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The Process of Institutional Development:

Assisting Small Enterprise Institutions to Become More Effective

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The Process of Institutional Development: Assisting Small Enterprise Institutions to Become More Effective

by

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and
James Cawley

Written on behalf of the SEEP Network and
its Institutional Development Working Group

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ABSTRACT

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This paper argues for the critical importance of institutional development in improving the effectiveness of micro and small enterprise programs. It presents a framework for understanding the process of institutional development, and applies it to an analysis of 25 cases of organizations which implement small enterprise programs. From this analysis concepts of institutional development emerge which can guide other organizations in assessing and improving their organizational performance. The framework identifies four components, or areas of endeavor, which private development organizations (PDOs) must master -- vision, capacity, resources, and linkages. The challenges these components present and the tasks to master these challenges change over time as organizations mature through three different stages -- development, sustainability, and expansion. The paper discusses these challenges in terms of the major tasks that must be accomplished, characteristic stumbling blocks to their accomplishment, and the "emotional tenor" which makes each stage distinct.

An analysis of 31 North American PDOs, who comprise the Small Enterprise Education and Promotion (SEEP) Network, further delineates the different challenges by organizational type -- small enterprise specialist, large multisectoral agencies, and smaller, single-focused agencies new to the small enterprise sector.

The paper concludes with an identification of key areas for further action research, documentation, technical assistance and coordinated action.

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And especially the thousands of people who work for local and international PDOs and are the heart and soul of numerous SED programs that are making a difference in the lives of the people they serve.

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ACRONYMS

AAP	Asociation Pour La Productivite, Burkina Faso
ACCION	ACCION International
AGS	Asociación Grupos Solidarios de Colombia
AID	also USAID, United States Agency for International Development
ADEMI	Asociación para el Desarrollo de la Microempresa, Dominican Republic
ARIES	Assistance to Resource Institutions for Enterprise Support
ASSIST	Agency for the Selection and Support of Individuals Starting Trade, Jamaica
AVANCE	a Costa Rican PDO
BRAC	Bangladesh Rural Advancement Committee
CamCCUL	Cameroon Cooperative Credit Union League
CCF	Christian Children's Fund
FAVDO	Forum for African Voluntary Development Organizations, Dakar, Senegal
FINCA	Foundation for International Community Assistance
FUNDAP	Fundación para el Desarrollo Integral de Programas Socioeconómicos, Guatemala

FUNDESPE	Fundación para el Desarrollo de la Pequeña Empresa, Guatemala
FWWB/T	Friends of Women's World Banking/Thailand
IDH	Instituto para el Desarrollo Hondureño
ILO	International Labour Office, United Nations
InterAction	an umbrella organization for U.S.-based PDOs
MUSCCO	Malawi Union of Savings and Credit Cooperatives
OEF/ES	Asociación para la Organización Empresarial Femenina de El Salvador
OEF/I	OEF/International
OI	Opportunity International
OIC/CI	Opportunity Industrialization Centers/Cote D'Ivoire
OIC	Opportunity Industrialization Centers International, also OICI
PACT	Private Agencies Collaborating Together
PDO	Private Development Organization, both international and indigenous, often referred to as Private and Voluntary Organizations (PVOs, primarily US organizations) and Non Governmental Organizations (NGOs)
Proshika	a Bangladesh PDO
REACH	Rural Enterprise Assistance Center, Philippines
SAWSO	Salvation Army World Service Organization
SCF	Save the Children Federation

SED	Small Enterprise Development: As used in this paper, this term includes micro- and small enterprise programs assisting a full range of clients, from the one person operation through those often cooperatively managed with 20-30 workers. It also includes the clients of "poverty lending" programs, the very poor with limited business experience.
SEEP	The Small Enterprise Education and Promotion Network
SL/OIC	Sierra Leone/Opportunity Industrialization Centers
TA	Technical Assistance
Technoserve	a U.S.-based PDO
ThaiDDRA	Thai Foundation for the Development of Human Resources in Rural Areas
TSPI	Tulay Sa Pag-Unlad, Inc., Philippines
WIB	Women in Business Pilot Project
WOCCU	World Council of Credit Unions

EXECUTIVE SUMMARY

From the study of some 20 cases, documenting how 25 Private Development Organizations (PDOs) implement small enterprise development projects, the critical role of institutional development has emerged as a key factor influencing the performance of those PDOs. In instance after instance, those PDOs who chose to solve critical problems by paying attention to their institutional needs were able to work through the problems and become more effective Small Enterprise Development (SED) implementors. Those PDOs who ignored their institutional needs continually encountered stumbling blocks which inhibited effective or efficient implementation.

In the paper, institutional development is defined as the creation and/or strengthening of viable, autonomous, effective and representative organizations with the goal of achieving the organization's objective and adapting to change. It involves enhancing the capacity of organizations to become managerially, financially and technically self-sufficient, and capable of promoting sustainable development.

The definition suggests that institutions evolve and change over time, a maturation that permits them to learn from experience, solve problems and become more effective as they implement their programs. To help understand this process, the paper sets out a framework constructed by members of the Small Enterprise Education and Promotion (SEEP) Network as an organizing tool that can help a PDO identify, analyze and work on institutional problems.

The framework, which grew out of SEEP's analysis of the case studies, is a matrix which posits that institutional development is a process of achieving mastery in at least four distinct, but related areas of endeavor, or components, and that the requirements for mastery change over time, as organizations pass through up to three stages in developing their programs. The **components** are defined as follows:

> **Vision** is the ability to think creatively and critically about the organization and its mission.
>
> **Capacity** is the ability to move thinking to action, and involves the

institution's structure, systems, staff and methodology.

Resources address both acquisition and management of funds.

Linkages is the ability to develop productive relationships with a wide variety of organizations.

Each **stage** of an institution's life presents a central task to be accomplished and a number of characteristic stumbling blocks to its achievement. It incorporates a series of specific concepts and tasks, and several phases of activity. In addition, each stage has its own particular quality or "emotional tenor." Institutional Development, as described in this paper, is not a smooth process. There are many stumbling blocks along the way. Organizations that develop successfully must be learning organizations that can grow and change in response to the difficulties which inevitably occur.

For the **Development Stage**, the central task is to establish an effective program to solve a critical development problem. To do this, an SED organization must set achievable and motivating goals, develop leadership, create or choose an appropriate methodology, and generate the necessary resources. An organization working well at this stage is characterized by a "mission mentality" that joins leadership and staff together and enables sacrifices of time, energy and scarce resources on behalf of the common goal. Where the case institutions have faltered, it has been in finding the right executive, or committed, capable board members; in crafting a method that provides benefits at reasonable cost; and in acquiring the funds needed to solidify the organization.

The cases point out the importance of a preparation phase of one to two years, and the need for special attention to Board development. This has been the element least well managed, and to which insufficient support has been provided by assisting agencies. The cases also suggest that while successful organizations operate from internally driven strategies, support from another PDO with an institutional development strategy and a tested methodology can accelerate the work of this stage. Technical assistance in setting up flexible financial systems that can be expanded, and providing computers, are also important to the ease with which institutions will be able to meet complex demands.

For the **Sustainable Stage**, the central task is establishing a mature organization with a program that achieves impact at a reasonable scale of operation, and which has satisfactorily addressed issues of financial and technical viability. Often, a drop in repayment rates signals that the PDO's credit portfolio has outgrown the less formalized systems of the Development Stage, and that the hard work of maintaining a solid credit program has begun. PDOs must then become systems analysts so they can develop and implement a plan for financial viability; strengthen staff, systems and structure to control a growing program; and adapt methodology for efficiency and to respond to evolving client needs. In working on these tasks, they must overcome donor-driven temptations to accept resources for programs outside their defined mission, and wrestle with the tension between providing fair compensation to staff and keeping costs low. Computerization and organizational blockages in evolving bureaucracies also require attention. Those that navigate these challenges will achieve 100 percent autofinancing of their credit component, diversified financing for their other program services, and programs that provide a regular flow of benefits to large numbers of clients. Developing such a sustainable SED organization is a significant accomplishment in and of itself. Success at this stage does not necessarily lead to the Expansion Stage.

In the **Expansion Stage** organizations take on the challenge of positively affecting the lives of **significantly increasing numbers of people**. The goal, to achieve impact of a high magnitude either directly or indirectly, implies a structure transformation, a qualitative change in the vision and mission of the organization. It may mean becoming a financial facility, an institutional development agency, or an organization specialized in policy advocacy. These new functions can be add-ons to an existing mission, or completely new missions.

To do this, PDOs (who often exhibit the same motivation and drive as they did in the Development Stage) must undertake long-range strategic and financial planning, implement substantive organizational changes, streamline their methodology, generate resources in new ways, and develop linkages to positively affect the local environment for SED. Innovative resource mobilization is a hallmark of the expansion stage, as funds are sought to fuel the credit fund and cover the costs of new roles. Organizations are required to develop more sophisticated financial management to meet these new demands. Bottlenecks to success at this stage are a crisis in vision, role conflicts, inappropriate resource mobilization, and overextension.

In applying this framework to SEEP member agencies, a network of 31 North American PDOs, it is found that the SED specialist agencies (who comprise 27 percent of the group) are mostly on the continuum from Sustainability to Expansion; the large multisectoral development agencies (33 percent of the group) and the smaller single-focus agencies with a new SED focus (30 percent) are found on the continuum from Development to Sustainability. The difference in placement, and in the role of SED in their organizations, result in somewhat different challenges that each type is facing. The SED specialist agencies, for whom vision is largely settled, are concerned with non-grant resource mobilization and linkages for policy impact in the local context.

The multisectoral and single focus agencies are still reconciling their SED focus with previous missions, and this implies a host of other tasks on structure, staffing, defining methodologies, and diversifying resources. All three groups are concerned with improving methods for impact evaluation and institutional development.

Although institutional development has been a subject of serious attention in the SED community for some time, this study highlights specific areas which require the attention of private development organizations, donors, and technical assistance providers. They include: (1) documentation of expansion models in a way that assists organizations in their decision making; (2) the development of strategies and materials for Board development; (3) increased information regarding innovative resource mobilization and prototypical financial management tools; (4) guidance on staff issues; (5) strategies for increasing field based training; and (6) unified approaches to impact evaluation.

SEEP hopes that this paper can help PDOs and other organizations realize that the institutional problems they face are not unique, and that experience exists to address many of them. It is our intent that this paper open a continuing dialogue on the process of institutional development that will further the knowledge base and contribute to more effective small enterprise programming.

CHAPTER I
INTRODUCTION

A. Background

Institutional development has become an integral component in the development strategies of many North American Private and Voluntary Organizations (PVOs), and has emerged as an important concern for Non-Governmental Organizations (NGOs) in the developing world as well. During the 1950's and 60's, most PVOs were focused on relief and welfare, with organizational structures and management systems appropriate for that role. In the 70's and 80's, they shifted the focus to achieving long-term development impact, a move that led them to finding ways to empower local people to meet their own basic needs. This has brought about new partnerships between PVOs and locally-rooted NGOs, leading to a mutual search for new institutional structures and systems appropriate to their common task. Increasingly, both groups refer to themselves as Private Development Organizations (PDOs), which better explains what they do. This term will be used throughout the paper.

A concern with long-range development strategy has also focussed attention on the informal sector as a means of reaching the poor with viable economic activity. Under the label Small Enterprise Development (SED), PDOs have provided services to the most economically disadvantaged segments of the developing world's population. Their programs embrace a broad array of methodologies, and affect an equally broad range of clients and productive activities. As described in this paper, they encompass those directed to the micro and small end of the scale — from the one-person operation to ventures cooperatively owned by 20 to 30 workers. Included are the clients of "poverty lending" programs, those aimed at the poorest, with little or no assets or business experience. The enterprises assisted range from marginal productive activities, to more structured businesses that produce or distribute goods, or provide services.

This paper examines the intersection between these two areas of concern for PDOs — institutional development and small enterprise assistance — arguing that a better understanding of the first is essential for PDOs seeking to become effective implementors of the second. It presents a framework to analyze the process of institutional development through 25 organizational cases, revealing concepts which can guide others in improving their small enterprise performance. The paper offers indicators to monitor institutional change and identify key areas for further action research, documentation, technical assistance and coordinated action. In doing so, it draws principally upon the experience of members of the Small Enterprise Education and Promotion Network, which represents 31 North American private development organizations. Formed in 1985 to aggregate, study and articulate PDO experience in small enterprise evaluation, the network has evolved into a center for member collaboration across the spectrum of enterprise issues. This paper is written from the perspective of these members and their national partners.

B. Institutional Development

Before turning to the heart of the paper, one key note about institutional development is in order. For PDOs and their local partners, institutional development is a complex process touching values, mission, program and intended goals. Two recent definitions, written by PDOs, express their understanding of this complexity.

- Institutional development is the creation and/or strengthening of viable, autonomous, effective and representative organizations with the goal of achieving the organization's objectives and adapting to change (OEF/PACT workshop 1989)

- Institutional development is a dynamic process of becoming a learning organization capable of influencing and adapting to a continually changing environment . . . it is a two way street, strengthening both partner organizations . . . it leads to financial, material and human resource autonomy and self-reliance . . . by mutually supporting one another's institutional development NGOs build a strong international movement in solidarity with the oppressed (InterAction/ FAVDO Africa Partnership 1990).

These definitions express both the technical components of institutional development and the reason it is undertaken. They reflect the approach these organizations take with each other and with the poor they serve. Contained in the definitions are four important concepts:

PROCESS - Institutional development is not static. It is organic and evolving. It affects all facets of an organization. It implies learning, adapting and change.

CAPACITY - Institutional development involves human resources as well as organizational structure and systems. Both need to be strengthened in concert.

SUSTAINABILITY - The aim of institutional development is an organization which can sustain the flow of valued benefits and services to its members/clients, over time, in ways that are self-reliant.

IMPACT - Institutional development is not a goal. It is a means to solve problems, create a more favorable economic or policy environment, and improve the quality of people's lives.

Many PDOs who have recently entered the SED sector are emphasizing methodology; learning the what and how of delivering essential business services. But experienced agencies have learned that engaging in SED requires the more profound institutional change suggested by these definitions and concepts. This paper reviews how 25 organizations responded to this challenge. In doing so, it aims to provide a structured path through which others can view their own progress in the same holistic way.

CHAPTER II

OVERVIEW OF THE CASES AND ORGANIZATIONS

The discussion of institutional development in this paper emerges from an inductive and collaborative process undertaken by members of the SEEP Network since the spring of 1989. There have been three major strands to this process.

The first strand derives from SEEP member collaboration in PACT's Expansion of Benefits Learning Program, a long-term study effort involving 21 organizations documenting their experience with the process of expansion in such diverse sectors as community-based health, appropriate technology, literacy, disaster relief, multisector community development, and small enterprise. Seven writers have written cases discussing nine small enterprise programs of SEEP member agencies. These cases were examined collectively by the writers in the Spring of 1989, and then presented to, and examined by, a broader audience of 38 participants at a PACT-SEEP sponsored forum in October, 1989. The cases focused on:

- strategies of expansion,
- nature and scope of expansion achieved,
- relationship of project context and methodology to expansion,
- management and financial issues, and
- effect on the PDO.

The second strand developed from an opportunity presented by the International Labour Office, which commissioned a study by SEEP that examined the programmatic and organizational characteristics associated with successful small enterprise PDOs, and made recommendations for future assistance efforts. Eleven writers associated with SEEP and PACT's field programs contributed case studies of 17 organizations. The writing and analysis was completed in December, 1989. The cases focused on helping the ILO consider:

- the differences between successful and unsuccessful programs,
- the organizational and programmatic characteristics of indigenous PDOs that are considered successful,
- the needs of PDOs as they struggle to develop successful programs, and
- the role for external agencies seeking to assist them

The third strand grew from a SEEP sponsored workshop on Institutional Development in the Small Enterprise Sector in May, 1990. A five person working group developed a framework for the discussions and conducted the event. SEEP members presented four case studies on the process of institutional development in a partnership context. The cases were selected to highlight:

- issues of a North American PDO and a local PDO working on SED in partnership,
- geographic diversity,
- different types of North American organizations, not just SED specialists, and
- different stages of PDO organizational evolution.

Three of the cases were coauthored by North American PDOs and their partner PDOs from the developing world. The fourth was a teaching case which examined the internal institutional struggles of a North American PDO as it sought to create its SED program in partnership with a local agency. Forty-two participants examined the cases for lessons on how the institutional development process contributes to small enterprise effectiveness, and the respective roles of international and indigenous partners in this effort.

These cases and organizations are used throughout this paper to illustrate key points. Tables 2, 3, 4, and 5 at the end of this chapter provide summary data on each, and include organizational acronyms. For simplicity, organizational acronyms are used throughout this paper.

