplus. In-coming money is put into the operational box until all the monthly expenses have been paid. After all the bills have been paid, additional money is put into the surplus box. The SSE owner must agree that operational money will not be used for personal expenses.

The box or envelope accounting systems is particularly suitable for SSEs with seasonal cost or income variations. These methods were designed for SSE owners who cannot write and are not interested in learning.

However, written records are preferable when possible. Keeping money in the bank or some other means of savings such as postal accounts will provide those records, but may be resisted by some SSE owners who feel they may lose control of their money. Although some SSEs can grow without written records, there are limits and it is hard to estimate and project profits without them.

Experience indicates that teaching SSE owners to use these systems may take about as long as teaching them numeracy. However, there may be less resistance to using simple systems.

Many SSEs do not think of what they do as a business with earnings, costs, and profits for reinvestment and savings. Goods made for sale and services provided are strategies for coping with immediate economic demands and pressures. Poor people make so little money they have to spend it immediately and lack personal experience with concepts related to disposable income.

5.3 Successful T.A. and Training Approaches for Small Entrepreneurs

There are several organizations generally believed to have developed "successful" programmatic approaches to providing T.A. and training to SSEs in developing countries. These approaches include the following:

-- One approach is designing SSE technical assistance and training in response to a group discussion among entrepreneurs explaining the constraints they face re:

- Producing more;
- Earning more profits;
- Employing more workers;
- Growing larger; and,
- Operating in additional locations.

-- In Latin America, Action has key business leaders to help organize community meetings to discuss how best to solve their problems. Those participating in these meetings have taken an active role in shaping training programs by:

- Selecting the content for the training curriculum;
- Determining the frequency and timing of training;
- Arranging locations for decentralized training;
- Setting and collecting fees for training;
- Electing informal leaders among participants;
- Creating effective training aids and graphics; and,
- Establishing and maintaining liaison with key people.

-- A Ford Foundation T.A. and training specialist working in Nigeria used a client's furniture workshop as a demonstration model for estimating the cost of production. He used the following training procedure:

- Trainees walked through the furniture shop in which the wood parts and hardware used to make a desk are labeled showing the cost of each item.

- other signs explained how much shop workers earn and the number of desks they can assemble in eight hours.

- The furniture shop owner then informed trainees about monthly overhead costs. Their assignment was to add all of the required costs of production and recommend a sales price for a finished desk.

There is general agreement among those perceived as running successful SSE training and T.A. programs that ability to follow a business plan is crucially important. The following is a brief description of the approach used by two organizations with extensive experience working with SSEs:

-- Partnership for Productivity International, a U.D. PVO with extensive experience working with SSEs explained how their present approach evolved:

PFP initially took a traditional approach to management training, attempting to teach disciplines such as: elementary bookeeping, inventory control, completing monthly balance sheets and profit and loss statements.

6. SSE SERVICE DELIVERY ORGANIZATIONS

SSE depends upon several types of organizations to deliver services including credit, technical assistance and training. The experience and research of A.I.D. and other organizations agree that there is no "one best way" to design and structure service delivery organization to assist SSEs. Success and failure can be found in all types of organizations and depends largely on the fit between services offered and the SSE's attitude and aptitude to use them productively.

It is generally believed that PVOs have a comparative advantage in reaching micro entrepreneurs. Banks and business associations are considered to be more appropriate for serving more affluent first time this term used-define or change to SSE. But there is a need to go beyond the generalizations of conventional wisdom and analyze the SSE service delivery capability of various organizations.

The following key organizational factors will be assessed: flexible response capability, size, budgetary levels, general problem areas, client selection criteria, dependency on external funders, socio-economic values and others. Within the constraints of a general overview and existing data, we will examine those factors in several types of organizations.

A recent survey lists 1,702 private organizations working in international development, a large percentage of which have enterprise assistance programs. The list of LDC government agencies, business associations, banks private voluntary organizations and others assisting SSEs is much larger.

It isn't possible to discuss several hundred organizations in sufficient depth and detail. Therefore, it's necessary to form an organizational typology to assess the relative strengths and weaknesses of organizations delivering services to SSEs. Because we are describing the general characteristics of each type, there will be some organizations that are exceptions one way or another. However, observations made in the overview are generally valid and applicable.

This report will focus on what the Harvard Institute for International Development's recent (August 1986) Strategic Overview Paper identified as the basic six types of organizations:

-- International Private Voluntary Organizations
-- Local and National Private Voluntary Organizations
-- Cooperatives
-- Government Agencies
-- Banks
-- Business Associations.

6.1 International PVOs

The international private voluntary organizations differ in size, but tend to share a long-term commitment to community development, disaster assistance and relief programs. A general consensus exists that development assistance projects must have an income generating component to avoid or minimize dependency and become self-sustaining.

These organizations have a history of favoring community development and approaches stressing awareness-building but may are shifting their emphasis to income and employment generation. Several of these organizations now focus on transferring SSE business skills and production technologies. Others promote group rather than individual social welfare goals and see SSE projects in that context.

There is considerable debate among international PVOs. One debated issue is whether it's more effective to work with micro, small or medium sized businesses. This choice is between working with poorer people, versus assisting those more affluent, better able to accept risks and utilize

opportunities. The debate could be expressed in terms of allocating services on the basis of greatest need versus lower costs and larger scale.

The size of these PVOs ranges from a staff of several hundred with a multi-million dollar annual budget to those with one or two dozen employees with annual budgets of one hundred thousand large number of people, the scope of their programs in a particular country tends to be quite limited.

The larger PVOs have well defined, structured administrative procedures, modern management techniques and computer-based directly to the needs of micro and small scale businesses. But flexibility and adaptability decrease when these PVOs work through local affiliates who must clear decision with their central headquarters and/or government oversight agencies. Flexibility also diminishes if the PVO has a set package of enterprise development skills or technologies to deliver which can't be significantly diversified.

There is considerable competition between these PVOs for funding and they try to diversify their funding sources. This is done to avoid dependency relationships which could result in unwanted interference in program activities.

In general, these international PVOs have very little ability to influence LDC policy decisions because their level of funding is too low to provide economic leverage. They also tend to have policies prohibiting political interference. There is a trend to join PVO umbrella organizations, but this has not significantly expended their leverage in LDC policy dialogue negotiations.

6.2 National And Local PVOs

This is the largest category of SSE service delivery organizations and includes a wide range of national development foundations, institutes, funs, councils, centers and small community groups.

Their size ranges from staffs of over 100 paid employees to others with fewer than a dozen. Some are staffed with as few as two or three unpaid volunteer. Annual budgets rarely exceed three million dollars and some program operate on only $25,000 to $50,000 dollars. Small PVOs may serve only about 100 SSE owners while larger PVOs may assist from 5,000 to 8,000 over a period of several years.

National and local PVOs tend to be highly flexible and responsive to local SSE needs, with the exception of those who rigidly conform to a single model or technical package.

However, many are loosely organized with deficiencies in their record-keeping and monitoring capabilities. In these cases, project sustainability can be a problem.

These organizations have social welfare community development and/or business management orientations, depending on the clients or localities they chose to serve. They are often highly dependent one one or two international donors. Others have been successful in mobilizing local funding sources, but they are a minority.

Most organizations are vulnerable to potential government "retaliation" if they become "too political" (see Tendler, 1984) and can't exert much pressure on LDCs to reform SSE policies. Some for the larger organizations are exceptions.

6.3 Cooperatives

The cooperatives most concerned about providing assistance to SSEs are savings and loan associations. Some are production or marketing cooperatives which help SSE members buy production materials and inventory more cheaply by making volume purchases.

Cooperatives are often heavily regulated by LDC governments and some were organized by them. There are successful co-ops with impressive records of setting and achieving goals as well as may others which struggling or have failed. Some are criticized for being dominated by wealthier members and for being culturally inappropriate in some areas. Sometimes this is a factor of ethnic divisiveness, individualism which precludes cooperation, a tradition of suspicion and distrust, etc.

