ARIES

Assistance to
Resource Institutions
for Enterprise Support

Management Training for Micro- and
Small Enterprise Intermediaries

Key Issues in Designing Microenterprise Programs

Sponsored by

United States Agency for International Development
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Prepared by

Nathan Associates Inc.

August 1990

ARIES Materials in the Management Training for Micro- and Small Enterprise (MSE) Intermediaries Series

Strategic Management. This package aims to define a strategic planning framework for addressing the key issues in MSE project design and implementation, for MSE project managers. The package consists of 21 case studies, which are based upon the experiences of intermediary institutions as they have shaped their MSE development programs. The case studies draw on the actual experience of programs in Bangladesh, Brazil, Costa Rica, Colombia, the Dominican Republic, Honduras, Indonesia, Kenya, the Philippines, and Senegal. The cases have been published by Kumarian Press in the book, *Seeking Solutions: Framework and Cases for Small Enterprise Development Programs.* The corresponding case notes have been published in a companion volume, *Case Leader's Guide*, also by Kumarian Press. A users' guide provides guidelines on the most effective use of these materials.

Credit Management. This is a "nuts and bolts" manual targeted to MSE project designers and implementers at the programming and operational levels. Its objective is to help MSE practitioners design, implement, and manage credit programs more effectively. This package addresses matters of practical relevance to successful credit project management, such as properly designed accounting and management information systems, evaluation and monitoring techniques, and commercial feasibility analyses of prospective borrowers. This package has been translated into Spanish and French.

Human Resource Management. This package is targeted to managers of institutions that implement MSE projects. It deals with staffing requirements of MSE programs, employee motivation, incentives, supervision, training needs, and performance evaluation, and it presents various personnel and staffing models practiced by successful programs. The package has been designed on the basis of a training needs assessment that included interviews with 75 MSE practitioners.

Entrepreneur Training: User's Guide. This package reviews the five most widely used entrepreneur training models. These five models reflect the state of the art of such training models and demonstrate the appropriateness of the various models under varying regional and program contexts. This document presents a comparative analysis of each prototype and guides trainers and MSE program designers on choosing appropriate models for various target groups within the MSE spectrum.

Training Needs Assessment Methodology. This manual provides a consistent methodology to conduct training needs analyses (TNA) prior to the development or recommendation of training programs, and it serves as a tool for intermediary institutions to assess the training needs of their institutions and of their MSE clients. It provides a step-by-step, hands-on methodology for both experienced analysts and people new to the process.

Key Issues in Designing Microenterprise Programs. This training package orients MSE program designers to the key strategic issues in the design of MSE assistance programs. Its contents include four case studies based on the actual experience of two A.I.D. Missions in developing their MSE programs. This package is designed to reinforce basic design and programming concepts through three parallel processes: a review of A.I.D. policy and knowledge in the microenterprise area, individual and collective analysis of cases that enable workshop participants to work through critical issues in MSE programming, and presentations by participants to broaden the exchange of views. The materials in this package constitute the core of a 2- to 5-day training workshop on microenterprise programming for A.I.D. Mission program and project design personnel.

Copies of these materials are available from A.I.D./APRE/SMIE, Washington, D.C., 20523 or upon request from Nathan Associates Inc., 1301 Pennsylvania Avenue, N.W., Suite 900, Washington, D.C. 20004.

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KEY ISSUES IN DESIGNING MICROENTERPRISE PROGRAMS

This training package orients micro- and small enterprise (MSE) program designers to the key strategic issues in the design of MSE assistance programs. Its contents include four case studies based on the actual experience of two A.I.D. Missions in developing their MSE programs. This package is designed to reinforce basic design and programming concepts through three parallel processes: a review of A.I.D. policy and knowledge in the microenterprise area; individual and collective analysis of cases which enable workshop participants to work through critical issues in MSE programming; and presentations by participants, to broaden the exchange of views. The materials in this package constitute the core of a 2-to 5-day training workshop on microenterprise programming for A.I.D. Mission program and project design personnel.

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INTRODUCTION

Background

Over the last decade A.I.D. has emerged as a leader in its support for microenterprise development.[1] More than 10 years ago, it launched the Program for Investment in the Small Capital Enterprise Sector (PISCES) project which demonstrated the promising efforts of private voluntary organizations (PVOs) worldwide to promote microenterprises. Since then, A.I.D. has sponsored continuous research in the microenterprise sector under the ARIES and GEMINI projects. At the same time, USAID Missions around the world and the central PVO Bureau have funded an increasing number of credit and technical assistance projects for microenterprises. Microenterprise projects have been launched as an integral part of A.I.D's objectives of promoting broadly based economic growth, increasing incomes and employment, and addressing the problems of the poor majority.

A.I.D.'s *Microenterprise Stocktaking Study* (see the summary in Section A) confirmed that many microenterprise programs had increased incomes and employment, some in a sustainable way. Three types of projects were identified:

- **Enterprise formation projects**, which assisted in the formation of new enterprises;
- **Enterprise expansion projects**, which assisted in the measured expansion of existing enterprises; and
- **Enterprise transformation projects**, which helped microenterprises of one or two people transform themselves into small and growing enterprises.

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1. Although there is no single universally accepted definition of the term microenterprise, A.I.D. broadly defines microenterprises as those enterprises with 10 or fewer employees.

Although only expansion projects clearly demonstrated sustainability based or minimalist credit strategies, the other two categories of projects were promising given the variety of experimental approaches under way.

In support of these and earlier, similar findings, Congress has passed legislation in the last 3 years mandating an ever larger earmark for microenterprise programs (currently $75 million). Though A.I.D. is still by far the largest single donor in this area, microenterprise projects have also been launched by other donors.

With the growing interest in microenterprise development within the donor community and host countries, it is no surprise that an increasing number of USAID Missions have been asking for assistance in microenterprise programming. Because the ARIES project had developed considerable expertise in microenterprise programming and case-oriented training by the end of 1989, the use of teaching cases to orient Mission personnel in the microenterprise field was the logical next step in early 1990. A.I.D. therefore authorized Nathan Associates, the prime contractor of the ARIES project, to develop and conduct a training workshop on *Successful Microenterprise Programming* (SMP) for the staff and recipients of sponsorship of A.I.D/Washington, USAID Missions worldwide, and the Peace Corps. The workshop was to distill lessons learned from A.I.D.'s research and initiatives in this field and to orient participants to key microenterprise programming issues.

The 2-day workshop was combined with two other conferences sponsored by ARIES and with a conference hosted by the Peace Corps. The workshop was proceeded by a week-long conference on the Peace Corps Microenterprise PASA and a 1-day ARIES conference on "Where Should A.I.D. Go With Micro- and Small Enterprise Development." It was followed by a 2-day conference at which various training modules developed by ARIES for microenterprise-promotion institutions were showcased. This combination of conferences provided some of the contextual and background information needed by the participants of the workshop. The "Where Should A.I.D. Go" conference in particular heard reports on the state-of-the-art of mircoenterprise development, as well as the findings of various A.I.D.-sponsored research and development projects and a speech by the A.I.D. Administrator outlining A.I.D's policy on microenterprise development. (Schedules of these conferences and a listing of attendees are contained in Appendices A, B, and E).

As part of the workshop planning effort, a worldwide cable solicited USAID Missions' interest in collaborating with case writers, to share their own experiences in designing microenterprise support programs. The cable also solicited the Missions' interest in presenting their experiences at the workshop. Preparatory meetings in Washington identified the key issues and considerations in microenterprise programming. On the basis of these issues and the Missions' responses, two case sites were selected: Bolivia and

Malawi. The selection criteria included the complexity and multifaceted aspects of the issues faced by these Missions; the presence at each site of different issues that were not regionally specific, and that were applicable at a wider level; the broad range of issues that would be illustrated by the different experiences of each Mission; and the accessibility of key program design staff, in order to capture the true flavor and actual decision-making process that the Mission undertook.

Guidelines on focus areas were provided to Mission presenters, to structure the presentations and resulting discussions around critical issues (see Appendix C). A worldwide cable invited Missions to attend the workshop.

The cases (included in Section B) were written by Ms. Mohini Malhotra and Mr. Russell Webster of Nathan Associates. The writers spent 2 to 3 weeks in their designated countries to prepare the cases. The cases were then taught at the workshop by Ms. Mary Anderson and Mr. John Ickis, of Austin Associates, and Mr. Webster. Mission personnel from Jamaica, Honduras, Ecuador, the Dominican Republic, and Egypt made formal presentations on their experiences in designing microenterprise programs and outlined the key issues they confronted in doing so.

Two parallel groups met and discussed the cases simultaneously. On the evening of the first day, a set of Mission presentations on current and proposed programs was made, and on the evening of the second day, some innovative financial alternatives developed in the field were discussed.

Participants gave the workshop positive evaluations. The evaluations, completed at the end of the workshop, were divided on the amount of emphasis given to cases versus Mission presentations. The division in opinion suggests that the mix may have been correct for this particular workshop.

Lessons learned from teaching the cases are presented in Section C of this report. In general, it can be said that, although the case studies themselves are based on Latin American and African programs, they are not regionally specific. They focus on universal issues, such as how to handle graduation, the selection of appropriate intermediaries, who to target, how to ensure that women have access to project resources, and the value of a self-contained microenterprise project versus microenterprise-oriented elements in several sectoral projects.

Objective

The objective of this package is to present the materials of the March 1990 workshop, along with guidance on how best to design and structure similar workshops in the future and to orient micro- and small enterprise (MSE) program designers to the strategic issues in assistance programs. Workshops are an effective means of strengthening the abilities of A.I.D. staff and others to identify and resolve problems in project design and program development with respect to micro- and small enterprises. It is hoped that these materials will serve as the basis for others to plan and conduct similar workshops, perhaps on a smaller, regional basis.

This package is intended to reinforce basic design and programming concepts through three parallel processes:

- A review of A.I.D. policy and knowledge in the microenterprise area
- Individual and collective analyses of cases which enable workshop participants to work through critical issues in microenterprise programming
- Presentations by workshop participants, both of their own experiences in microenterprise programming and of relevant topics in which they have expertise, to broaden and exchange views.

The Package is primarily for A.I.D. personnel, contract staff, and host country nationals who are concerned with microenterprise programming and project design.

Contents

The materials in this package constitute the core of a 2- to 5-day training workshop on microenterprise programming for Mission program and project design personnel. It is assumed that, for each workshop, the materials in this package will be adapted and expanded to meet the needs and regional interests of the participants.

Section A contains three documents. The A.I.D. Administrator's speech at the March 1990 conference outlines the agency's policy and the state of its overall program. The speech by Michael Farbman, Chief of the Small, Medium and Informal Sector Division of A.I.D. provides the historical and current context for A.I.D.'s initiatives in this area. The executive summary of

A.I.D.'s *Stocktaking* report highlights the lessons the agency has learned from its more than 15 years of experience in the field. Though these documents will rapidly become dated, they represent the types of materials required to provide a general background for such programming workshops. It is assumed that the attendants have already received training in A.I.D.'s programming and project design procedures; if not, those procedures should be reviewed.

Section B contains the two cases taught at the March 1990 workshop, along with teaching notes on each. Section C outlines the lessons learned from this workshop in terms of logistics, content, and delivery and provides some guidelines for the planning and design of future workshops. Finally, the participant evaluation form for a workshop on this subject is provided in Appendix D.

Section A

BACKGROUND MATERIAL

REMARKS OF
AMBASSADOR MARK L. EDELMAN
ACTING ADMINISTRATOR, AGENCY FOR INTERNATIONAL DEVELOPMENT
TO THE ARIES/A.I.D. CONFERENCE ON MICROENTERPRISE
ROSSLYN, VIRGINIA
MARCH 5, 1990

IT'S A PLEASURE TO BE HERE TODAY...YOU COULDN'T HAVE PICKED A BETTER TIME TO HAVE A MEETING ON SMALL-SCALE AND MICROENTERPRISE DEVELOPMENT THAN RIGHT ABOUT NOW...AS EVENTS IN CENTRAL AMERICA...AND EASTERN EUROPE...HAVE RAISED U.S. FOREIGN AID TO THE TOP OF THE NATIONAL POLICY AGENDA.

IT'S BEEN FORTY FOUR YEARS SINCE AMERICA LAUNCHED THE MARSHALL PLAN TO HELP RE-BUILD WAR-TORN EUROPE...AND FORTY THREE YEARS SINCE WE TOOK THAT SAME CONCEPT...AND TRIED TO APPLY IT TO LESS DEVELOPED NATIONS IN CENTRAL AND SOUTH AMERICA UNDER TRUMAN'S POINT FOUR.

SINCE THEN...THE SHAPE OF AMERICA'S FOREIGN AID PROGRAM HAS CHANGED MANY TIMES OVER...TO THE POINT THAT IT MAY WELL BE UNRECOGNIZABLE TO ITS FOUNDERS.

IS THAT RELEVANT TODAY?

ABSOLUTE

BECAUSE AT ISSUE IS NOT ONLY HOW TO SQUARE NEW DEMANDS WITH OLD COMMITMENTS AND TIGHT BUDGETS...BUT THE VERY AIMS AND PURPOSES OF FOREIGN AID.

ALMOST DAILY WE HEAR CONTINUED CALLS FOR CHANGING FOREIGN AID: REDEFINING ITS GOALS...AND REDIRECTING ITS AIM.

AND THE ROLE OF MICROENTERPRISES LIES RIGHT IN THE MIDDLE OF THIS DEBATE.

TODAY...I'D LIKE TO FOCUS MY REMARKS ON WHY WE HAVE MICROENTERPRISE PROGRAMS...THE ROLE MICROENTERPRISES PLAY IN DEVELOPING NATIONS...WHAT THEY NEED IN ORDER TO THRIVE...AND HOW THE UNITED STATES' FOREIGN AID CAN HELP.

IN ORDER TO DO THAT...THOUGH...WE STILL HAVE TO TALK A LITTLE BIT ABOUT THE BROADER GOALS OF AMERICA'S FOREIGN AID PROGRAM...BECAUSE THE MICROENTERPRISE PROGRAM CUTS ACROSS SEVERAL GOALS...SUCH AS...WHEN -- AND HOW -- DO WE USE OUR FOREIGN AID AS A TOOL FOR HUMANITARIAN PURPOSES -- HELPING THE "TRULY POOR" ESCAPE THE EFFECTS OF POVERTY?

MANY SAY..."THROUGH MICROENTERPRISE"...AND I AGREE.

BUT THEN...WHAT IF THIS SAME EFFORT HELPED TO PRODUCE RESULTS THAT AFFECTED MORE THAN ONE PERSON -- SAY...INSTEAD OF ALLOWING ONE PERSON TO BUY APPLES AT A PENNY APIECE...AND RESELL THEM AT TWO CENTS APIECE -- WHAT IF WE CAN HELP THAT PERSON LEARN HOW TO MAKE APPLESAUCE...AND EMPLOY TEN OTHERS TO HELP?

WOULD THAT STILL BE HUMANITARIAN AID? WOULDN'T WE STILL BE HELPING THE "POOREST OF THE POOR"...ONLY MORE OF THEM...FOR LONGER PERIODS?

THEN WHAT HAPPENS IF WE CAN HAVE SIMILAR SUCCESS IN SEVERAL OTHER SMALL ENTERPRISES...AND MORE PEOPLE START MORE BUSINESSES -- AND HIRE MORE PEOPLE -- AND MORE INCOME IS GENERATED...AND WE ACTUALLY START HAVING SOME BROADER-BASED ECONOMIC GROWTH IN THE SMALL-BUSINESS SECTOR.

WHAT THEN? IS THAT BAD? ARE WE NOW OUT OF THE HUMANITARIAN AID BUSINESS?

WORSE...WHAT IF THIS ECONOMIC GROWTH BECAME SUCH ...THAT THAT NATION BECAME ABLE TO DO SOME MODEST TRADING WITH THE UNITED STATES?

WHAT IF THIS TRADE STIMULATED FURTHER ECONOMIC GROWTH...AND MORE AND MORE TRADE FLOWED BETWEEN AMERICA AND ITS NEW-FOUND TRADE PARTNER...BRINGING NEW PROSPERITY TO MANY IN AMERICA...AS WELL AS THAT DEVELOPING NATION?

DOES THAT MEAN THAT OUR FOREIGN AID HAS BECOME A TOOL FOR OUR OWN ECONOMIC INTERESTS?

IF SO...IS THAT BAD?

AND AS THAT TRADE FLOURISHES...AND MORE PEOPLE PARTICIPATE IN THAT ECONOMIC GROWTH...AND ENJOY THE PROCEEDS OF GREATER INCOMES...GREATER HOPE FOR THE FUTURE...GREATER ABILITY TO MAKE CHOICES IN THEIR LIVES...WHAT IF THAT NEW PROSPERITY HELPED BUILD ECONOMIC AND POLITICAL STABILITY IN THAT NATION -- OR IN THAT REGION OF THE WORLD?

IS THERE LESS LIKELIHOOD OF UNREST AND CONFLICT IN A NATION THAT IS BEGINNING TO PROSPER?

DOES THAT MEAN THAT AID THAT WAS USED TO HELP THE POOREST OF THE POOR...AID THAT THEN BECAME A TOOL FOR AMERICA'S ECONOMIC INTERESTS...HAS NOW BECOME FOREIGN AID THAT SERVES TO SUPPORT THE STRATEGIC INTERESTS OF THE UNITED STATES?

IF SO...IS THAT BAD?

NOW...THIS MAY STRIKE MANY OF YOU AS A GROSS OVER-SIMPLIFICATION OF THE MANY ARGUMENTS OVER FOREIGN AID... BUT I THINK IT'S NOT.

THE POINT THAT I'VE TRIED TO MAKE HERE IS TWO-FOLD.

FIRST...NO MATTER WHAT YOUR GOAL FOR AMERICA'S PRECIOUS FOREIGN AID DOLLARS IS: HUMANITARIAN...ECONOMIC SELF-INTEREST... SECURITY...THE FACT REMAINS THAT ECONOMIC GROWTH IN DEVELOPING NATIONS REMAINS THE TIE THAT BINDS THOSE GOALS WITH SOME REALISTIC EXPECTATION OF ACHIEVEMENT.