A. Organizational Type

Of the 25 organizations referred to in this paper, 15 are **Small Enterprise Specialist Institutions.** Their focus is exclusively on small enterprise development. Four are

Multisectoral Development Organizations. They include a small enterprise sector along with other sectors in which they work, like agriculture or health. A number are **Single-Focused Organizations.** Their work is primarily defined by one mandate or service (i.e., training or women) and have recently included small enterprise as a component of the program. Included are three training institutes and two credit unions.

Of the 25, three are North American PDOs directly implementing the programs. The balance are PDOs from the developing world. At least twelve of these were created through the initiative of, or with the strong support of, North American PDOs.

1. Scope: Twelve have programs that are national in scope; five are regionally-based but aspire to national coverage in the future; eight are regional or city-focused efforts.

2. Clients: Thirteen of the institutions service clients located in rural areas; three strictly target urban sites; and nine assist both locations. Fourteen target peasants and subsistence level clients; twelve assist microentrepreneurs, and seven offer support to small and medium scale enterprises. Six require business experience of their clients. Nineteen will support start-ups to one degree or another.

B. Program Strategy

There seem to be three major categories of program strategy which can be represented along a spectrum. The differences in strategy depend upon the amount of services provided and the relationship between SED and other types of activities.

1. At one end is a multisectoral strategy which combines SED with other sectors, and which has a strong focus on social development. The four programs which reflect this approach emphasize social mobilization and integrated economic development activities which support organizational and structural change. (It is interesting to note that they are all based in Asia.)

2. At the other end is a minimalist strategy which has defined credit as the missing link to spur economic activity, and which focuses on providing credit in a cost efficient manner. The six in this sample include ACCION affiliates specializing in urban microenterprise lending; FINCA, promoting community banks as a vehicle for poverty lending; the two African credit union movements; and the Save the Children Federation program directed to farmers in war-torn Lebanon.

3. Along the middle of the spectrum are integrated SED strategies in which the program provides credit, but in which training and technical assistance are also important components. Fifteen of the case agencies fall here, with differing attention given to management training, consultant services and production assistance.

Multi-sectoral Agencies 4 ◄	[15 Agencies scattered in between]	► Minimalist Strategy Agencies 6

These differences in strategy reflect different aims. For those in the multisectoral category, the goal is enfranchisement of the large number of people found in the poorest sectors of society. For those in the minimalist category, and some in the in-between group, the goal is often to create a financial mechanism to mobilize savings and credit for underserved groups. For at least one, it is to achieve marked improvement in a particular economic sector through technology advances and policy work. Several others have adopted subsector specializations (low cost housing, agriculture) as a way to improve effectiveness.

C. Experience

The PDOs reflect a broad range of experience. Eight of them are in the earliest stages of development, with two to three years' experience. The balance, however, have much greater tenure, with twelve having eight or more years. The breakdown is as follows:

1 -- 3 years	8 PDOs
4 -- 7 years	5 "
8 -- 11 years	7 "
12 -- 20 years	5 "

D. Scale

These programs fall along a continuum with regard to strategy (from multisectoral to minimalist), the magnitude of their operation, and impact. On the high end of the scale are organizations like BRAC, which programs $8 million annually in development assistance to the poor in 3,500 villages, and Proshika, which supported 4,285 economic activities in 1988 alone. CAMCCUL has 70,000 members and $30 million in shares and savings; MUSCCO has 16,000 active members and $1.4 million in assets. The AGS Institutions manage a credit portfolio of close to $2 million, and have made over 71,000 loans with less than a 1 percent default rate.

On the other end of the spectrum are smaller institutions with more limited accomplishments. The Asociación para la Organización Empresarial Femenina de El Salvador (OEF/ES) has assisted 463 clients in three years; ASSIST in Jamaica has made $130,000 in loans to 60 businesses, creating 179 new jobs in the process. Technoserve in Ghana has developed one model palm oil cooperative, and has just begun to develop others. To date, the National Development Foundations of Honduras and Jamaica have made 538 and 1,339 loans, respectively.

Along the continuum are a number of organizations achieving notable accomplishments, such as the Instituto para el Desarrollo Hondureño (IDH), which programs $1.2 million in loans to 1000 enterprises yearly. The majority, however, are still operating at lower levels of credit volume (or client coverage), although several have plans to increase their scale over time.

It is interesting to note that the scale of operations and the magnitude of impact does not correlate with one end of the strategy scale. In fact, in the cases represented in this sample, the programs with the greatest annual programming volume lie at opposite ends of scale as shown in Table 1.

Table 1. — Program Scale of Selected Agencies

Multi-Sectoral Agencies	Minimalist Strategy Agencies
BRAC: $8 million annual development assistance to 3,500 villages	**CamCCUL** $30 million in shares and savings mobilized by 70,000 members
Proshika: 4,285 economic activities supported by savings and loans (1988)	**AGS**: $2 million in credit portfolio serving 6,000 clients annually
	SCF/Lebanon: $2 million credit serving 2,000 clients annually

This analysis supports the finding in the ILO study (1989), that while minimalist approaches demonstrate real power in reaching large numbers of people, other approaches have also achieved a similar effect. Identified as important factors in all cases are the development of a well articulated, consistently applied methodology, and a sufficiently long period of experience refining and applying it. Four of the organizations included in Table 1 have over ten years experience. AGS has six. All reflect the notion that it requires five to seven years to achieve a "package of effective, efficient and affordable services, and a local organization that can deliver them on an ongoing basis" (Lassen 1988).

Table 2. — African Private Development Organizations

Organization (Acronym)	Country	Organization Type	Clients	Program Strategy	Achievements	Age
Asociation Pour La Productivitie (AAP)	Burkina Faso	regional credit and technical assistance	rural peasants involved in secondary income generation	credit assistance to individuals complemented with strong program management and technical assistance	has provided loans to 123 clients, from a $70,000 loan fund; repayment rate is 97.6%	3
Cameroon Cooperative Credit Union League (CamCCUL)	Cameroon	national credit union league	small, informal sector family owned businesses	nationwide movement of credit unions mobilizing savings and providing loans for personal and business needs	mobilized over $30 million of share/ savings from more then 70,000 members organized in 121 credit unions and 114 discussion groups; generated 109.6% of expenses	20
Malawi Union of Savings and Credit Corporations (MUSCCO)	Malawi	apex organization and financial facility for credit union movement	rural and urban credit unions, including poorest sectors	build a financially sound system out of savings and credit cooperatives to mobilize and use savings for social and economic development	102 societies with $1.4 million in assets; 16,000 active members; loan portfolio of $357,180; 38% self-sufficient	10
Opportunities Industrialization Centers Cote D'Ivoire (OIC/CI)	Cote D'Ivoire	agricultural training institute	youth and adult farmers; school leavers and micro-entrepreneurs in trading and food services	agricultural training extension from farm and campus site; 8 month entrepreneurial training with loan guarantee fund	manages $448,000 in funds from USAID and national government	1
Sierra Leone Opportunities Industrialization Centers (SL/OIC)	Sierra Leone	vocational training institute	vocational students; entrepreneurs and middle management professionals	vocational training, small enterprise training and credit programs; management training	over 850 vocational trainees with high rate of job placement; 1,600 beneficiaries of business development; initial repayment rate of 96% from first 27 loan clients	11

Table 2. — Continued

Organization (Acronym)	Country	Organization Type	Clients	Program Strategy	Achievements	Age
Technoserve	Ghana	international PDO providing management and technical assistance in the rural economy	cooperatives of traditional palm oil producers and processors	using a sector systems approach, develop replicable projects which introduce key changes in production technology, management and organization of the business	initial cooperative increased number of processors from 8 to 28; increased production acreage at first site; replication to second site; generated government interest in the sector	5
Ugandan Rural Development Training Project	Uganda	regional training and credit organization	rural entrepreneurs	management, technical assistance and credit for start-up, and for existing group enterprises	over 20 group enterprises assisted in Kampala, Kahunse, and Kagandi	8

Table 3. — Asian Private Development Organizations

Organization (Acronym)	Country	Organization Type	Clients	Program Strategy	Achievements	Age
Bangladesh Rural Advancement Committee (BRAC)	Bangladesh	national level social and economic development organization	landless peasants	integrated program of social mobilization, training, credit and economic development	programs $8 million annually in development assistance to the poor in 3,500 villages	17
Friends of Women's World Banking/ Thailand (FWWB/T)	Thailand	national level women's small business promotion organization	women-owned small businesses	supports growth-oriented businesses in agriculture, handicrafts, food service, retail and manufacturing, to create jobs and contracting opportunities		5
Proshika	Bangladesh	national level integrated development organization	landless agricultural laborers, land-poor farmers	consciousness-raising and group organization; savings mobilization and group-owned economic activities	4,285 economic activities in 1988, supported with group savings and loans	13
Thai Foundation for the Development of Human resources in Rural Areas (ThaiDDRA)	Thailand	regional intermediary promoting social mobilization and economic development	rural community members engaged in agriculture, cottage industries and services	"Saccakorn Movement" group formation and savings mobilization, problem solving, credit for self-employment	1,000 members in movements organized in 30 communities in six northern provinces	10
Tulay Sa Pag-Unlad, Inc. (TSPI)	Philippines	urban credit intermediary promoting nation-wide network of 15 partner agencies	small businesses, microentrepreneurs in urban and rural areas	credit, training and consultancy to small businesses with the potential to create new jobs	over $1.8 million lent to 736 small businesses, creating over 4,100 jobs; $500,000 credit portfolio in Manilla, 90% self-sufficient; six new agencies established	7

Table 3 — Continued

Organization (Acronym)	Country	Organization Type	Clients	Program Strategy	Achievements	Age
Village Education Resource Center (VERC)	Bangladesh	training institute promoting integrated development	landless and land poor people	development of training approaches and materials directed to participatory development, group development, savings mobilization and credit for individual and group activity	economic activities supported in 23 villages, educational methods and materials adapted by government and PDO agencies throughout Bangladesh	12

Table 4. — Middle Eastern Private Development Organizations

Organization (Acronym)	Country	Organization Type	Clients	Program Strategy	Achievements	Age
Save the Children Federation/Lebanon (SCF/L)	Lebanon	international, integrated development agency	small-scale farmers in rural villages	credit provision to individual farmers through community committees responsible for borrower selection and repayment	4,000 borrowers in 123 communities reached over 10 years; 2,000 now reached yearly; loan fund is $2 million	12

Table 5. — Latin American Private Development Organizations

Organization (Acronym)	Country	Organization Type	Clients	Program Strategy	Achievements	Age
Agency for the Selection and Support of Individuals Starting Trade (ASSIST)	Jamaica	small, national-level credit intermediary	Micro- and small entrepreneurs, in specific subsectors	individual credit for start-up or business expansion with training, consultancy and networking	$130,000 in loans to 60 businesses creating 179 new jobs	13
Asociación para la Organización Empresarial Femenina de El Salvador (OEF/ES)	El Salvador	regional-based credit and technical assistance agency	low-income women in San Vincente; many displaced by violence	participatory training, technical assistance and credit through groups to individuals for microenterprises	462 clients reached; 199 currently active; cost per beneficiary $325	3
Asociación Grupos Solidarios de Colombia (AGS)	Colombia	network of 14 intermediary organizations including foundations, non-profit corporations and a cooperative	microentrepreneurs; street vendors, small-scale manufacturers and service providers	solidarity group credit program with goal of reaching 50,000 businesses by mid-1990	manages close to $2 million in credit; 73% of operating cost covered by interest income and fees; over 71,000 loans since 1983; less than 1% default	6
AVANCE Micro-Empresarial	Costa Rica	urban-based credit intermediary	lower-level microentrepreneur	individual loans, training and technical assistance	92% financially self-sufficient; reaches five times more clients than most Costa Rican PDOs	3
Comité Coordinador para el Desarrollo Económico de Oriente (Comcorde)	El Salvador	regional business support intermediary		preinvestment studies; training in production skills and business management		2
Foundation for International Community Assistance (FINCA)	Costa Rica	International PDO directly implementing credit programs	rural women and men engaged in off-farm income generating activities	credit and technical assistance geared to establish community banks; works with partner agencies	104 village banks; 3,020 members; 80% operational expenses paid by interest	5
Fundación Nacional de Desarrollo de Honduras (FUNADEH)	Honduras	regional-based credit and technical assistance agency with national expansion plans	town-based small and micro-businesses; cottage industries in San Pedro Sula and La Ceiba	short and medium-term credit with training and specialized technical assistance in marketing and production	352 loans in 1987; 538 loans to date	3
Fundación para el Desarrollo Integral de Programas Socioeconómicos (FUNDAP)	Guatemala	foundation with regional programs	Indian peasants, microelectrification and solidarity groups	business creation; rural housing; rural lending		8

Table 5 -- Continued

Organization (Acronym)	Country	Organization Type	Clients	Program Strategy	Achievements	Age
Fundación para el Desarrollo de la Pequeña Empresa **(FUNDESPE)**	Guatemala	regional foundation	small businesses	management training, technical assistance, credit aimed at support to growth oriented businesses	provided training for 210 entrepreneurs, loans to 36 clients	3
Instituto para el Desarrollo Hondureño **(IDH)**	Honduras	micro- and small enterprise development agency	small to medium businesses; agriculture (past); low-cost housing, goods/services (present)	credit and training to small/mid-sized rural businesses; focus on low-cost housing	loans and technical assistance provided to 1,000 enterprises yearly; four-fold increase in loan portfolio to $1.2 million	9
National Development Foundation of Jamaica **(NDF)**	Jamaica	national-level credit and technical assistance agency	owner operated small businesses; new businesses; small-scale farmers	medium-term credit, technical assistance and training	376 loans in 1987, 59% outside Kingston; 1,339 loans to date	7

CHAPTER III

FRAMEWORK FOR INSTITUTIONAL DEVELOPMENT

Institutional development is a complex concept because, in the life of an organization, it is a complex process. As the definitions suggest, it involves change over time; a maturation of capacities that permit an organization to learn from experience, solve problems, and offer an ever more effective response to the needs of those it has set out to serve.

To increase understanding, SEEP's Institutional Development working group designed a framework that would express these fundamental ideas, and would permit an analytic examination of the principal elements involved. A matrix was created as an organizing tool to explore participant experience and cases presented at the May workshop. The matrix embodies two notions:

- ☐ that institutional development implies a process of achieving mastery in at least four distinct, but related, areas of endeavor; and

- ☐ that the requirements for mastery change over time, as organizations develop their programs from an initial design and implementation through to a mature, sustainable, and possibly expanding one.

A. Components

The areas of mastery, or **components of institutional development**, are defined as follows:

1. **Vision** is the ability to think creatively and critically about the organization. It is guided and formed by basic principles and beliefs that define the mission and purpose of an organization. It articulates a picture of the world which would result from the successful achievement of an organization's goals. It is important that

vision grow out of, and respond to, locally defined needs. It is also important that vision is compatible with the principles of SED programs.

The vision of an organization seeking to be successful in SED should clarify who the institution seeks to serve and why; it should reflect an understanding of them as clients, rather than beneficiaries, with whom it shares a set of mutual rights and responsibilities. Finally, it should reflect the social and moral principles that guide the PDO, and at the same time, contain principles of cost-consciousness, self-sustainability, autofinancing credit, growth and expansion.