The membership of individual cooperatives is usually limited to a few hundred, but many co-ops have fewer active members. National co-op federations and confederations, including some heavily subsidized government cooperatives, have thousands of members. Individual co-ops tend to have one to five paid staff members, but the national headquarters staff tends to be very much larger.

Several cooperatives are well managed and have achieved various levels of financial self-sufficiency. But, poor management, over dependence on government subsidies and tension between social and economic objectives are common problems.

Large scale cooperatives have the potential to influence LDC policies regarding SSEs, but this usually doesn't happen because co-ops are often tightly regulated by governments. Their flexibility and responsiveness also tends to be curtailed by government regulation and co-op loan fund policies also tend to favor lower risk borrowers using share savings as collateral.

6.4 Banks

Public and private banks are capable of assisting SSEs, but in practice very few micro small scale enterprise loans, but they are exceptions. For example, the Grameen Bank of Bangladesh and the Banco del Pacifico in Ecuador demonstrate that banks have the potential to assist SSEs although most are reluctant.

The banks we mentioned which serve small enterprises must develop streamlined loan application, approval and oversight procedures. Traditional bank procedures are overly rigid and bureaucratic. This inflexibility and lack of responsiveness are disincentives of SSEs.

Banks are not concerned with social welfare or community development objectives and maintain strict loan repayment rules which are carefully monitored. They are profit-making businesses which don't depend on outside funding sources. Traditional banks have the ability to influence government policies regarding SSEs. But, they rarely do so because SSEs are not their priority concern.

6.5 Government Agencies

Most LDCs have agencies, ministries and/or parastatals which offer a range of credit, technical assistance and training to assist SSEs. These organizations are often affiliated with ministries of labor or industry in most LDCs.

Their efficiency and effectiveness range from high to very low depending LDC commitment, resource availability and SSE policy environment. They are generally overly bureaucratic and frequently slow to respond to changing SSE needs. Those agencies with multi-service approaches benefit from a more flexible and adaptable structure.

These government agencies serving SSEs receive funding from a range of international agencies including: A.I.D., the World Bank, the ILO, and international regional banks such as Interamerican Development Bank and other bilateral donors.

They have the ability to each large numbers of rural SSEs in remote areas, but resist paying the high service delivery costs this requires. Both staffs and budgets are large. Many have been criticized for inefficiency and failing to be cost-effective in administering large scale projects.

Although these agencies are directly or indirectly part of the public sector, they do not have much ability to get LDC governments to refor SSE policies or procedures. However, many have sufficient autonomy to change their own agency policies.

6.6 Business Associations

Medium and large business associations are active in LDCs and have established special foundations, funds and institutions to assist micro and small enterprise programs. Membership is usually limited to medium and large scale businesses concerned about economic stability issues.

These organizations have many reasons to establish linkages with micro and small scale enterprises which include, but are not limited to, the following objectives.

-- Providing themselves with a broader base of political support;

-- Promoting subcontracts to assist their own businesses;

-- Taking advantage of tax incentives for assisting SSEs;

-- Diminishing potential for social unrest by expanding economic opportunities for poor people.

-- Finding an outlet for promoting free market values or fulfilling humanitarian impulses to help poor people.

These programs are concentrated in urban areas, with participation limited to a small number of successful people. Management can be highly adaptive because the members of business associations are aware of local constraints and ways of coping with them successfully.

These business associations have considerable ability to influence LDC policies and procedures regarding small scale enterprise development. They have economic leverage and tend to have good political connections. Generally, micro and small scale enterprise are not their priority agenda.

6.7 Summary Conclusions

A.I.D.'s project experience and the research it has funded support the conclusion that no particular type of organization is uniquely qualified to provide SSE support services.

In general, PVOs appear to have a comparative advantage in serving the needs of micro businesses and others on the smaller end of the size scale. This is because many of these PVOs are small, adaptable, maintain good communication and are inclined toward community development priorities.

A.I.D.'s experience with PVOs indicates that the organizations which are more effective working with SSEs have the following characteristics:

- Dedicated and well trained personnel;
- Close rapport with SSE entrepreneurs;
- Systematic gathering of relevant data; and,
- The ability to identify economic, social and political data relevant to project success.

Those PVOs able to improve the ability of SSE owners to gain influence and bargaining power to persuade governments to change harmful policies and procedures did so by:

-- Establishing policy review committees through which SSE owners could communicate with the government; and,

-- Forming "umbrella organizations" to represent the interests of SSE owners.

Banks and Business Association function more effectively with established small scale businesses with higher assets and demonstrated growth potential.

There will be exceptions in each of these categories. But, in general, organizations seeking to assist higher risk and harder-to-reach clients must spend more time and money and may need to hire a more specialize staff.

Organizations supplying training and extension services to SSEs are more effective when:

-- Staff skills are appropriate for the types(s) of SSEs receiving services.

-- A system exists to gather information on the needs of SSE clients before training and assess their progress during training with follow-up after completion.

-- Highly motivated trainees are selected from small rather than micro enterprises because they tend to be more receptive.

-- They are able to accurately assess social, political and economic constraints so that the training and/or services provided are appropriate to the context.

A recent Technoserve publication called "Who Runs The Show" argues in favor of hiring host country professionals rather than expatriates to staff enterprises development projects. The reasons they give to support this argument include:

-- It is more effective to hire trained local people rather than expatriate staff members;

-- Local hires understand the LDC environment better;

-- Local hires are better for transferring skills through demonstrations than expatriates;

-- Needed skills are available locally in many LDCs and should be used to develop and sustain human resources;

There are some perceived status benefits for LDCs in using expatriate technical assistance to staff programs, but the use of qualified host country technicians is gaining support in many organizations. It is considered essential for achieving sustainability programs.

Project experience indicates it is generally unrealistic to expect intermediary organizations serving low income SSEs to be financially self-sufficient. The reasons for this include:

-- LDC policies place ceilings on loan interest rates, fees and commissions which prevent them from being able to operate at a profit.

-- The costs of providing SSEs with a credit, T.A. and training, generally can't be covered by project income. The larger and more complicated the training needs of the SSE program, the less likely it will be able to cover operating expenses.

-- Very few SSE service organizations, especially PVOs, take "hard-nosed" attitude toward achieving self-sufficiency through non-subsidized fees for services. They do not tend to operate as businesses.

Many managers and staffs of PVO and NGO intermediary organizations see themselves as primarily involved in human, social or community development. Generally, they:

-- Place an emphasis on achieving equity through distribution of profits and downplay competition which they believe creates or reinforces elites.

-- They are trained in social sciences rather than business or economics.

-- They frequently set interest rates and fees for services too low to cover expenses and are reluctant to take a hard line on loan repayment delays and defaults.

-- Generally, they don't have strong biases on the way a business should be run and credit administered.

Many people with business backgrounds who manage or staff SSE intermediary organizations have strong biases toward top-down control management styles and take a hard line on cost accounting procedures. Generally, they:

-- Work through traditional, established development finance corporations, national development banks and management training institutes.

-- Have little experience or knowledge of small scale enterprises and lack commitment to micro enterprises.

-- Have a management style and approach to clients which emphasizes production and is less sensitive to process.

An SSE Project Officer can decide among competing service delivery organizations on the basis of whom he or she believes will be most responsive to SSE owners. The following three questions can help make that decision:

-- Does the intermediary organization have sufficient SSE technical skills, managerial capabilities and understanding of business problems and potential.

-- Does the organization have the desire and commitment to work with SSEs in a long-term relationship?

-- Does the organization have sufficient outreach and promotion systems to meet the needs of the SSEs?

7. SSE INNOVATIVE TECHNOLOGIES

Developing, adapting, and disseminating appropriate technologies for small scale entrepreneurs can play an important role in stimulating their growth. Not only are the "hard" technologies (e.g., machinery, products, technical production processes) at issue, but also the "soft" technologies, such as organizational, financial and other management innovations that improve SSE performance. These innovations can result in more SSE productivity, higher quality products, reduced input costs, new products and related benefits for the small entrepreneur.

When A.I.D. and the U.S. Congress were formulating an appropriate technology program in 1977 they expressed the challenge clearly.