SECOND...AND THIS IS WHERE MANY WELL-INTENTIONED DEVELOPMENT PROFESSIONALS PART COMPANY...THESE GOALS ARE NOT MUTUALLY EXCLUSIVE.

THE FACT IS...THERE IS NO SUCH THING AS AID THAT HELPS TO PROMOTE ECONOMIC GROWTH...THAT ISN'T ITSELF ALSO HUMANITARIAN AID.

THERE IS NO SUCH THING AS AID THAT HELPS TO PROMOTE ECONOMIC GROWTH...THAT ISN'T ITSELF ALSO AID THAT PROMOTES AMERICA'S ECONOMIC INTERESTS.

THERE IS NO SUCH THING AS AID THAT HELPS TO PROMOTE ECONOMIC GROWTH...THAT ISN'T ITSELF ALSO AID THAT PROMOTES POLITICAL AND ECONOMIC STABILITY -- SECURITY AID...IF YOU WILL.

AND THE BEAUTY OF THE MICROENTERPRISE PROGRAM IS THAT IT HELPS TO ACCOMPLISH ALL OF THESE OBJECTIVES...AND MORE.

CONTRARY TO POPULAR BELIEF...WE AREN'T WORKING AT CROSS PURPOSES HERE: WE'RE ALL SINGING OUT OF THE SAME HYMN BOOK...WE'RE JUST SINGING DIFFERENT ARRANGEMENTS OF THE SAME SONG.

WE ALL WANT TO END POVERTY...INCLUDING -- OR ESPECIALLY -- THE POOREST OF THE POOR. MICROENTERPRISE -- ENTREPRENEURSHIP -- DOES JUST THAT.

WE ALL WANT TO FURTHER AMERICA'S ECONOMIC INTERESTS. ECONOMIC GROWTH...SPURRED BY GROWTH IN THE SMALL AND MICROENTERPRISE SECTOR...DOES JUST THAT.

WE ALL WANT TO PROMOTE ECONOMIC AND POLITICAL STABILITY... DEMOCRACY...AND WORLD SECURITY. THE PROSPERITY THAT COMES FROM ECONOMIC GROWTH...SPURRED BY MICROENTERPRISE AND ENTREPRENEURSHIP...DOES JUST THAT.

SO...THE ARGUMENT HERE SHOULDN'T BE OVER THE GOALS OF FOREIGN AID -- WE CAN HAVE ALL OF THESE GOALS...BECAUSE IF WE WILL TAKE CARE TO PROMOTE ECONOMIC GROWTH...THESE GOALS WILL TAKE CARE OF THEMSELVES.

AND ONE OF THE BEST WAYS TO STIMULATE ECONOMIC GROWTH...IS TO HELP SMALL- AND MICROENTREPRENEURS SUCCEED.

TO HELP THESE FLEDGLING ENTREPRENEURS GET STARTED...AND STAY STARTED...A.I.D. HAS ADOPTED A "BUSINESS-ORIENTED" APPROACH TO MICROENTERPRISE DEVELOPMENT.

THIS HAS OCCASIONALLY BEEN CONTRASTED WITH A "POVERTY-ALLEVIATION" APPROACH...BUT -- AS I SAID EARLIER -- THERE IS REALLY NO FUNDAMENTAL DIFFERENCE IN OBJECTIVE BETWEEN THE TWO.

IN BOTH CASES...THE TARGET POPULATION IS THE POOREST OF THE ECONOMICALLY ACTIVE POPULATION...AND THE SMALLEST OF ENTERPRISES. THERE CAN BE NO POVERTY ALLEVIATION WITHOUT THE SUSTAINABLE FLOW OF INCOME...AND EMPLOYMENT FROM AN ON-GOING BUSINESS.

WHETHER IT'S A ONE-PERSON BUSINESS...OR A TEN-PERSON BUSINESS...IF THE PRODUCTS OF SERVICES BEING OFFERED DO NOT HAVE A MARKET...AND ARE NOT OFFERED AT A COMPETITIVE PRICE...THEN THE ENTERPRISE WILL FAIL.

THEN...THERE IS -- QUITE OBVIOUSLY -- NOT ONLY NO ECONOMIC GROWTH...THERE'S NO SO-CALLED "POVERTY-ALLEVIATION"...EITHER.

FOR THE SMALLEST ENTERPRISES...AS WELL AS THE LARGEST... THERE ARE FOUR BASIC BUSINESS NEEDS:

- A MARKET FOR THEIR PRODUCTS OR SERVICES;
- BUSINESS AND TECHNICAL KNOW-HOW;
- ACCESS TO RESOURCES;
- AND A SUPPORTIVE ENVIRONMENT IN WHICH TO PURSUE THEIR TRADE.

A SERIOUS LACK OF ANY OF THESE BASIC NEEDS LEADS TO BUSINESS FAILURE...AND...IN THE CASE OF THE POOR...BUSINESS FAILURE MAY THREATEN THE ENTREPRENEUR'S ABILITY TO SUPPLY HER FAMILY'S DAILY LIVING REQUIREMENTS.

HOWEVER...FOR OUR PURPOSES...THE LAST POINT ON THE LIST SHALL COME FIRST...BECAUSE WITHOUT A SUPPORTIVE ENVIRONMENT IN WHICH BUSINESS CAN PROSPER...YOU MAY AS WELL NOT WORRY ABOUT THE OTHER THREE POINTS.

IN COUNTRIES THROUGHOUT THE DEVELOPING WORLD...GOVERNMENTS HAVE ERECTED BARRIERS TO ENTRY INTO THE FORMAL BUSINESS WORLD...BY SETTING OUT REQUIREMENTS THAT THE POOREST PEOPLE CANNOT MEET.

THAT IS...HAVE GOVERNMENTS SO STACKED THE DECK OF OFFICIAL POLICIES AGAINST THE MICROENTREPRENEUR THAT HER FAILURE IS GUARANTEED BEFORE SHE EVEN STARTS? ASSUMING...OF COURSE...THAT THE GOVERNMENT EVEN LETS HER ESTABLISH A BUSINESS IN THE FIRST PLACE.

AN EXTREME EXAMPLE OF THIS IS PERU...WHERE HERNANDO DE SOTO'S SEMINAL WORK ON THE INFORMAL SECTOR THERE...DESCRIBES THE PERILS OF TRYING TO DO BUSINESS IN THE FORMAL SECTOR THERE IN SOBERING DETAIL.

BUT THE RESULT OF THIS OPPRESSIVE FORMAL ECONOMY...IS A SIGHT THAT WOULD WARM THE HEART OF ADAM SMITH: A VIBRANT AND GROWING BUSINESS COMMUNITY OF OTHERWISE LEGAL BUSINESSES -- SHOE SHOPS...FRUIT STANDS...EVEN LENDING ENTERPRISES

-- WHICH HAPPEN TO OPERATE OUTSIDE THE JURISDICTION OF THE LOCAL GOVERNMENT WHICH CAN BE DESCRIBED AS SOMETHING LESS THAN A SMALL BUSINESS INCUBATOR.

HOWEVER...THE COSTS OF BEING INFORMAL ARE HIGH.

THEY RANGE FROM HARASSMENT BY LOCAL AUTHORITIES...TO THE LACK OF SECURE TITLE TO PROPERTY...TO THE FACT THAT INFORMAL ENTERPRISES CANNOT COUNT ON THE LEGAL VALIDITY OF AGREEMENTS OR CONTRACTS THEY MAKE.

THAT'S WHY THERE IS SUCH A RENEWED FOCUS ON THE IMPORTANCE...AND PRIMACY...OF POLICY REFORM IN DEVELOPING NATIONS.

NEEDLESS TO SAY...DEVELOPMENT ASSISTANCE TO BUSINESSES AT THE GRASS-ROOTS LEVEL WON'T DO MUCH GOOD...IF OFFICIAL GOVERNMENT POLICIES EXIST WHICH...AT BEST...KEEP THE BUSINESS FROM GROWING AND...AT WORST...CRUSH ANY SIGNS OF BUSINESS LIFE.

AS AN ASIDE...I FIND IT PARTICULARLY IRONIC THAT MANY WOULD DECRY THESE MEASURES...COMPLAINING THAT POLICY REFORM AND STRUCTURAL ADJUSTMENTS HURT THE POOR.

WHAT THEY DON'T SEEM TO BE ABLE TO SEE IS THAT LIFE HASN'T BEEN A BOWL OF CHERRIES FOR THEM ALL ALONG...AND UNTIL THESE POLICIES ARE CHANGED...SEED SEWN AMONGST THE ROCKS...WILL CONTINUE TO HARVEST ONLY MORE ROCKS.

AND ROCKS DON'T SIT WELL ON EMPTY STOMACHS...AND THEY CERTAINLY WON'T PAY FOR MEDICINE...OR EDUCATION...MUCH LESS A NEW BUSINESS.

ONCE THERE IS AN ENVIRONMENT IN WHICH BUSINESSES CAN GROW...WE CAN BEGIN TO FOCUS ON THE OTHER THREE BASIC NEEDS OF THE MICROENTREPRENEUR.

SUCH AS THE ACCESS TO RESOURCES...BE THEY RAW MATERIAL...TOOLS AND EQUIPMENT...WORKING OR SELLING SPACE...OR CREDIT.

IN THE DEVELOPMENT COMMUNITY...THERE IS FREQUENTLY THE PRESUMPTION THAT CREDIT IS THE SOLUTION TO ALL OF THESE PROBLEMS: IT IS ASSUMED THAT EVERY ENTREPRENEUR NEEDS TO BORROW IN ORDER TO PROSPER.

WHILE I AGREE THAT CREDIT IS AN EXTREMELY VALUABLE SERVICE THAT OUTSIDE DONORS CAN HELP TO PROVIDE...FINANCE ACTUALLY PLAYS A SUPPORTING ROLE IN ANY ECONOMY.

MARKETS...SKILLS...AND A SUPPORTIVE ENVIRONMENT DETERMINES THE POTENTIAL FOR SUCCESS OF A BUSINESS. CREDIT IS POWERLESS IS THESE CONDITIONS ARE FOUND WANTING.

HAVING SAID THAT...IT IS ALSO TRUE THAT...IN GENERALLY FAVORABLE CIRCUMSTANCES...CREDIT CAN BE VERY IMPORTANT... HELPING ENTREPRENEURS GROW...AND EXPAND...AS THEIR BUSINESSES PROSPER.

A.I.D....IN FACT...IS MAKING EVERY EFFORT TO FIND...AND PROMOTE...THE DEVELOPMENT OF GOOD MICROENTERPRISE CREDIT PROGRAMS.

WE AND OTHERS ARE BEGINNING TO SHARE A VISION OF A TIME WHEN THIS PROBLEM WILL BE LARGELY SOLVED THROUGH THE OPERATION OF SPECIALIZED FINANCIAL INSTITUTIONS THAT HAVE LEARNED TO LEND TO MICROENTERPRISES AT VERY LOW...OR NO... SUBSIDY.

THAT TIME IS NOT YET HERE...BUT THE ACCOMPLISHMENTS OF PROGRAMS LIKE BKK...<u>KOO</u> PE DESS...GRAMEEN BANK...AND ACCION INTERNATIONAL...HAVE GIVEN PROMISE THAT THE VISION CAN EVENTUALLY BE REALIZED.

THIS VISION DEPENDS ON THE BIRTH...NURTURING...AND GROWTH OF SOUND INSTITUTIONS WHOSE PURPOSES INCLUDE THE PROVISION OF CREDIT...AND OTHER SERVICES TO THE POOR.

IF WE TAKE SUCH A PERSPECTIVE...IT IS IMMEDIATELY APPARENT THAT WHAT MATTERS MOST IS HELPING INSTITUTIONS TO REACH LARGE NUMBERS OF THE POOR...WITH LOW OR NO SUBSIDY.

LOAN SIZE AND OTHER SUPERFICIAL ATTRIBUTES OF A PROGRAM DO NOT MATTER...AS LONG AS THEY CONTRIBUTE TO THE HEALTH OF SUCH AN INSTITUTION.

THE LARGE...SUCCESSFUL MICROENTERPRISE LENDING INSTITUTIONS DIFFER FROM EACH OTHER IN MANY RESPECTS...INCLUDING SIZE OF LOAN...LENDING MECHANICS...USE OF GROUP LENDING...AND LOAN TERMS.

WHAT THEY HAVE IN COMMON ARE LENDING METHODOLOGIES THAT BLEND INFORMAL FINANCE WITH MODERN...STREAMLINED CREDIT MANAGEMENT.

A.I.D.'S MICROENTERPRISE PORTFOLIO REFLECTS THE FACT THAT THE ELEMENTS OF SUCCESS IN THIS DIFFICULT ENDEAVOR ARE ONLY BEGINNING TO BE UNDERSTOOD -- THERE ARE SIMPLY NOT VERY MANY INSTITUTIONS THROUGHOUT THE DEVELOPING WORLD THAT HAVE DEMONSTRATED THE POTENTIAL TO BECOME LARGE...LOW-SUBSIDY MICROENTERPRISE LENDERS.

THE THIRD NEED OF MICROENTREPRENEURS IS FOR BUSINESS AND TECHNICAL KNOW HOW.

GIVEN THE HIGHLY COMPETITIVE CONDITIONS THAT MOST MICROENTREPRENEURS FACE...THEY MUST BE VERY COMPETENT BOTH IN THE TECHNICAL ASPECTS OF THE BUSINESSES...AND IN MANAGEMENT.

MOST MICROENTREPRENEURS DEVELOP THESE SKILLS FROM PARENTS WHO PASS DOWN THEIR BUSINESS SENSE TO THEIR CHILDREN...OR FROM MASTER CRAFTSMEN WHO TAKE ON APPRENTICES...AND ENTREPRENEURS LEARN SIMPLY THROUGH THEIR OWN HARD WORK AND INGENUITY.

YET...THERE IS A LEVEL AT WHICH THE MICROENTREPRENEUR MAY NEED OUTSIDE ASSISTANCE. THIS IS TRUE FOR THE VERY POOREST... WHO ARE ATTEMPTING TO OPERATE AN ENTERPRISE FOR THE FIRST TIME...MOVING OUT OF ABSOLUTE POVERTY...AS WELL AS FOR THE MICROENTREPRENEUR WHO IS POISED TO EXPAND HER BUSINESS AS PROSPERITY COMES HER WAY.

LASTLY...THESE ENTREPRENEURS MUST HAVE A MARKET FOR THEIR PRODUCTS OR SERVICES. OUTSIDE OF THE NURTURING ENVIRONMENT...THIS IS PROBABLY THE MOST IMPORTANT OF THE FOUR NEEDS...AND A DIFFICULT ONE TO ADDRESS.

MOST MICROENTREPRENEURS SELL THEIR PRODUCTS TO POOR CONSUMERS. THEREFORE...BY FAR THE BEST WAY TO PROMOTE MICROENTERPRISES IS TO MAKE SURE THAT THE POOR HAVE INCREASING PURCHASING POWER.

IN DEVELOPING COUNTRIES THAT ARE DOMINATED BY AGRICULTURE -- WHICH IS THE MAJORITY OF THEM -- MOST POOR CONSUMERS ARE SMALL FARMERS.

THIS MEANS THAT A HEALTHY...EXPANDING AGRICULTURAL SECTOR IS A PRECONDITION FOR MICROENTERPRISE GROWTH,

BY DEVOTING A VERY SUBSTANTIAL SHARE OF ITS TOTAL BUDGET TO SMALL FARM AGRICULTURE...A.I.D. HAS LONG BEEN SUPPORTING MICROENTERPRISES IN A CRUCIALLY IMPORTANT...THOUGH INDIRECT...WAY.

HOWEVER...THE CHALLENGE REMAINS FINDING WAYS TO NEW MARKETS FOR MICROENTREPRENEURS WITH SOME GROWTH POTENTIAL...SUCH AS BY FORGING LINKAGES WITH MEDIUM AND LARGE SCALE BUSINESSES AND EXPORTERS.

WHEN THEY CONNECT WITH THESE MARKETS...MICROENTREPRENEURS REACH BEYOND THE LIMITED RESOURCES OF POOR COMMUNITIES...TO BUYERS WITH FAR MORE MONEY...AND...IN TURN...BRING SOME OF THAT MONEY BACK INTO THEIR OWN COMMUNITIES...HELPING TO COMPLETE THE CYCLE OF RESOURCES FLOWING INTO THE HOMES AND COMMUNITIES OF THE DEVELOPING NATIONS.

TODAY...I DON'T THINK THERE'S A QUESTION IN ANYONE'S MIND OF WHETHER MICROENTERPRISE DEVELOPMENT IS NECESSARY OR NOT... RATHER...I THINK IT'S BECOME A QUESTION OF HOW TO CONTINUALLY MAKE OUR MICROENTERPRISE PROGRAM EVEN MORE SUCCESSFUL.

AT A.I.D....WE'VE SPENT THE LAST TWO YEARS TAKING A VERY CLOSE LOOK AT OUR VARIOUS MICROENTERPRISE ACTIVITIES...AND HAVE EMERGED FROM THIS STUDY WITH A COMPREHENSIVE MICROENTERPRISE PROGRAM WHICH WILL HELP US TO RUN A MORE VISIBLE MICROENTERPRISE PROGRAM WHICH WILL...AT THE SAME TIME...MAKE BETTER USE OF OUR RESOURCES...AND BE OF GREATER BENEFIT TO THE POOR.

THE HEART OF THE PROGRAM WILL...OF COURSE...BE THE FUNDING A.I.D. PROVIDES DIRECTLY TO MICROENTERPRISE PROGRAMS -- PRIMARILY THROUGH FIELD MISSIONS.

THROUGH THIS FUNDING...A.I.D. CAN BUILD STRONG... SUSTAINABLE MICROENTERPRISE PROGRAMS IN HOST COUNTRIES WHICH WILL NOT ONLY BENEFIT THE POOR TODAY...BUT WILL BE THERE TOMORROW...AND NEXT MONTH...AND NEXT YEAR...GROWING AND PROSPERING ALONG WITH THE PEOPLE.