2. **Capacity** is the ability to move thinking to action. It is the institution's ability to organize itself to achieve its mission effectively and efficiently. Capacity requires:

   a. a **structure** through which people can channel their energy and creativity; which shapes and anchors the organization in the mold of the vision; is appropriate to and supports the organization's activities; is responsive to program and client's needs; ensures that decisions get made at appropriate levels and that there are appropriate forms of participation. Some elements of structure include:

      - constituent assembly
      - decision making process
      - responsibilities & accountability
      - Board
      - Executive Officer
      - departments

   b. **systems and procedures** which ensure that the structure operates smoothly; that there is a timely flow of accurate and complete information; that staff and clients are treated fairly and justly; and includes:

      - administrative, program and personnel policies
      - program planning, monitoring and evaluation
      - information collection, storage, and retrieval
      - feedback and adjustment
      - conflict resolution

   c. a **staff** which implements the programs and manipulates the systems to achieve the objectives of the organization; is motivated and committed; and has the appropriate skills to meet organizational and program needs. A good staff is a function of an organization's ability to:

      - recruit and hire the right combination of skills and motivation
      - orient and train new staff and provide in-service training for all staff

- develop and adhere to fair personnel policies
- establish and maintain a fair and reasonable salary scale
- develop other nonsalary incentives
- keep staff appropriately informed and involved in decision making processes

d. a **methodology**, an organized set of tactical steps and choices which allows the organization to carry out its mission and achieve its desired outcomes. Elements of a SED methodology include:

- target population (i.e., economic sector of population, urban or rural, etc.)
- desired impact (i.e., jobs, income, goods and services produced)
- modes for organizing and servicing clients (i.e., solidarity groups, individuals)
- services offered and terms for those services (i.e., credit, TA, training)
- sequence of activities (i.e., training or savings before credit)
- known and accepted expectations and obligations for both the organization and its clients (i.e., demonstrated savings before joining program)
- defined roles and responsibilities (i.e., loans approved by board, or approved by loan committee)

3. **Resource** capability is the ability to earn or raise sufficient funds to cover expenses without compromising vision or program design. An organization operating efficiently has achieved an assured flow of money that matches client demand and operational need. In addition to acquiring funds, organizations must be able to do financial planning and management and ensure accountability. Key factors include:

    - fundraising policies and practices
    - credit policies
    - budgeting and accounting systems
    - financial projection and cash flow
    - portfolio management

4. **Linkages** is the ability to develop productive relationships with a wide variety of organizations. Linkage includes regular communication, interaction and exchange of information and resources (Esman and Uphoff 1984). To be an effective implementor of SED activities, an organization cannot rely solely on its internal capacity. An organization must be perceived by the community in which it works, and by external entities, as carrying out activities that meet community needs in

ways that are appropriate to the social and cultural environment. Additionally, it must be seen as contributing to the overall improvement of the community. This legitimacy strengthens an organization and further supports the effective accomplishment of its stated mission.

Rarely can an organization carry out all of its activities and grow without outside support and assistance. To strengthen itself internally, an organization needs to form relationships with a variety of other organizations to acquire external assistance. Often this is needed to get information, technical assistance, or staff training. External assistance also includes resource mobilization, policy support, and supplies and logistics.

Two types of linkages are forged with agencies at the local, regional, national and international level:

- enabling linkages; relationships with those organizations which control allocation of authority and resources needed to function. These are called vertical linkages; and
- functional linkages; relationships with those organizations which are similar or complementary in function. These are called horizontal linkages (Esman, 1972).

Each component of the framework represents a distinctive organizational ability and involves an integral set of roles, policies, procedures and tasks that need to be accomplished in systematic and recurring ways. The components are also interdependent. Vision informs an organization's structure and systems, its approach to resource acquisition, and how its identity is expressed to the external world. The capacity of staff, and the structure and systems by which they operate, affect how well a vision is articulated in concrete terms; how well resources are managed; and the quality of its relationship to clients, key local institutions and donors. The nature of the issues faced in each component, and their importance to and impact on the organization, change over time and thus require constant attention. Failure to appropriately address any of these issues has the potential to seriously weaken an organization and reduce its effectiveness to serve its client population.

B. Stages

Three **stages** are identified in the framework as presenting new challenges to mastery:

1. **Development Stage**; the initial point when an organization decides to undertake a small enterprise activity, makes major strides in crafting its methodology, and begins structuring itself to carry out its mandate. In this paper, the discussion of this stage is relevant both for new organizations in the process of establishing themselves, and preexistent organizations incorporating small enterprise development into their mandate for the first time. It involves the **phases** of:

   preparation — planning and laying the foundation of an organization and its program methodology;

   start-up — model testing; and

   implementation — execution of a program ample enough to achieve visible levels of impact.

2. **Sustainability Stage**; the period when an organization achieves a certain amount of maturity, becomes an effective implementor of its approach, attains a degree of financial viability, and can grow. (For more explanation of sustainability and financial viability refer to the discussion in the section on the Sustainability Stage, page 35).

   It is during this period that an organization makes a transition from effective **implementation** in accordance with predetermined impact targets, to **consolidation** of the program reflected in a more efficient delivery of services to clients and accomplishment of impact, to **growth**, where the organization is increasingly capable of reaching larger numbers of clients with greater effect.

   It is useful to note that the growth achieved at this stage can be significant and derives from a more efficient application of the organization's methodology, and from the smooth functioning of a well developed structure and staff.

3. **Expansion Stage**, the period when an organization makes a **structural transformation** in order to scale up to affect a significantly increasing number of people.

   This stage, as defined by participants at the SEEP workshop, is somewhat different from other definitions of expansion. While it acknowledges that the stage implies a dramatic leap in the number of people affected by an organization's efforts (either directly or indirectly), it is not defined solely in quantitative terms. ACCION, for example, identifies this stage with the capacity to reach 10,000 or more clients a year (Otero 1989). While organizations meeting that target (and there are few) would fall into this stage, it does not exclude efforts of lesser magnitude. Indicators that the threshold has been crossed include (a) the clear existence of an organizational choice to reach larger numbers, and (b) the consequent decision to embark upon some form of structural change in the organization to make that goal a reality. Other supporting indicators that herald the end of the Sustainability Stage can be found in Table 7, on page 57.

These stages will be discussed further in a later section of the paper. At this point, it might do to close this discussion with the acknowledgement that the framework, as with any analytic tool, is an abstraction of reality, reflecting and highlighting key elements to facilitate consideration and understanding of the process. In fact, SEEP representatives engaged in constructing and applying the categories recognize that institutional development is not as neat and clean as the twelve boxes in Table 6, page 22, implies. As one participant at the workshop noted, it can be a much more fluid, organic and complex activity than the lines on the matrix suggest.

From another perspective, it can also be much less continuous and more disjointed than the logical progression from one stage to the next that this first exposition implies. In reality, as an organization goes through the process of creating and strengthening its organizational abilities, it is forced to deal with many of these issues as they arise, rather than in the relatively orderly categories into which we have assembled them. Likewise, the importance of the process represented by the framework is the interplay between the components and stages as an organization evolves. The degree to which an organization is strengthening itself institutionally only makes sense in relation to the effectiveness and impact of its programs. Institutional development is not, after all, an end unto itself, but a means to achieve other ends.

The value of the framework is that it lays out the issues so that organizations can identify them, plan for them, recognize that these issues are not unique, and know that experience exists to address many of them. It provides a tool that enables practitioners to analyze, understand, and **do something** about the organizations in which they find themselves. It is in this spirit that the framework has been used to examine and distill lessons from the cases developed by SEEP Network members, to be applied to their institutions as a reference point for self-assessment. More on this is covered in chapter V "Challenges for North American PDOs", page 58.

Table 6. — Institutional Development in the Small Enterprise Sector: A Framework

COMPONENTS	STAGES		
	DEVELOPMENT The period of start-up, initial design, testing and implementation of program methodology and organizational structure. Institution advances toward effectiveness. PHASES Preparation Start-up Implementation	**SUSTAINABILITY** The period of organizational growth and maturation. Institution advances toward efficiency and financial viability. PHASES Implementation Consolidation Growth	**EXPANSION** The period of scale-up. Institution expands its program by increasing clients and/or geographic coverage. PHASES Transformation Expansion
VISION (Mission & Commitment) An organization's ability to articulate and generate commitment for mission, goals and objectives, client population, approach, and desired level of impact. Key factors are Executive Leadership, Board of Directors, Strategic Planning, Approach.			
Capacity (Structure, Systems, Staff, Methodology) An organization's ability to structure itself; to develop systems for planning, implementing and evaluating its activities; and to recruit, train and retain staff. Key factors are Organizational Structure, Information Systems, Personnel Policies, Staff Development.			
RESOURCES (Mobilization and Management) An organization's ability to earn or raise sufficient revenue to cover expenses; to manage finances, maintain capital and ensure accountability. Key Factors are Fundraising Policies and Practices; Credit Policies; Budgeting and Financial Projections; Accounting, Portfolio Management.			
LINKAGES (Learning and Action) The ability to develop and maintain productive relationships with relevant organizations in order to advance an institution's vision; to access information, assistance and resources; to advocate policy change. Key Factors are Government Relations, Peer Networks, International PDO and Donor Partners.			

CHAPTER IV

THE PROCESS OF INSTITUTIONAL DEVELOPMENT

Each stage of an institution's life presents central tasks to be accomplished, and a number of characteristic stumbling blocks. It incorporates a series of specific concepts and tasks, that can be categorized by the components of the framework, and several phases of activity. In addition, each stage has its own particular quality or "emotional tenor" that is recognizably part of the process.

This paper will not attempt to address all of the components for each stage or phase. Only those key components, critical to the stage illustrated, will be discussed, using examples from the cases. Special attention will be given to Vision in the Development Stage, Capacity in the Sustainability Stage, and Linkage in the Expansion Stage. Resources, which requires constant attention, will be treated throughout.

A. Development Stage

For the development stage, the central task can be defined as establishing an effective program to mitigate or resolve a critical development problem. Viewed through the small enterprise lens, that critical probiem reflects a pressing need on the part of large numbers of people for work and income. Depending on the context, the problem can be:

- the increasing number of people working in the informal sector in large cities, trying to eke out a living by creating their own tiny businesses (AGS);
- the tight limitations a small island economy poses to peoples' livelihoods (ASSIST);
- the pressing needs of low income women displaced by political strife and violence (OEF/ES);
- the oppression suffered by landless and land-poor peasants in countries where they have been marginalized socially, politically and economically (BRAC and Proshika).

To respond to problems such as these, there are a number of tasks an emerging organization (or program) needs to undertake. Most critically, it needs to:

- ✓ generate a **vision** that articulates a goal both achievable and motivating, and links that goal to philosophic principles which express the institution's world view and development approach;
- ✓ develop the **leadership** that can convey that vision to staff, and can organize their efforts to bring it to fruition;
- ✓ create or choose a **methodology** appropriate to the problem; test and refine it to the point where impact can be achieved, and
- ✓ generate sufficient **resources** to support the organizational structure needed to make the program work.

As it works on these tasks, the organization passes through three phases of activity, each a building block to the next.

1. **Preparation** is a phase of critical and intense activity which lays the groundwork for all that is to follow.

Initially, **vision** comes either from a charismatic leader seeking to make some kind of change, or emerges from a group of people seeking to solve a common problem. In the development stage, vision is often broad and unbridled. Generally rooted in idealism and enthusiasm, vision provides the energy to overcome inertia, mobilize people to action, and generate the initial resources to get started.

Vision is expressed differently depending on the local need out of which it arises. In Bangladesh, Proshika's vision is organizing marginal classes for the structural transformation of society; in Guatemala, FUNDESPE set out to promote the development of the western region through private initiative and small enterprise; in Thailand, Friends of Women's World Banking (FWWB/T) is committed to supporting and incorporating women entrepreneurs into mainstream economic development.

TSPI's original objective was to create jobs and generate income for the poor through small enterprise. During its development stage, TSPI worked directly with clients, making loans and offering business training. When MUSCCO was registered in 1980, its mission was to be an apex organization for savings and credit cooperatives in Malawi, with its role one of promotion, training, and development of local societies.

The locus for vision in an organization is, first and foremost, in its **leadership** and Board **of Directors**, who, through **strategic planning** provide concrete dimensions in the form of goals, approaches and resource requirements.

Leadership is often embodied in the charismatic person who gave rise to the organization. In addition to vision, the leader is expected to be responsible for guiding all of the tasks that need to be done in the preparatory and start-up stages. To the outside world the leader is the organization, and this status often becomes formalized by officially naming the leader as the chief executive officer. Abraham Ndofor (CamCCUL) and Fazli Hassan Abed (BRAC) are recognized as strong charismatic visionaries.

Boards of Directors can serve organizations in many ways, but often the development and institutionalization of a Board comes in response to government regulatory pressures, or as a way to get a few influential people associated with the organization. A well formed and active Board can gain access for, and enhance the legitimacy of, the organization at appropriate levels of government, with donor agencies, and in the private sector. This is particularly important when an organization decides to expand.

In some cases Board development preceded the formation of an organization. Opportunity International spent a year on the development of the TSPI Board, which understood and accepted the responsibility for program performance. The TSPI Board established and held the vision and was actively involved in developing policies, setting program goals, and selecting and supervising the Executive Director. OICI is another North American PDO that invests heavily in assisting its local partners with developing boards. The Sierra Leone OIC board, for example, is integrally involved in resource mobilization, program review, and community liaison efforts. "These combined efforts provide an effective conduit through which (a) government support and sponsorship are maintained, (b) potential employees and sources of credit are contacted ..., and (c) business clients are influenced to be assiduous in following proper business codes of conduct and repay loans" (Croulet 1989).

While organizations like OI-TSPI and OIC-SLOIC pay particular attention to Board development, it was acknowledged at the May, 1990 SEEP Workshop on Institutional Development, that PDOs are relatively unskilled in Board development. Cases were cited where weak or ineffective Boards often hamper the ability of organizations to operate efficiently, enter the sustainable stage, or expand. The OEF/ES Assembly elected a Board but little attention was given to Board development. One of the challenges now facing OEF/ES is how to garner more support from the Board "and at least guarantee a quorum at all meetings" (Bath et al, 1990).

The cases highlight the importance of strong leadership and board to an organization's subsequent growth and expansion. Both articulate the vision, motivate staff and set accountability for accomplishment of the mission. But board development is the element least well managed, in most instances, and, for PDOs, requires special emphasis.

It is important to note the special challenge organizations face when incorporating small enterprise development into a previously established mission. As one PDO representative commented at the SEEP Institutional development Workshop, some of the Christian principles that formed the agency's vision contravened sound SED practices like charging market interest rates, or applying sanctions for late or non-repayment. Contradictions between an older vision and a new, SED mission need to be consciously resolved by PDOs aspiring to be successful SED promoters.

Strategic Planning provides the opportunity for an organization to think critically about its mission and purpose and how to achieve them. Successful organizations work from an internally driven strategy which:

- grows out of locally identified needs
- is sensitive to local environment and culture
- builds ownership in the organization and its programs from the clients upward
- is results oriented
- employs an identifiable methodology that is compatible with client demands and local context
- reflects the capabilities of the organization
- is cost conscious
- allows for change and adaptation
- has an emphasis on forward thinking
- is committed to become self-financing

CamCCUL develops five-year plans with realistic and measurable objectives. In addition to setting the agenda for the organization, the level of detail makes them virtual project proposals. CamCCul uses its plans with donors to demonstrate where it is going, how accomplishments will be measured, and what is needed from donors to achieve objectives.

The preparation phase also "includes feasibility studies, survey studies on the microenterprise population, the creation (**structuring**) of a new institution or the restructuring of an existing one, the structuring of a board, the involvement of local support, the definition of goals and objectives, the acquisition of resources for initiation, the **hiring and training of staff**, the design of a **methodology** for application, the interaction with the population the project will reach, and the establishment of **systems** for program implementation" (Otero 1989, emphasis added).

The importance of the preparation phase to the future success of a small enterprise organization cannot be underestimated. ACCION International has found that the work involved can require one to two years without a single implementation step taken. Similarly, Opportunity International's work with Tulay Sa Pag-Unlad, the partner in the Philippines it helped establish, required a year's effort devoted to the identification of a cadre of committed Board members, the creation of a shared vision, the development of the initial operating systems of the organization, and an explicit understanding of the roles and responsibilities to be assumed by the local and international partners.

In the case of the Asociación para la Organización Empresarial Femenina de El Salvador (OEF/ES), the preparation period had distinctive characteristics. In this instance, the program had begun as a directly-implemented field effort by OEF/ International. There was a period of project development, testing and modification that occurred before the idea of institutionalization germinated. When the decision was reached to help project staff create a local organization (impelled by a funding crisis as well as other concerns), there was an intense and uneven process of institutional formation. Because this was the first time OEF/International faced this challenge of building a local institution, there were no well developed policies and practices to guide the process. Shortages of funds for infrastructure, operating expenses, and program costs only heightened the difficulties.

Clearly the extent to which an assisting agency has thought through and developed mechanisms and materials to advance the process of local organizational development will affect how smoothly and effectively such a process can occur. In the case of Asociación Grupos Solidarios, for example, a technical assistance strategy for introducing and implementing the solidarity group methodology evolved between 1983 and 1986. As a result, new programs "have taken off much more rapidly than those that initiated operations between 1983 and mid-1986. For example, ACTUAR/Tolima, which provided its first loans in July, 1987, had reached operational self sufficiency just eleven months later with a late payment rate of just 1.35% of the outstanding loan portfolio. The older programs took three years or more to reach operational self-sufficiency" (Castello and Guzman 1988).

A second element that can ease the preparation phase is a tested methodology which is adaptable to the needs of the client group. This can often help an organization begin the start-up phase more quickly. OEF/ES offers an example.

> Reflecting on her years with OEF/I, Dinora (Mendez de Sanchez, Executive Director of OEF/ES) says that the best thing we got from OEF and what we will always be grateful for is the training and practice of the participatory methodology. It would have taken us years of struggling in the dark to develop anything nearly as useful (Bath et al, 1990).