"If the poor are to participate in development, as envisioned by the reforms enacted in the Foreign Assistance Act of 1973 and this bill, they must have access to labor-intensive production methods that fit their small farms, small businesses and small incomes.

"They must have access to technology which is neither so primitive that it offers no escape from low production and low income nor so highly sophisticated that it is out of reach for poor people and ultimately uneconomic for poor countries."

SSE technology is often defined too narrowly to mean new types of hardware or machinery rather than the "knowledge developing country entrepreneurs can apply for productive purposes."

7.1 "Soft Technologies"

A.I.D.'s experience and recent studies stress the importance of "soft technologies" for the successful application of "hard technologies". Soft technologies refers to the knowledge and skills required to adapt and effectively use the hardware or machinery ("hard technology") introduced to increase production.

Without the soft technologies, introducing new tools and machinery can cause more problems than it solves. New hard technologies only contribute to LDC development if they are accepted, adapted to fit local conditions, used and produce sustained benefits for the users. All four conditions are necessary.

When a new technology is invented or introduced locally it must be applied to a productive enterprise such as SSEs. They can produce more goods and services, expand markets for them and thereby generate jobs and income. Growth is stimulated in the LDC in the form of benefits to SSE suppliers providing locally grown or produced items, higher earning for SSE owners and workers and cheaper high quality goods for local consumers.

Technological innovations are seldom successful without complementary soft technologies. For example, SSEs introducing innovative agro-processing technologies typically require new packaging and marketing techniques.

7.1.1 Organizational Innovations

Organizational innovations can range from changes in SSE administrative or procedural techniques to altering the social relationships within which productive activities take place. A.I.D.'s experience and recent studies illustrate the importance of understanding human factors when introducing a technological change in a production process.

The "sociology of the workplace" or enterprise concerns the ways people organize themselves into role and responsibilities for productive purposes. When a new technology is introduced it may disrupt those workplace relationships. For example, the long-handled sickle was introduced in parts of Indonesia to replace the ring knife (ani-ani) for harvesting rice. In order for this technological innovation to be accepted, T.A. personnel needed to understand how labor gangs of women and children organize themselves to harvest and plant rice.

7.1.2 Financial Innovations

Financial innovations can include, but not be limited to, the following:

-- Creative us of opportunities for counter-trade;

-- Installment buying terms for customers;

-- Lease-purchase arrangements;

-- Loan guaranties; and,

-- Providing joint venture capital.

7.1.3 Commercial and Marketing Innovations

A major deficiency in SSE technology transfer has been insufficient emphasis on commercial viability and marketing. This shift in emphasis has been described as away from supply oriented "technology push" toward user oriented "market pull". The approach advocated is to identify user needs, problems and market receptivity of an SSE technology rather take one "off the shelf" to be promoted.

Dr. Marilyn Carr, a senior economist at Britain's Intermediate Technology Development Group, stated that marketing has become more important. Also, advocates appropriate technology are now paying less attention to deciding which hardware to disseminate and much more to understanding why LDC people do things the way they do.

"We are at a very early point on the learning curve", she explained. "The whole AT movement has been technologically led. Groups developing appropriate technologies will have to start talking to bankers about credit for poor communities and persuading manufacturing firms to develop new appropriate technologies and bring them into mass production."

7.5 Lessons Learned:

-- SSEs can benefit from the introduction of appropriate hard technologies that:

- save on input requirements, eg, by utilizing local materials
- provide infrastructure, e.g., electricity
- increase productivity of labor and capital
- expand markets, eg. through quality and volume improvements

-- Appropriate soft technologies must be transferred to SSEs along with hard technologies to enable full utilization

-- Soft technologies include organizational, financial, commercial and marketing innovations, that are as important to technological growth and viability as the "hardware" innovations

-- Government policies which undervalue capital and overprice labor should be reviewed for their impact on choice of technology decisions and competition;

-- Efforts to standardize and inspect for quality should go hand-in-hand with programs aimed at upgrading engineering skills and intermediate goods enterprises, e.g., through government procurement aimed at small firms;

-- SSE programs should appreciate the various elements of technological growth (technical, financial, organization, and so on) and use this integrated conception as the basis for incremental but coordinated interventions to assist small firms.

8. THE ROLE OF WOMEN IN SSEs

A.I.D.'s experience has shown that women play a major role in micro and small scale enterprise and often have disadvantaged access to credit and training.

The A.I.D./Pisces study of African, Latin American and Asian micro-enterprise projects "mostly assist women entrepreneurs."

"In general, the smaller the size of the business reached, the larger the proportion of women business owners," the PISCES report stated.

8.1 Profile of SSE women

The following profile of women entrepreneurs working in small scale enterprises was taken from recent studies and the project experience of AID and other development organizations:

-- About twenty-five percent of women SSE entrepreneurs are heads of households and that number is growing.

-- Women entrepreneurs are generally older than men. One reason is that women tend to wait until the needs of growing children are less demanding becoming active in SESs. Another reason is that as women grow older there are often less cultural restrictions on appearing in public.

-- In general, fewer women than men are functionally literate and have inadequate numeracy skills which puts them at a disadvantage in SSEs. They can gain numerical ability on-the-job from family members or working as an apprentice. However, the lack of literacy often restricts or prevents their access to needed training. These women often lack access to education.

-- For example, in Tanzania, sixty five percent of the women working as entrepreneurs in the informal sector have no formal education. Thirty nine percent of the market women in Honduras have had no schooling. Seventy-seven percent of women SSE proprietors in Sierra Leone have had no schooling.

8.2 Misconceptions And Constraints To Women's Roles

Designers and managers of SSE projects should be aware of misconceptions and constraints affecting the participation of women in small enterprise development.

8.2.1 The Misconception of Under-utilization

A recent A.I.D. study focused on the misconception that women are "under-utilized human resources " whose productivity must be expanded.

Project experience shows that women are over-utilized and already working very hard. They would be over-burdened by expanded work responsibilities. In most cases, the problem is that they gain few visible benefits from their labor and lack incentives to increase productivity.

8.2.2 Negative Attitudes

Another problem is that the prevalence of negative attitudes concerning the value, abilities and proper roles of women can be social barriers to success.

Problems which can cause the role in women in SSEs to be underestimated by themselves in may LDC societies include, but are not limited to, the following:

-- Often neither men or the women themselves think of women as business people;

-- The habit of working without renumeration makes women's participation in SSEs less visible and,

-- Women's enterprises are often subsistence occupations which can cause their importance to be underestimated.

-- Specialized training can be very productive in LDCs where women have internalized these negative perceptions which limits their ability to achieve goals.

8.2.3 Legal Constraints

Many LDCs retrain laws which treat women as minors without juridical power and very limited legal rights. For example, in parts of Latin America, business owned by women must be registered in their husband's name or be operated within an organization. Some successful women-owned businesses have been denied credit when their husbands or other males won't co-sign or otherwise guarantee loans.

8.2.4 Credit Constraints

Recent studies and project experience shows that the lack of capital is the major problem for SSE entrepreneurs. Women tend to operated SSEs which generally need less start-up capital such as retail sales. THE AID.PISCES study of SSEs in the Philippines indicates that SSEs in services require even lower investments than retail sales. Start-up capital is often less than one or two hundred dollars.

Women SSE owners either prefer to use or are forced to use their own money or that of family and friends to start businesses. This is true in middle income industrialized nations (Korea and Taiwan) as well as low credit unions and banks accounted for less than 6 percent of SSE start-up money in Haiti and Sierra Leone.

In many LDCs, women have developed strong alternative savings groups which can be used to finance SSE start-up, recurrent and banks or other formal institutions as a source of loans.

The way it works is that one member receives a specified amount on a rotating basis which is taken from funds contributed

at scheduled dates by the other members. The order of rotation can be decided in advance, auctioned off, lots can be drawn or determined on the basis of greatest need. One benefit is that members whose turn comes up in rotation receive more money at one time than they had previously been able to accumulate.