WE WILL CONTINUE TO APPLY THE FUNDING TO A MIXED SET OF ACTIVITIES THAT ADDRESS THE FOUR BASIC BUSINESS NEEDS...AS WELL AS THE REQUIREMENTS OF INSTITUTIONAL DEVELOPMENT NEEDED TO SUPPORT DIRECT ASSISTANCE.

HOWEVER...AS PART OF THE NEW PROGRAM...WE PROPOSE TO PROMOTE GREATER EMPHASIS...AND GREATER FUNDING...ON THREE TYPES OF PROGRAMS:

- O CREDIT PROGRAMS THAT USE A MINIMALIST CREDIT METHODOLOGY;

- O EXPERIMENTAL FORMS OF NON-FINANCIAL ASSISTANCE; AND

- O REGULATORY REFORM ACTIVITIES.

THESE ARE THE TYPES OF PROGRAMS THAT HAVE SHOWN THE GREATEST PROMISE IN RECENT YEARS FOR IMPROVING THE PERFORMANCE...AND SUSTAINABILITY...OF MICROENTERPRISES...AND THE INSTITUTIONS WHICH ASSIST THEM.

INCREASING THE SHARE OF MICROENTERPRISE ASSISTANCE DEVOTED TO THESE ACTIVITIES WILL REQUIRE AN INTERNAL EFFORT OF PROMOTION AND EDUCATION OF A.I.D. STAFF...AS WELL AS THE STAFFS OF ORGANIZATIONS A.I.D. WORKS WITH...SUCH AS U.S.-BASED PVOS.

FINALLY...AND VERY IMPORTANTLY...A.I.D. WILL CONTINUE TO WORK CLOSELY WITH THE PEACE CORPS.

I KNOW MANY OF YOU HAVE HAD A WEEK'S WORTH OF VERY PRODUCTIVE MEETINGS AT THE A.I.D./PEACE CORPS WORKSHOP. STRENGTHENING THE COOPERATION OF OUR TWO ORGANIZATIONS WILL BE OF GREAT HELP TO CARRYING OUT OUR MICROENTERPRISE PROGRAM IN WASHINGTON...AND IN THE FIELD...WHERE IT REALLY COUNTS.

TURNING A DISPARATE SET OF ACTIVITIES INTO A FOCUSED PROGRAM WILL REQUIRE AN AGENCY-WIDE EFFORT OF PROMOTION...EDUCATION...AND COORDINATION.

THAT IS WHY I HAVE CREATED AT A.I.D. A BRAND NEW OFFICE OF SMALL AND MICROENTERPRISE DEVELOPMENT WITHIN THE BUREAU FOR PRIVATE ENTERPRISE...WITH A CLEAR MANDATE TO TAKE THE LEAD IN IMPLEMENTING THE PROGRAM.

THAT OFFICE WILL BE RESPONSIBLE FOR THE VARIOUS ELEMENTS OF THE PROGRAM...INCLUDING THE GEMINI PROJECT -- WHICH...AMONG OTHER THINGS...WILL DISSEMINATE THE INSTITUTION-STRENGTHENING PRODUCTS OF THIS MEETING'S SPONSOR...THE ARIES PROJECT -- THE PEACE CORPS PROGRAM...THE MICROENTERPRISE MONITORING AND INFORMATION SYSTEM...LIAISON WITH A.I.D.'S ADVISORY COMMITTEE ON MICROENTERPRISE DEVELOPMENT...AND COORDINATION OF THE MICROENTERPRISE PROGRAM WITHIN THE AGENCY.

AT THE SAME TIME...THE REGIONAL BUREAUS WILL BE ASKED TO PLACE INCREASED EMPHASIS ON THE MICROENTERPRISE ACTIVITIES OF THE REGIONS.

THE AFRICA BUREAU HAS ALREADY DONE THIS...BY FUNDING A REGIONAL ADVISOR WHOSE TASK IS TO WORK WITH AFRICA FIELD MISSIONS. THAT ADVISOR IS ALREADY WELL INTO THE PROCESS OF HELPING MISSIONS MOVE FROM A "TARGET OF OPPORTUNITY" APPROACH TO MICROENTERPRISE ASSISTANCE... TO A MORE HOLISTIC APPROACH THAT CONSIDERS ALL FOUR BASIC BUSINESS NEEDS OF MICROENTERPRISE.

I ANTICIPATE...AND LOOK FORWARD TO THE OTHER TWO REGIONAL BUREAUS TO FUND SIMILAR POSITIONS...WHICH ARE SO CRUCIAL FOR FACILITATING THE AGENCY-WIDE LEARNING PROCESS THAT MUST GO ON.

IT'S ALSO IMPORTANT TO NOTE THAT THE GEMINI PROJECT WILL BE A MAJOR VEHICLE FOR IMPLEMENTING THE NEW PROGRAM...WORKING BOTH WITH A.I.D. WASHINGTON...AND WITH FIELD MISSIONS...TO PROMOTE MORE EFFECTIVE SUPPORT FOR MICROENTERPRISE DEVELOPMENT.

IN PARTICULAR...GEMINI WILL CONDUCT A MAJOR PROGRAM OF ACTION RESEARCH ON THE EXPANSION AND PROMOTION OF THE KIND OF CREDIT PROGRAMS THAT CAN SERVE LARGE NUMBERS OF THE POOR...WITH LITTLE -- OR NO -- SUBSIDY.

THIS ACTION RESEARCH WILL EXAMINE HOW LARGE...FINANCIALLY SELF-SUFFICIENT PROGRAMS ARE BUILT...AND WILL HELP INDIVIDUAL CREDIT PROGRAMS TO PUT THOSE FINDINGS INTO ACTION.

OBVIOUSLY...A.I.D. WILL CONTINUE TO NEED THE ADVICE OF AN INDEPENDENT COMMITTEE OF EXPERTS...SUCH AS THE ADVISORY COMMITTEE ON MICROENTERPRISE...IN ORDER TO BE SURE THAT THE NEW MICROENTERPRISE PROGRAM IS ACHIEVING ITS OBJECTIVES.

IN FACT...THE OBJECTIVES I JUST MENTIONED FOR OUR NEW MICROENTERPRISE OFFICE...REFLECT MANY OF THE SUGGESTIONS MADE BY THE ADVISORY COMMITTEE JUST LAST MONTH.

I HAPPEN TO THINK THAT -- OF ALL THE DEMANDS PLACED ON AMERICA'S CONSTRAINED FOREIGN AID BUDGET -- THE MICROENTERPRISE PROGRAM REPRESENTS ONE OF THE MOST EFFECTIVE AND SUSTAINABLE DEVELOPMENT ACTIVITIES WE FUND.

NOW...IT'S GOTTEN EVEN BETTER...AND THE FUTURE LOOKS BRIGHT INDEED FOR AN EVEN MORE EXPANDED ROLE...AS WE CONTINUE TO WORK FOR SUSTAINABLE...BROAD BASED ECONOMIC GROWTH IN DEVELOPING NATIONS -- GROWTH THAT HELPS THE POOREST OF THE POOR TODAY...YET IS ALSO A VEHICLE THAT CAN ALLOW THEM TO GROW...AND PROSPER...WITH TIME.

AS PRESIDENT BUSH HAS POINTED OUT OVER AND OVER AGAIN: FREE ENTERPRISE WORKS...ENTREPRENEURALISM WORKS...AND THE DRIVING FORCE FOR THE SPREAD OF MARKET-DRIVEN IDEAS IS NONE OTHER THE THE UNITED STATES OF AMERICA.

TO BRING IT CLOSER TO HOME...IT IS...IN LARGE PART...DRIVEN BY <u>YOU</u>.

I THINK WE ALL REALIZE THE IMPORTANCE OF THE WORK YOU ARE DOING. MICROENTERPRISE DEVELOPMENT IS TRULY A "PROGRAM FOR ALL SEASONS"...AND A.I.D. WILL DO EVERYTHING IT CAN TO SUPPORT YOU IN THAT EFFORT.

SO...KEEP UP THE GOOD WORK...AND WE'LL TRY TO KEEP UP WITH YOU.

COMMENTS OF MICHAEL FARBMAN AT ARIES CONFERENCE

"WHERE SHOULD A.I.D. GO WITH MICRO AND SMALL ENTERPRISE?

5 March 1990

The purpose of my remarks is to review where we started in A.I.D. on a systematic program of SSE development, and how we got to where we are now -- that is, poised to review the substantial corpus of ARIES, and in a smaller way anticipating the work of GEMINI.

I have titled this talk: "SSE, an Approach for all Seasons".

In preparing for it, I re-visited a lot of documentation on early events along this road. I did this in order to refresh my memory and to take me outside current preoccupations (such as A.I.D.'s report to Congress on microenterprise, our data-gathering exercise, etc.), which as many of you will know, has to do with the growing Congressional and external attention which our program, especially in ME development, is attracting.

Returning to this review, inevitably, I was struck by some of what I saw --

Struck by how much we -- A.I.D. as an organization -- and the substance of SSE development, have changed along the way

Also, struck by how much things remain the same.

I would like to share some of my impressions with you in more or less anecdotal form. I leave substantive rigor and discipline -- on this occasion -- to those who will follow me later today and during the week.

The subject at hand is, of course, what has been most generally referred to as small-scale enterprise development. Let's agree not to disagree on definitions at this point -- accept SSE, like microenterprise, informal sector, pre-entrepreneurial, as terms of art . . . we all know them when we see them.

[It's fair to say that among the enduring problematic aspects of this material, definitions of what we mean are right out in front!]

We can go so far back in a historic review as to cite activities sponsored by A.I.D. under the Alliance for Progress, but I choose to begin with the mid-1970s. That was the period when anything resembling a "program" in SSE began to take shape at A.I.D. Perhaps more importantly, that was when outside organizations began for their own reasons to get increasingly involved.

It is a commentary on just how mature A.I.D.'s efforts are that I am sure there will be some people in attendance today who won't immediately resonate to or even recognize the phrase, "New Directions".

The 1973 New Directions legislation basically instructed the Agency to focus on direct assistance to the poor majority. Much of the logic and rationale for A.I.D. programming in the field, and AID/Washington support activities, in the SSE area was driven by this paradigm.

For instance, SSE in relation to New Directions:

- o Even without the substantial survey research base that was to follow, it was well known that both the rural and urban poor majority engaged primarily or at least in part in small-scale production activities in order to generate incomes. Evidence for this position had become abundant during the early 1970s, courtesy of the research of the ILO World Employment Program.

- o With respect to "direct assistance", how much more direct could you get [on the economic side] than assisting these self-employed and small-scale poor producers with firm-level inputs such as credit, training, TA, etc?

As a result, the mid-70s was a period of substantial mobilization to better understand and reach directly this target group under A.I.D. support:

- o In the field it was the period of the growth of the "operational program grant" (OPG). Increasing numbers of U.S. PVOs were registering and receiving from USAIDs grant assistance in all the traditional sectors. "PVO co-finance projects" grew then too.

- o Complementarily, A.I.D./Washington was supporting "development program grants" and other programs to assist those PVOs that were interested to convert from a relief and rehabilitation focus to more economically-oriented activities, including for SSE development.

- o ATI was launched, to carry out a small grant program (not unlike assistance from the IAF) directly with NGOs and grassroots organizations that addressed primarily the technology needs of poor, principally rural producers.

*** The result? While in the mid-70s there were a mere handful of PVOs -- ACCION, PfP, Technoserve, IIDI, maybe one or two more -- that were into SSE development, today there is SEEP -- an ex oficio institutional member of the ARIES project, as it were -- numbering more than 30 PVOs which either primarily or in substantial part operate field projects in SSE development.

- o A.I.D. began several important research and R&D initiatives at that time which have had substantial bearing on the technologies and approaches to SSE assistance now practiced:

MSU: Beginning in Sierra Leone and Nigeria, Michigan State launched what eventually became with A.I.D. support a body of 13 country surveys, in all regions, which provided us insight into the size, distribution, constraints and other descriptors of the nonfarm, SSE sectors in LDCs. In some countries, MSU's data were eye-openers to governments, most of which had substantially underestimated the size of the sector. (Bangladesh official statistics undercounted by a factor of 20!) But, for A.I.D., working under the New Directions mandate, it also confirmed the appropriateness of this target group for our assistance. The data gathered also helped in project identification and design.

-But what form should this assistance take?
-Through what sorts of institutions should it move?
-And for what purposes -- economic, social, humanitarian?
-And what about cost-effectiveness?

Enter PISCES. Don't want to dwell on it overly in detail -- wish to cite some interesting points that arose in reviewing documentation. It was one-third of a larger project -- Small Enterprise Approaches to Employment -- which also looked at impact evaluation of SSE projects and the relationship between shelter-related activities and employment in SSEs.

PISCES Phase I's objectives were to answer the following three questions:

1 Is it possible to reach very poor [urban dwellers] and provide them assistance in respect of their self-initiated economic activities?

2 What methodologies/approaches seem to be effective and would generalizable aspects emerge from studies of them?

3 What are the implications for A.I.D. and other donors and how can they be helped to get into this business at the project level?

I looked back through some of the documentation (e.g., reports from public meetings like this one, project documents, publications), to see what were the issues that were most prominent then, and which ones that preoccupy us today were absent? Some examples:

- We had massive debates on whether the goals of this type of assistance were or ought to be predominantly social or economic. This was an era, mind you, when social objectives were considered quite legitimate in such projects. As it happened, PISCES was being implemented by a consortium of organizations whose philosophies differed fundamentally on such issues, and the discussions reflected this diversity.

- There was a large fixation on effectiveness of project interventions, i.e., how effective was the targeting with respect to people who were otherwise without access to whatever resources were being provided? Of what utility tc entrepreneurs were the various inputs offered, such as credit and TA/training? (As with SSE definitions, is there a more enduring debate, and factual non-closure in this business than the credit vs. non-financial assistance debate?)

- Manufacturing vs. retail/commercial: Today we appreciate more the integrated and complementary aspects, and use such tools as subsector analysis in ways as to make this distinction moot.

- Interestingly, there was not a lot said about cost-effectiveness, and perhaps that is correct given the predominance of the targeting concern. It was always a separate discussion when we took up the topic of just how costly the institutional infrastructure or training services were.

- The initial focus was very much on credit, not so much because there was a certainty of its need -- we know now that it often is not -- but because the techniques for effective delivery of it were easier to establish and institutional capacity to supply it (at some cost) were in principle creatable.

- On reflection I find it interesting that despite the then-operational widespread use of subsidized credit in small-farmer projects, the large majority of partisans to the PISCES objectives then (as now) eschewed interest rate subsidies for end-users.

- In the era before the rise of the concept of "transactions costs" it was convenient to acknowledge the high interest rates paid to curb lenders -- seen as exploitation, and to be eliminated by our interventions -- without the "modern" interest in money-lenders as a sustainable alternative informal channel for meeting non-bankable entrepreneurs' credit needs.

- The phrase "informal sector" was often used as a descriptor of the group we were interested in. These were the innocent days of the ILO working understanding of that phrase, defined by Sethuraman as consisting of "those small-scale entities that are mainly motivated by employment and income generation rather than capitalistic or profit-making opportunities, and are small in size." The profundities such as property rights, mercantilism, transactions costs, incentives and regulation, in terms of which, thanks to Mr. de Soto, we now define "informality" were not yet on the agenda.

- And there were big debates on whether to group recipients together for their "treatment" (be it credit, training, market development) or to deal with individuals. This debate was tinged with social and equity dimensions, efficiency dimensions, and although not articulated as such, incentive/competition dimensions, and assumptions about behavior.

- Use of the term "microenterprise": This was not used much at the beginning. In practice it emerged in Dominican Development Foundation PISCES demonstration project to distinguish between solidarity group assistance versus individual entrepreneur assistance. From here it came into more general use, replacing phrase "smallest economic activities of the poor".

The summary result of PISCES I was the documentation of a lot happening in this domain, using every conceivable institutional form, delivering the full array of inputs to firms, with effectiveness and cost structures running the gamut. Clearly SSEs were being reached, donors were part or could be an increasing part of such programs, especially together with NGOs, and it was judged that A.I.D. in particular ought to move ahead to the next phase of consolidating this new knowledge base.

Enter PISCES Phase II to advance this SOTA yet further, through demonstration projects.

PISCES II began in 1981/2, and bridged the change in Administrations. PISCES II was intended to take the lessons learned and documented by PISCES I and put them to work through design of USAID-sponsored field demonstration projects which would be carefully monitored and documented with the eventual hope that, if successful, this success could be converted into a serious "program" of A.I.D. support to this level of economic activity among the poor majority.

Before that could happen, however, A.I.D. underwent a dramatic change in its strategic development approach. While poverty reduction remained firmly on the agenda, the "private enterprise" approach to achieving this objective -- formerly embodied, though never celebrated as such, in our extant SSE concerns -- was put in the forefront in A.I.D.'s program.

Who here can still name A.I.D.'s so-called "four pillars"? In many ways they supplanted the "direct assistance to the poor majority" pre-eminent concern that characterized the early years of SSE growth in A.I.D.

The message was to become not that SSE was no longer appropriate, but that it would be rationalized under the new paradigm. While it modified some aspects of directions already established, at the same time it opened up new avenues of concern and caused our SSE initiatives to become more comprehensive, more aware of the wider economy of which they were a large part (in employment if not GDP).

What did this mean?

- Sustainability of SSE institutions became of paramount concern.

- Demand-side concerns, which had been quite subordinated to a fundamentally supply-side approach in PISCES I, had to be given higher priority.

- Primacy was given to relying on undistorted and efficient markets which, at least in SSE projects, threatened the special targeting focus that was behind many such projects (e.g., targeting those who were poor, had no access to formal credit, low skilled, etc.).

- Economic efficiency at the firm level grew as a concern -- as it did at all levels of the economy. Fortunately we had a good foundation here based on the secondary analyses done on the MSU survey data which showed where SSEs were more, or less, efficient in their use of scarce resources than larger firms.

- And of course the ideas of Hernando de Soto emerged (with A.I.D. support). While concerned for largely the same majority small-scale producer group as was the A.I.D. SSE community, de Soto provided a whole new way of analyzing and understanding the constraints under which "the informal sector" operates, which suggested a whole additional treatment approach that had previously not been large on anybody's radar.