ACCION's partner agencies have noted similar advantages. Besides the AGS group, ACCION's preexistent methodology has been a source of training materials, operational manuals, mechanisms of control, and evaluation for partners elsewhere. It has enabled AVANCE in Costa Rica to grow tremendously "reaching over five times as many clients as other programs operating longer periods of time" (Stearns, 1989). The same thing can be said of agencies developing within the framework of other networks such as that of the Pan American Development Foundation, Opportunity International, the World Council of Credit Unions or those applying FINCA's community bank model. Of the 25 cases examined, 15 have adapted methodologies from external sources in one form or another. This high incidence may be due to the sample, as the cases were prepared by North American PDOs working with local affiliates or local PDOs.

While the adaptation of methodologies was successful for OEF/ES and AGS, a number of organizations have developed their own methodologies which have been equally effective, i.e., BRAC, Proshika, ThaiDDRA. The essential point is that a predeveloped and tested methodology speeds preparation when it is an appropriate response to a local need, and when adaptation is made to ensure cultural and organizational fit.

2. **Start-Up** covers the initial experience with implementation on a pilot or model basis.

This is the period when the methodology is tested and adapted to meet client need. OEF/International's Women in Business Pilot Project (WIB), undertaken simultaneously with the preparation steps surrounding the formation of OEF/ES, is an example. WIB demonstrated receptivity and demand for a program that provided accelerated training and credit for individually-owned microbusinesses. It was four times more cost-effective that the previous approach, which focused on cooperatives, and had 100% loan repayment. It became the core of the methodology adopted by the new institution.

In its start-up phase, OIC-CI chose a narrowly focused clientele, entrepreneurs who wanted to establish businesses in small-scale trading or restaurants. By selecting economic activity with a quick sales turnover, OIC-CI was able to demonstrate the immediate impact on business improvements from its training efforts.

Assuming that the preparation phase is completed successfully, the institution can move quickly through this period to a full and successful implementation. But if there are problems, they should become readily apparent here.

> ASSIST began a pilot program with Opportunity on February 1, 1986. At the outset of the pilot program Opportunity and ASSIST established certain goals in the areas of systems development and program implementation. ASSIST was not able to meet the established goals in 1986 and never developed satisfactory procedures for financial and program reporting to Opportunity. In addition, ASSIST was dissatisfied with the support personnel provided by Opportunity feeling that they were culturally insensitive.
>
> Early in 1987 Opportunity and the ASSIST Board jointly agreed to suspend the program. [They] determined that the primary reasons for ASSIST's ineffectiveness in 1986 were:
>
> - The ASSIST Board did not have a complete understanding of their responsibilities and the level of commitment required of them.
>
> - The ASSIST Board had not retained a staff with the appropriate skills and experience.
>
> - Opportunity did not provide an adequate level of support to ASSIST.
>
> Through 1987 Opportunity and ASSIST have taken several steps to correct these weaknesses. ASSIST has strengthened its Board of Directors, bringing on new members committed to the agency and relieving other board members who, for various reasons could not supply the level of commitment required.
>
> ASSIST also brought in new staff. The Board hired a new Executive Director... Opportunity has also restructured the way that it supports ASSIST, with technical support ... coming directly from the Chicago office, rather than through the Latin American office (Reed, December 1989).

An organization requires different types and amounts of funds depending on its state of evolution. During the preparation phase smaller amounts are needed to cover core costs for planning, feasibility, staffing and fundraising. The funds needed at this stage can be looked at as risk or venture capital. It is an investment in the organization to get it up and running.

By the time of start-up, in addition to operating costs, there must be sufficient money to begin a loan fund so that, as the methodology prepares the clients for credit, the money for loans will be available when the clients are ready.

During the preparation and start-up phases, fundraising policies are emerging and the program is setting its credit policies. Often accounting systems are simple, money is treated as fungible, and the budgeting process is simple. It is important during this time, however, that organizations look beyond the start-up phase. If appropriate planning is not done and attention paid to developing financial systems that are flexible and can expand, an organization will quite likely find itself stymied by systems that cannot handle the increased volume or which lack the sophistication required to handle a larger operation. If possible, financial systems should be computerized at the outset to avoid disruptive data transfer; to enable the institution to properly track income and expenses; to input data once for all levels of analysis; and to generate key reports on disbursements, recuperation, delinquency, interest earned and field worker/office performance (see Otero 1989 for more on this issue).

3. **Implementation** is the phase when institutions begin to make a visible difference on the environment in which they are working, and they can demonstrate effectiveness.

In ACCION-affiliated programs, where reaching a large number of clients (massification) is key and the experience base high, the model stage moves seamlessly into full implementation. During the first nine months of operation, for example, two Guatemalan-assisted institutions disbursed nearly 1,600 loans, totalling about $660,000, to 1,476 microentrepreneurs (Otero 1989).

For other small enterprise programs, the move into fuller implementation is not characterized by these high numbers, but by a gradual increase in the targets reached, as experience is gained and the operation reaches a certain level of effectiveness. When ASSIST entered this phase, it moved from serving a handful of small and medium-size businesses to 60. OEF/ES reached an active portfolio of 199, and a total volume of 463 low income women (and men) assisted. TSPI also began serving several hundred small business clients. Common to all these cases is the regularity of performance and results achieved.

The environment, however, also affects the ability of an organization to function. In the development stage organizations thrive better in a supportive political and economic environment, but SED programs can get underway in an environment that is at least neutral. Collaboration and support (or at least noninterference) from government was important to both CamCCUL and BRAC as they went through their preparation and start-up phases. In other cases the presence of board members with government or other high connections has eased the way to operate, has opened channels for material and financial support, and has created an avenue for policy dialogue.

Several cases point out that linkages with other organizations, notably North American or international PDOs, were key. Among the advantages of these linkages were access to appropriate expatriate technical advisors, availability of materials and publications, proven methodologies, training and some financing. Assist and TSPI in the Opportunity network, AVANCE, FUNDAP and ASG in the ACCION network, and OEF/ES in the OEF/I network offer examples of how linkages at the international level can benefit a local PDO. The relationship between WOCCU and MUSCCO represents another good example of the advantages of this type of affiliation.

Stumbling Blocks

What are the major blocks a small enterprise organization may face during this first period of organizational growth? The cases suggest three:

A Crisis in Leadership

Many organizations, like BRAC, CamCCUL, and the OICI movement are molded by the vision and drive of one charismatic, founding director. Others like TSPI, MUSCCO, and AVANCE, emerge from the pooling of ideas and commitment on the part of a group, who form the Board of Directors. The case studies underscore the importance of both.

When either is not up to the task, the organization stalls: ASSIST's progress was minimal until the right mix of individuals was found for the Board, who then located a dynamic, capable Executive Director. AVANCE in Costa Rica faced similar problems, taking nearly two years to find a Costa Rican that embodied both the business skills and social development orientation required. Instituto de Desarrollo Hondureño (IDH) was formed on the notion that the Board's most important role was to serve as a good steward of the endowment received from Opportunity. But they did not feel primarily responsible for resource mobilization. The result: a board formed of small business people and white collar professionals — sufficient for management, but not for growth.

Methodological Problems

OEF/International's striking success with the El Castaño Cooperative of tomato processors led it to concentrate on a method that incorporated intensive training, cooperative formation, ongoing technical assistance and credit. The benefits that resulted in the first instance never materialized to the same degree in the next five replications. The match between the needs of displaced women and the service package was not quite right. It took the Women in Business Pilot to identify the adaptations that needed to be made (see page 28).

Resource Scarcity

Successful small enterprise organizations "stand on their own feet" and are capable of raising the funds required to mount their programs and maintain their organizations. This is the lesson Opportunity's partners (TSPI and IDH), blessed with an endowment, have had to learn over the course of their relationship. OEF/ES had to learn it sooner, as it was born in the crucible of a funding crisis that affected the U.S. parent organization and the local group. In many ways, the struggle for survival in its early development has made OEF/ES a strong and resourceful institution. It strengthened the commitment of staff, honed the fundraising skills of the Executive Director, and forced a cost-conscious management of the program. Security and continuity in resource flows can make a big difference in the ease with which an organization sets about its tasks, but an organization which has successfully surmounted the challenges of resource mobilization early on leaves the development stage well prepared for the tasks of the next, associated with consolidation, sustainability and growth.

Finally, what does an organization at this stage look like, feel like? One that is working well is characterized by high motivation, a "mission mentality" that joins leadership and staff together and enables sacrifices of time, energy and resources to be made on behalf of the common goal. Because staff are few, structure may be fairly loose; systems are more personalized than standardized. As the OEF de El Salvador case suggests, it is a time when personal loyalty and camaraderie can help a young group surmount the early challenges to create something more permanent and powerful.

The Asociación para la Organización Empresarial Femenina

de El Salvador

An Organization in Development

OEF/I had no project funds beyond December, 1987. Questions as to what would happen with the program once project funds came to an end were at the forefront of a dialogue between OEF/I and the ES staff. The dialogue focused on the needs of past clients and the current demand for services as well as the possibilities for the local staff to create their own organization. The staff had advocated the latter idea since July, 1986 for the following reasons:

1) No OEF/I type organization existed in El Salvador to serve low-income women's income-generation aspirations;

2) A local NGO could serve as a partner to OEF/I;

3) A local NGO could undertake new responsibilities and contracts with other organizations;

4) A local NGO could turn to other funding sources;

5) A local NGO would gain more local acceptance and support and guarantee a permanence to the development effort;

6) Dinora de Sanchez, the Director, was personally liable for OEF/I's activities in El Salvador as OEF/I was not legally incorporated . . . .

OEF/I was caught off guard by the push for independence . . . Major concerns discussed by senior staff include the legal and public relations implications of independent organizations and OEF/I's level of control and accountability. Also discussed was the potential competition of local groups with OEF/I for funding and the financial implications regarding future relationships . . . . While the discussion was taking place in Washington, Dinora received support from the Regional Director and OEF/I consultants to move forward with plans for an autonomous institution. They provided her with guidance on Boards, organizational structure, legal incorporation and funding. [In 1987], the funding crisis was no longer avoidable and OEF/I provided full support for moving ahead . . . .

In January of 1988, the OEF de El Salvador Board of Directors was elected and their first meeting was held . . . . A unique bylaw established that the Board cannot fire OEF/ES's Executive Director without OEF/I approval. This bylaw is still in effect. The ES staff and key Board members advocated this bylaw to help shelter OEF/ES against the politicization of the Assembly and Board, a common occurrence among ES NGOs given the political climate.

As project funding ended in December, 1987, the major concern for OEF/ES and OEF/I was the funding situation for the new institution. OEF/I passed along all equipment and loan funds from the project to the new organization, although some equipment was later reclaimed by AID. OEF/I also had a $4000 overrun on project expenses which was taken out of unrestricted contributions . . . OEF/I's Executive Director in an important show of support for this nascent organization, approved $18,000 in addition to the $4,000. The Executive Director made the commitment prior to having raised the funds, in recognition of the precariousness of OEF/ES' situation. This money was "rain from heaven" according to the ES staff and allowed them to pay the rent, supplies, gasoline and telephone for 1988.

The funds, however, were not enough to cover salaries. Staff were forced to make a decision to leave and find work elsewhere, or to stay at no pay and work to make OEF de El Salvador succeed. Four of the seven staff members stayed through the whole first year, eight months of which was spent without pay. They admit to having an almost religious fever that helped them to maintain their commitment and hope during this period. Their work hours were long as they not only served the clients but also entered into new efforts, writing proposals and selling their training services . . . .

By late 1988, the advent of grants and contracts [from the Dutch Embassy, the Knapp Foundation, the Ministry of Agriculture, the Canadian Hunger Foundation] based on OEF/ES own efforts was the key turning point in its ability to survive. OEF/ES still lacked sufficient funds to increase salaries to previous levels, but was able to purchase vehicles and carry on operations . . . While many organizations could not have survived this period, Dinora believes that the strong shared commitment among the staff and the well articulated mission for working with local women were major factors in OEF/ES survival . . . .

Based on the learnings in the OEF/I 1988 evaluations of the Central American small enterprise programs, the OEF/ES staff has also been grappling with more effective credit delivery mechanisms and improved cost per beneficiary. They initiated communal village banks and a para-technician program that encouraged local women to undertake much of the technical assistance and follow-up responsibilities that had previously fallen on the staff....

OEF/ES with limited financial support has increased the number of clients to 463 with an active loan clientele of 199 . . . Costs per beneficiary this last year are $325 if all clients trained are considered and $520 if only clients with credit are included. The active demand from men and women in the Department of San Vincente has continued to rise and staff feel ready to significantly expand their program based on the positive economic and social impact the program is having (Bath et al, 1990).

B. Sustainability Stage

For the sustainable stage, the central task is establishing a mature organization with a program that achieves impact at a reasonable scale of operation, and which has satisfactorily addressed issues of financial and technical viability. It implies generating a regular flow of desired benefits to clients on terms increasingly favorable to them and the PDO. Sustainable SED organizations can and must meet 100 percent autofinancing for their credit operations, and establish a diversified funding base for other operational expenses not directly linked to credit. The base should include local funding as well as external support.

Unlike the phases of the development stage, the phases of **consolidation** and **growth** cannot be as readily divided, at least in terms of the case pool examined here. Consolidation implies efforts directed to a more efficient delivery of services, and growth the reaching of larger numbers with greater effect. Consolidation has more to do with systems and procedures; information management and computerization; staff development and incentives; and other cost reduction measures. Growth pivots more on organizational decentralization, methodological adaptation, and resource mobilization. Both were present simultaneously in the organizations studied.

The consolidation phase sometimes implies a slowdown in the pace and tempo of an organization. There is a rush of activity as an organization gets started and begins implementing its program. With initial success the pace continues as organizations seek legitimacy, bring in new clients, orient staff and demonstrate their effectiveness. During the consolidation phase the focus is on revising, modifying and adjusting so that an organization can achieve efficiency.

Two key components that need to be addressed at this stage are **capacity** and **resource**. There are five tasks that require particular attention:

- ✓ recruit and nurture a staff that maintains competence and commitment;
- ✓ regularize systems and policies for personnel, administration and finance;
- ✓ adapt methodology to achieve efficiency and respond to evolving client needs;
- ✓ institute a management and organizational structure that can implement and control a growing program;
- ✓ achieve financial viability that allows the program to grow and the organization to attain self-sufficiency.

Attention to staff, systems and structures are critical to an organization's consolidation and growth. A drop in repayment rates may signal that work needs to be done in one of these areas.

Under **CAPACITY** the tasks are to:

1. Recruit and nurture a **Staff** that maintains competence and commitment.

As OEF de El Salvador stood poised at the entry to the sustainable stage, its staff doubled in size. The small, tightly knit team of seven would have to absorb another six. Their fervor, which served them well in the development stage, would not be enough to sustain them in this stage. Now idealism needed to be bolstered by structured approaches to recruitment, training and compensation. Decision making needed to be devolved to appropriate levels and leadership to become institutionalized. A dilemma faced at this point is that often the charismatic leader does not want to share responsibility and/or is unwilling to make the hard decisions necessary to lessen the dependency on one individual.

a. **Recruitment** involves two challenges. Selection processes must be developed that can (1) detect individuals with the right mix of social and economic aptitudes, and (2) identify new staff with increasingly sophisticated financial skills required to manage programs at this level. FUNDAP, in Guatemala, provides an example of an organization with a developed recruitment process. They look for staff in the areas where programs are in operation. They have a preselection process that includes written tests and interviews. They screen for social sensitivity and maintain competitive salaries. This has allowed them to hire and retain outstanding professionals with experience in specific disciplines. (North American PDOs are equally challenged, see chapter V page 66.)

b. **Training** becomes an important vehicle to integrate new staff into the spirit and operations of the agency. TSPI found that replacement staff did not grasp the underlying reasons for key policies and practices, which impeded their success in supervising loan repayments. The training function lagged behind. Training serves not only to integrate new staff, but to upgrade the skills of long-time employees. It also serves an important role in continued motivation. Successful organizations such as BRAC and CamCCUL invest heavily in training. BRAC has a paid staff of 4,000 and spends a sizeable portion of its resources continually upgrading their skills. BRAC regularly runs in-service workshops for its staff. BRAC maintains it own training centers, but SED programs using the training unit must budget and pay for it.

c. **Compensation** is an important issue for sustainable organizations. Idealism can carry a staff only so far. In terms of both just treatment of employees and getting results from staff, a program cannot effectively and efficiently deliver services at the long-term expense of its staff. A review of credit programs in Bangladesh (Holloway 1989) points out that the Grameen Bank had better motivated and compensated staff than Swanivar and subsequently a better loan recovery record, suggesting that mere idealism without substantial remuneration may have proven ineffective. The costs involved, however, can be a serious stumbling block (see Staff Costs, page 42).