8.2.5 Conflicting Domestic Responsibilities

Changing socio-economic conditions and responsibilities in LDCs can affect the ways women participate in SSE activities. One example is the trend in the Philippines. Women's activities in SSEs moved from household labor establishment-based manufacture of textiles and clothing. The next trend was away from manufacturing into sales and commerce.

In another case, women in a chilean cooperative who had been knitting at home were asked if they were willing to move from household labor to working in a factory from 9 to 5. Although offered four times more money, they refused and explained that family responsibilities were their responsibilities were their top priority.

A.I.D.'s experience has shown the designers and managers of programs to assist women in SSEs must understand their domestic work schedule and priorities. Failure to do this can often mean training is offered to men when women perform those functions or they can't attend because of schedule conflicts. It is also essential to see that women are given adequate compensation for the additional work responsibilities they are asked to accept. Otherwise, they will not be motivated to participate.

Many managers and staffs of PVO and NGO intermediary organizations see themselves as primarily involved in human, social or community development. Generally, they:

-- Place an emphasis on achieving equity through distribution of profits and downplay competition which they believe creates or reinforces elites.

-- They are trained social sciences rather than business or economics.

-- They frequently set interest rates and fees for services too low to cover expenses and are reluctant to take a hard line on loan repayment delays and defaults.

-- Generally, they don't have strong biases on the way a business should be run and credit administered.

Many people with business backgrounds who manage or staff SSE intermediary organizations have strong biases toward top-down control management styles and take a hard line on cost accounting procedures. Generally, they:

-- Work through traditional, established development finance corporations, national development banks and management training institutes.

-- Have little experience or knowledge of small scale enterprises and lack commitment to micro enterprises.

-- Have a management style and approach to clients which emphasizes production and is less sensitive to process.

An SSE Project Officer can decide among competing service delivery organizations on the basis of whom he or she believes will be most responsive to SSE owners. The following three questions can help make that decision:

-- Does the intermediary organization have sufficient SSE technical skills, managerial capabilities and understanding of business problems and potential.

-- Does the organization have the desire and commitment to work with SSEs in a long-term relationship?

-- Does the organization have sufficient outreach and promotion systems to meet the need of the SSEs?

Table 1. Distribution of Employment in Manufacturing by Firm Size--Percentage

Country and Date	Per capita Income ($) 1982	Firm Size (number of workers) Large Scale 50 or more engaged	Small Scale 10-49 engaged	Small Scale Below 10 engaged
India-1971	$ 260	38%	20%	42%
Tanzania-1967	$ 280	37%	7%	56%[a]
Ghana-1970	$ 360	15%	1%	84%[a]
Kenya-1969	$ 390	41%	10%	49%[a]
Sierra Leone-1974[b]	$ 390	5%	5%	90%
Indonesia-1977	$ 580	16%	7%	77%
Zambia-1985	$ 640	16%	1%	83%
Honduras-1979	$ 660	24%	8%	68%
Thailand-1978	$ 790	31%	11%	58%[a]
Philippines-1974	$ 820	29%	5%	66%
Nigeria-1972	$ 860	15%	26%	59%[a]
Jamaica-1978	$1,330	49%	16%	35%
Colombia-1973	$1,460	35%	13%	52%
Korea-1975	$1,910	53%	7%	40%

[a]Computed as a residual, which is the difference between employment recorded in labor force or population surveys (includes all sources) and establishment surveys.

[b]Bolded countries are those where joint MSU-host country surveys were conducted.

Sources: Africa: computed from Page (1979) and Chuta and Liedholm, (1985)
India: Mazumdar (1980)
Indonesia: computed from Snodgrass (1979)
Honduras: Stallmann (1983)
Thailand: World Bank (1983)
Philippines: Anderson and Khambata (1981)
Jamaica: Fisseha (1982)
Colombia: Berry and Pinell-Siles (1979)
Korea: Ho (1980)
Zambia: Milimo and Fisseha (1985)

Table 2. Contribution of Small-Scale Manufacturing to Gross Domestic Product

Country	Small-Scale Manufacturing as a: Percentage of Total Manufacturing GDP	Percent of Total GDP
Bangladesh (1977-1978)	50%	4.6%
Burundi (1980)	64%	8.2%
Ghana (1970)	26%	2.9%
Pakistan (1979-1980)	30%	4.6%
Sierra Leone (1975)	43%	2.9%
Indonesia (1974-1975)	26%	2.9%
Jamaica (1978)	22%	3.5%

Source: Indonesia: Snodgrass, 1979--limited only to firms employing 20 or less.

Pakistan: Amjad, 1984, p. 15

Bangladesh: BIDS, 1981, p. 63

Jamaica: Fisseha and Davies, 1981

Sierea Leone: Liedholm and Chuta, 1976

Ghana: Steel, 1981

Burundi: Page and Steel, 1984

Table 3. Composition of Employment in Small-Scale Manufacturing Establishments--Percentage--

	AFRICA				ASIA				LATIN AMERICA	
	Sierra Leone	Nigeria[a]	Zambia	Egypt	Bangladesh	India	Thailand	Philippines	Jamaica	Honduras
	Entire Country	Mid-Western Kwara, Western, and Lagos States	All except Copperbelt Provinces and Lusaka	Two Rural Gover-norates	11 Thanas	5 Northern States	Provincial Villages	Entire Country	Entire Country	3 Rural Provinces
Item	1975	1972	1985	1982	1980	1971	1980	1972	1979	1980
Food/Beverages (31)	5%	5%	55%	58%	23%	22%	2%	8%	7%	39%
Textiles/Wearing Apparel (32)	52	56	5	21	58	42	40	48	30	30
Wood Products (33)	18	11	33	9	13	10	26	6	35	15
Paper Products (34)	--	2	--	*[b]	*	*	--	--	*	--
Chemical Prod. (35)	--	--	--	*	1		--	--	*	--
Non-metal Prod. (36)	--	1	2	4	2	12	1	--	1	11
Basic Metal (37)	--	--	--	--	--	*	--	--	--	--
Other Metal Ind. (38)	20	15	4	6	2	6	*	16	11	3
Others[c] (39)	5	10	1	2	1	7	31	22	16	2
Total	100	100	100	100	100	100	100	100	100	100

[a]Based on number of enterprises.
[b]Less than one percent.
[c]Includes repair activities.

Sources: Sierra Leone: Liedholm and Chuta (1976); Nigeria: Aluko et al. (1972 and 1973); Zambia: Milimo and Fisseha (1985); Egypt: Davies et al. (1984); Bangladesh: BIDS (1981); India: Mazumdar (1980) -- household units only; Thailand: Narongchi et al. (1983); Philippines: Anderson and Khambatia--households plus establishments with fewer than 10 employees; Jamaica: Fisseha and Davies (1981); Honduras: Stallmann (1983).

Table 4. Percentage Distribution of Small Manufacturing Enterprise by Major Buyers

	Percentage Distribution of Enterprises			
	All Jamaica	Rural Honduras	Rural Egypt	Rural Bangladesh
Final Consumer	87%	89%	81%	51
Intermediaries[a]	12	N/A[b]	17%	49
Government	1	*[c]	*	*
Export	*	N/A	2%	*

[a]Includes wholesalers, retailers, traders, and industrial/agricultural purchasers of intermediate and capital goods.

[b]Not available.

[c]Less than 1%.

Sources: Jamaica - Fisseha and Davies (1981), p. 39.
Honduras - Survey data.
Egypt - Survey data - only includes transactions for which a direct order was placed. "Final customer" responses are equated with final consumer.

Table 5. Percentage of Manufacturing (Large and Small Scale) Employment in "Rural Areas"

Siera Leone[a] - 1976	86
Indonesia[b] - 1976	80
Sri Lanka[c] - 1971	75
Jamica[a] - 1980	74
Ghana[i] - 1973	72
Bangladesh[d] - 1974	68
Zambia[h] - 1985	64
Philippines[e] - 1976	61
India[a] - 1967	57
Pakistan[f] - 1975	52
Taiwan[g] - 1976	49
Malaysia[a] - 1970	46
Korea[f] - 1975	30

Note: Rural defined as all localities under 20,000 inhabitants.