- In summary, the focus had shifted dramatically from direct to indirect approaches, although it continued to be appreciated that direct approaches would continue to be valuable.

Finally, during the few years in the late 1980s under Alan Woods' stewardship, the larger A.I.D. environment was characterized by a concern for "broad-based and sustainable economic growth".

If broad-based and sustainable economic growth was the question, were SSE projects at least part of the answer?

- From the perspective of breadth of the base, there could be little question.

- From the perspective of economic growth, with MSU's work, the lessons of A.I.D.'s Employment and Enterprise Policy Analysis project related to dynamic small firm growth and what was learned from the 1988/89 A.I.D. Microenterprise Stocktaking, a credible case was made concerning potential contributions from SSEs, particularly where demand was expanding.

- Sustainability was more equivocal: The record shows beyond most people's doubt that firm-level sustainability, as an objective of A.I.D. SSE assistance, was being achieved. We were and are less certain about the institutions which are a necessary part of an SSE promotion program, and toward the strengthening of which, indeed, most A.I.D. resources are directed.

So, if the remaining question is institutional efficiency and sustainability, is ARIES the answer?

You will have this week to judge for yourselves. But I would like to register a few historic observations:

By design ARIES has been intended to be a consolidator of the knowledge gained and lessons learned from the sustained efforts that preceded it, such as PISCES, MSU and the many smaller initiatives of A.I.D., as well as attempting to capture the knowledge base and SOTA advances being created outside A.I.D.

In short, what did these antecedents give us that required further work?:

- They identified management of implementing organizations as a key to efficiency and sustainability;

- They systematized technical knowledge on how to structure enterprise assistance projects;

- They developed a general framework of how to improve the management of institutions and the technical functions -- especially credit delivery -- they were intended to carry out; and

- They confirmed the need for a systematic strategy, based on training, TA and information diffusion, for disseminating widely to the practitioners who would be responsible for performance the knowledge base that had been accumulated at no small cost.

All of this knowledge concerning weaknesses and needs of implementing organizations was intended to be integrated and focused on one over-arching objective: To design, package and disseminate effective ways for SSE practitioners to meet these needs.

It was simply not enough to just state the problems, or to produce monographs and manuals analyzing them and even to suggest what ought to be done. Face-to-face work would be required with the leaders of programs and those external experts who were assisting them in planning and managing their operations. Active transfer of requisite skills was required.

Until ARIES, the primary consumers of the knowledge base were inside A.I.D. and other arms-length organizations. Moving the state of the art beyond this group to practitioners was the ARIES task.

Thus ARIES was driven to develop the teaching cases, training sessions, short term TA services, the AskARIES Knowledgebase and the rest of what goes into "Building a Successful SSE Program" -- as this Conference is subtitled. As you will see, they have been the interpreters of the state-of-the-art to the U.S. PVO community and to A.I.D. in Washington and in the field. Most importantly, through field work in more than 25 countries they have had a direct impact on a large number of grassroots and other host country NGOs and on host country governments.

The A.I.D. antecedents to ARIES were trailblazers, and as pointed out in my earlier comments, left to ARIES the difficult tasks of requiting earlier risks and operationalizing the evolving knowledge-base.

At A.I.D. we have gone to great pains to sustain this continuous R & D, and applications effort over the last 13 years and will continue to do so.

FYI, for those few of you who may not already know, we have recommitted to this objective through the 5-year GEMINI project, which just began in October. The reviews of the ARIES products that will take place this week will be of crucial importance to the GEMINI inheritors, whose purpose is to continue to disseminate these products. Your role, as participants in the workshops, will be key to quality controling them.

Toward that end I wish you all a pleasant and productive conference. I also thank you for putting up with my somewhat random reminiscing over some of the ground covered in getting here today.

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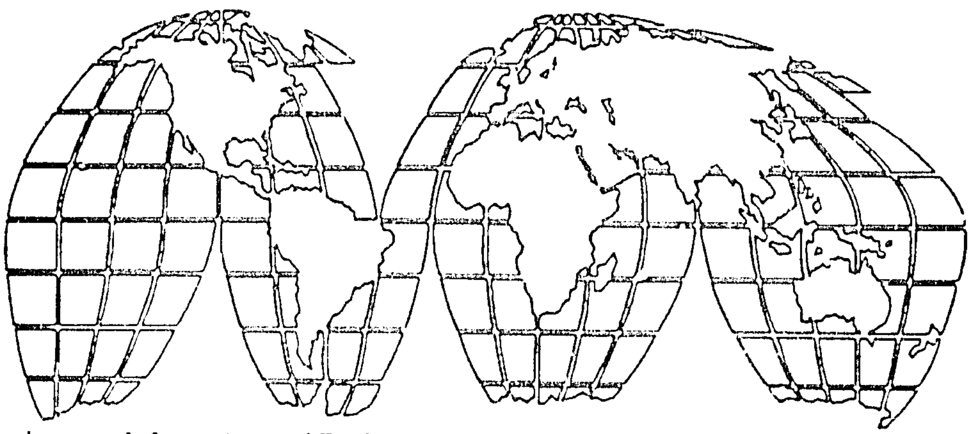
A.I.D. EVALUATION HIGHLIGHTS NO. 6 December 1989

The A.I.D. Microenterprise Stocktaking Evaluation



Center for Development Information and Evaluation
U.S. Agency for International Development (A.I.D.), Washington, D.C. 20523

This issue of A.I.D. Evaluation Highlights provides A.I.D. management with a short summary of the impacts, findings, lessons, and issues identified in a comprehensive Stocktaking Evaluation of A.I.D.'s Microenterprise Assistance Program. The study, which was completed in 1989, included field visits to 10 countries, covering 24 projects and additional analysis of data on another 8 A.I.D. projects.

SUMMARY

A.I.D. recently completed a CDIE-coordinated Stocktaking Evaluation of its Microenterprise Assistance Program. This major study provides a comprehensive analysis of microenterprises—who runs them, what they are doing, the problems they face, and the various approaches A.I.D. has used to accelerate their development.

The study highlights the heterogeneous character of microenterprises and the fact that they include a wide range of firms operating with various degrees of economic sophistication. An important contribution of the Stocktaking is the identification of three broad types of microenterprises and the assistance approaches A.I.D. has used to meet the needs of those three types of firms. Each approach has different objectives and different ways of achieving those objectives.

The study found that the poor are being reached. Although the poorest 20 percent generally do not become microentrepreneurs, they benefit from the employment opportunities generated by microenterprises. In addition, A.I.D. projects have been successfully reaching women entrepreneurs.

The Stocktaking found that in two-thirds of the projects, the average loan size greatly exceeds \$300. A \$300 average loan size only makes sense if the goal is to provide a limited and very narrow type of assistance, for example, short-term working capital loans.

There is often a tradeoff between concentrating on generating successful and sustainable businesses and the goal of targeting special disadvantaged groups. The most successful microenterprise programs tend to focus primarily on developing profitable and sustainable businesses rather than achieving social goals.

The study found that A.I.D. projects have had limited success in graduating microenterprises to nonconcessional, formal credit markets. As an alternative, the study recommends that rather than try to graduate firms, the programs themselves should graduate to nonconcessional sources of capital. These funds would then be retailed to the microenterprises by the program.

The study found that the enterprise expansion approach, which provides short-term working capital and minimal technical assistance and training, is the least costly method of reaching the largest number of beneficiaries. When the problems faced by microenterprises go beyond just credit, A.I.D. has much less knowledge of how to deliver cost-effective technical assistance and training.

BACKGROUND—WHY A STOCKTAKING WAS NEEDED

Over the last few years, within A.I.D., Congress, and the development community, there has been growing interest in microenterprise assistance. All agreed that it was an important area and that more needed to be done, but there was no agreement on exactly what the problems and solutions were. There were many different approaches that at times seemed to be at odds with each other.

In the summer of 1988, A.I.D. decided that it needed to learn more about its microenterprise program. The outcome was a Stocktaking, coordinated by A.I.D.'s Center for Development Information and Evaluation (CDIE), which had two objectives: (1) to take stock of existing A.I.D. programs and examine the different approaches being used and (2) to see what works best under which conditions. A.I.D. wanted to find out which characteristics separated the successful from the unsuccessful approaches.

The Stocktaking included a number of studies: an issues paper, a desk study of existing microenterprise evaluations, a statistical analysis of the present portfolio, field evaluations in 10 countries, and a synthesis that pulled together all of the studies. The synthesis report draws on a review of 32 microenterprise development projects.

A.I.D.'s MICROENTERPRISE ASSISTANCE APPROACHES

The term "microenterprise" naturally directs attention toward firm size as its primary distinguishing feature. In fact, in A.I.D.'s October 1988 Microenterprise Guidelines, one of the primary characteristics of a microenterprise is its small size (10 employees or fewer). Although size is a useful way of classifying enterprises, the study found that microenterprises are a heterogeneous group and there is a broad continuum of economic activity. Some microenterprises are at the low end, in survival-oriented activities on the fringes of the economy, whereas others are at the other end, in more complex and sophisticated microenterprises. An important contribution of this Stocktaking is the recognition of this diversity and the identification of three distinct assistance approaches that A.I.D. has used to match the economic constraints and opportunities of different types of microenterprises:

The enterprise formation approach. At the lowest level are the very poor or economically disadvantaged who want to start a business. Assistance usually takes the form of a community development program designed to overcome the social and economic constraints that prevent the poor from becoming entrepreneurs. These programs tend to have a high cost per beneficiary, with social benefits being more important than economic benefits.

Enterprise expansion approach. The goal of the second approach is to improve the performance of existing microenterprises. This approach usually relies on a minimum of inputs (usually only credit, although sometimes limited technical assistance and training) to reach a large number of firms at a relatively low cost per beneficiary.

Enterprise transformation approach. This approach strives to graduate larger clients up and out of the microenterprise sector. It is more costly per beneficiary reached than the other approaches, because it requires much more technical assistance and training. Table 1 identifies some of the main differences among the three microenterprise approaches.

THE IMPACT OF MICROENTERPRISE ASSISTANCE PROGRAMS

The Enterprise Formation Approach

Enterprise formation programs target highly disadvantaged groups and women, who are the

Table 1. Key Indicators in A.I.D. Microenterprise Stocktaking

Indicator (avg. amt.)	Program Approach: Enterprise formation	Enterprise expansion	Enterprise transformation
Beneficiaries			
Number served yearly	328	87,871	264
Women	59%	42%	27%
In manufacturing	54%	40%	60%
Loan size			
Dollar average	$508	$705	$3,261
Relative to per capita income[a]	1.2	2.0	10.2
Program Cost			
Per beneficiary	$948	$575	$2,549
Per dollar loaned	$ 3.24	$ 0.46	$ 1.08
Real interest rate[b]	3%	17%	0%
Lending for fixed assets	25%	20%	45%

[a] Loan Size in Relation to Per Capita GDP. This indicator compares loan size with income level. If an LDC has a per capita GDP of $150 and the average loan size is $300, the ratio would be 2.0. This indicator helps compare programs in countries with different levels of income. For example, a $300 loan in a country with a per capita income of $300 is quite different from a $300 loan in an LDC with a per capita income of $1,000.

[b] Real Interest Rate. This indicator deflates the nominal or stated rate of interest by rate of inflation.

poorest of the self-employed and the unemployed in economically remote areas or marginal urban areas. Despite the odds and the attendant risk of failure, the Stocktaking found that, under the right conditions, it is possible to design and implement programs that successfully develop viable microenterprises. In addition to the business promotion side, the projects often include community development and social services designed to improve the welfare of a distressed group of people.

All of the projects were able to deliver services to highly disadvantaged people and were able to generate positive (though often relatively small) beneficiary impacts. The programs generally focused their resources on a limited number of beneficiaries; often, only a few hundred people were reached each year. The program in Bangladesh was the exception, reaching more than a thousand beneficiaries a year.

The clients of these programs were indeed poor, but they were not necessarily the poorest in the areas of project activity. Nearly all of the programs reached a large proportion of women, both through explicit targeting and by focusing on the neediest groups in the local communities.

In spite of rather selective screening, a relatively high number of microenterprises participating in these programs failed (often 50 percent). This result is not unexpected, in light of the difficult business climate faced by a relatively inexperienced entrepreneurial group. The precarious economic conditions of the clients often meant that earnings were not reinvested in the enterprises, but rather were used to meet consumption needs.

Since enterprise formation programs deal with the poor and economically marginal, they usually include a high level of support, training, and technical assistance services. Economies of scale are often difficult to achieve, because the programs must be highly adaptive to the needs of the target population and loans are usually quite small. As a result, the cost per beneficiary tends to be relatively high, as does the cost per dollar loaned. Institutions that operate these programs are rarely financially self-sustaining.

The Enterprise Expansion Approach

Programs classified under the enterprise expansion approach do not try to transform their clients. Rather, these programs offer services—primarily credit—that enable microentrepreneurs to increase their sales and income and, in some cases, to generate new jobs. This approach is often called a "minimalist model," because it provides only one or two inputs and very limited support services. Typically, it is a financial services program, providing small working capital loans to a large number of borrowers.

The majority of programs target existing enterprises, looking for microentrepreneurs who have already successfully demonstrated their business skills. The programs generally develop a balance between "poverty alleviation" and "business development," although most microentrepreneurs would argue that business development is the means to alleviate poverty.

Enterprise expansion programs usually are oriented toward commercial and retail activities and, because of the high rate of female participation in informal sector commercial enterprises, tend to have a high proportion of women beneficiaries.

The most successful programs provide simple and quick loan application and disbursement, limited training, repayment terms that correspond to the cash flow of enterprises, and assurances of additional loans upon repayment. Program clients are less concerned with interest rates than with the simplicity and timeliness of the credit process. The Stocktaking found that microentrepreneurs are able and willing to finance their businesses (operations and expansion) at positive, real interest rates—interest rate subsidies are not needed.

Compared with the other two approaches, the cost per beneficiary and the cost per dollar loaned is generally very low for the enterprise expansion approach. The key to keeping costs low and achieving financial self-sustainability is the ability of an organization to focus on providing working capital credit, to employ efficient risk-reducing screening techniques, to charge market-level interest rates, and to maintain tight controls over loan delinquencies and arrearages. Some programs are already financially self-sufficient, and many of the others are moving in that direction.

The Enterprise Transformation Approach

The enterprise transformation approach seeks to accelerate the development of microenterprises that have demonstrated strong growth potential into even more productive, better managed, and more dynamic businesses. Programs are designed to help microentrepreneurs surmount barriers to entry at the small-enterprise level, thus positioning them on the road to graduation out of the informal sector. In effect, in many cases, the goal is to move them up and out of the microenterprise category.

Assistance is most commonly targeted to firms in the manufacturing sector rather than to firms in the retail, commerce, or service sector. The typical program provides clients with an intensive, often tailored mix of training, credit, and technical assistance. In all cases, loan approvals are based on detailed feasibility analyses of the proposed investment projects. As a result, loan application procedures can be complicated and the time from application to disbursement can be lengthy. A relatively large proportion of loans are provided for fixed capital (rather than working capital), and the average loan size tends to be significantly larger than under either the enterprise formation or the enterprise expansion approach. Interest rates tend to be quite low and in many cases the real interest rate is negative. These programs typically reach a small number of clients and, except when specifically targeted, do not reach a high proportion of women. This is because programs tend to emphasize manufacturing firms where women generally do not predominate. Cost per beneficiary tends to be high, but it is justified on the basis of the expectation of large long-term benefits.

FINDINGS

Reaching the Poor

A.I.D. projects clearly have demonstrated that it is possible to deliver services (training, credit, and technical assistance) to poor and highly disadvantaged people in remote locations. Although the poor are being reached, the very poorest usually do not become microentrepreneurs. In addition to a lack of skills and experience, they lack a minimum threshold of household resources necessary for success. However, the poorest do benefit from the jobs created by successful and expanding microenterprises.

Reaching Women

Most microenterprise programs are well suited to the goal of integrating women into the development process. The proportion of women beneficiaries is highest in programs that specifically target women and those that target assistance to urban and commercial microentrepreneurs—sectors that have proportionally high numbers of women participants. The enterprise formation projects (with their heavy emphasis on community development and reaching the poor) have the highest share of women beneficiaries (59 percent). Enterprise transformation projects (which include more manufacturing firms and generally larger firms) have the lowest share (27 percent). Enterprise expansion projects are in the middle, at 42 percent. Projects that focus solely on women or those with a high percentage of women participants generally perform no better or worse than those that focus on men. To the extent that problems develop, they are due to factors other than gender.

Sustainability

A.I.D. is interested not only in developing projects that generate substantial development benefits, but also in making sure that benefits continue to flow long after assistance ends. Therefore, it is important to develop programs and institutions that have the financial, organizational, and management capacity to be sustainable.

Programs that emphasize training and technical assistance (such as the enterprise formation and enterprise transformation approaches) generally have high overhead costs. Although management and program operations can be highly effective, financial sustainability all too often remains out of reach, and these programs tend to be heavily dependent on concessional assistance.

Programs in the enterprise expansion category are designed to support sustainable firms through a sustainable institution. They place a high value on moving toward full cost recovery, which means a minimum of technical assistance and training, while concentrating on providing loans to meet the short-term working capital needs of microentrepreneurs. Of the three approaches, the enterprise expansion approach is reaching the largest number of beneficiaries at the lowest cost per beneficiary and the lowest cost per dollar loaned. Programs that follow this approach have the best chance of achieving financial and institutional sustainability.

Business Development, a Means To Improve Welfare

The majority of A.I.D. microenterprise projects are implemented by private voluntary organizations (PVO's). These include religious and charitable organizations that apply a strong equity and social welfare emphasis to their microenterprise programs. This helps ensure that the poor and disadvantaged are reached, but if the emphasis is not balanced, the financial success of both the microenterprises and the lending institution can suffer.

The Stocktaking found that the more successful microenterprise programs focus first and foremost on the development of profitable and sustainable businesses. They target disadvantaged groups, but they focus primarily on supporting viable and sustainable business enterprises. Business development is a *means* to improve welfare.