2. Regularize **Systems** and **Policies** for personnel, administration and finance.

SCF/Lebanon and MUSCCO provide two examples of the efforts required to make program operations and decision-making systematic. Such ordered procedures increase in importance as staff size swells, and programs grow geographically. SCF/Lebanon improved the efficiency of its program by developing a set of policy and procedure manuals. They were designed to detail all of the procedure and policy areas that a commercial bank might require. It was written in clear, lay language so it could be understood and used at all levels of the program. These policies included:

- borrower selection criteria
- repayment policies
- loan terms and amounts
- interest rates and fees
- delinquency policies

Procedures included:

- planning
- loan evaluation
- loan release
- loan application
- loan approval
- loan maintenance

MUSCCO has a classification system for its member societies. Each is rated quarterly on 25 key indicators of good management. If a society is rated Class A it gets special recognition and is entitled to benefits from MUSCCO that are not available to non- Class A members.

3. Adapt **Methodology** to achieve greater efficiency and respond to evolving client needs.

SED methodologies are neither static nor pure in their implementation. If a program works well for clients, their businesses grow in terms of assets, profits, employees, and lending needs. A lending strategy that worked at an earlier stage no longer suits their needs. The Asociación Grupos Solidarios found that while the first few programs established in 1983 had reached a loan portfolio size that ensured operational self-sufficiency, they were not growing beyond that level. Further, around 50 percent of the beneficiaries assisted since 1983 had dropped out. "For beneficiaries who have been participating in the programs for two years or more, the amounts and short-term conditions of the group loans became a bottleneck for business growth. Group members grew at different rates since their businesses were not homogeneous in terms of economic activities and the need for fixed assets and larger loans became essential. With no other institutions (not even those running traditional programs) able to generate the resources needed by these beneficiaries and with no direct access to formal sector loans, the institutions . . . had to make changes in credit policy" (Castello and Guzman 1988).

Among the methodological changes that have been made are fixed asset loans to solidarity groups that have been assisted more than a year. Fixed asset loans are also provided directly to individuals, maximum loan amounts have been increased significantly, and two programs have been established to finance new microenterprises. Now organizations that principally served street and market vendors, finance neighborhood stores and other services, as well as small scale producers.

Meeting the needs of clients has led the OICs to add small business to their training and job placement program; BRAC to develop new production technologies and marketing ventures; and the African credit union movements to offer small enterprise lending windows. A sustainable program is far from a static one. Keeping up with client needs is a constant challenge.

4. Institute a management/organizational Structure that can efficiently implement and control a growing program.

Organizations at this stage require business-minded, results-oriented management. They also need to delegate responsibility to a middle level of management. The middle layer is required to fulfill two functions. The first is to provide operational decentralization which growing organizations need. Midlevel managers, responsible for discrete regional, zonal or urban units, assume the major tasks required for planning and administering the organization's program: setting goals in terms of new participants and loans; geographic coverage; and the volume of other services (training and technical assistance) to be provided. They hire and supervise staff as well as develop a sense of commitment to the organization's vision. They are responsible for loan approvals, disbursements, repayments; in short, the viability of the program in their area.

The second function fulfilled by midlevel managers is to provide the increasingly sophisticated technical and financial expertise growing credit programs require. Financial departments become more central in terms of budgeting operational expenses, projecting and controlling the development of the loan fund, and providing close accountability.

As this organizational differentiation occurs, informality must give way to formality and vision is augmented with sound management. PDOs have tried different combinations of staff mix between "social development" types and "business managers". The AGS organizations seem to have found that the Board is the most effective "keeper of the vision" while the Executive Director is the key business manager. SCF/Lebanon turned to a Yale Business School graduate to help when the program began to grow.

PACT's Expansion of Benefits study echoes the importance of these organizational changes. Among those found most important to PDOs, as they become more effective implementors of their programs, are the following:

- after a period of testing, programs were radically decentralized into smaller units;
- the decentralization was accompanied by standardization and clarity of jobs and procedures;
- operations were computerized;
- efforts were made to develop a built-in learning process based on a systematic collection of data that included strict cost control; and
- monitoring was identified as having an especially important role in providing a base to adjust program methodology.

Under **RESOURCE** the task is to:

1. Develop and implement a plan for **Financial Viability.**

As organizations move toward the sustainable stage, budgeting and financial projections become more complex. Larger amounts of money are needed, primarily to support larger portfolios. Operating costs will also increase as organizations train staff and attempt to reach a more geographically diverse client base. Financial management begins to demand portfolio analysis, and the credit component moves toward being 100 percent autofinancing. The organization needs capital to support a growing clientele.

a. **Sustainable credit:** Sustainability does not mean 100 percent autofinancing in all program aspects. It does mean it for credit services. The standard has been set by several of the case organizations who have achieved that admirable goal. CamCCUL has generated 109.6 percent of its operating expenses; four of the fifteen AGS institutions have achieved operational self-sufficiency; ADEMI in the Dominican Republic has covered 103, 100 and 128 percent of operating costs for 1986, 1987, and 1988 respectively (Otero 1989). Two other credit institutions (TSPI at 90 percent; AVANCE at 92 percent) are very close. They have demonstrated that programs with sufficient loan capital, a large client base able to generate speedy repayment, streamlined operations, and constant attention to cost control can pay their way, if not totally, at least to a significant degree.

For them, the next challenge is **financial self-sufficiency,** a term that implies not only covering current operating expenses, but also **maintaining the real value of money** against the effects of inflation. It involves the ability to obtain and cover the cost of loan funds provided at unsubsidized rates of interest. There are no case agencies covered by this study that have yet achieved this goal.

b. **Other sustainable services:** Where organizations present programs that offer more than credit, either substantial training, technical assistance, business services (such as marketing), or other social development inputs, then 100 percent autofinancing is not an achievable goal. Rather, the organization's sustainability is more a measure of its ability to generate resources on favorable terms from a diversified, reliable set of sources. This includes local fundraising from private and government sources, fundraising from external donors, and internal income generation from interest, other client fees and savings (when legally possible). Even credit institutions that achieve operational self-sufficiency at one level need the skills for resource mobilization if there are expectations of further growth. Organizations such as the African OICs (who cover all basic expenses from government subsidies and secure project support from other donors) and BRAC, TSPI, and IDH (with multiple external donor relationships) offer case examples of institutions that are successfully meeting the challenge of developing a diversified set of supporters.

Financial questions are only one part of the sustainable equation. There are two other parts: achieving regular and significant results for the clients the institution has set out to serve; and reaching a substantial enough number of them to have an impact in the operational context, be it local, regional or national. As an organization works to solve all three elements, it moves from its initial phase of implementation through phases of consolidation and growth.

Stumbling Blocks

There are five stumbling blocks organizations are likely to face in the sustainable stage:

A Drop in Repayment Rates

This was reported by IDH, TSPI, Save the Children/Lebanon, and some ACCION-affiliates. There are several causes, all related to the struggle of managing a larger portfolio. All have internal, rather than external provocations: an enlarged and developed client base can't be reached by the same number of staff under the established methodology (TSPI); new staff don't have the same understanding of program principles and requisites (also TSPI); the organization doesn't understand the lending requirements and pitfalls of new economic sectors (IDH); program structure adversely affects outreach (SCF).

This crisis can be devastating unless handled forcefully, and by the application of sound banking practices, as was nearly the case for IDH. Arrears, in agricultural lending reached 38 percent in 1987, as the board was slow to provide leadership. Only in 1988 was a package of steps implemented (stepped up collection; renegotiation of inactive loans; a writeoff of bad debts) that has reduced the rate somewhat. This was matched with a change in sector focus (from agriculture to housing), coupled with technical assistance and a new infusion of funds. All these measures together were needed to turn the situation around.

For Save the Children in Lebanon, it meant a change from working through intermediaries to a direct link with borrowing communities, a restructuring of community responsibility linking repayment performance to future loan approvals, and thorough staff training in clear and revised lending policies.

In all cases, it is a signal that the honeymoon is over, and that attention must be paid to developing staff, systems and structure appropriate to a growing organization. Included among them should be early warning systems that track and quickly red flag repayment problems.

Donor-Driven Temptations

Because resource acquisition is a constant struggle, it is easy for an institution to fall prey to a donor's vision and end up sacrificing its own. This is probably the major vision crisis of the sustainable stage. At least five cases refer specifically to difficulties in this area. IDH, as described above, found itself administering an agricultural lending program for which it was technically unprepared. TSPI accepted the management of a relief program, which USAID requested it to conduct based on its reputation as an effective credit organization! For the Ugandan Rural Development Training Program, funding pressure has meant venturing into areas such as preventive health, water, food production and life skills training, for which staff and board feel unprepared. "Many staff believe that, increasingly, they are being lured away from their initial intent and consequently are unable to retain their particular niche and comparative market advantage" (Demeke 1989).

For AVANCE and other Costa Rican PDOs, this has meant struggling with the strings attached to loan funds available from major donors such as the Inter-American Development Bank, and the Ministry of Labor. The PDO credit programs want and need this money to meet the increasing demands of their growing client base. But the interest rate ceilings, prohibitions against loans to the commercial sector, and approval procedures can negatively affect an institution's efforts to achieve financial sustainability. MUSCCO has been able to resist these blandishments successfully:

> Sometimes donors come along with money that they think would really help people if they can find an easy way to get it out. Never compromise on sound lending principles for any donor. Easy credit can be an obstacle to teaching members sound savings habits.
>
> MUSCCO was initially provided a fund of $30,000 to support lending activity by societies to members. Initially the donor said if we didn't use this money in a certain time limit, we would lose it. MUSCCO successfully convinced the donor that quality was more important than quantity in lending. Our credit union classification system provides that loans of up to 50 percent of a local society's share/saving may be obtained from MUSCCO by a class 'A' society, 40 percent for class 'B's, etc.
>
> MUSCCO makes sure that each long term loan applicant has a sound business plan and is of good character before granting loans. The result is that it took almost two years longer than anticipated to use the donor funds but in using them this way, the funds supported what we were trying to achieve (Hansen and Msewa 1990).

Care must be taken not to compromise vision in the drive to acquire resources for a growing organization.

Staff Costs

The AGS members, required by the cost imperatives of credit program viability, keep staff salaries low. This leads to problems of "low productivity, lack of motivation and ineffective work in the critical areas of promotion, group consolidation and followup" (Castello and Guzman 1988). The few possibilities for upward mobility in the organizations has resulted in frequent staff turnover.

Low salary levels hinder recruitment of highly qualified individuals, and eventually become a disincentive even for the young and committed. Staff development becomes crucial as a mechanism to train people in the skills required, to serve as a vehicle for motivation, and as nonmonetary award for good performance. A number of organizations have paid particular attention to this area. Both BRAC and CamCCUL spend a "sizeable portion" of their resources upgrading staff. Members of the AGS benefit from staff participation in network-organized training activities. They, like AVANCE, also have the opportunity to participate with other Accion affiliates in network supported training programs. Similarly, the African OICs are participating in regional training activities sponsored by OICI.

To what extent are financial incentives possible and appropriate? This question cannot be answered from the cases examined here. Only one case, that of Asociación Grupos Solidarios, discusses it, but in terms of imperatives, not experience. "The programs must develop an incentive plan for field level personnel and their supervisors. This plan should include a bonus program tied directly to the performance of the groups that each promoter has in charge and the provision of vehicles for field personnel... A plan where the promoters acquire their own vehicles with a loan from the implementing institution under a condition of use for field activities is the most attractive in terms of avoiding maintenance costs and providing an economic benefit to field personnel" (Castello and Guzman 1988).

This is an area that merits more exploration among institutions struggling with the issues of the sustainable stage.

Organizational Blockages

An organization in the development stage is generally small, fluid in communications, and fairly horizontal. As an organization grows, staff increase, and tasks develop greater complexity, there is a consequent need for greater structure (and more levels), more sophisticated management, and devolution of decision making from the Executive to mid-management levels. While these changes are necessary, they are not painless.

For MUSCCO to develop as a financial facility (which it must do to achieve self-sufficiency), it requires more management depth at senior levels. This will mean a heavy emphasis on training current position holders with the ability to develop, and recruiting high calibre people for positions that cannot be filled from within. It will also mean painful reshuffling of some who can't master the changing requirements of their positions.

In some of the AGS institutions it has been found that once the programs reach a critical mass of clients (in their case, 1000), the Executive withdraws from direct supervision of operations to the tasks of consolidating the institution's financial position, and developing external relationships. When a Director of Operations or Program Coordinator is inserted between the "usually highly motivated Executive Director" and the field personnel, "serious problems in terms of internal communications, the flow of critical information, taking away responsibility from the promoters (a typical mid-management tendency) . . . begin to affect productivity and the functioning of internal control systems which, up to then, were relatively simple in nature" (Castello and Guzman 1988).

Computerization

The growth of small enterprise programs depends on establishing an effective and computerized management information system. This need is keenly felt at the sustainable stage when agencies become awash with the record keeping and accountability required to monitor and follow up loan repayments by hundreds and sometimes thousands of clients. Management information systems, geared to the systematic collection of loan performance and impact data, provide a base to adjust program methodology, as well as generate useful training information. But, getting one in place is not easy for many PDOs.

OEF/ES has neither a computer nor computer skills. Some of the large amounts of data it has collected have been entered into OEF/International's computer for analysis, but this is a limited measure that does not resolve the fundamental problems. Getting a computer will resolve only part of the problem. Association pour la Productivite (APP) in Burkina Faso has computers but finds that it needs to update them, and acquire additional training for their accountant in their use. MIS systems appropriate to these programs are not yet an off-the-shelf item. AVANCE invested over two years in developing a system that "while sufficient is still not operating to its capacity. Credimujer (another Costa Rican NGO) has not yet developed a computer system to manage their portfolio. Many NGOs find that inefficient information management is a serious barrier to rapid growth" (Stearns 1989).

Inadequate planning at the time an institution decides to move to computers often leads to decisions made on the basis of available hardware or software, rather than on the practical needs of the institution. The results are that institutions cannot effectively use the equipment or integrate the systems into their own. The move to computers can be facilitated by outside technical assistance, especially at the planning stage.

An organization in the sustainable stage must be a problem-solver in order to overcome the many bottlenecks that challenge its progress to financial viability and growth. Unlike its previous self in the development stage, its character is less like a missionary and more akin to a systems analyst, as it crafts the underpinnings to support its methodology and pull its movement forward.

MUSCCO, although operating on a scale that qualifies it as an institution in expansion, in many ways reflects this character as it meticulously works on development of its management, its financial service capabilities, and control systems.

The Malawi Union of Savings and Credit Cooperatives

Working Toward Sustainability

There are five distinct transition points in the development of the credit union system in Malawi.

a. The period from 1972 to 1980 when MUSCCO was formed

The focus during this period was on the rural poor. Organizations had to overcome the negative image of cooperatives left from the past . . . promoters often put too much emphasis on credit and not enough on savings. As a result, many people joined with the intent of accessing easy credit which they never intended to repay . . . Divisions emerged between church and non church funded groups and between different tribal groups.

b. 1980 to 1985

At the time of MUSCCO's formation in 1980, there were 26 credit unions with a total membership of 7,800, total shares of MK360,000 (US$128,500) and loans of MK354,000 (US$126,400). These were all located in rural areas where education is low and the capacity to save is limited. During its first five years, MUSCCO focused on savings promotion, unifying the system and encouraging prudent financial management. Steady growth was experienced during the period and the system doubled in size.

c. 1985 to 1989

USAID funding for this period included credit funds for longer term loans (up to six years) in amounts up to the equivalent of US$5000. These funds were to be disbursed . . . to support funding of the SED sector. This meant MUSCCO was changing from a small apex organization promoting savings and credit cooperatives to a financial center for the system.

The other change was that MUSCCO began to focus on organization of employee groups in urban centers as well as rural community groups. Since 1986, growth has accelerated very fast. Active membership, assets, share savings, loans, etc. have more than doubled and the forecast for the future is that by the end of the next decade, MUSCCO and its affiliates could be one of the major financial institutions serving Malawi.

d. 1990 and the Future

1990 is a year of decision for MUSCCO. Interest in the system is extremely high . . . However, there was a concern about the technical capacity of the system to handle expected growth.

As a result, an independent organization/management review has just been completed by DeWitte, Haskins and Sells to assess the technical capacity of board and management and to recommend actions . . . a review is currently underway on the management information system for MUSCCO and local societies. The interest is to design and implement systems to meet the emerging needs . . . [MUSCCO has] grown to a staff of 32, assets of K2.8 million (US$1,000,000) and at the end of 1989, had the earning capacity to generate 38% of its operational costs.