Sources: [a]Chuta and Liedholm (1979);
[b]Snodgrass (1979), p. 32;
[c]Sethuraman (1978), p. 62;
[d]BIDS (1981), p. 63;
[e]Anderson and Khambata (1981), p. 63;
[f]Amjad (1984), p. 18; rural defined as localities under 5,000 inhabitants;
[g]Ho (1980, p. 21;
[h]Milimo and Fisseha (1985);
[i]Checchi and Company (1976).

Table 6. Distribution of Small-Scale Manufacturing Establishments by Size

Size (Number of Persons)	Banbladesh 11 Thanas 1980	India Punjab Rural 1971	India Haryana Rural 1971	Sierra Leone All 1976	Zambia 1985	Honduras 3 Rural Provinces 1980	Egypt 2 Rural Governorates 1982	Jamaica All 1979
1	15	65	57	42	68	60	63	62
2 - 5	69	32	38	53	30	35	34	32
6 - 9	12	2	2	4	1	4	2	4
10 - 50	4	1	3	1	1	1	11	2

Source: MSU Country Studies plus:

India: computed from Gupta (1984, p. 79); includes "households" plus "establishments".

Table 7. Capital Inputs in Small-Scale Enterprises

	Jamaica 1979	Honduras 1980	Egypt 1982	Sierra Leone 1975
1. Fixed Assets Indicators				
Percent of Enterprises Producing in Home	N/A	N/A	84%	84%
Percent of Enterprises with Machines	32%	N/A	14%	63%
"Excess Capacity"[a]	35%	24%	18%	35%
Initial Capital Stock	$1,140	$354	N/A	$49
2. Stock of Capital/Firm				
Buildings	$1,022	$283	N/A	$359
Machinery and Equipment	1,985	445	83	245
Working Capital	1,217	81	28	50
Total	$4,225	$809	N/A	$654
3. Annual Flow of Capital/Firm				
Building	$263	$57	N/A	$63
Machinery and Equipment	408	120	17	47
Working Capital	243	14	3	10
Total	$914	$191	N/A	$120
4. Conversion Factor				
Discount Rate (%)	20	20	10	20
Exchange Rate (U.S. $1 =)	1.78 243	2 14	1.19 3	.91 10

[a]See Text, p. for description of how this is measured.

Sources: Jamaica and Honduras, country studies; Egypt: (Davies *et. al*. (1984); Sierra Leone: (Chuta and Liedholm, 1985).

Table 8. Sources of Finance for Initial Investment by Small Industries in Selected Countries (Percentage by Source)

Source	Bangladesh 11 Thanas 1980	Nigeria 3 States 1970	Sierra Leone Entire Country 1976	Tanzania Rural Towns 1968	Haiti Port-au-Prince 1979
Own Savings	72	94	60	78	72
Relatives	2	4	20	15	9
Banks	a	1	1	1	1
Government	a	a	a	1	a
Money Lenders	1	a	1	a	1
Others[b]	23	a	18	6	16

[a]Less than 1 percent.
[b]Includes nonresponses.

Sources: Bangladesh: BIDS, 1981; Thailand: Apibunyopas, 1982; Nigeria: Aluko et al., 1973; Sierra Leone: Liedholm and Chuta, 1976; Tanzania: Stadler, 1968; Haiti: Haggblade, 1979.

Table 9. Annual Growth of Manufacturing Employment by Size (%)

Country	Year	Small[a]	Large[b]
India	1961-1971	9.7%	6.9%
Ghana	1962-1970	6.0%	13.0%
Sierra Leone	1974-1980	4.6%	2.4%
Turkey	1970-1977	3.4%	5.9%
Colombia	1953-1973	2.5%	5.9%
Philippines	1967-1975	1.0%	4.8%

[a]Small = less than 50 workers.

[b]Large = 50 or more workers.

Sources: India, Turkey, Colombia, and Philippines derived from Anderson (1982) and Anderson and Khambatia (1981); Sierra Leone: (Chuta and Liedholm, 1985); Ghana: (Steel, 1981).

Table 10. Labor Intensity (K/L)[a] by Size of Enterprises

Country		Size of Enterprise 1-10 Workers	11-49 Workers	50+ Workers
Africa:	Kenya (1960)	$ 772	$ 986	$ 3,108
	Sierra Leone (1974)	158	225 [15-19]	1,175[c] [100+]
	Ghana (1970)	1,372	3,742 [10-29]	6,468 [100+]
Asia:	Japan (1966)	934	1,040 [30-49][b]	4,333 [1,000+]
	India (1965)	278 ["small"]	557 ["medium"]	2,450 ["large"]
	Malaysia (1968)	521	997 [20-29]	2,671 [500+]
	Thailand (1970)	4,280	3,385	6,355
	Philippines	1,020 ["small"]	2,850 ["medium"]	8,000 ["large"]
	Korea (1968)	1,096	1,411	1,796
Latin America:				
	Mexico (1970)	3,700 ["small"]	9,500 ["medium"]	14,500 ["large"]
	Honduras (1980)	125	250	2,684
	Colombia	3,000	--	13,400

[a]Fixed capital per worker
[b]Numbers in brakets refer to size distribution when they differ from heading.
[c]Highlighted figures are maximum for each country.

Sources: Japan: Okhawa and Tajima (1976); India: World Bank (1978b); Malaysia: Okhawa and Tajima (1976); Philippines: World Bank (1978b); Sierra Leone: Liedholm and Chuta (1976); Kenya: I.L.O. (1972); Ghana: Steel (1977); Mexico: World Bank (1978)b;

Table 11. Capital Productivity (Q/K)[a] by Size of Enterprise

Country		Size of Enterprise 1-10 Workers	11-49 Workers	50+ Workers
		Value added per unit of fixed capital		
Africa:	Sierra Leone (1974)	3.20	1.50	0.72
	Ghana (1976)	0.60	0.30	0.60 [100+]
	Kenya[c] (1972)	5.60 [0-4]	2.60 [20-29]	1.10 [100+]
Asia:	Japan (1966)	1.55	3.32[d] [30-49][b]	1.50 [500-999]
	India (1953)	0.10 [1-19]	0.47 [20-49]	0.73 [500-999]
	Pakistan (1960)	1.16	0.37 [20-29]	0.28 [100+]
	Malaysia (1968)	2.01	1.32 [20-29]	1.02 [100-199]
	Philippines (1960)	0.96 [5-19]	0.98 [20-49]	1.11 [500+]
	Korea (1968)	0.66 [5-9]	0.66	1.16
Latin America:				
	Mexico (1965)	1.34 [1-5]	0.64 [16-25]	0.61 [500+]
	Honduras (1977)	3.57	4.38	0.28
	Jamaica (1978)	1.8	--	1.44

[a]Value added per unit of fixed capital
[b]Numbers in brakets refer to size distribution when they differ from heading.
[c]Refers to distribution activities only
[d]Highlighted figures are maximum for each country

Sources: Japan: Okhawa and Tajima (1976); India: Okhawa and Tajima (1976); Pakistan: Ranis (1961); Malaysia: Okhawa and Tajima (1976); Philippines: Okhawa and Tajima (1976); Sierra Leone: Liedholm and Chuta (1976); Ghana: Steel (1977); Mexico: Okhawa and Tajima (1976); Korea: Ho (1980); Honduras: MSU country study; Jamaica: MSU country study.

Table 12. Social Benefit-Cost Ratios (Domestic Prices)[a] for Various Large and Small Scale Industry Groups in Africa and Latin America

Country/Enterprise Group	Small[b] Scale	Large[c] Scale
Africa:		
Sierra Leone (1974-1975)		
Bakery	3.43	1.03
Wearing Apparel	1.93	0.53
Shoes	2.73	2.00
Furniture	1.83	0.87
Metal Products	1.75	1.61
Latin America:		
Honduras (1979)		
Wearing Apparel	0.82	0.89
Shoes	1.27	0.54
Furniture	1.44	0.84
Metal Products	1.21	0.74
Jamaica (1979)		
Wearing Apparel	1.13	1.79
Furniture	2.74	1.36
Metal Products	1.92	1.58

[a]Gross output and purchased input values used to compute value added (numerator) are evaluated at actual (domestic) prices; hired labor evaluated at actual wages paid for small and at 0.8 of actual wages for large. Unpaid family (including proprietor) valued at skilled wage rate for small scale industry in each country (Le. 0.16 per hour in Sierra Leone, Lm. 0.71 per hour in Honduras and J$1.50 per hour in Jamaica). Capital was evaluated at a showdow interest rate of 20 percent in each country. For a rationale for these particular showdow rates, see Haggblade, Liedholm, and Mead (1986).
[b]Small scale firms employ less than 50 persons.
[c]Large scale firms employ fifty persons ormore. With one exception, these firms are located in large urban areas.