Another important factor is whether an implementing institution expects to receive concessional assistance indefinitely. Programs that try to become self-sustaining, even when the goal is not reached or is even unattainable, generally perform more cost-effectively than programs that expect to continue receiving concessional assistance. If financial sustainability is an initial and major project goal, the project generally will do better.

Loan Size

The A.I.D. Microenterprise Guidelines include a number of criteria designed to target credit to new enterprises, to smaller enterprises, and to lower income beneficiaries. One technique is to limit the size of loans. According to the Guidelines: "The average loan size should not exceed $300 unless there are indications that larger-sized loans are needed to achieve the objectives of the program." The Stocktaking found that in two-thirds of the projects the average loan size was above the $300 guideline.

Although the average loan size exceeds the recommendation in A.I.D.'s October 1988 Microenterprise Guidelines, it is important to note that the projects examined in the Stocktaking were developed, implemented, and in many cases, completed before the Guidelines were developed.

Graduation

Graduation is a stated objective of many microenterprise programs and is included in A.I.D. Microenterprise Guidelines. Graduation in this case means the graduation of assisted microenterprises from donor programs into formal commercial markets; the key is the movement from a concessional donor project to the marketplace. While graduation from concessional assistance is a sound objective, almost all projects have difficulty graduating even their best-performing microenterprises. Formal sector banks are reluctant to deal with small borrowers who lack the type of collateral that they usually expect.

The Stocktaking suggests that A.I.D. should try to graduate microenterprise programs or institutions to commercial sources of funds rather than try to graduate the individual enterprises. The microenterprise institution would raise nonconcessional funds from the capital markets and then retail the money to microenterprises.

LESSONS LEARNED

The Credit Needs of Microenterprises

A.I.D. should place priority on supporting the development of commercially viable, nontargeted financial institutions that can, among other things, meet the short-term liquidity needs of microentrepreneurs. Businesses, regardless of size, require access to financial services. In almost all microenterprise programs, credit is an important element that provides necessary services to large numbers of beneficiaries. A.I.D. microenterprise programs have developed innovative screening and lending procedures, and they have performed well by commercial standards. A.I.D. should continue to follow this successful approach.

Training and Technical Assistance

Training and technical assistance programs should be supported, but only when they respond to clearly identified business needs of microentrepreneurs. There is a danger that programs might push extensive training efforts that go beyond the needs of their clients. Because training and technical assistance are usually the most expensive components of microenterprise assistance, they must be limited in scope and closely linked to the immediate business needs of the microenterprises being served.

OUTSTANDING ISSUES

Loan Size

The actual loan size in A.I.D. microenterprise projects and the suggested loan size in the A.I.D. Microenterprise Guidelines differ; there may be a need to change one or the other. Although the Guidelines call for an average loan size of $300, the Stocktaking found that in actual practice only one-third of the programs met that standard. Given that nearly all of the projects were started before the Guidelines were in place, it would seem that either the Guidelines will have to be changed to reflect actual practice or projects will have to shift their emphasis to much smaller loans. Credit programs that meet the $300 standard typically provide only small working capital loans. If A.I.D. shifts to the $300 loan limit, it will also have to shift its program emphasis to a working capital type of loan program.

Costs and Benefits

For each project, the Stocktaking was able to identify the cost per dollar loaned and the cost per beneficiary reached, but data were rarely available on the benefits of microenterprise programs. In judging the economic value of an approach, it is important to have both sides of the equation—costs and benefits. The Stocktaking did an excellent job of quantifying the costs by assistance approach. More effort is needed to quantify the benefits of microenterprise programs.

The Need To Develop New Approaches

The Stocktaking identified how to reach the most beneficiaries at relatively low cost—the enterprise expansion approach. That type of program focuses on a service (small, short-term loans), a market (usually the urban informal sector), and an appropriate technology for delivering the service efficiently and at a low cost. If financial self-sustainability and cost-effectiveness are considered the criteria for successful program performance, A.I.D. should continue to place priority on the enterprise expansion (or credit minimalist) approach. However, the Stocktaking does suggest that there is a need to go beyond programs that focus principally on the working capital constraint. The enterprise expansion approach, which focuses almost exclusively on working capital credit, reaches only a very small proportion of the client population. The needs of the vast majority of microenterprises cannot be satisfied merely by providing small working capital loans. A.I.D. needs to learn how to use other approaches to reach entrepreneurs who need inputs other than working capital and those located in less densely populated areas.

This summary was prepared by Joseph Lieberson and is based on A.I.D.'s 1989 Stocktaking Evaluation of its Microenterprise Assistance Program. The Stocktaking was coordinated by A.I.D.'s Center for Development Information and Evaluation and included a conceptual overview paper, an issues paper, a statistical analysis of the program, 10 individual country studies, and a synthesis report. This Evaluation Highlight draws together the analysis and findings of those documents. The views and interpretations are those of the author and are not necessarily those of the Agency for International Development. Any comments or inquiries about this Stocktaking Evaluation should be sent to the Center for Development Information and Evaluation, Bureau for Program and Policy Coordination, Agency for International Development, Washington, DC 20523-1802.

Section B

THE CASES

Introduction

The two cases that follow are drawn from the book *Seeking Solutions*.[2] They illustrate important issues in MSE programming that fall into four major categories.[3]

Understanding the Sector and Its Environment

A preliminary concern is understanding the dynamics of the microenterprise sector within the given country. To quote from *Seeking Solutions*, "The great extent of local and regional variations in small business people and their circumstances and therefore the need for careful analysis of local context in program and project preparation." It is necessary to know who is in the sector, where are they located, and what constraints and opportunities do they face, as well as to understand the cultural environment and its unique value system.

The Malawi cases raise the question of sectoral knowledge and, specifically, the question of whether MSE programs can be successful without specialized microenterprise and Women In Development expertise. Bolivia Case A addresses the issue of whom to target—micro- or small enterprises—

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2. Charles Mann, Merilee Grindle, and Parker Shipton. *Seeking Solutions: Framework and Cases for Small Enterprise Development Programs* (West Hartford, Conn.: Kumarian Press, Inc. 1989).

3. Several cases from *Seeking Solutions* address important issues in MSE programming. These are BRAC (A), (B), and (C); The Grameen Bank Project (A), (B), and (C); and Senegal Community and Enterprise Development (A) and (B).

The consensus of the groups analyzing the cases at the March 1990 workshop was that programming for the sector cannot be done without adequate knowledge of the sector. It is a false exercise to undertake without sectoral surveys and analyses because the MSE sector differs so sharply from country to country and within any one country.

Next the institutions available to serve MSEs must be surveyed, including their capacities, purpose, and means. In this regard, both of the Bolivia and Malawi cases were concerned with evaluating particular institutions' capacities and the burden A.I.D. could reasonably place upon them.

Outlining the Options in Design

Program designers must know the options available in project design and their impact on the constraints identified above. It is generally recognized that these constraints differ systematically from place to place, in addition to the overall difference between the goals for enterprise formation, expansion, or transformation.

The Malawi cases as well as the Senegal ones from the *Seeking Solutions* volume are concerned with whether it is better to have a free standing project or to integrate MSE into larger projects. The Bolivia A case is concerned with whom to target (micro- or small enterprise), what optimal service mix to provide (credit technical assistance and/or policy reform initiatives), and what types of enterprises to assist (production or service-oriented).

The Bolivia B case is largely concerned with the importance and feasibility of graduating enterprises out of the special programs created for them.

Choice of Target Beneficiaries

This issue focuses on the goals eventually sought. In the Bolivia cases, one question is which clientele group and consequently which intermediary organization will secure A.I.D.'s goals. Both the Malawi and Bolivia cases address how to increase womens' representation in the target beneficiary population.

Choice of Implementing Institution

Does the chosen institution have the characteristics necessary for effectiveness? This is the subject of the Bolivia cases as well as Case A from the *Seeking Solutions* volume. Bureaucratic institutions are often highly inefficient; PVO's often are small and not economically oriented.

Are there noninstitutional approaches—through macro policy for example—that are better suited to attaining the goals sought. One group described in the Malawi case clearly thought so.

Note

It needs to be emphasized that the value of the development and use of these cases is in fact demonstrational. They were planned, researched, prepared, and presented within a period of 3 to 5 weeks. The process serves as a model for all training using case studies, and the experience demonstrates that similar materials could be planned and produced for workshops with a more regional focus or with a different objective, within a relatively short time frame.

USAID/MALAWI'S SMALL AND MEDIUM ENTERPRISE DEVELOPMENT PROGRAM

Case A: Balancing Programs at the Sector Level

This case was written by Russ Webster. It is intended as the basis for class discussion rather than as an illustration of either effective or ineffective handling of an administrative situation. The cooperation and support of the staff of the USAID Mission, the READI Coordinating Unit, INDEFUND, MUSCCO, DEMATT, and Africare in Malawi are gratefully acknowledged.

Jack turned back to his computer, adjusted the screen intensity, and continued working on his recommendations for the USAID/Malawi Country Development Strategy Statement (CDSS)[4] for 1990-95. Jack—the project development officer managing the Mission's portfolio of private sector projects—was assigned the task of outlining a strategy for promoting small- and medium-scale enterprises[5] (SMEs) in Malawi.

Two approaches to SME development were being debated at the time in the Mission. One approach used "project-based" or "projectized" assistance. Development resources that were projectized were, as the name implies, tied to specific projects and were typically managed either by the Mission itself or by a contractor employed by the Mission. An example of project-based assistance in Malawi was the USAID Rural Enterprises and Agribusiness Development Institutions (READI) project, through which the Mission was supporting the strengthening of certain organizations serving the SME sector. Five years of funding had been designated for institutional development, technical assistance, training, and an SME credit union under this project.

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4. A CDSS defines USAID's priorities and approaches to development in a given country.
5. "Small" in the USAID/Malawi context includes businesses having 10 and fewer employees.

The other approach involved "nonproject assistance," which came in the form of cash transfers to the government from USAID upon the fulfillment of certain conditions that were targeted at SME policy and regulation reform. These resources were then managed by the government within a broad set of program objectives mutually agreed upon. The Mission had recently designed a program of this nature, entitled Malawi Enterprise Development.

The past year had been eventful for USAID/Malawi's work in the SME sector. The new Mission director, who had arrived just 6 months earlier, placed a high priority on SME development and wanted to ensure that the program be well focused on sector needs. Because the Mission staff were already stretched thin among the several projects, she also wanted their initiatives to be manageable. Approaches that might reduce the Mission's management burden were therefore attractive.

Events in Washington's Africa Bureau were also effecting the direction of the Mission's program. Under a new initiative, A.I.D. was looking for countries in Africa where development goals could be achieved through policy reform. Because the Government of Malawi had expressed a willingness and desire to improve its policies effecting economic development, Malawi was selected as one of the first candidates. As this was a new effort, however, the Mission had relatively few program design guidelines from Washington.

Jack's task was to develop an SME strategy that took these concerns into account and to suggest whether the future direction should be toward project or nonproject approaches. The Mission had already learned a great deal about the SME sector through its work over the past decade; USAID/Malawi helped to develop a good base of knowledge about SMEs and had in fact been a major player in encouraging both policy reform and improved services to SMEs at the field level—credit, technical assistance, and training.

To develop a better sense of the factors effecting SMEs in Malawi, Jack prepared a section outlining important economic developments since Malawi independence in 1964. "Investment in enterprise and export promotion have long been priorities for Malawi," he wrote, "There have, however, been significant obstacles along the way . . . ."[6]

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6. The following background information on Malawi is taken from the Economist Intelligence Unit *Malawi Country Profile for 1989-90* and the USAID/Malawi *Country Development Strategy Statement and Action Plan for FY 1991.*

The Macroeconomic Environment of Malawi

Malawi is a landlocked country of nearly 8 million people in southern Africa, bordered by Mozambique, Zambia, Tanzania, and Lake Malawi (see maps, Attachments 9 and 10). Since its independence from Great Britain in 1964, Malawi had been one of the best economic performers in Africa, its economy growing at nearly three times the average pace of sub-Saharan countries. This growth was driven primarily by an outward-looking, export-oriented strategy, based on agriculture and agro-based manufacturing. Economic growth between 1964 and 1980 was impressive: GDP doubled, resulting in real per capita growth of 3 percent per year. The policy environment was particularly supportive: capital and labor were priced to reflect the country's abundance of labor; trade and foreign exchange policies maintained a competitive exchange rate, low import duties, and relatively high import levels; domestic savings were generated and plowed back into the estate sector; and tight monetary policies kept the inflation rate low.

However, by 1979, growth was interrupted by soaring oil prices—plummeting world prices for agricultural exports—and the disruption of the country's traditional trade routes to Mozambican ports as a result of the civil war in that country. This produced a recession from 1979 to 1982.

To counter the deterioration in Malawi's macroeconomic performance, the government launched a broad-based stabilization and structural adjustment effort in 1981 supported by three structural adjustment credits from the World Bank and an extended facility from the International Monetary Fund. These efforts helped restore balance in the economy between 1982 and 1985, during which time real GDP grew by an annual average of 4.1 percent.

In 1986, however, this rebound was reversed. The need to use more expensive trade links through South Africa resulted in CIF margins increasing from 25 percent to 40 percent of CIF import values between 1981 and 1984, one of the world's highest. Other exogenous shocks also deteriorated gains made in the early 1980s: worsening of terms of trade, drought and mealybug infestation, increased military expenditures associated with regional tensions, and budgetary expenditures associated with supporting refugees of the Mozambican civil war. Because of the poor agricultural performance, extra budgetary expenditures went toward food security and strategic grain reserves. Fiscal deficit financing requirements caused government domestic borrowing to more than triple from 1984-85 to 1985-86, reducing the amount of domestic credit available for the private sector. In addition, inflation rose from an annual average of 10 to 15 percent to nearly 40 percent.

The private sector suffered significantly from these setbacks. Real GDP growth fell in 1986 and 1987. Furthermore, administrative allocations and regulatory constraints of foreign exchange undermined the efficiency of domestic enterprises. Private sector savings fell significantly (12.5 percent and 9.9 percent of GDP in 1985 and 1986, respectively), further limiting the potential for future growth.

Government Initiatives

In 1988 the government redoubled its efforts to restore domestic and external balances. Rescheduling of Malawi's commercial and bilateral debt was granted by the Paris and London Clubs in April. Further support came from the World Bank in cooperation with other donors in the form of an Industrial and Trade Policy Adjustment Credit (ITPAC), aimed at implementing policy and regulatory reforms for improved private sector development.

The Malawi government further constrained its expenditures and enhanced its revenues, resulting in a reduction in the fiscal deficit between 1987/88 and 1988/89. Government also made substantial repayments to domestic financial markets, thereby increasing the availability of credit to the private sector. Inflation decreased considerably.

The net effect was real GDP growth of 3.7 percent in 1988, with estimates of 4.5 percent for 1989 being offered.

As part of this renewed economic development effort, the government was placing a high priority on the SME sector. Explicit objectives were spelled out in its *Statement of Development Policies: 1987-1996* (DEVPOL). (See Attachment 1.)

Characteristics of the Small- and Medium-Scale Enterprise Sector

Malawi's economy is heavily dependent on agriculture. (The overall structure of Malawi's GDP by industrial origin is presented in Attachment 2.) Information about the SME sector can be drawn from a USAID and Government of Malawi nationwide survey conducted in 1986.[7] The study was based on a regional and subsectoral sampling of 1,383 businesses, plus analysis of official government statistics and data gathered through earlier industrial sector studies. Attachment 3 describes the types of businesses, their frequency, and the relative portion they hold of total investments in SMEs in Malawi.

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7. *New Directions for Promoting Small- and Medium-Scale Enterprises in Malawi: Constraints and Prospects for Growth*, USAID/Malawi READI Project, June 1987.

More than 96 percent of the entrepreneurs sampled were sole owners of their businesses. 75 percent of the businesses were started with less than $370; fewer than 5 percent were started with more than $3,700; the majority (91 percent) were started with individual savings rather than credit financing; only 16 percent in fact had applied for any loans during the previous 2 years.

Approximately 3,000 people were employed in the businesses surveyed, representing an average of 2.5 per enterprise. As could be expected, urban enterprises in the more economically active Southern Region had the highest average (4.6 employees per business), while rural businesses in the Northern Region had the lowest (1.1 per business).

Women constituted only 19 percent of the total number of SME employees. By contrast, a 1977 census carried out by Malawi's National Statistics Office showed that 94 percent of working-aged women were engaged in subsistence farming, with only 2 percent of them owner-operators. This compared with figures of 62 percent and 7 percent for men in the same categories. The only SME activity in which female employment approached that of males was in the hotel, restaurant, and bar industry.

The rural SME sector was also characterized by a growing, yet relatively inexperienced, trading class. Until the mid-1970s, rural trading had been dominated by an Indian class of traders. At that time, the government adopted a policy of restricting Indian-owned trade operations to large urban areas only. To fill this gap, the government also supported programs of technical assistance and training for indigenous Malawians in rural areas through the development of Malawian Trader's Trust, established in 1978.

Constraints to SME Development

Several constraints to expanding SME businesses were cited by the survey respondents. More than half stated that acquiring start-up capital was the biggest problem. About the same number also cited the scarcity of capital for purchasing additional equipment and materials as a significant constraint. (Formal credit for SMEs has only been available in Malawi since the late 1970s. Commercial bank participation in financing SMEs is very limited; two Malawian development finance intermediaries, SEDOM and INDEFUND, provide the largest number of loans to SMEs).

Other problems included attracting customers, gaining access to land, and finding a reliable source of raw materials and spare parts. Although lack of money was overwhelmingly the number one complaint, the surveyors also concluded that financial, managerial, and technical skill development were sorely needed. Entrepreneurship training was also identified as important for longer-term growth in the sector.

One of Jack's colleagues at the Mission had recently stated that, "there are three critical areas to be addressed in overcoming constraints to SME development in Malawi. First is the general policy environment, particularly as it pertains to the smaller enterprises and the overly burdensome regulatory environment in which they operate. SMEs by their nature are oftentimes informal activities, in sharp contrast to the government's desire to have a place for everything and everything in its place. Second is the need to strengthen entrepreneurial attitudes and skills among the Malawian population, in a sense to build the tradition of enterprise more firmly into the society and economy. Third is the need to strengthen the capacity of intermediary institutions to provide the services—credit, business advisory, and technical advisory services—at minimum cost."