MUSCCO's workplan for the period . . . identified areas that need to be addressed . . .

1. More management depth at the senior levels. This will mean heavy emphasis on training existing management and recruitment of high calibre people for positions that cannot be filled from within.

   As the organization grows and decentralizes its services, effective systems for delegation of authority and responsibility must be implemented. Support will be required to assist management to develop and implement systems for managing by objectives, organization charts, policies, procedures and monitoring systems for effective utilization of human resources . . . .

2. The corporate directorship function needs to be strengthened through a planned strategy for upgrading the performance of the elected board of directors and the addition of a Technical Committee to provide advice and guidance.

3. MUSCCO and the local SACCO's internal business planning and budgeting systems will need further refinement.

4. Larger societies require well trained full time managers and MUSCCO has a key responsibility in recruitment, selection, placement, development and retention.

5. Risk management through auditing, monitoring, fidelity bonding and insurance programs will become increasingly important . . . .

6. . . . enforcing a rigid system for controlling shortages and/or any illegal use of funds or properties belonging to MUSCCO or a local society by any officers or staff.

7. MUSCCO must develop the technical capability to do financial ratio analysis, equate financial performance to recognized norms in its own operations and in local societies, apply matching and margin techniques.

8. Larger societies need automated accounting and banking systems. In addition, MUSCCO needs more efficient systems and procedures for maintaining system records, accounting, personnel records, loans, investment and risk management functions.

9. A program for local management development in which it subsidizes the cost of recruitment, training and employment of strong management who then operate in a carefully controlled system.

10. Strategies to encourage more societies to emphasize participation by women in membership and the democratic control structure of societies.

The capacity of the organization to attain financial self-sufficiency is directly related to its technical competence. If the identified internal management requirements have been developed, then there is little doubt that financial self-sufficiency will be attained by 1996 (Msewa and Hansen 1990).

C. Expansion Stage

The central task of the expansion stage is to develop the capacity to positively affect the lives of significantly increasing numbers of people. As defined by participants at the SEEP workshop, it implies a **structural transformation,** a qualitative change in the institution itself, in order to dramatically increase the number of people affected.

1. Structural Transformation

Structural transformation involves a significant change in the vision and mission of an organization. It means setting a new direction, or adding a major new component to its current mission. Strategic planning is required to ensure that the organization has the will and capacity to carry it out.

The goal is to significantly increase impact, either directly through the number of clients receiving direct services, or indirectly through creating a better policy environment in which small enterprise can flourish.

In almost all cases, **the impact established as the goal of the expansion stage is of high magnitude.** The target for TSPI and its network-in-development is 25,000 borrower businesses and 150,000 new jobs created at the end of 11 years. AGS has set its sights on 50,000 borrowers by the mid-1990's. MUSCCO aims to serve 240 local societies with 25,000 members and assets of over $4 million. These numbers reflect an aim, on the part of the institutions involved, to jump from the twin phases of consolidation and growth, into another phase of operation and accomplishment.

Structural transformation can take such forms as becoming a financial facility, an institutional development agency, a policy advocate. These new functions can be add-ons to an organization's mission or they can mean a completely new mission. In any case, the new functions require that the organization make major changes in vision, staffing, structure, and resource mobilization.

Two fundamental insights emerged from the participants at the SEEP Workshop. The first is that the entry of an organization into the expansion stage is characterized less by a numerical client threshold (is it 1000, 5000, 10,000?) and more by a large scale vision and the decision to undergo some form of structural transformation to make that vision a reality. This can take many different forms:

- For TSPI, the vision shifted from a focus on job creation in metro Manila to one aimed at achieving economic impact throughout the country, in the belief that free enterprise was an essential support to the transition from dictatorship to democracy. The transformation was from an urban-based small business development agency to an institutional development organization focused on creating a network of 15 micro and small enterprise agencies throughout the country.

- For MUSCCO, the vision shift was more subtle, from supporting a unified, nationwide credit union movement, to one aimed at becoming a key financial engine for the country's economic development. This required the agency to change from an apex organization dedicated to promotion, formation and education, into a central financial facility providing bank services, risk management, audit & other support services for the system.

- For the Asociación Grupos Solidarios, the vision is massification of credit to the poorest of the informal sector in Colombia. The transformation is from a network support office providing coordination and technical services to a financial intermediary leveraging grants and loans for the members.

- For Technoserve in Ghana, the vision is to achieve significant impact on important economic subsectors, such as palm oil, that employ the poor. The transition is from a technical and management assistance agency to one that can also act as a policy formation organization.

The second insight from the workshop follows logically from the first, that expansion, as defined here, should not be the goal for all PDO programs. Given the difficulties inherent in the sector, sustainable small enterprise organizations are a valuable asset in and of themselves. To develop a viable program and efficiently deliver services to large numbers of the poor is an accomplishment that needs to be replicated in a variety of locations. Not all organizations can or will want to undergo the transformation implied by expansion, nor should they be expected to.

To increase SED's impact requires a large number of strong, successful institutions in each country, working in different contexts and serving different populations; a network of institutions operating effectively, efficiently and on a sustainable basis that can affect larger numbers than the individual efforts of each organization. At the SEEP Workshop the question was raised, "Do all agencies need to expand to be efficient implementors of SED programs?"

The answer echoed the conclusion of the Thai Foundation for the Development of Human Resources in Rural Areas (ThaiDHRRA) case:

> Care must be taken not to promote the experiences of a larger, successful NGO as being the only 'role model' for other NGOs. A variety of experiences, often a number of smaller, successful NGOs, when taken together, may develop into appropriate models for other NGOs. Each NGO acts in a different milieu, with different target population, and often with a different philosophy of development ... While NGOs should not have to repeat the mistakes of the past, they should not be molded for the future based on one successful model; they should be encouraged to expand models of development based on the particular creative tensions within their own environment (Clark 1989).

2. Tasks for Transformation

Organizations who achieve transformation must perform a number of supporting tasks well. They should:

- ✓ generate a **vision** that expresses the goal of expansion and conveys a commitment to the results-oriented, cost-effective thinking required;
- ✓ undertake long range **strategic** and **financial planning**;
- ✓ conceive and implement the **organizational changes** required to carry the program out;
- ✓ continue to streamline and standardize the basic **methodology**, while adapting new approaches to evolving client needs;
- ✓ develop the capacity to generate **resources** in new ways;
- ✓ establish **linkages** with those organizations that can positively and significantly affect the environment for SED.

In many ways, the tasks of the expansion stage iterate those of the previous stages as the organization seeks to create itself anew. Certainly, the work on methodology remains a constant. Here the idea is to identify and apply only the core elements of a strategy. To this end, AGS institutions have cut training and technical assistance services; TSPI has moved to offer its services more selectively; and MUSCCO has kept its eye on savings and credit only. Technoserve and IDH have found it advantageous to focus on particular economic sectors, rather than "cover the waterfront" in terms of assisted enterprises.

IDH's experience also underscores the importance of searching out innovative ways to generate resources for the expanding program:

> The degree of indigenous (versus exogenous) determination of a program is particularly more important for 'mature' agencies like IDH who have been operating more than ten years. Such agencies cannot rely on traditional funding sources, and they have to work hard at finding new, adequate and appropriate sources of capital. The price of not doing this is stagnation. The price of doing this insufficiently is to have a number of activities and clienteles that are not integrated with one another so that the program cannot operate as effectively and efficiently as desired (Lassen and Reed 1989).

The search leads in two directions. Internally, it involves not only interest income to cover operational expenses, but also savings mobilization to capture more capital for the loan fund. When there are legal impediments to a PDO holding the funds, the institution needs to find creative alternatives that make the funds available to the borrowers. FINCA's community banking is one such approach where the local bank committees hold the accounts. A third element to internal income generation are productivity enhancing/cost reduction measures that stretch operational funds. This includes the streamlining efforts and worker incentives mentioned earlier. Additionally, credit oriented institutions face the challenge of maintaining and/or increasing the value of their funds through portfolio management techniques that include risk management and insurance, investment and liquidity measures. The institution's capacity to work in these areas develops in conjunction with its transformation into a financial intermediary. (See the MUSCCO case and Otero 1989 for a fuller discussion).

Beyond traditional project funds, the organization must explore other options: guarantee funds; soft and hard loans; generating capital from selling its services (i.e., training, accounting, systems, etc.); and stepped up local fundraising. This last is important in terms of generating unrestricted funds that programs often need. TSPI's inattention to private sector funding cost it dearly when the need to cover larger than expected expenses became apparent.

In addition to the money to support or increase the loan fund, organizations might need money to initiate different activities which expand the organization's impact. For example, an organization seeking to replicate itself in other geographic areas needs institutional development funds; taking on an advocacy role may require funds for producing publications and other materials for effective communication; and becoming an umbrella organization, a training center or an information networking and coordination unit for a number of agencies running SED programs would require funds to support these activities.

Organizations are required to develop more sophisticated financial management techniques to seek and manage new and different types of resources.

Linkages are important to PDOs at this stage, however, for more than resource mobilization. In the Development Stage, an PDO is often dependent on external assistance and may be subject to terms and conditions dictated by others. Once an organization is functioning in the Sustainable Stage, it has established a network of contacts, developed its legitimacy and has evolved its own negotiating skills. The organization can then request and seek out more favorable assistance to augment its own capabilities.

In addition, PDOs in the Expansion Stage seek to build coalitions with colleague organizations and with external authorities. The objective is to increase the influence of SED on the broader economic environment. Linkages with government are particularly important, as a large organization has greater potential to influence national policy on behalf of small-scale economic development and the informal sector.

Stumbling Blocks

There are several bottlenecks organizations face in the expansion stage.

A Crisis in Vision

This is especially evident at the Board level where older members may not feel the urgency of expansion, or understand the implications. AGS members have found it difficult to keep them engaged:

> When the institution and its programs are small the Board is usually heavily involved in the day to day operations, sometimes too much so, and they hinder the work of the Executive Director. Over the long run, as the institution grows, the role of the Board usually becomes too passive. Keeping a Board involved, especially in the critical area of developing external relationships and new financial opportunities becomes a major challenge (Castello and Guzman 1988).

When the TSPI Board decided on its expansion drive, it took on new members chosen for their capacity to develop external links. In other instances, there is a difference in outlook between those with a nonprofit mentality and those with a keener sense of the "bottom line" thinking that expansion requires. In fact, some observers and practitioners have questioned whether a PDO can achieve expansion if the goal is not part of an institution's vision from the outset. For that reason, some international agencies have found it easier to create new local organizations rather than work with those already on the scene.

While the question can't be finally answered by the cases examined here, there is some evidence that expansion can be successfully adopted later on (witness IDH, TSPI, SCF/Lebanon, Technoserve among others). Further, even if the goal is there from the outset, the process still generates suspense, challenge, and unanticipated dislocations. Experience with and understanding of this stage is still so limited that agencies embarking upon it are, indeed, explorers of new terrain.

New Roles versus old Roles

This problem can manifest itself at both staff and Board levels. When Asociacion Pour Productivite in Burkina Faso revamped its methodology as a first step to developing its autonomy and expanding its impact, there was a shift in the client groups from individual, "somewhat better off" clients to groups made up largely of the poor and women. As a result, field staff (who had been privileged with high salaries and other status perks) were transferred from regional centers to key villages, and high status motorcycles were replaced with mopeds. Not surprisingly, "the degree of understanding and acceptance of these measures by the staff varied enormously" (Rippey 1989).

TSPI management, Board and staff, skilled at credit management, found themselves expected to act as organization development specialists. In another example, MUSCCO finds itself involved in a real sorting process matching skills and aptitudes with the requirements of new positions. Tension and dislocation are the unpleasant companions of the task.

Inappropriate Resource Mobilization

IDH's experience, mentioned earlier, is one illustration of what happens when an organization expands in response to externally driven initiatives, rather than internal momentum. Sometimes international PDO partners can lead affiliates astray. APP, encouraged by Partnership for Productivity, invested heavily in developing and managing enterprises that included a garage, agricultural input stores, a bookstore, a tractor plowing program, a heavy equipment rental service, and seed production centers. "They were planned to create a source of services for the programs so that it could become self-sufficient, but the result was quite the opposite . . . they lost money consistently" (Rippey 1989).

While some large institutions like BRAC can manage large commercial enterprises and use the revenues to support their programs, it is perhaps too demanding to expect most agencies to be entrepreneurial and take on the challenge of a credit program at the same time.

Overextension

Sometimes the expansion stage is a reprise of the mood of the development period. There is an excitement and drive that can propel an organization to take on too much, too fast. The content of a strategic plan may not realistically match the capacity of the organization, or the support it is likely to receive from local and/or external sources. This can force the institution to slow down and consolidate early gains before it takes the next step forward. This experience is demonstrated by the TSPI case which follows.

Tulay Sa Pag-Unlad Inc.

Embarking on Expansion

TSPI was founded in 1982 with funding and technical support from Opportunity. At the end of 1985 TSPI became independent from Opportunity funding and has continued to expand its program since that time with earned income and funds it has raised from other donors . . . In 1988 TSPI covered 90% of its operating expenses with interest charges and fees.

The TSPI Board discussed national expansion plans as early as 1984. In 1985 the Board formally adopted a resolution calling for a national expansion program. Shortly thereafter TSPI began bringing on additional Board members whose names and reputations would enhance TSPI's prestige and its ability to attract funding for the expansion program.

The transition from dictatorship to democracy in the Philippines played a significant role in accelerating TSPI's expansion plans . . . . Corazon Aquino called on NGOs and the Filipino private sector to work together with her to help alleviate poverty in the Philippines.

Through Opportunity's Asia Regional Office (located in Sydney, Australia) a group of Australian government officials and businessmen became interested in the program of TSPI. One businessman in particular became excited with the idea of expanding TSPI throughout the country and encouraged the board to take advantage of this unique opportunity in Filipino history.

Working together, the Australian businessman and the TSPI staff, with assistance from Opportunity's regional staff, developed a plan for establishing 15 new partner agencies in five years, one for each region of the country. In addition, they developed a financial viability plan whereby each of these affiliates was to become totally self-supporting in six years. Thus, within eleven years all fifteen agencies were to reach self sufficiency.

The expansion plan projections showed that at the end of the eleven year development period the 15 agencies would have made $30 million of loans to 25,000 small businesses creating 150,000 new jobs. This would require $7.5 million from Filipino sources and $2.5 million from foreign sources in new money.

TSPI and the Australian businessman developed this model with the clear expectation that all of the foreign funds required would be provided by the Australian Development Assistance Bureau (ADAB) . . . . To get the expansion program started right away, the businessman pledged to provide his own funds as seed money . . . .

At the same time that TSPI was planning the creation of these 15 affiliates it was also planning an expansion of its Manila operations. TSPI intended to double the size of its program in the Metro Manila area, going from a loan pool of $500,000 to $1 million.

TSPI set up a Provincial Development Office to manage the national expansion program. This office was overseen by TSPI's Executive Director . . . . A Deputy Director managed the Metro Manila program . . . .

Through the first two years of the expansion program (1987-88) TSPI kept close to its schedule. It developed three affiliates each year and these agencies performed at the expected level. At the same time, the Metro Manila program dramatically increased its lending. In two years time TSPI, with its affiliates, doubled the dollar volume of its lending and quadrupled the number of jobs it created. However, in 1988 several events forced TSPI to rethink the pace of its expansion program.

First, TSPI and the affiliates began to encounter trouble raising all of the funds required by the viability model, particularly the funds needed for the institutional development of the new agencies . . . .

Second, the arrears rate of TSPI's Metro Manila program began to climb. TSPI had managed to keep its arrears rate under 10% throughout most of the previous five years. Now the rate had jumped to over 25% as the number of loans made doubled.

In the midst of this, Eli Lademora resigned as TSP's Executive Director to become the director of a ministry of his Church . . . .

The TSPI board decided to suspend the development of any new affiliates until all of the existing affiliates had sufficient funding, a new Executive Director was hired and the Metro Manila program recovered or was restructured. . . .

The Metro Manila program had not adapted its lending model to fit the growing range of clientele it served . . . . As the number of loans grew, so did the number of cases each loan supervisor handled . . . . Without regular visits from the supervisors, many borrowers neglected their loan repayments . . . .

The affiliates began to chafe under what they perceived as autocratic management, limited support and slow response time . . . many of the affiliates had difficulty raising their counterpart funds, but TSPI felt under pressure to maintain strict adherence to the guidelines of the financial viability plan . . . .

TSPI also felt frustration with the process. Without funding for institutional development, TSPI could not provide the services it had promised to the new agencies . . . . But more than the problem of raising funds, TSPI was finding great difficulty in discharging its institution building responsibility. The Board did not understand the work involved and the expertise needed to develop and fund six affiliates at the same time . . . .