Source: Sierra Leone small scale enterprise data collected in 1974-1975 survey reported in Chuta and Liedholm (1985); large scale data from worksheets used to generate Census of Manufacturing figures of Central Planning Unit, Government of Sierra Leone, 1974-1975. Honduras small scale enterprises data collected in 1979 enterprise survey in four regions reported in Stallman (1983); large scale industry data obtained from worksheets used to construct the 1975 Census of Industry. Jamaica: small scale enterprises data collected in 1979 survey reported in Fisseha (1982); large scale data collected from worksheets used by the National Planning Agency for their 1977 industrial survey.

Table 13. Social Benefit-Cost Ratios Large[a] and Small[b] Scale Manufacturing Enterprises in Sierra Leone 1974-1975

Industry	Social Benefit Cost Ratio Domestic Prices[c]		Social Benefit Cost Ratio World Prices[d]	
	Small Scale	Large Scale	Small Scale	Large Scale
Food				
Bakeries	3.43	1.03	3.30	0.63
Beverages	-	1.79	-	0.89
Others	-	4.41	-	-2.46
Textiles				
Wearing Apparel	1.93	0.53	1.52	-0.30
Gara Cloth	4.80	-	3.67	-
Shoes	2.73	2.00	1.89	1.40
Wood				
Furniture	1.83	0.87	1.18	0.48
Metal				
Metal Products	1.75	1.61	1.25	0.90
Repairs	4.78	-	4.78	-
All	2.44	1.74	1.73	0.49

Sources: Small Scale enterprise data collected in 1974-1975 survey reported in Chuta and Liedholm (1985); large scale enterprise data obtained from Census of Manufacturing data collected by Central Planning Unit, Government of Sierra Leone 1974-1975. Data were obtained from 15 of the 28 large industries; these 15 firms accounted for over 90 percent of the large industry value added. Customs data obtained from the Government. Specific tarriffs converted to ad valorem rate based on current f.o.b. prices.

[a]Large firms employ fifty or more persons.
[b]Small firms employ less than fifty persons.
[c]For the social benefit-cost ratio (domestic prices), the gross output and purchased input values used to compute value added (numerator) are evaluated at actual prices in Sierra Leone; hired labor is evaluated at the market wage for small and at 0.8 of actual wage for the large; apprentice labor is evaluated at Le 0.06 per hour and family labor at Le .16 per hour; capital is evaluated at 20 percent using the capital recovery factor for the fixed component. For the rationale of these shadow price estimates, see Chuta and Liedholm (1985).
[d]For the social benefit-cost ratio (world prices), the gross output and purchased input values at domestic prices were adjusted for the "nominal tariffs" on imported elements. Where quantitative restrictions applied, such as for flour, the difference between c.i.f. import prices and domestic prices were used.

Table 14. Economic Impacts of Nineteen Projects

Project	Evaluation				Impacts on[a]			
	Year	Author	Organi-zation	Methodology	Profit	Diversi-fication	Savings	Jobs Created
AFRICA								
National Christian Council-Kenya	1985	Hunt	A.I.D.	records, questionnaire	+ 3[b]	---	---	+ 3
Burkina Faso Phase I	1982	Goldmark	DAI	questionnaire	+ 1	+ 1	---	---
Burkina Faso Phase II	1985	Lassen	PfP	interview, control	+ 2[c]	---	---	---
Entente Fund Africa Regional	1982	A.I.D.	A.I.D.			---	---	---
ASIA								
Calcutta Urban Dev. Prog. II India	1985	Kahnert			+ 3[c]	---	---	+ 1
Badan Kredit Kecamatan (BKK) Indonesia	1983	Goldmark	DAI	questionnaire	+ 2	+ 2	+1	---
Bangladesh Rural Advancement Comm.	1985	W.B.	W.B.	interviews, record	+ 2[b]	+ 2	---	---
Grameen Bank Project-Bangladesh	1985	W.B.	W.B.	interviews, record	+ 3	+ 3	+ 2[d]	---

Table 14. Economic Impacts of Nineteen Projects (cont.)

Project	Evaluation				Impacts on[a]			
	Year	Author	Organi-zation	Methodology	Profit	Diversi-fication	Savings	Jobs Created
Manila Copmmun. Srvc Inc. Philippines	1982	Bear, Tiller	ATI	interviews, case studies, records	0[b]	---	---	---
Micro-industry Dev. Program Philippines	1982	Bear, Tiller	ATI	interviews, case studies, records		---	---	---
SEWA-India	1982	Sebstad	A.I.D.	records, interviews	+ 1	---	---	---
LATIN AMERICA								
ADEMI-Dominican Republic	1985	Blumberg	A.I.D.	interviews, questionnaire	+ 2[b]	---	+ 2[b]	+ 3
Corp. Fabricato-Colombia	1984	IDB	IDB		+ 1	---	---	+ 2
DESAP/Carvajal-Colombia	1984	IDB	IDB		+ 2	---	---	+ 2
Industrial bank-Peru	1982	Goldmark	DAI	questionnaire, records, interviews	+ 3[c]	---	---	---
MSC-I (Medium sized cities) Brazil	1984	Tippet, Smith	W.B.		---	---	---	+ 2
PRODEME/FDD-Dominican Republic	1984	Ashe	AOCION	questionnaire, control group	+ 1	---	---	+ 1

Table 14. Economic Impacts of Nineteen Projects (cont.)

Project	Evaluation				Impacts on[a]			
	Year	Author	Organi-zation	Methodology	Profit	Diversi-fication	Savings	Jobs Created
PROGRESO-Peru	1984	Reichmann	AOCION	questionnaire, case studies	+ 3	---	+ 1	+ 2
UNO-Brazil	1982	Jackelen	ATI	interviews, records	---	---	---	---

Notes:

[a]In order to provide some comparison between the impacts on income of the various projects, a rating system of -3 to +3 is used. The assignment of value is subjective, based on the reading of each evaluation. Profit: pertains to average increases in sales of loan recipients, unless other wise noted. Diversification: pertains to the ability of the assisted businesses to diversify their main line of activity. Savings: pertains to the ability of beneficiaries to save.

[b]No numerical data provided. Narrative description is basis for value assignment.

[c]Based on surveys of a portion of the firms assisted.

[d]Refers to group savings only.

Source: Blayney and Otero (1985).