USAID/Malawi Contributions to SME Development

Three SME-related activities were under way at the time the Mission was preparing its CDSS, and a fourth was being considered. Jack reviewed the goals and objectives of each.

Rural Enterprises and Agribusiness Development Institutions Project (READI)

Since its implementation in 1985, READI had been the cornerstone of USAID/Malawi's work in the SME sector. An umbrella project with funding relationships to both international and Malawian organizations, READI's objective was to strengthen key institutions providing credit, technical assistance, and training services for small- and medium-scale entrepreneurs. In addition, READI carried out specific tasks, such as completing the nation's first survey of the SME sector in 1987. This survey had been used by the government in shaping, for the first time, specific policies for promoting SMEs as engines of economic growth in Malawi. Another component of READI focused on identifying SME financing opportunities for Malawian banking institutions.

Three Malawian organizations received support and technical/managerial assistance from READI: INDEFUND, Malawi's development finance institution serving small- and medium-scale enterprises and industries; the Malawian Union of Savings and Credit Cooperatives (MUSCCO), Malawi's only savings and credit cooperative; and the Development of Malawian Traders Trust (DEMATT), which provided business advisory and technical advisory services to small Malawian entrepreneurs. DEMATT was folded into READI in 1987 after technical assistance and management were taken from Partnership for Productivity/International. (An overview of the activities of these three organizations is presented in Attachment 4.)

In addition to providing direct support to INDEFUND, DEMATT, and MUSCCO, READI also interacted closely with the Ministry of Trade, Industry, and Tourism, the executing agency for the project on behalf of the Government of Malawi. The activities of two other international organizations were also coordinated through the READI project. The World Council of Credit Unions—funded by A.I.D./Washington under a grant agreement—provided technical assistance to MUSCCO. Africare—also under a grant agreement—provided technical assistance to both MUSCCO and INDEFUND.

The project was headed by a project coordinator, who reported to both USAID and the Ministry of Trade, Industry, and Tourism. Managerial tasks were often burdensome and demanding for both the project coordinator and for Jack—who backstopped the project on behalf of USAID—because of the complex organizational and funding structure that came under the umbrella of READI. (See Attachment 5 for an organizational chart of READI.)

By all accounts, the project coordinator was highly credited for his diligence and determination in making the project a success in spite of managerial and bureaucratic hurdles (see Attachment 6 for a summary of the READI project evaluation). Nonetheless, both Jack and the project coordinator were somewhat frustrated that administrative tasks were often obstacles to undertaking greater research and analysis into SME sector constraints and ways of addressing them.

Malawi Enterprise Development Program (MED)

The purpose of MED, which was authorized in August 1988, was to revitalize existing enterprises and to create new enterprises in Malawi, particularly in the SME sector. MED represented the shifting strategies in the Mission toward a stronger policy reform approach using nonproject assistance. Working in conjunction with the World Bank ITPAC,[8] MED was intended to support policies that would (1) reduce economic institutional, and fiscal distortions in the Malawian economy and thereby (2) promote a more open, competitive, and dynamic private sector, comprising privately owned industrial and commercial enterprises, including agro-industry. USAID's role in the ITPAC was distinguished by a stronger focus on SME sector issues than on broad macroeconomic indicators.

MED provided $35 million for policy and institutional reform, disbursed in three tranches as a cash grant over a period of 3 years: $15 million, $10 million and $10 million, respectively. (Conditions for their release are indicated in Attachment 7.)

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8. Industrial and Trade Policy Adjustment Credit, totaling $160 million from a host of donors to support continuation of the government's reform program of industrial and international trade policies.

Under MED, 69 percent of the local currencies generated by the cash grants was supposed to go toward supporting private sector—particularly SME—initiatives. This included institutional support to the three organizations previously funded through the READI project, INDEFUND, DEMATT, and MUSCCO. Under this new funding arrangement, the government had to include institutional support to these three organizations in its annual development budget for the money to be available to them.

Human Resources and Institutional Development (HRID)

A third effort with an SME component was HRID. Under this $16 million umbrella project, technical assistance and training were provided to a wide range of governmental, nongovernmental, and private sector organizations working in six developmental sectors, one of which was the private sector. HRID was founded on the realization that improved institutional and human resource capacities were crucial for economic development to take off. HRID targeted three problems related to this issue:

- The critical shortage of trained and experienced Malawian mid-level and senior-level managers, administrators, and financial specialists, as well as technical and professional personnel in fields such as engineering, architecture, quantity surveying, economics, accounting, development planning, medicine and health, and agriculture, as they affect the priorities of the Mission's and the Government of Malawi's strategies

- Insufficient institutional capacity to meet the demands for preservice and in-service training, largely because of the absence of sufficient training personnel and instructional programs and approaches

- Inefficient use of scarce human resources, which reduces productivity and results in suboptimal allocations of human resources[9]

Through HRID, Malawian organizations could access technical assistance —including foreign experts—for short- or long-term assignments. Working together with various representatives from public, private, and nongovernmental organizations in Malawi, the project had established a procedure

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9. *USAID/Malawi Action Plan for Fiscal Years 1987-1989*, Human Resources and Institutional Development Strategy Statement, Annex, p. 1.

under which applicants would prepare an institutional development plan that described how HRID resources could help them fulfill their organizational goals and objectives. These applications were then reviewed and approved by a committee composed of representatives from a cross-section of indigenous organizations working in Malawi.

Whereas institutional support to INDEFUND, MUSCCO, and DEMATT was to come from MED via the government, it was the Mission's strategy to channel technical assistance and training to these groups through HRID.

Services for Health, Agriculture and Rural Enterprise (SHARE)

In the same way that HRID was an umbrella program to develop human resources and institutional capacity in Malawi, SHARE was intended to be an umbrella program to support nongovernmental organizations (NGOs) in Malawi. Although it had not yet been designed, it further represented the Mission strategy of moving away from single projects into broader program activities.

SHARE's involvement in the SME sector would be through its support to organizations—like Africare and the World Council of Credit Unions—working in the SME sector in Malawi, funding which to date had been channeled through the READI project.

Heading into the Future

Jack continued, "USAID has played a major role in developing the SME sector in Malawi, and our current levels of funding for the sector are unparalleled by other donors except the World Bank under its sector adjustment credit scheme." (See Attachment 8 for an overview of other SME initiatives in Malawi.)

"Our current portfolio is a combination of project and nonproject assistance, with project-based assistance—for example, READI—being gradually replaced by sector programs—for example, MED, HRID—aimed at SME policy reform and broad institutional development.

"It behooves us at this juncture, as we prepare our development strategy statement for Malawi, to either confirm or modify this overall shift, based on the needs of the sector and the resources we have to offer. Let me, therefore, offer the following recommendations . . . "

Attachment 1. SME Development Policies in Malawi

Through DEVPOL, the government for the first time explicitly recognized the importance of bolstering the "small-scale, often informal sector, the development of which is seen as an essential means of productively employing that large part of the labor force without either formal wage employment or access to a significant parcel of land."[10] To strength the SME sector, a number of policies and strategies were adopted:

- Minimizing the unproductive regulations, rules, and practices that obstruct SME development
- Introducing a number of legal and administrative measures concerned with taxation, foreign exchange, credit, government procurement, and marketing, which will directly stimulate the sector
- Establishing a capacity to advise the sector on opportunities for both diversification from the more traditional small-scale manufacturing enterprise pursuits and increased complementary medium- and large-scale manufacturing enterprises
- Enhancing the availability of credit, including that from the commercial banking sector, and reviewing lending rates and on-lending margins to the sector for more favorable allocation of resources
- Establishing a new technical institute devoted to research, technological development, consultancy, and training related to SME activity
- Clarifying and harmonizing the roles and resources of the various public, parastatal, and private organizations concerned with commercial and industrial development, in particular those involved in SME development[11]

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10. *Statement of Development Policies: 1987-1996.* Republic of Malawi, p. 63.
11. DEVPOL, p. 61.

Attachment 2. Industrial Origin of GDP

Origin	Percent of Total 1981	1988
Agriculture—smallholder	29.2	28.3
Agriculture—estate	6.9	8.3
Manufacturing	12.7	12.2
Electricity and water	2	2.1
Construction	5	3.7
Distribution	13.4	11.7
Transportation and communications	6.7	5.7
Financial and professional services	6.6	6.2
Ownership of dwellings	4.4	4.2
Social and community services	4.2	4.4
Government services	11.5	15.6
Unallocatable financial charges	-2.6	-2.5
	100	100

Source: *Malawi Country Profile: 1989-90*, The Economist Intelligence Unit, p. 13.

Attachment 3. SME Business in Malawi

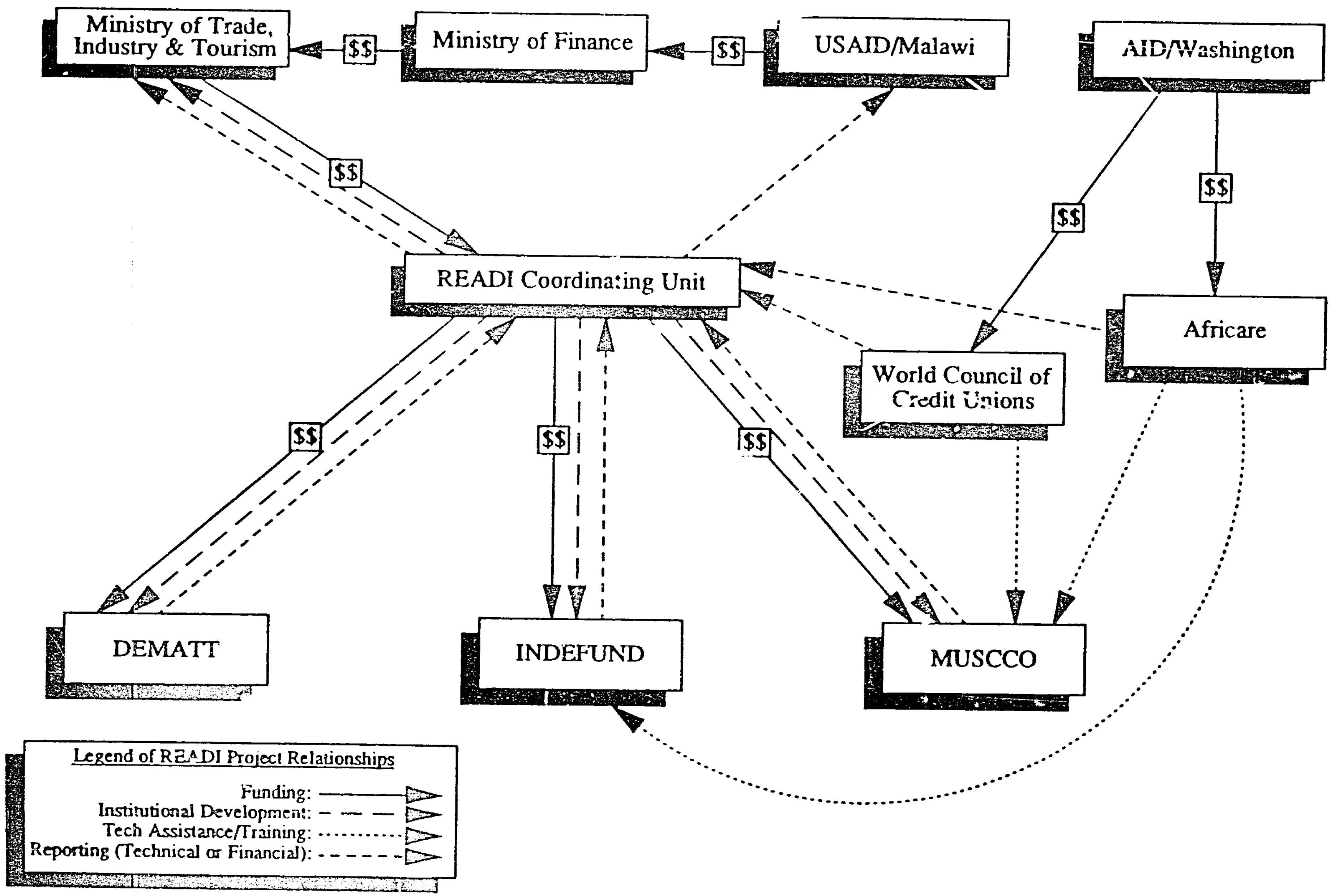
Type of Business Activity	Percent of Total Number of SMEs	Percent of Total SME Investments
Trading (wholesale/retail)	42	34
Restaurants, hotels, bars	11	27
Manufacturing, including wood products	17	10
Textiles and clothing	9	8
Food processing	5	8
Services	15	8
Miscellaneous	2	5
Total (allowing rounding error):	100	100

Source: *New Directions for Promotiong Small- and Medium-Scale Enterprises in Malawi: Constraints and Prospects for Growth.* USAID/Malawi READI Project, June 1987.

Attachment 4. Overview of READI-Supported Institutions in Malawi

Name	Services	Target Group/Clients	Funding Sources
INDEFUND	Investment and working capital, equity, leasing/hire purchase financing between $11,500 and $80,500; some business advisory services	Small- and medium-scale businesses in the following sectors (percentages of loan approvals): manufacturing (30), agriculture (21), agro-industry and fishing (18), textiles (1), trading (2), motels (16), services (8), and mining (4)	USAID — TA support, capital grants, special projects (Energy Initiatives for Africa), loan funds; FMO (Dutch) — training funds; KfW (German) — loan funds
DEMATT	Business advisory and technical advisory services (group and individual training) through a country-wide network of rural offices staffed by business consultants; project feasibility studies	Indigenous Malawian-owned businesses primarily in rural areas; special unit for serving female entrepreneurs; during 1986/87 project period, DEMATT served 545 small businesses with a total of 1,254 employees	USAID — operational support, technical advisers, institutional development; UNDP — program for women entrepreneurs
MUSCCO	Formation and development of homogeneous savings and lending cooperatives; members borrow from the societies at 18% based on their individual accumulated savings; some longer-term financing from USAID/READI for special SME projects (in 1986/87, the average size of such loans was $1,462)	Primarily rural, poor; agriculture and agribusiness activities; areas where typically only informal credit markets exist; no restriction on members use of loans; in 1987, MUSCCO had 73 savings and credit unions comprising of 14,483 members, with an average savings per member of $33.	USAID — operational support, technical assistance, and credit funds through grant agreement with World Council of Credit Unions; Members' savings for on-lending
Ministry of Trade, Industry, and Tourism	Licensing of new enterprise applications; housing of READI Coordinating Unit; policy and regulatory oversight; liaison with SME intermediary institutions	N/A	Government of Malawi; various donors for special projects, e.g. USAID for READI Coordinating Unit, UNDP for special studies

Attachment 5. Organization of the READI Project



Attachment 6. READI Project Evaluation

An evaluation of the READI project carried out in August 1988 summarized its impact as follows:

The READI project has made a positive contribution toward the institutional development of INDEFUND, MUSCCO, and DEMATT. It has also had a less direct, yet notable, impact on other agencies working in SME development by improving the information base about SMEs and by sharing that information in a systematic way with the wider community.

MUSCCO's performance and institutional capability have been particularly impressive. Its program of mobilizing savings and organizing indigenously managed credit unions is creating numerous opportunities for expanding the incomes of Malawi's rural population. Although some strengthening of central office financial management capabilities is needed, MUSCCO's strategy and methodology are working in Malawi. The evaluation team believes its field staff presence should be expanded in order to reach more beneficiaries and to continue strengthening existing groups.

INDEFUND's level of lending has been less than expected during the READI project. This is largely because INDEFUND's management and board of directors have had to focus on improving their existing portfolio and strengthening their internal organization and management. As these improvements are made, however, INDEFUND will have to take a more aggressive approach to development financing in order to stimulate the growth of SMEs in Malawi.

DEMATT has made much progress under READI to strengthen its management and clarify its mandate of providing business advisory and technical advisory services in Malawi. The services it offers are unique among the intermediary agencies working in SME development in Malawi, and they are services which the evaluation team believes are needed in the sector. With continued support and strengthening of its institutional capability, DEMATT can become a major force in creating viable Malawian small businesses.

READI has also engaged itself constructively in the SME policy dialogue, working closely with the Ministry of Trade, Industry, and Tourism to broaden its involvement with intermediary organizations working in the sector. Many people working in SME development in Malawi recognize and appreciate the coordinating role played by the READI project in improving communication linkages between nongovernmental and public sector agencies.

Impacts on beneficiaries at the enterprise level are more difficult to assess. In addition to its targets for institutional development, the READI Grant Agreement also contained specific employment and income targets. It is the opinion of the evaluation team that these targets were ambitious, and at the time they were determined, the READI project designers underestimated the amount of effort needed to achieve the institutional development necessary for promoting the employment and income targets.

More impact at the enterprise level might have been achieved had READI not encountered certain managerial difficulties. For example, the project coordinator position was not filled until August 1985, a year after the Grant Agreement was signed. Also, there has been disagreement among the READI participating institutions throughout the life of the project about what role Africare should take in supporting SME development under READI. Another area had to do with the operational support requirements of MUSCCO, INDEFUND, and the READI Coordinating Unit; these changed significantly during the course of the project, resulting in the issuance of several PILs and Amendments that often were delayed by the bureaucratic processes necessary for their approval.[12]

12. *An Evaluation of the Malawi Rural Enterprise and Agribusiness Development Institutions(READI)Project.* Nathan Associates Inc., September 1988, pp. ii-iv.