Over the last six months of 1989 and the first few months of 1990 TSPI began taking steps to restructure its Metro Manila program and redeem its relationship with the expansion agencies. In Metro Manila TSPI suspended almost all lending activity . . . . This gave the loan supervisors time to follow up on late payers while the Board and Executive Director explored new methods for lending in Manila that did not require as much intensive contact between loan supervisors and each individual borrower . . . . TSPI has also restructured its relationship with the new expansion agencies . . . .

- The new agencies are no longer considered "affiliates," but are autonomous "partners" responsible for their own growth and direction.

- TSPI, the Provincial Partners and the Australian businessman will all provide funds on a "best efforts" basis. Funding for the program will not be contingent on each party raising its allotted share.

- TSPI has sought additional donor support for the costs of providing institutional development for the new agencies and Opportunity has agreed to let most of the funds it provides go to institutional development.

- TSPI has hired a senior person to manage the Provincial Partner Development Officer.

With this revised model TSPI plans to continue its efforts of creating fifteen new small enterprise development agencies. It has slowed the pace of expansion to match its capacity to provide institutional development services, but it has not retrenched the size of its vision (Lademora and Reed 1990).

D. Indicators

Indicators are key pieces of information that point to the presence, absence or evolutionary stage of particular phenomena within an institution. Observed over time, indicators point to changes in an institution as it matures. These changes, when analyzed together with program performance, can inform an agency how its institutional capacity affects its program ability, and can pinpoint where there are problems or bottlenecks. Table 7 shows indicators that demonstrate when an institution has completed the development stage and when it has completed the sustainability stage.

Table 7. — Institutional Development Indicators

PHENOMENON	END-OF-DEVELOPMENT STAGE INDICATORS	END-OF-SUSTAINABILITY STAGE INDICATORS
Targets	Established targets that relate to number of clients, costs of delivery, % auto-financed, etc.	Targets are increased for significant impact based on experience and are being met
Strategic Plan	Working toward the end of the first strategic plan	Have completed several plans and are doing long-range planning
Board	A Board in place, meeting & contributing in limited ways	Board making major contributions in funding and external linkages
Human Resource	Skill mix between what is available internally and dependence on externally supplied skills	All needed skills provided internally. Use external skills for short term to help solve specific problems
Systems	Systems and procedures moved from informal to formal and are understood	Systems and procedures codified in policy and written in manuals
Methodology	Has been tested and is working effectively	Has been refined and is cost efficient in accord with model, context, & SED standards
Program Indicators	Indicators for success of credit component tied to targets are set and there are systems for tracking and monitoring	Have indicators and systems for demonstrating impact at client level, i.e., family income, jobs created, new goods or services available
Credit Component	Moving towards covering all direct credit costs from funds generated	Credit costs 100% auto-financed
Funding	Dependent on grants but covering costs from interest	Diversified funding, no dependence on any one source, getting local finding
Linkages	Beginning to form linkages with external organizations to meet institution's needs	Has legitimacy in the sector and linkages and alliances to influence sectoral policy

CHAPTER V

CHALLENGES FOR NORTH AMERICAN PDOS

This section of the paper shifts its focus somewhat, from the examination of a body of cases, mostly of Southern PDOs, to an examination of SEEP member agencies, the community of 31 North American PDOs who have joined together to improve their practice of small enterprise development. The change in focus is useful for the following reasons:

- Their SED involvement is substantial. In response to a recent SEEP survey, members reported close to 900 SED projects or programs in operation.

- The SEEP agencies have a five-year history of working together. Members have adopted a style of open, reflective and shared examination of their work that provides a learning opportunity for others.

- As implementors of SED and facilitators of partner efforts, SEEP members require two sets of skills pertinent to this discussion. They need to be skilled SED practitioners in their own right, and at the same time, they need to understand and practice institutional development skills in order to assist their partners.

This dual challenge was noted at the 1990 SEEP workshop, where 42 agency representatives from 24 SEEP and indigenous institutions spent a morning applying the framework and workshop learning to their own individual realities. This thought process was amplified afterwards by 13 representatives who completed written assessments, and by SEEP's Institutional Development Working Group who reviewed and contributed to the findings in a special working session. While the whole community did not contribute, the sample is sufficiently reflective of the full group to permit generalizations. What follows is a look at where the agencies are in their own process of institutional development, and how they are meeting their most pressing challenges.

A. The Community Of SEEP Agencies

The SEEP agencies are a community marked by many common characteristics. Among them are their private nature; their view of SED as an important programming component in their institutions; their strong interest in its advancement in theory and practice; and their commitment to contributing to the policy debate. At the same time, they are not a homogeneous group. The agencies differ markedly in terms of organizational type, their SED approach, and its relationship to their overall mission. As noted in SEEP's study of training and technical assistance, even "when two different organizations talk about following the same approach to SED assistance, they may do so from very different perspectives or starting points" (Sawyer 1990).

They can be divided into three broad categories, defined chiefly in terms of their goals, with some attention to structure and scale of operations. The categories are as follows:

> **SED Specialist Agencies:** their predominant focus is on economic assistance to targeted beneficiaries, with other social objectives secondary to the SED focus. Each agency's program model is generally predefined. Comprising 27 percent of the Network, representative agencies include ACCION International, The Calmeadow Foundation, and Opportunity International.
>
> **Multisectoral Development Agencies:** Generally the largest PDOs, they provide services across many sectors. Programs are largely defined at the grassroots levels via participatory methodologies. SED may be conducted as part of an integrated program, or independently. Care, Catholic Relief Services, Save the Children, and Christian Children's Fund are representative of this category, which comprises 33 percent of the community.
>
> **Single-Focused Agencies with SED Component:** Small in size and programming volume, these agencies usually have missions defined by one overarching focus (women, vocational training, nonformal education), or attention to a particular geographic region (mideast). SED represents a fairly new addition to this primary focus. 30 percent of the Network can be placed in this cluster including World Education, OEF/International, SAWSO, and OICI. (An additional 10 percent of the Network can be characterized as umbrella or consortia- type organizations. They were not the subject of separate attention at the workshop, and will not be included in this discussion).

While these categories are not perfect, each has sufficient coherence to permit identification and analysis of common issues. This is demonstrated by the outcome of the workshop which resulted in a rich convergence of ideas and practical concerns, as illustrated below.

B. The Stages And Phases Of Institutional Development: Where the SEEP Agencies Are

In Chapter III, it was mentioned that the institutional development framework is an imperfect representation of reality. This was apparent when agencies were requested to locate themselves within the framework. Several respondents expressed the difficulty well:

> In applying this framework, I think it more useful when looking at institutional development at the program or project level in this agency, not at the agency wide level. In that regard, I would say SCF has institutions in all phases of development . . . (Ellen Pruyne, Save the Children Federation).

> Our counterparts are independent or semi-independent, indigenous PVOs, and each one is at a different phase in its formation of SED programs (Ken Graber, World Relief).

> Richmond does not own projects which are administered by associations of parents themselves who create their own goals and objectives . . . . Among 1,400 projects affiliated with CCF, we could have 1,400 different approaches and 1,400 varying levels of SED implementation . . . (Glenn Rogers, Christian Children's Fund).

While the problem exists more for the larger institutions, these comments were echoed by representatives in the other categories. The reasons for this are the newness of SED in an institution; programming structures that reflect decentralized, bottom up decision making; and an emphasis on partnership that values local decision making and process over sectoral coherence. Despite these difficulties, an effort was made to provide an overall assessment of agency position. This is illustrated in Table 8.

Table 8. — Stages and Phases of Institutional Development: Where SEEP Agencies Are

	DEVELOPMENT			SUSTAINABILITY		EXPANSION	
	Preparation	Start-Up	Implementation	Consolidation	Growth	Transformation	Expansion
SED SPECIALIST			2	1	1	1	
MULTISECTORAL DEVELOPMENT		4	4				
SINGLE-FOCUSED	1	2	1 — 1				

Numbers represent the number of agencies in the particular phase

The number of agencies in each phase are noted. However, instead of examining the values at any given point it is more important to look at the continuum along which the institutions fall, by category.

The resulting picture confirms generally accepted thinking about the practice of SED in the North American community: the SED specialized organizations are much farther along in the process than the others. While the multisectoral development agencies and smaller organizations are in the first half of the continuum, from development to sustainability, the SED specialist institutions are more likely to be found in the second half, from sustainability to expansion. The difference results from the SED specialists' longer experience in the sector, as well as the singleness of purpose with which their organizations are shaped.

Two points need to be made about this trajectory. The first is that particular stages need to be kept in mind when comparing institutions. Institutions at an earlier stage should not be judged by the standards of a later stage. At the same time, specific programs should be evaluated on their own merits, and not only in terms of a stage which their institutions have reached.

The second point is that the speed with which the multisectoral and single-focused agencies are moving through the continuum is most likely quicker than that achieved by the specialist groups. They are building their programs in response to the learning that has emerged over the last ten years. The CARE case is a good illustration of this point. Since the agency formally adopted SED as a major program focus, its portfolio has quadrupled from 16 to 64 projects. Key technical advisors have been placed at headquarters and at the regional levels; a substantial training program has been conducted for its staff; and computer-based financial analysis tools have been designed. CARE has also developed a strategy appropriate to its regular target population, experience base and multisectoral programming style. This has led to an emphasis on commercial dissemination of appropriate technology; links with its Agricultural and Natural Resources Unit for economic and environmentally sustainable resource development; and increased emphasis on sustainable development in all its other development sectors.

Other PDOs, such as Freedom From Hunger, Catholic Relief Services and Save the Children, are developing community-based lending models drawing on the successful experiences of FINCA and others. The extent to which they consciously and critically develop their institutions to support SED programming, along the lines indicated in this paper, will determine how rapidly they advance.

A final question is: Given their position on the spectrum, why should donors interested in the state of the art take an interest in the nonspecialist PDOs? Several reasons present themselves:

- **Impact:** If expanding benefits is a major concern, the multisectoral agencies can ultimately provide services on a very large scale.

- **Resources:** While clearly needing funds, many of the institutions bring large amounts of their own resources to the sector as well.

- **Learning:** The nonspecialized agencies bring different skills and perspectives that represent new avenues for model building and exploration. These include adaptations of community based lending models, agriculturally oriented efforts, and multisectoral programs that can track environmental and social impact.

The extent to which donors attend to "how can the rest become the best" (Lassen 1988), the more likely will progress be made in satisfying the ever-growing need for work and income in the developing world.

C. Institutional Development Challenges: What is Most Important to Whom

Table 9, found on page 68, gives a summary and comparative look at the principal challenges the agencies in each category face. The following comments highlight key differences between the agencies in different categories.

1. **SED Specialist Agencies**

> . . . we have to become more skillful at identifying and insuring there is a common vision between ourselves and partners. Initial impressions can be unintentionally deluding; finding key indicators for a good fit is crucial . . .
>
> . . . small enterprise support has become so rampant, mechanisms of evaluation are still not adequate (**Marg Clarkson**, Calmeadow Foundation).
>
> A growing bias among donors toward minimalism is hampering the way in which we develop partner agencies. Minimalist doctrine gives little credence to institutional development and does not allow agencies to develop programs that go beyond market vendors. We're spending a lot of energy counseling our partner agencies on whether or not they should join minimalist programs funded by international donors or local governments (**Larry Reed**, Opportunity International).
>
> Our challenge is raising funds to meet the demand for credit, identifying local financial institutions to become partners (**Kathleen Stack**, Freedom from Hunger).

For agencies in this category, issues of vision, structure, and to a large degree systems and methodology, are relatively settled. Therefore, their attention is focused on five other areas:

a. **Management Information Systems:** Improved MIS are needed to refine methodology, uncover impact and upgrade program performance.

b. **Methods for Institutional Assessment and Development:** Building partnerships is important, and issues such as choice of partners and ways to measure institutional development are high priority. At the SEEP workshop, more than 25 tools covering critical areas such as partner identification, board development, institutional assessment, staff development and resource mobilization were exhibited. The general consensus was that, while these provide a useful base, it is necessary to develop strategies and build skills in their application within each agency.

c. **Staff Training:** SED specialist agencies have mastered credit management and have sound financial systems. The challenge is to hire and train a competent staff to run programs and manage financial systems. These agencies find they increasingly need skills associated with university trained business students. Universities, however, are not preparing students to work in the informal small business development sector, which has its own particular needs and set of constraints. Furthermore, business graduates find much more lucrative opportunity in the commercial sector. The implications are that SED specialist agencies need to develop creative ways to attract, train and retain competent and committed staff.

d. **Acquiring and Managing Non-Grant Funds for Credit Programs:** This includes mastering the hurdles involved in accessing soft and hard loans, and in capturing savings. It requires credit policies that cover the cost of borrowed money, developing legal and risk-proof mechanisms to hold and use savings, and strengthening management skills to ensure liquidity in these complex operations.

   A second concern is finding resources to cover the intensive institutional development partners require to design and manage these programs. While these North American PDOs have become more conscious of what it takes to build effective institutions, donors have lagged in making support available, preferring to funnel money into direct credit with few other elements attached. For PDOs implementing methodologies not labelled minimalist, this presents real dilemmas. The problem is faced not only by specialist agencies, but by PDOs in the other two categories who consider this donor perspective a serious bottleneck to developing credible, appropriate programming. Experience has shown that donors are willing to make money available for credit funds. The stumbling block that many agencies encounter is the relative lack of money available to support institutional development.

e. **Linkages:** Linkages are developed with local governments to influence policy in favor of informal sector clients, and to acquire favor for partner programming. Policy concerns include microenterprise, strategic choices by governments, interest rate ceilings, and legal restrictions on institutional forms approved for savings.

2. **Multisectoral Development Agencies**

   One key issue many of our SED projects face is how to strike a balance between the need to develop financial viability and the objective to serve the poorest of the poor. Often there must be a trade off in one direction or the other, as viability may require policies which exclude poorer segments of the population (**Ellen Pruyne**, Save the Children Federation).

Staff at a project level is increasingly an issue. I believe this is true for many PVOs for the following reasons: 1) there are relatively few experienced technicians; 2) graduate schools are not churning them out (MBAs may be irrelevant); 3) there is a donor driven frenzy for PVOs to hire them; 4) they have private sector options (**Larry Frankel**, CARE).

Many of our activities take place in rural areas where population densities are low and basic infrastructure is lacking. Credit is not always the major missing ingredient. Non-farm income generation opportunities are limited. What is an effective model for this situation? (**Ken Graber**, World Relief)

Unlike the SED specialist agencies, for the multisectoral development agencies, issues related to **vision** remain a fundamental concern. They take several forms:

- resolving contradictions between the overarching vision and this new element;
- understanding and working through the implications of adopting SED as a strategic element. This can include structure, staffing, systems and policy questions. It also includes integrating SED thinking and approaches to sustainability into other sectoral strategies;
- communicating the vision to a large number of program staff and partner institutions.

Often, multisectoral development agencies have signalled their formal entry into the SED sector (not to be mistaken for their first experience) with the hiring of technical staff at the headquarters level. The full impact of the changes that need to be made come over time once staff training is initiated, and projects designed and evaluated. It is then that organizational blockages appear and demand attention. Among these key challenges are the following:

a. **Clarifying the role of SED technical staff** within the structure at headquarters and regional levels. How do their responsibilities mesh with those of regional program managers? Who has the authority to decide key questions regarding program policy, project approval and funding? Who communicates to the field on what and how?

b. **Management Information Systems** need to be designed and applied uniformly across programs. Getting agreement on key indicators across decentralized, regional operations is a difficult task.

c. **Methodologies** need to be both developed and refined. The areas for exploration include improved community based lending approaches; models that work in the more difficult agriculturally-oriented rural context; models that link training and credit both effectively and efficiently; and models that integrate SED with other sectoral work for greater development impact. These areas are difficult ones, but ones which representatives believe they must address to meet the needs of the people their agencies characteristically serve.

d. **Diversifying resources** for credit, training, and institutional development work. While many of these agencies have substantial resources behind them (relative to the other two clusters), their increased emphasis on SED has been supported heavily by A.I.D. As these programs become more significant to their institutions, the next question is how to develop other sources of support beyond this major donor.

e. **Financial management** issues focus on developing the skills, policies and systems required for credit program management. Specific attention needs to be directed to careful cost analysis to segregate credit costs from other program components, and to assure that direct operational costs are covered.

f. **Staff recruitment, compensation and development** comprise probably the most significant set of issues in terms of level of effort. Representative after representative cited these needs, especially at the field-level. They call for joint examination of the issues, and methods to resolve them. Particularly they seek collaborative field-level training as a cost-effective way to address some of the need for staff training in both basic SED and credit management skills, and in more advanced areas.