Table 14. Project Design and Dimensions For nineteen Projects

Project	Donor/ PVO	Project Design: Project Components: Credit	Project Design: Project Components: TA[a]	Project Design: Project Components: Other	Project Design: Implementing Organization: Public	Project Design: Implementing Organization: Private NGO	Project Design: Level: Micro	Project Design: Level: Small	Project Dimensions: Credit: Average Loan Size	Project Dimensions: Credit: No. of Loans	Project Dimensions: Credit: No. of Borrowers	Project Dimensions: Credit: $ Loaned	Project Dimensions: Credit: Interest	Project Dimensions: Credit: Duration
AFRICA														
National Christian Council-Kenya	A.I.D./NCCK	yes	yes	---		x	x	x	$ 242[b]	330	n.i.	$ 80,000	n.i.	1981 to mid 1984
Burkina Faso Phase I	A.I.D./PfP	yes	yes	---		x	x	x	$ 684	416		$284,596	comm.	7-78 to 9-81
Burkina Faso Phase II	A.I.D./PfP	yes	yes	---		x	x	x	$ 478	968	n.i.	$460,000	comm.	10-81 to 8-84
Entente Fund Afric Region	A.I.D.	yes	yes	---	x			x		572	n.i.	$14.1 m		to 9-81
ASIA														
Calcutta Urban Dev. Prog. India	World Bank	yes	no	---		x				3,495	n.i.	Rs 8.8 m	subs.	11-80/3-83 (29 mos)
Badan Kredit Kecamatan (BBK) Indonesia	A.I.D./BKK	yes	yes	---	x		x		$ 50	300,000	n.i.	$14.5 m		1982 (12 mos)
Bangladesh Rural Advancement Comm.	BRAC	yes	yes	group formation		x	x		$ 37	600	32,000	$1.2 m	comm.	7-80/12-73
Grameen Bank Project-Bangladesh	GBP	yes	no	---		x	x	x	$ 50[b]	115,689	58,050	$4.9 m	comm.	'80-'83 (32 mos)

Technical Assistance		
No. of Firms	Type	Duration
6,000	ind. & group	1981 to mid 1984
n.i.	n.i.	n.i.
n.i.	n.i.	n.i.
n.i.	n.i.	n.i.
---	---	---
n.i.	n.i.	n.i.
---	---	---

Table 14. Project Design and Dimensions For nineteen Projects (cont.)

Project	Donor/ PVO	Project Design: Project Components: Credit	TA[a]	Other	Implementing Organization: Public	Private	NGO	Level: Micro	Small	Project Dimensions: Credit: Average Loan Size	No. of Loans	No. of Borrowers	$ Loaned	Interest	Duration
Manila Commun. Srvc Inc.-Philippines	MCSI	yes	yes	---		x	x	x		$ 45[b]	768	768	$35,000	comm.	'76-'81
Micro-Industry Dev. Prog. Philippines	MIDP	yes	yes	---	x			x		$ 625[b]	n.i.	n.i.	n.i.	comm.	n.i.
SEWA-India		yes	yes	integrated development				x	x	60[b]	679	500	$42,441[b]		'76-'78
LATIN AMERICA															
ADEMI-Dominican Republic	A.I.D./AOCION	yes		---			x	x		$ 311	6,213	1,997	$1.9 m	comm.	2-83/3-85
Corp. Fabricato Colombia	IDB	yes	yes	---	x			x	x	$1,367	440	n.i.			1-81/9-83 (32 mos)
DESAP/Carvajal Colombia	IDB/Carv.	yes	yes	---			x	x	x	$1,545	464	n.i.			1980 to 9-83
Industrial Bank Peru	A.I.D.	yes	yes	---											
HSC-I Brazil	World Bank	yes	yes	---				x	x		550	n.i.	CR220,592	subs.	(24 mos)

Technical Assistance		
No. of Firms	Type	Duration
n.i.	n.i.	n.i.
n.i.	n.i.	n.i.
n.i.	n.i.	n.i.
n.i.	n.i.	n.i.
1,900	group	same
1,300	ind. & group	same
n.i.	group	n.i.

Table 14. Project Design and Dimensions For nineteen Projects (cont.)

Project	Donor/ PVO	Project Design: Project Components: Credit	TA[a]	Other	Implementing Organization: Public	Private NGO	Level: Micro	Small	Project Dimensions: Credit: Average Loan Size	No. of Loans	No. of Borrowers	$ Loaned	Interest	Duration
PRODEMU/FDD Dominican Republic	A.I.D./FDD/ ACCION	yes	yes	---		x	x		$1,532	554	2,209	$848,991	comm.	7-81/12-83 (30 mos)
PROGRESO Peru	A.I.D./Acc. Com. ACCION	yes	no	---		x	x		$ 690	446	1,046	$307,951	comm.	11-82/5-84 (19 mos)
UNO Brazil	ALTEC	yes	yes	---	x	x	x	x	$1,400	1,700		$2.3 m		1979 to 1981

n.i. = no information

Note: [a]TA = technical assistance
[b]Derived from other data and not specified in evaluation.

Source: Blayney and Otero (1985).

Technical Assistance		
No. of Firms	Type	Duration
n.i.	group	n.i.
---	---	---
n.i.	group	n.i.

Table 15. Loan Amount Per Job Created in Five Small and Micro-Enterprise Projects (U.S. dollars)

Project	Level	Loan Per Full-Time Job[a]
National Christian Council of Kenya	Micro	400
Entente Fund (West Africa)	Micro	6,400
BKK (Indonesia)	Micro	150[b]
ADEMI (Dominican Republic)	Micro	1,650
Industrial Bank of Peru	Small	7,000

[a] $\frac{\text{total amount lent}}{\text{total number of full-time jobs created}}$ = Costs per Job

[b] The evaluators believe that this figure probably understates the cost per job because the survey excluded less productive branches and was biased against clients who had defaulted on their BKK loans.

Source: Blayney and Otero (1985).

Table 16. Benefit Synopsis of Five USAID Micro-Small Enterprise Assistance Projects

	Most Likely Case				
	1981	1981	1982	1981	1975-1981
	$U.S.	$U.S.	$U.S.	$U.S.	000's $U.S.
	Burkina Faso	Brazil	Honduras	Dominican Republic	Peru
Value Added					
Wages	-2,880	1,302,665	180,792	84,617	5,120
Interest	17,615	1,535,045	-	-	-
Profit, Rent	117,328	1,798,394	267,775	363,400	19,222
External Economies					
Backward Linkage	66,812	811,355	98,792	20,993	9,417
Final Demand Linkage	31,604	620,212	89,713	89,603	3,224
Consumer Benefit	343,316	-	-	-	-
Diversion Benefit	27,500	2,311,650	51,777	-	4,283
Total Benefit	647,873	7,632,039	385,766	557,177	36,653
Benefit/Cost Ratio	1.01	1.33	1.25	5.54	1.03

Source: Kilby and D. Zmura. "Searching for Benefits", selected indicators and table organizations by R.G. Blayney. Kilby deducts an opportunity cost of labor from value added inputs, not shown in this table.

Table 17. Administrative Costs of Small Enterprise Credit Schemes

Credit Organization	Country	Type	Administrative Cost per Loan	Average Loan Value	Administrative Cost (% of loan)	Appears (% of Loans outstanding)
		Credit Only				
Krishi[a]	Bangladesh	Government-owned Commercial Bank	$5.00	$126	4.0	10.5
Agrani[a]	Bangladesh	Government-owned Commercial Bank	$5.27	$101	5.2	4.3
BKK[b]	Indonesia	Government	$2.37	$44.43	5.3	6
Janata[a]	Bangladesh	Government-owned Commercial Bank	$6.60	$125	5.3	14.5
Rupali[a]	Bangladesh	Government-owned Commercial Bank	$7.33	$119	6.2	6.2
F.D.R./Peru[f]	Peru	Development Bank	$531	$5,961	9.0	8
Banco de Pacifico[d]	Ecuador	Commercial Bank	$140	$1,100	13.0	7.0
D.B. Mauritius[d]	Mauritius	Development Bank	$108	$830	13.0	NA
Uttara[a]	Bangladesh	Government-owned Commercial Bank (cooperative)	$31.27	$122	25.6	12.1
Bank Money Shops[c]	Philippines	Commercial Bank	$197	$687	28.0	NA
SEDCO[e]	Jamaica	Development Bank	$843	$280	275.0	NA

Table 17. Administrative Costs of Small Enterprise Credit Schemes (cont.)

Credit Organization	Country	Type	Administrative Cost per Loan	Average Loan Value	Administrative Cost (% of loan)	Appears (% of Loans outstanding)
		Credit and Technical Assistance				
DDF/Solidarity[f]	Dominican Republic	PVO	$242	$1,267	19.1	33
IDH[f]	Honduras	PVO	$561	$1,724	32.5	42
DDF/"Micro"	Dominican Republic	PVO	$739	$1,680	44.0	42
UNO[g]	Brazil	PVO	$1,700	$200	85.0	8
PfP/BF[f]	Burkina Faso	PVO	1,238	$670	185.0	23

[a]J. Brown (1983); the credit organizations listed (e.g., Krishi) are government-owned commercial banks.