Attachment 7. MED Conditionalities

1st tranche: $15,000,000	2nd tranche: $10,000,000	3rd tranche: $10,000,000
■ Maintaining a flexible exchange-rate policy for previous 12 months	■ Reducing the number of items for which import and export licenses are required	■ Continued liberalization of foreign exchange allocation for the import of industrial inputs, and agreeing to and implementing the third stage of foreign exchange allocation liberalization
■ Adopting first and second stages of foreign exchange allocation liberalization covering 75 percent of 1984 base year's value of raw material and spare parts imports	■ Streamlining the foreign exchange approval and payment processes	■ Streamlining import and export licensing procedures and systems
■ Revision of the Industrial Development Act to permit a streamlining and rationalization of industrial licensing	■ Establishing an SME sector support unit within the Ministry of Trade, Industry, and Tourism	■ INDEFUND's and SEDOM's Deeds of Trust amended to allow them to extend credit to ventures involving foreign technical partners who are prepared to bring equity finance and expertise to the enterprise
■ Reducing the ratio between the budget deficit and GDP for Malawi's FY 1987/88 budget to a level less than that which existed for FY 1986/87	■ Issuing a policy statement regarding terms and conditions for the provision of funds to financial institutions involved with SMEs. This policy should address, without limitation, areas such as on-lending by the government, measures to ensure the commercial viability of the institutions, promoting access to private sources of capital and minimizing the need for government resources of capital, and minimizing the need for government resources over the long run	■ Establishing an SME subsector investment promotion program that maximizes the use of private sector organizations and institutions
■ Establishing a Special Local Currency Account in the Reserve Bank of Malawi for the deposit of all local currency generated pursuant to the MED program	■ Reducing the ratio between the budget deficit and GDP for the FY 1988/89 budget to a level less than that which existed for FY 1987/88	■ Establishing institutional arrangements and/or mechanisms to enable efficient financial intermediation
		■ Reducing the ratio between the budget deficit and GDP for the FY 1989/90 budget to a level less than that which existed for FY 1988/89

Attachment 8. Summary of Donor Activities in the SME Sector in Malawi

Donor	Project	Period	Funding ($1,000's)	Description	SME Component
USAID	Rural Enterprise and Agribusiness Development Institutions	1984-89	5,100	Institutional support to DEMATT, MUSCCO, and INDEFUND for strengthening financial, technical, and business advisory services to the SME sector. In addition to direct funding to these agencies, READI has provision for funding local technical assistance and training activities of the World Council of Credit Unions and Africare through OPGs channeled through Washington. READI works under the Ministry of Trade, Industry, and Tourism.	Entire project
	Human Resources and institutional Development	1988-93 (?)	15,000	Technical assistance, training, and advisory services for developing human resources in both public and private sector institutions	Training of staff working in SME support institutions, banks, etc., and some provision of technical assistance
	Malawi Enterprise Development (in the process of being prepared at the writing of this report)	1988-91	35,000	Two components, one direct program assistance in support of policy and institutional reform ($33.4 million), and the other a project component to fund technical assistance, studies and training in support of program objectives and the policy dialogue process ($1.6 million).	(a) Support to local SME intermediary institutions that are part of GOM-approved development budget, (b) Improvement in policy and regulatory environment, access to foreign exchange, (c) on-budget grants to INDEFUND and SEDOM for SME equity investments, (d) SME investment promotion program through Malawi Export Promotion Council
Peace Corps	Provision of voluntary assistance to support local organizations	Ongoing	N/A	Eight PC volunteers currently placed in SME development organizations: DEMATT (1), INDEFUND (1), MUSCCO (3), MEDI (2), READI Promotion Unit (1)	Placement of volunteer experts to train counterparts in SME intermediary institutions

(continued)

Attachment 8 (Continued)

Donor	Project	Period	Funding ($1,000's)	Description	SME Component
EEC and Germany (KfW)	Small Enterprise Development Organization of Malawi (SEDOM)	1983-	Proposed 7,000 for 1988-91 (Phase III)	SEDOM is a parastatal body that grants loans and provides business/technical advice to small-scale enterprises. It is generally recognized as the lending institution that deals with the small scale, whereas INDEFUND deals with medium scale.	See description
Germany (KfW)	INDEFUND	1986-	2,688	For SME loan funds	See description
World Bank	Industrial and Trade Policy Adjustment Credit	2 tranches: $35 million in 1988, $35 million in 1989	70,000	To support the continuation of GOM's reform program of industrial and international trade policies. Parallel lending to be provided by USAID, Japan OECF, EEC, AfDB, UK, and the Netherlands	Ease regulations on availability of foreign exchange, and review tax policies and regulations affecting small businesses
UNPD/ILO	Malawian Entrepreneurs Development Institute	1981	N/A	UNDP supports MEDI, which is part of the Ministry of Labor, through operational funding and the provision of an ILO technical adviser	MEDI gives a combination of business and skill training to existing and potential Malawian entrepreneurs. Programs are held both on the MEDI campus, as well as around the country in village areas.
	Procurement support and TA to a new leather tannery	1988	600	To assist in establishing Malawi's first complete leather tannery; credit financing also to be provided by INDEFUND and SEDOM	This is a medium-scale enterprise that is based in a rural area.
	Industrial Statistics (under review)		200	To set up a statistical unit in the Industrial Development Division of MTIT	
	Institutional Strengthening of the MTIT Small-scale Industrial Unit (under review)		425	Operational support and TA for institutional development and staff training	

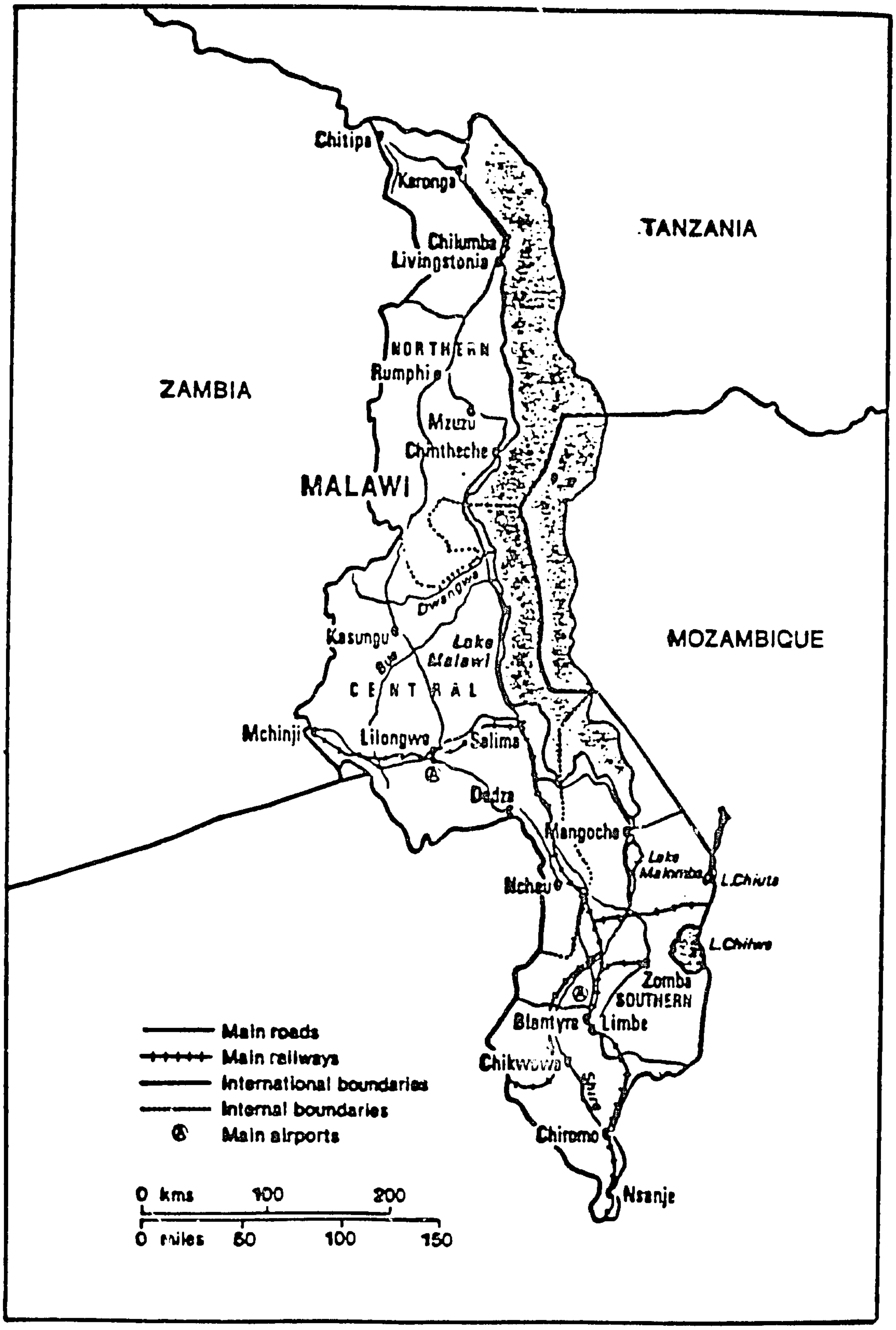
(continued)

Attachment 8 (Continued)

Donor	Project	Period	Funding ($1,000's)	Description	SME Component
	Research and Development Facility for Small-scale Industries (under review)			To establish a network among existing universities and institutions for research and development of appropriate technologies, etc. for SSI's	
	Advisory Services for Women Entrepreneurs (DEMATT)	1988-	660	To provide 1 technical adviser and 2 UN volunteers to DEMATT for establishing a unit to support female entrepreneurs	
	TA and Credit Funds for SEDOM (under review)		600	TA to strengthen operations in the Northern Region; capital funds for equity investments in SME's	
	Credit Facility for Rural Traders (feasibility study phase)				

Attachment 9. Map of Africa

Attachment 10. Map of Malawi



USAID/MALAWI'S SMALL AND MEDIUM ENTERPRISE DEVELOPMENT PROGRAM

Case B: Program Strategies and Sector Impacts

This case was written by Russ Webster. It is intended as the basis for class discussion rather than as an illustration of either effective or ineffective handling of an administrative situation. The cooperation and support of the staff of the USAID Mission, the READI Coordinating Unit, INDEFUND, MUSCCO, DEMATT and Africare in Malawi are gratefully acknowledged.

The CDSS was near completion. Jack and his colleagues at the Mission had decided upon a strategy that included both policy reform efforts using nonproject assistance[13] and institutional development components to strengthen SME development agencies and the services they provided to the sector.

Under this scheme, the Mission's SME development portfolio was to include the following activities:

- Malawi Enterprise Development (MED) would seek policy reform through conditional release of foreign currencies to the Government and would provide local currencies to support private sector development initiatives;

- Human Resources and Institutional Development (HRID) would provide a mechanism to supply

13. "Nonproject" in this context refers to USAID providing cash payments to the government for sector support initiatives that the government is supposed to manage, in contrast to "projectized" assistance, in which USAID or a contractor manages the resources.

technical assistance and training to both public and private sector interests serving SME development; and

- Services for Health, Agriculture, and Rural Enterprises (SHARE) would provide institutional support and technical assistance to nongovernmental organizations working in Malawi.

However, some recent events caused concern among the Mission staff and others working in the sector about whether this mix of programs and projects was in fact the best strategy for SME development.

Concerns about MED

The generally positive SME policy environment in Malawi was one of the primary rationales behind the Mission's MED sector program initiative. Whereas the policy dialogue had been opened up through the Rural Enterprise and Agribusiness Institutions (READI) project, the Mission had not intended to continue this reform dialogue under a READI-like project. In the words of the deputy Mission director, who had been in Malawi since early 1986, "1987-88 was a time when we felt positive about the environment and government support, which in turn influenced the way we were thinking about the directions that any follow-on activities to READI would take. The government at this time was expressing interest in making some of the changes in policy and regulations toward the sector. Therefore, we could begin to think about a sector assistance program that would tackle some of these policy questions and issues, and provide a carrot to help motivate and influence government to move more quickly into necessary SME sector reforms it had already expressed a willingness to address."

Key people in the government had been instrumental in supporting SME policy reform and sector promotion efforts. One of these was the Principal Secretary for the Ministry of Trade, Industry, and Tourism, who had been affiliated with the READI project since its beginning. There had been, however, a recent wide-ranging reassignment of senior officials in government, which lead also to his release.

A colleague of Jack's in the program development office had commented that "in spite of all of the good things accomplished by READI, the Government's own capacity to analyze the sector, its constraints, what types of assistance—for example, whether policy or project assistance is needed—doesn't seem to have changed a whole lot. This is also where we come into a problem with MED conditionalities. All of the truly exciting work that has been done, has been done apart from government, where SME sector support capacity hasn't really developed over time. Maybe one of our problems was that our efforts to strengthen government capacity to carry out analysis and provide leadership in the SME sector was too focused at the higher—for example, Principal Secretary—levels, and not farther down in the system where operational and analytical capacity ought to be developed."

Although the government had expressed its intention to undertake policy and institutional reforms favorable to SMEs,[14] the Mission was having a difficult time getting them to focus on MED conditionalities. "Our policy and institutional reforms focused on SMEs were largely influenced by the earlier analytical work of READI. But in some ways we've been living in the shadow of a larger Bank-led program that does not share this focus. Government's interest has been primarily on the Bank's ITPAC conditionalities, creating problems for us in achieving the SME reforms we seek. Progress on USAID-specific conditionalities has been very slow. What woke some people up was we had a $10 million disbursement (the second of three tranches), three conditions of which duplicated World Bank conditionalities, and two of which were SME-specific. Only three of the five were satisfied, and so we told government that we would agree to releasing $5 million for satisfying these conditions, but that before the other half could be released, they needed to focus on the two SME conditionalities. This helped stimulate some impetus from various corners: the Ministry of Finance, the Reserve Bank, and the Ministry of Trade and Industry."

In addition to concerns about government capacity and initiative to meet MED conditionalities, several people in the Mission were critical of the program's design itself. The Mission director had stated that "The design of the MED program was a bit hurried. It was also a time when the Africa Bureau was still trying to figure out how it wanted to do nonproject assistance using the Development Fund for Africa. That ultimately evolved into sector assistance for which there is now some guidance. But at the time we were putting MED together there wasn't very much guidance. We're all a little bit concerned that the conditionalities related to SME development weren't very well conceived and not as well thought out as we would have liked." The deputy director also noted that "the Mission was unable to develop an effective dialogue with the Government of Malawi about the SME- specific policy objectives and related conditionalities, which led to ambiguity and vagueness in the policy agenda for a sector program. Finally, the design team we contracted did not do a good job; we in fact had to ease them out of the assignment, and try and finish the work ourselves, which added to the hurriedness with which the program was developed."

Under MED, 69 percent of the local currencies generated were to go toward private sector support activities over a period of six years. This was intended to include direct program support to SEDOM, INDEFUND, and DEMATT, which was to be allocated by the government through the annual

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14. *Statement of Development Policies (DEVPOL): 1987-1996*, Republic of Malawi, p. 63.

budgeting process. Senior management of these organizations, however, doubted the reliability of this procedure in making the necessary resources available to them. According to the general manager of DEMATT, "MED is extremely gray; even in my own mind I'm not sure where the funds are coming from. I believe the funds we are using now are actually MED funds, but what is confusing to everybody is that we are all worried whether we are going to get funds next year."

Concerns about HRID

According to the Mission director, "Although HRID was an $18 million project, it was covering the waterfront in terms of developmental problems." HRID had, in fact, six objective areas, one of which was private sector development.

DEMATT had successfully tapped into HRID resources early on to get funding for two resident advisers, as well as short-term technical assistance. It became apparent over a short period of time, however, that the resources available to HRID were insufficient to meet the broad demand for institutional development and training in the SME as well as other sectors.

There were also problems getting the government—which was one of the main target groups—to tap into HRID. According to one of Jack's colleagues, "One of the problems we've had is that HRID requires potential beneficiaries to put forward an institutional development plan in the first place; we don't go to them and say, 'Hey guys, you want some help? Here's the big bag, just stick your hand in.' They have to come forward with a proposal spelling out what type of assistance they need, why, and what impact it is going to have in terms of helping them execute their mandate. And although the government was identified as a high priority target for HRID assistance during its design, it just hasn't moved in that area."

Concerns about SHARE

SHARE had not yet been designed, but it was intended to serve as a funding mechanism for technical assistance and training to a host of non-governmental organizations working in Malawi. This could include, for example, grants to the World Council of Credit Unions and to Africare for assisting local institutions working in SME development.

Concerns about the role of SHARE in SME development reflected overall concerns the Mission had about fragmenting the SME portfolio among several channels of assistance. SHARE had an SME *component*; HRID had an SME *component*. Jack noted that this fragmentation was a primary concern of the new Mission director, and a factor in reassessing whether the strategy being pursued at that time was focused enough to achieve the needed impacts on the SME sector.

Next Steps

In light of these concerns, Jack had been asked by the Mission director to prepare a set of recommendations on whether this strategy should be modified in any way to better ensure that the momentum and impact achieved by the Mission to date would continue.

The possibility of a READI project follow-on was being considered. READI, however, had been extremely management intensive, a fact that led many to support a project like MED in which the Mission had much less management responsibility, but which maintained a clear sector-based focus. HRID also had programmatic features that were designed to lessen Mission management tasks, specifically by relying on local initiative to prepare and process technical assistance and training requests.

In contrast, the idea for READI when it was being designed in 1983 and 1984 had not grown out of an analysis of problems and constraints in the SME sector. The project originated as a multi-million-dollar proposal from Africare to develop the indigenous private sector in Malawi. USAID, recognizing that the scope of the project exceeded the capacity of a single organization to implement it, modified the design into an umbrella for funding key local institutions, and for Africare and the World Council of Credit Unions to provide technical assistance and training to them. To cap it off, DEMATT only came into the project by default after Partnership for Productivity lost its USAID contracts because of financial malfeasance in late 1986. "Although what came out of the READI project was quite positive," Jack had stated, "the design sure left something to be desired. The amount of managerial input required by me and the project coordinator frequently frustrated our attempts to get into more concrete SME sector issues, studies, analysis, etc."

The deputy director had also commented that "the READI design was bound and influenced by already-existing interests. The problem was how to develop a project that would encompass all of these not necessarily complimentary or mutually reinforcing interests. This caused the major management and organizational problem that READI struggled with early on and had continued to struggle with only until recently, when these issues were sorted out in a way that we had a more coherent project and approach."

Jack turned back to his computer and asked himself, "Can the successes of READI only be expanded upon by creating a follow-on project? Or can we achieve significant sectoral impact using the MED/HRID/SHARE combination? Or is there another approach altogether?"