3. **Single-Focused Agencies With An SED Component**

> The challenge now is to establish SED programs within the OICs which (i) assist [vocational education students] to become self employed . . . and (ii) work with existing entrepreneurs as beneficiaries such as they increase their profitability. With profitability increased, existing entrepreneurs can employ beneficiaries from the target group . . . (**Ross Croulet**, OICI).

> The fundamental interest in training does not seem to be shared by donors who are responding to more minimalist models (**Paquita Bath**, OEF/International).

> World Education faces a very real challenge in finding resources for pursuit of its partnership model given the reluctance of donors to pay the high staff and overhead costs of US PVOs (**Candace Nelson**, World Education).

In many ways, the issues that the smaller agencies face parallel those of the integrated development agencies. This is not surprising given their similar position on the institutional development spectrum. At the same time, there are unique issues that emerge due to their size and types of mandates. Three are:

a. **Meshing the small enterprise focus with the prior mission** logically and coherently. This starts with vision, and works its way down through methodology, systems and staff training. While this parallels the multisector development agency challenge, there is a real difference. For the larger agencies dealing with many sectors, this is one more piece of a large pie, and the justification to incorporate it into a multi-sectoral approach is easy to make. Additionally, in many instances, SED programming has always been part of the overall program, but not carefully and consciously developed as a unique and important strategy. For the small agencies, the challenge is why and how does this new component mesh with a very clear and discrete mission: How do nonformal education and SED converge? What are the methodological implications of blending vocational education and SED? If the mandate is to serve women, how does SED integrate with and not overwhelm other important social development elements? As the small agencies work through these questions, the models they develop may well differ from the minimalist approaches currently in vogue. Institutional development and training are features that draw on their strength and will have prominence.

b. **Demonstrating the validity of these models** is the next step. This involves time and resources to develop program models and evaluate their results. A major part of this is achieving cost effectiveness at whatever scale they operate. OEF/International's experience illustrates the path other agencies may follow. It has taken four to five years to develop a methodology that provides services at a reasonable cost per client (Kindervatter 1988).

c. **Developing legitimacy and acquiring donor resources.** These small PDOs identify two major barriers in this respect. The first is the same one confronted by others not adopting minimalist models. How do they demonstrate that their strengths in training and institution building are relevant to microenterprise?

The second barrier is related to their identity as North American PDOs in an era when donors are "increasingly reluctant to pay the high staff and overhead costs" of these expatriate agencies (Nelson 1990). Other SEEP members face the same environment, but the small size of these institutions, and their consequent smaller domestic constituency, have made them especially vulnerable. This puts additional pressure on them to rush the development of program strategy, as they scramble to survive the funding squeeze.

Table 9 presents a summary of the preceeding discussion and organizes the major issues faced by each category of North American PDO.

Table 9. — Institutional Development Challenges: What Is Most Important to Whom

	SED Specialists	Multisectoral Development Agencies	Smaller Single-focused
1. **VISION**			
a. Leadership b. Board c. Strategic Planning	Review & readjust vision	Integrate SED into overall agency vision	Integrate SED into overall agency vision
2. **CAPACITY**			
a. Structure		Clarify SED technical staff roles; decision making, autonomy, responsibility	
b. Systems	Management Information Systems and Impact Evaluation methodology	Develop and unify MIS and Impact Evaluation methods across regions and programs	
c. Staff	Training: institutional assessment & development; data collection & analysis	Recruitment: new skills Training: Basic & advanced SED for current staff	Training: Basic & advanced SED; strengthen facilitator skills for institutional development
d. Methodology	Refine methods: institutional assessment & development; track methodological evolution	Define & refine methods: rural-agriculture SED; integrate training component effectively; impact evaluation methods	Define & refine methods to link with prior methodology: integrate training effectively; incorporate institutional development
3. **RESOURCE**			
a. Acquisition	Acquire nonproject funds (soft & hard loans) for credit; savings mobilization	Diversify resource base for credit, training & institutional development	Funds for credit, training & institutional development for US PDOs and partners

Table 9 — Continued	SED Specialists	Multisectoral Development Agencies	Smaller Single-focused
b. Management	Portfolio management aimed at covering costs of borrowed money, maintaining liquidity and reducing risks	Segregated cost analysis; effective portfolio management aimed at covering operational costs; workable systems for community control	Effective portfolio management aimed at covering operational costs; segregated cost accounting by component
4. **LINKAGES**			
a. Internal Purposes		Collaborative learning & training opportunities	Develop legitimacy in SED programming; collaborative learning & training opportunities
b. External Purposes	Develop relationships with local governments to influence policy		Link partners to effective SED resources

These, then, are the different challenges SEEP members face in the pursuit of three common goals: (1) becoming effective sustainable implementers of SED programs; (2) helping partners become effective; and (3) generating resources for both. At the SEEP workshop these challenges were highlighted through an analysis of the case of CARE and REACH in their mutual pursuit of small enterprise development in the Philippines. Workshop participants were able to see the complexity of the tasks involved in institutional development and to share their own agencies' struggles to mature as SED organizations, as well as their experiences working with partner PDOs in the developing world.

Five themes which emerged from the CARE-REACH experience, and which struck responsive cords with all SEEP members, were: (1) the move to SED programming; (2) selecting partners and providing appropriate assistance; (3) getting the SED methodology right; (4) developing structure and systems to support this approach; and (5) learning from experience and applying the lessons. They are illustrated in the CARE case which begins on page 70.

CARE and REACH in the Philippines

Facing the Challenge of SED Effectiveness

The Family Income Generating Program (IGP) began in 1981, and "seeks to improve the well-being of the lowest income rural families by increasing their ability to provide for their basic needs through the generation of additional cash income. Rural families are provided with short term loans in the form of production materials for intensifying farming and other appropriate livelihood activities . . . with loans recycled . . . to reach out to new beneficiaries."

At the outset, there was no real emphasis on or plan for local institution strengthening. The project was directly implemented and managed by CARE-Philippines utilizing its existing staff of field offices, whose primary job was to supervise and monitor the various food programming operations in the field. At this time, CARE-Philippines staff had little experience in income generating activities and the intricacies of managing a revolving loan fund or analyzing the commercial viability of enterprise.

The IGP later differed from the traditional CARE program, in part, because of the use of NGOs as counterparts. NGOs had become a regular part of the Philippine social and economic development infrastructure but had received more prominence and attention, and increased support funds, with the change in political administrations. Government agencies were in the process of reorganization, and were considered too unwieldy and too inflexible to undertake the diversity of the entrepreneurial and managerial tasks involved in generating income for the rural poor.

CARE engaged in the issue of selecting a suitable partner. The criteria for selecting a partner in the IGP were " . . . track records that indicate management capability for social development projects and some experience with credit delivery." However, since partners were likely to display varying degrees of managerial competence, " . . . one focus of the IGP will be to strengthen indigenous organizations which assist the poor . . . through sharing the project management and financial management consulting skills of the CARE staff and through networking the staff skills of the different partners themselves at workshops and training centers."

The partners were expected to develop and implement commercial activities, subprojects in CARE terminology, for their loan recipients. CARE would provide the initial funds for the partners to intervene among their constituencies, first through the financing of production inputs, and later by providing technical and management assistance. The basic procedure required that " . . . each potential partner first develop with one of its grassroots organizations (i.e. credit coop, mothers' club, farmers' association) a 'sub-project' for 12 to 20 loan recipients' individual enterprises, generally of the same type (i.e., cattle fattening) to be supported initially by a single loan agreement with CARE. The procedure implied a process of learning by doing."

(Partners) were expected to charge reasonable, but competitive, interest on loans, the income from which could be used "primarily to support the services of the partner organization" and to provide the means for expansion. Partners were also able to develop income-generating activities for themselves. The CARE relationship would help in developing additional, international sources of funding.

[CARE's first major partner was REACH, the Rural Enterprise Assistance Center, in Cebu] founded by staff who came from a now defunct state corporation . . . [which] had organized small scale farmers who had worked on small, community based irrigation systems (of a hundred hectares or less) into Irrigation Systems Associations . . . REACH created a working board from the different managers of the old ISAs, and CARE joined the Board as a nonvoting member.

The Board screened new members and new projects. For instance, one idea, which CARE agreed to, was to lend the ISAs funds "to purchase a plot of land which would function as a demonstration center for integrated farming. This land would also be a form of collateral base for them so that, as owners of the land, they would be able to secure other funds for their organization."

CARE in turn assigned its project officers to review REACH decisions and operations regularly, and CARE began providing REACH with management tools for project analysis and financial control . . . .

REACH significantly expanded in 1986. REACH began exploring entrepreneurial, income-generating projects for itself. One activity was to move into rice trading, which REACH thought a natural extension of rice production subprojects. REACH also began exploring other activities [such as cattle fattening] for landless farmers . . . .

In early 1987, [CARE] was becoming concerned about REACH's situation . . . financial problems — outstanding receivables, delays and defaults in collections, and poor subproject performance began to emerge . . . farmers' organizations were not cohesive and were not keeping their accounts up-to-date. The organizational layers were also stretching REACH's limited core staff. Funds, reports, and some decisions on subprojects traveled back and forth between CARE's Manila head office to the offices of CARE and REACH in Cebu, to the REACH [field staff], to the ISA offices and to its members . . . .

. . . rice trading proved extremely difficult . . . operations "got caught up in receivables," poor accounting resulted in selling prices below total costs, cattle fattening technology and marketing were proving unsatisfactory, and a fire damaged REACH facilities. [A CARE evaluation also noted] ". . . longstanding unliquidated cash advances to employees have tied up a substantial portion of working capital . . . baseline data [are] lacking. Repayment rates are very low."

[REACH was placed on probation.] By the year end 1987, REACH had begun (1) to cluster subprojects, (2) to restructure its own and its subproject loans, and (3) to improve collection . . . .

CARE had already begun to apply its experience to its new partners. Its IGP staff were more aggressive in insisting on basic control mechanisms, and more vigilant in monitoring subproject expansion. CARE identified and hired small enterprise specialists to bring technical capacity to the IGP. The REACH experience offered "rules of thumb," for example, on avoiding the dispersal of subprojects, on ascertaining the technical requirements of subprojects, and on realizing the difference in skills needed to manage marketing (as opposed to production) activities.

In addition, a current program evaluation will determine which combination of partner organization, intervention and participant groups are most effective. Three basic questions focus on how partner PDOs and community groups have gained through CARE assistance in (1) community organizing and development, (2) credit and financial services, and (3) organizational management. The evaluation is also examining changes in household income and living conditions of the participants, as well as loan repayments, savings mobilization, number of economic activities and the number of participants in community groups. An attempt will be made to compare the results obtained by partners simply providing credit and those offering credit plus technical assistance and training.

CARE Philippines continues to confront the challenge of identifying the qualities of a good partner organization, recognizing that the key, in most cases, is to select characteristics which demonstrate potential, rather than hard evidence of operational capacity. Some variables which have been identified to date include:

- reputation
- size
- leadership
- extension ability
- diversity of activities
- organizational culture

(Ramon 1989 adapted by Frankel 1990)

CHAPTER VI

NEXT STEPS

The cases show that institutional development — the strengthening of organizational capacity — is key to effective implementation of SED programs. Whether a new organization is created to deliver SED services, or an existing institution initiates SED programs, there are ramifications for program design as well as vision, capacity, resources and linkages. If improving organizational capacity is ignored, it can lead to stumbling blocks that compromise a program's financial stability and diminish its impact. PDOs need to ensure that institutional development is a consciously and conscientiously programmed component of their SED program efforts.

Under the ARIES Project, AID paid significant attention to this aspect of small enterprise development. The recurrent problem framework, as outlined in Seeking Solutions (Mann et al, 1989), identified a number of organizational dynamics issues. The framework used in this paper goes a step beyond that of ARIES by more closely studying change over time. By examining information gathered from the cases and from SEEP member experience, institutional tasks, potential problems, and assistance needs expressed by organizations at specific stages of their evolution have been made more explicit. At the same time, this effort points to a continued need for a program of study which includes issues identified as major areas of concern by PDOs themselves. Among these are:

- The rite of passage, the process of moving from the Development Stage to the Sustainability Stage, and from Sustainability to Expansion;

- The role and importance of Boards to effective program implementation;

- Two closely linked issues, alternative forms of Resource Mobilization as an important way to develop financial self-sufficiency and Financial Management, the key to making a credit program work :

- Staffing as a major challenge to building strong SED capacity;

- Training in SED methodology in a way that is effective and affordable;
- Impact, the raison d'etre of SED programs

A. Rites Of Passage

Many North American and developing world PDOs are struggling with the Development Stage; a large number attempting to do so in partnership. They seek a better understanding of the process of institutional development, and specific tools that can be used internally and with partners to facilitate the passing from Development to Sustainability.

While reaching greater numbers of clients is an important goal of SED programs, not every organization need to go into an Expansion Stage to have a significant impact. Making the decision to expand is a crucial one, requiring a higher level of analysis and planning. To do this in an informed way, organizations require greater knowledge regarding the options they have in terms of workable models, and the organizational changes implied by each. In addition, they need the skills to undertake the transformation successfully.

B. Boards

Although some PDOs have strong boards, board development continues to be a major concern (in some cases an impediment) for effective SED implementation. PDOs need assistance in dealing with issues of board development at all three stages of their institutional development. There is little formal information available and often the process is "hit-or-miss".

A few SEEP member agencies have experience in this area and have taken initial steps to document the process; three are Opportunity International, OIC International and WOCCU.

C. Resource Mobilization And Financial Management

Resource mobilization is a major concern that cuts across all three stages of institutional development. But while many PDOs have weathered the early challenges of finding project funds for the Development and early Sustainable Stages, few have experience in developing a portfolio that generates growth through a combination of efficient management, savings mobilization, and external resources that include donor grants, local fundraising, soft and/or hard loans, and possibly the establishment of banking facilities. PDOs, as they work for sustainability and consider expansion, need to understand the skills, structures, systems and materials required to access each potential source and develop their strategies accordingly.

On a related, but somewhat different level, PDOs (at least SEEP members) see the need to develop and apply some standard approaches to financial planning and management that can facilitate the establishment of new programs, improve the portfolio performance of ongoing ones, and enable the comparative analysis which learning requires. "Off the shelf" models that can be implemented both manually and by computer are required.

D. Staff

As earlier sections of the paper indicated, staffing presents serious challenges to PDO programs of all types. While ARIES made some effort to provide support on these issues, including an analytic review of personnel models and a prototype training design, these pieces have not yet provided PDO managers with the type of practical assistance they need. PDOs want to learn to solve issues related to compensation and incentive structures, training and motivation, and recruiting and retaining increasingly needed but scarce skills. Often the solutions to these issues have higher cost implications, difficult to reconcile with cost-consciousness and autofinancing.

E. Training

The need for field based training to improve field staff abilities to implement SED programs has long been voiced. As more local organizations enter the SED sector, and as larger donors seek effective channels for credit delivery, the need to rapidly scale up competence becomes even more important. The impediments, especially for the smaller agencies or those newer to the field, have been a lack of skills and a lack of money. Concerted approaches to overcoming these impediments are required, i.e., tapping expertise in the agencies where it exists; offering them the resources to expand their training services to others; translating and disseminating proven training materials; and building in-country training capacities through local consortia or SED networks.

F. Impact

The final word for all development efforts is impact; and SED is no exception. Despite all the work undertaken by individual agencies, and by the community working together (i.e. SEEP's Step by Step Guide), the fact remains that many SEEP members believe continued work is needed to develop appropriate systems to get at fundamental questions of socioeconomic well-being, and to train staff to gather the data required. Further, PDOs need to approach this work in a way that results in a set of minimum criteria (or indicators) for monitoring and assessing impact that is widely accepted and used. This information is required to examine performance across programs and provide, perhaps for the first time, a systematic look at the impact differences, if any, that can be achieved by minimalism, by integrated SED, and by multisectoral programs.

The SEEP community of agencies will address several of the items on this agenda in the coming year. On the drawing board are three products that lend themselves to broad application: an institutional development workbook for PDO assessment, planning and training; a financial modeling tool (and manual) for projecting and monitoring credit program performance; and a guide to resource mobilization. In addition, SEEP's next strategic plan proposes a community effort to achieve more uniform monitoring and evaluation standards to provide a basis for accurate learning.

As SEEP works on these tools, it does so with a viewpoint enriched by the variety of visions, methodologies and models reflected in the case studies cited. SEEP hopes that these efforts will be joined by those of other institutions who share its view, agree with the principles of SED development laid out in this paper, and accept all models of SED programming that are demonstrably effective. Doing so will contribute to developing the best institutions and programs the small enterprise sector has to offer.

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