[b]S. Goldmark and Rosengard (1983); BKK is the Badan Kredit Kecamatan (the sub-district credit body) program in Central Java.

[c]M. Farbman (1981)

[d]V. Raghaven and T. Timberg (1982).

[e]M. Wilson (1981); SEDCO is the Small Enterprise Development Corporation.

[f]P. Kilby and J. D'Zumura (1984); F.D.R./Peru is the Rural Development Fund Program of the Industrial Bank of Peru; DDF/Solidarity is the Solidarity Group component of the Dominican Development Foundation. I.D.H. is the Institute for Honduran Development; PfP/BF is the Partnership for Productivity Project in Burkina Faso.

[g]J. Tendler (1983); UNO is Northeast Union of Assistance to Small Business Project.

Source: Liedholm (1986)

Table 18. Selected Programs: Designs and Measures of Effectiveness

1	2	3	4	5	6	6	6	7	8	9	10
		Measures of Effectiveness							Design Elem		
ID	Program	Employ-ment	Incomes	Cost-Recovery	No. Clients Reached	Av. Clients Per Year	No. Loans Dispersed	Econ. Level of Bene-ficiaries	Eligibility Requirement	Av. Loan Size (US$)	Payback Structure
(a)	BRK Rural program in Central Java, Indonesia	M	H	H	211,738 (1972-1982)	21,137	274,792 (yearly average)	I	Character reference of village headman; Payback of smaller previous loans.	$50	Weekly
(b)	GBL										

10	10	11	12	13
Total Loan Period	Interest	Repayment Rate	Non Credit Component	Implementing Organization(s)
Up to 6 mos.	2-4.8% monthly	94%	Forced and voluntary savings	Decentralized bank with government assistance.

ANNOTATED BIBLIOGRAPHY OF KEY DOCUMENTS REVIEWING EXPERIENCE WITH SMALL AND MICRO-ENTERPRISE PROJECTS

A.I.D. Evaluation Special Study No. 28, Searching for Benefits (June 1985) by Peter Kilby and David K'Zmura, presents the results of an economic cost-benefit analysis of five, microenterprise credit & technical assistance projects in upper Voltra, Brazil, Honduras, the Dominican Republic and Peru.

A.I.D. Program Evaluation Discussion Paper No. 22, Report on the Workshop on Private Voluntary Organizations and Small-Scale Enterprise Development (Spring 1985) provides a summary of lessons learned from recent evaluations of PVO small-scale enterprise projects, summaries of papers presented at the workshop held on October 31 - November 2, 1983, and highlights of the workshop discussions.

A.I.D. Evaluation Special Study No 27, Private Voluntary Organizations and the Promotion of Enterprise (Spring 1985) by Robert W. Hunt discussed some central issues of PVOs' activities relevant to SSE development, and provides a summary of what is known about PVO-operated SSE project performance and approaches.

A.I.D. Evaluation Special Study No. 13, The Evaluation of Small Enterprise Programs and Projects: Issues in Business and Community Development (June 1983) by Robert W. Hunt reviews that literature and selected field experience on the issue of SSE project impacts and factors contributing to effectiveness.

The PISCES Studies: Assisting the Smallest Economic Activities of the Urban Poor (September 1981) and The PISCES II Experience: Local Efforts in Micro Enterprise Development (April 1985) were prepared for the Office of Rural and Institutional Development, Bureau for Science and Technology. Phase I of the PISCES (Program for Investment in the Small Capital Enterprise Sector) project reviewed twenty micro-enterpise projects in sixteen countries and identified key elements associated with project success or failure. Building on this research experience, Phase II involved the design, implementation and evaluation of four demonstration projects, in the Dominican Republic, Costa Rica, Kenya and Egypt.

Small and Micro-Enterprises: Contributions to Development and Future Directions for A.I.D.'s Support (November 1985) by Robert G. Blayney and Maria Otero was prepared for the Office of Rural and Institutional Development, Bureau for Science and Technology. It provides background on the

definition of small and micro enterprise, gives a rationale and overview of A.I.D. and other donor assistance to small enterprises. The study then reviews evaluation evidence of the socioeconomic impact of SSE projects, especially changes in income and employment, and assesses factors that contribute to project effectiveness, including the socioeconomic and policy context, institutional selection, and project design factors.

Future A.I.D. Directions in Small and Micro-Enterprise Development: Report on the Williamsburg Workshop (April 1987), was prepared for the office of Rural and Institutional Development and the Center for Development Information and Evaluation. The report highlights key issues from the proceeding of a two day workshop reviewing A.I.D. SSE project efforts, including kind and size of SSEs that A.I.D. should support, effectiveness of credit and T.A. components, subsidization, institutional choice, self-sufficiency, cost effectiveness and policy dialogue issues.

Review of World Bank Lending to Small Enterprises (March 1985) prepared by J. Levitsky for the Industry Department of the World Bank, reviews the objectives of Bank assistance to SSE, evidence of the economic and social impact of Bank SSE project and key issues in program design, such as the policy framework, financing arrangement and long terms, and non-financial assistance.

The Effect of Policy and Policy Reforms on Non-Agricultural Enterprises and Employment in Developing Countries: A Review of Past Experience (March 1986) by Steve Haggblade, Carl Liedholm, and Donald C. Mead was prepared for the Office of Rural and Institutional Development. The study by Michigan State University explores two issues: (1) the magnitude of policy induced distortions in LDC economics and the differential impact on firms or different sizes; and (2) the experience of donors and LDC governments with the process of policy reforms.

Small Scale Industries in Developing Countries: Empirical Evidence and Policy Implications (draft, December 1986) by Carl Liedholm and Donald Mead of Michigan State University was prepared by the Office of Rural and Institutional Development. The paper reports on the findings of new survey results examining the magnitude, characteristics, economic efficiency and growth of small scale industrial enterprises in a dozen LDCs. The study also examines key SSE policy and project issues.

Assisting Informal Sector Micro-enterprises in Developing Countries (August 1985) by Katherine E. Stearns was prepared by the Department of Agricultural Economics, Cornell University. The study reviews over 20 micro-enterprise program's with regard to their various components, implementing strategies and impacts in order to determine the most effect approaches.

A.I.D. Prgram Design and Evaluation Methods Report No. 6, A Manual to Evaluate Small-Scale Enterprise Development Projects (November 1985) was prepared by Susan Goldmark and Jay Rosengard of Development Alternatives, Inc. for the Employment and Small Enterprise Division, Office of Rural and Institutional Development. The manual provides guidelines for the data collection, analysis, and operational aspects of evaluating the impact of SSE projects. It considers evaluation at several levels, including the performance of the donor agency, SSE credit institutions, SSE technical assistance agencies, and the assisted SSEs.

Income-Generating Projects of Small-Scale Development Organizations: A Field Study (January, 1985) by Shirley Buzzard for Foster Parents Plan International, Inc. discusses PVO experience with "income generation" projects, including those providing credit and other assistance to small businesses.

Capacity Building for Resource Institutions for Small and Micro Enterprises: A Strategic Overview Paper (August 1986) was prepared by Merilee S. Grindle, Parker M. Shipton, and Charles K. Mann of the Harvard Institute for International Development for the Office of Rural and Institutional Development (ARIES project). The report discusses the characteristics, perceptions and needs of SSEs and discusses how well alternative organizational models tend to respond to their small enterprise clients. The report also discusses recurrent weaknesses in SSE program designs and provides guidance for how institutions can develop their capacity for addressing these recurring problems.

Employment and Enterprise Policy Analysis Discussion Paper No. 7, The Reole of Nonfarm Activities in the Rural Economy (November 1986) was prepared by Peter Kilby and Carl Liedholm, for the Office or Rural and Institutional Development. The paper examines the role of rural nonfarm activities in LDCs and their relationship with agriculture, provides research findings on its magnitude, structure and growth prospects, and draws several policy implications.

MSU International Development Papers, The Private Sector Connection to Development (1986) by Carl Liedholm focuses on the issue of what types of private sector activities.