Malawi Case Teaching Notes

Overview

The purpose of the two Malawi cases is to engender a debate about two approaches towards achieving SME development. In the case of Malawi, we see a Mission that until recently has exclusively taken a "project" approach (the READI project) to providing technical assistance, training, and credit to entrepreneurs. Its new approach, however, uses "nonproject assistance" (this is the basis of the MED program) with the goal of improving the policy and regulatory environment in which businesses operate. This new approach also involves transferring technical assistance and training resources that were previously under a sector-specific project—READI—and putting them under HRID and SHARE, both of which work in multiple sectors.

In spite of the READI project's successes, its life is being threatened. Proponents of project-based assistance would rally to the call of READI; proponents of nonproject assistance would rally to MED. The issue of management intensity is at the heart of those favoring a shift toward MED-style programs.

The debate, therefore, can take place on at least three levels:

- Which is more crucial for SME development, policy reform or technical assistance, training, and credit?
- Which of the two approaches—project or nonproject assistance—is easier to manage?
- Regarding SME technical assistance and training, is it more effective to have this defined under one sector-specific project (like READI), or to have these included as part of broader programs like HRID and SHARE?

Discussion Areas

In teaching these cases, there are several key points that have to be kept in mind. This is particularly important because Case A deals with the question of approaches and methodologies, rather than a tangible management problem. Dealing with these several issues will make for more fruitful ground for discussing specific management issues in Case B:

- Clarifying the distinction between projectized and nonproject assistance

- Noting that the USAID/Malawi Mission had little guidance from Washington about designing the MED program

- Highlighting that, under MED, funds to the organizations assisted by READI is supposed to flow through the annual development budget—but there is no guarantee of funding

- Recognizing that the government had been taking positive steps towards improving the policy environment. For this reason Malawi was a good candidate for MED-style nonproject assistance. (Yet, perhaps this reliance is too tenuous? In Case B we see that some players feel that it was.)

- Clarifying that under the new strategy adopted (MED/HRID/SHARE), elements of SME development that were previously under one umbrella—READI—are now split among three separate programs (does this make managerial sense?)

Study Questions for Case A

1. What is project-based assistance? Nonproject assistance?

2. Why do you think the Mission is making a shift toward the use of nonproject assistance in Malawi?

3. Which would be a better use of resources to promote the development of SMEs: (a) policy reform or (b) technical assistance and training for entrepreneurs and organizations working in the SME sector?

Study Questions for Case B

1. What strategy has the Mission chosen?

2. Why do you think READI was dropped from the portfolio?

3. What concerns do Jack and his colleagues have about MED, HRID, and SHARE?

4. What options does Jack have to "help get the focus on the SME sector" as required by the Mission director?

5. Do you think the Mission is addressing the real problems facing SME development in Malawi? What programs or projects would you put in the SME development portfolio?

What Eventually Happened

The Mission did decide to create a follow-on project to READI. The MED program was amended to projectize the monies that were targeted for the SME development institutions. The impetus for resurrecting READI came from the belief that (a) the MED/HRID/SHARE approach was too fragmented, and (b) MED was not successfully addressing SME sector constraints.

USAID/BOLIVIA'S MICRO- AND SMALL ENTERPRISE DEVELOPMENT PROGRAM

Case A: Intermediary Institutions: How Fast Can They Expand? When Should New Institutions Be Supported? How Can Women Best Be Assisted?

This case was written by Mohini Malhotra. It is intended as the basis for class discussion rather than as an illustration of either effective or ineffective handling of an administrative situation. The cooperation and support of the many individuals who made this case study possible are gratefully acknowledged.

Angel Diaz, the project officer for USAID/Bolivia's initiative in Micro- and Small Enterprise Development (MSED), hung up the telephone and let out a low sigh. He gazed out the window of his third-floor office at the crowds of pedestrians weaving their way through the numerous street vendors displaying their wares on the sidewalks of La Paz. The Mission was in the process of designing a complex $10 million program to benefit the vast, poor majority of Bolivia's informal sector. A glance at his calendar reminded Angel that he had less than a week to propose a strategy for the Mission on several unresolved issues. His presentation was scheduled for April 15, 1989.

He had just finished a conversation with Enrique Velasco, the president of the National Federation of Small Industrialists and Artisans (FEBOPI). FEBOPI was one of the three local institutions that was to implement the proposed MSED program. The program was to provide integrated services of credit, technical assistance, and training to micro- and small enterprises (MSEs) throughout Bolivia. In addition, at the insistence of Bob Kramer, the deputy Mission director, the Mission included a policy component in the program. This involved analyzing the bureaucratic, legal, and regulatory constraints to enterprise growth and advocating policy reforms that would not discriminate against the sector. FEBOPI was to manage the policy component of the MSED program.

However, Enrique was interested in receiving additional funds from USAID/Bolivia. These funds would be channeled to credit unions that his member associations were setting up to provide credit to their members. USAID was inclined to provide credit funds through the two other participating institutions, the National Federation of Credit Unions (FENACRE) and PRODEM, a local private voluntary organization (PVO). These two organizations had considerable experience managing loan funds and channeling credit to MSEs. It was felt that FEBOPI members, who were small entrepreneurs, could access credit through the existing credit cooperatives of FENACRE.

Another issue confronting Angel involved the amount of money to channel to PRODEM. PRODEM had successfully implemented a pilot project to support microentrepreneurs in Bolivia's capital city of La Paz, and it had disbursed a loan fund of $260,000 in less than a year to 2,500 microenterprises with a delinquency rate of less than 1 percent.[15] However, several members of the USAID design team had expressed concerns about PRODEM's capacity to absorb the proposed $1.8 million in loan funds, given its recent establishment (1987) and its relatively recent, albeit successful, experience in the sector. Angel had circulated a copy of the draft project paper (PP) to members of the design team some time earlier, requesting comments and reactions that were to be incorporated into the final version.

The Setting: The Economic Situation of Bolivia

From 1952 to 1985, Bolivia's economic development policies favored state involvement in the creation and operation of productive enterprises. The ineffective and often counterproductive economic policies of the 1982-85 administration of President Hernan Siles Zuazo resulted in an economic collapse that was characterized by severe inflation and decapitalization of the formal financial sector. These problems, in turn, seriously reduced productive activity and greatly increased unemployment.

During the period of hyperinflation, Bolivia's formal financial sector recovered loan repayments at only a fraction of their original value. Because of the liquidity crisis, very few loans were made to businesses and individuals outside of the relatively small group of owners of the major banks.

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15. Cable of September 26, 1988, to A.I.D./Washington. Request for ad hoc delegation of authority: cooperative agreements under the micro- and small enterprise development project (511-0596).

The government of Paz Estenssoro, elected in 1985, embarked on an ambitious economic recovery program called the New Economic Plan (NEP). It included austere economic measures and a greater reliance on the private sector's role in the economy. The NEP substantially devalued the currency, unified the exchange rate, eliminated interest rate ceilings, and eliminated restrictions on imports and exports. It also reformed taxes and tariffs, froze wages of public employees, and liberalized labor laws. These policies resulted in reducing inflation from 22,256 percent in 1985 to an average of 10 to 12 percent per year in 1988.

While the NEP was crucial to the rehabilitation of the Bolivian economy, it had short-run negative impacts on employment and income among the poorer sectors. Unemployment was estimated at 25 percent, and another 25 percent of the work force was considered to be significantly under-employed. Most of this unemployment and underemployment was in urban areas. Exacerbating the unemployment situation was the drop in international mineral prices, which led to the closing of a number of Bolivian mines and the migration of many unemployed rural miners to urban centers.

Importance of the MSE Sector in Bolivia

The MSE sector in Bolivia—composed of both formal and informal businesses—was estimated to provide employment for nearly half of the non-agricultural, economically active population of the country. This sector expanded rapidly during the economic depression and hyperinflation of 1982-85, as large numbers of urban poor and unemployed established small commercial, service, and manufacturing enterprises as a means of survival. According to a 1986 study on the informal sector in Bolivia, 52 percent of the economically active population was employed in the informal sector.[16] This same study notes that in La Paz, for example, the informal sector accounted for 74 percent of jobs in manufacturing, 56 percent of jobs in construction, 43 percent of jobs in transportation, and 86 percent of jobs in commerce. At least 90 percent of these businesses employed fewer than five persons.[17] In Bolivia, the majority of microenterprises were known to be family-owned and -operated businesses that employed only family members or unpaid apprentices. The vast majority were not legally registered with the government, did not pay income taxes, and did not provide social security coverage to employees.[18] A large percentage of these business owners and operators—83 percent in the case of market vendors—were women.

16. CEDLA, El Sector Informal de Bolivia, La Paz, Bolivia, 1986. Although in terms of formal registration there are legal distinctions, in terms of size the informal sector and MSE sector refer essentially to the same establishments.
17. Ibid., pp. 151-160.
18. Ibid., p. 9.

USAID/Bolivia's MSED Program

In attempts to reactivate the Bolivian economy, USAID/Bolivia and the government of Bolivia (GOB) developed a concerted strategy for economic recovery. This included measures to develop and support programs in the private sector, with emphasis on the growth and development of the MSE sector. The large numbers in this sector, evidenced on the streets and sidewalks of Bolivia's major cities, were drawing the attention of government and donor officials.

In the fall of 1987, USAID/Bolivia embarked on the design of the MSED program. This 5-year program was to contribute to three objectives of the Government of Bolivia and USAID: strengthened private sector institutions, economic development, and more equitable income distribution. USAID/Bolivia also wished to support the development of relatively disadvantaged groups, especially women, a high percentage of whom were engaged in commercial activities in the poorest ranks of the informal sector.

The Mission contracted a three-person MSE program design team to outline preliminary issues and design options. Based on the recommendations of the team, the Mission designed a program targeted at the microenterprise sector, as well as the small enterprise sector. The USAID design team believed that the objectives of equity and growth could best be served by a two-pronged effort, given the distinct characteristics of microenterprises and small-scale enterprises, as demonstrated in Table 1.

The impacts and development objectives of servicing each sector, as outlined in Table 2, also merited separate attention by size of enterprise. Because recent research indicated that manufacturing and service enterprises had greater income and employment-generating capabilities than commercial enterprises, the USAID team opted to concentrate more resources on assisting MSEs in these two sectors. The team outlined three major program components: institutional strengthening of the three implementing institutions; policy analysis, research and reform; and credit, training, and technical assistance to MSEs.

Six million dollars of the total $10 million of program funding was allocated to capitalizing credit funds for PRODEM and FENACRE. Of this amount, $1.8 million was for PRODEM and $4.2 million was for FENACRE. Of the remaining $4 million, almost $2 million was allocated to financing the institutional strengthening component of the program through the provision of training and technical assistance to the three implementing institutions. The final $2 million was to fund research studies, management services, commodities, and operational support.

Table 1. Basic Characteristics of Microenterprises and Small-Scale Enterprises

Characteristic	Microenterprises	Small Enterprises
Legal Status	Vast majority not formally registered	Some registered, some not
Location	Most home-based	Most not home-based
Assets	Less than $5,000	$5,000 to $10,000
Annual sales	Less than $5,000	$5,000 to $10,000
Number of employees	0 to 5	5 to 10
Owner/worker relations	Management-worker status usually not differentiated	Some differentiation between owner and workers
Market	Highly competitive market with little product differentiation	Usually some product and market differentiation
Ease of entry	Very easy	Moderately difficult
Capital required to begin business	Minimal	Small to medium
Stability	Highly volatile, large turnover, high rate of failure	More stable
Current capital requirements	Small amounts of working capital	Larger amounts of working capital and some investment capital
Average size of loan requested	$500 to $5,000	$5,000 to $10,000
Technical assistance required	Rudimentary business skills	More advanced business skills and some technical support

Source: Evaluation and Preliminary Design Document for the USAID/Bolivia MSED Program, p. IV-13.

Table 2. Economic Development Impacts By Size of Enterprise

Potential for:	Microenterprise	Small Enterprise	Medium Enterprise
Number of people reached	very large	large	moderate
Job creation	low	high	moderate
Efficiency of job creation	high	high	moderate
Income enhancement	low-moderate	high	unknown
Working with disadvantage groups	high	moderate-high	moderate, mainly as laborers
Role of women	high	moderate	low

Implementing Institutions

Since 1987, USAID/Bolivia had already been supporting the development of the MSE sector by providing assistance to PRODEM. PRODEM was a private nonprofit organization that started as a pilot project to support micro-entrepreneurs in La Paz in February 1987. Its objective was to increase incomes and employment within the microenterprise sector. PRODEM was affiliated with ACCION, which had successfully implemented its methodology of supporting MSEs in nine Latin American countries, and PRODEM's operations were based on this proven methodology. PRODEM's program consisted of servicing two distinct groups: family based small producers and market vendors. Its clients were organized into self-formed solidarity groups, whose members were collectively responsible for loan repayment and for guaranteeing the loans of group members. PRODEM clients tended to have only one or two employees when they first approached the program for credit. PRODEM provided short-term working capital loans averaging less than $123 and technical assistance consisting of loan supervision and business analysis services. The inclusion of PRODEM in the program was a natural extension of USAID's ongoing relationship with this institution. It appeared the obvious vehicle for the microenterprise component of the program, given its success in implementing the pilot project.

FENACRE, the National Federation of Credit and Savings Cooperatives, was selected to manage the loan portfolio for small enterprises. USAID had provided seed capital in the 1960s to establish FENACRE and had continued to channel agricultural credit through the FENACRE system. As stated in a cable to A.I.D./Washington, "FENACRE has been selected to play a major role in the implementation . . . because FENACRE: has been operating for 25 years and has established national credibility with cooperatives and other small-scale enterprise; has nationwide coverage through its 100 affiliated credit unions; provides credit, marketing, training, technical assistance, insurance, audits, and savings mobilization services to its member cooperatives, and thus offers the necessary breadth of experience needed to manage a major credit operation; has had extensive experience managing donor agency—including A.I.D. and the Inter-American Development Bank (IDB)—loan funds; has been recognized by the Bolivian Central Bank as an ICI since 1982. It has a large, experienced staff . . . and also a well-developed accounting and auditing system." FENACRE's success in surviving the financial and economic crisis of the mid-80s when most other financial institutions collapsed also made it the most likely institutional intermediary to meet the credit needs of the small-enterprise sector. At least 10 percent of FENACRE's loan portfolio was already composed of small manufacturing enterprises owned by its credit union members. As Ernesto Garcia, USAID design team member, said, "FENACRE and PRODEM are the babies of USAID. Besides, we don't have a wide array of institutions to pick from."

FEBOPI was formally organized in September 1986 as a national interest group association for small-scale entrepreneurs who felt that their interests were not being adequately represented by the National Chamber of Industries. FEBOPI was made up of seven regional associations of small industrialists and artisans (ADEPIs). Its objectives were to strengthen small industry through its member associations, research and promote policies and actions to strengthen and develop the sector, encourage Goverment of Bolivia entities to develop a permanent policy toward the sector's development, support the ADEPIs in training small entrepreneurs, and represent the ADEPIs' and the sector's interests before private and public entities. All of this was to be done to increase the visibility of and support for the sector at the national policy level. Several ADEPIs had organized, or were in the process of organizing, credit unions to lend to members. Three of the six credit unions had not yet received legal status. The ADEPIs were created to develop small industry and artisanry, coordinate technical assistance and training activities for members, provide marketing and distribution channels for members' products, assist in the identification of sector-specific problems, and serve a general coordination function with other associations to create a uniform voice for promoting effective policies toward the MSE sector. Prior to the recent opening of the credit unions for ADEPI members, neither the ADEPIs nor FEBOPI had any experience managing loan funds.

Wh Should A.I.D. Support the Development of New Institutions?

In his telephone call to Angel, Enrique Velasco, the president of FEBOPI, requested funding from USAID/Bolivia to capitalize the loan portfolios of several of the recently organized ADEPI credit unions. This was done at the request of his constituency, the ADEPI affiliates. Under an earlier pilot program, the Mission had channeled $300,000 from P.L. 480 funds to the ADEPI credit unions through FENACRE. However, a recent evaluation done by USAID program design team member Raul Pinto was not favorable about the performance and viability of these credit unions.

Angel reached into his file cabinet to retrieve Raul's analysis of the accounting and financial administration systems of the proposed implementing institutions. A section of the paper read as follows: "FEBOPI does not have a definite organization structure yet . . . . FEBOPI maintains a cash book, no income statements and/or balance sheets, and the budgeting control is deficient. The ADEPI credit union in La Paz has not yet developed specific plans for its future activity. There are no administrative procedure manuals and its accounting system is in need of immediate improvement. It received from FENACRE a loan of $15,000 to sub-lend to its affiliates. The portfolio as well as the repayment and arrears control are deficient."

On his analysis of the ADEPI credit union in Cochabamba, Raul wrote: "The cooperative is legally organized. [It] has received financing from FENACRE for $80,000 for sub-lending to 54 cooperative affiliated members. There is deficient control of the portfolio and the accounting and internal controls are poorly administered . . . . An analysis of the cooperative portfolio revealed that approximately 25 percent of the loans granted to its affiliates were in arrears. The lack of an adequate organization structure, the lack of operating and procedures manuals, and the lack of adequate personnel in charge of the administration prevented this credit union from having sound financial control . . . . FENACRE granted a loan of $20,000 for on-lending to 15 members to the ADEPI credit union in Santa Cruz, which was established in 1987. The portfolio control is deficient and the lack of experience and an adequate administration imperils the recovery of the sub-loans."[19]

Angel reached into the same file and reread a memorandum from Reese Moyers, director of the private sector division. In this memorandum, dated July 25, 1988, Reese commented on issues to be resolved before final draft of the project paper. "It appears that the institutional development requirements of the ADEPIs and the ADEPI credit unions have received

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19. June 6, 1988, memorandum from Raul Pinto/CONT/FARS, through Luis Montero, Chief CONT/FARS, on analysis of the accounting and financial management capabilities of the prospective participating organizations within the proposed MSE development project.

limited analysis, and they could easily be beyond the resources available under the project. Disbursement of funding, especially for the ADEPIs, should not be made without a greater understanding of what we are getting into." The memorandum went on to say, "Perhaps more serious is the consistent description of the ADEPIs/ADEPI credit unions . . . as weak institutions."

In an earlier conversation, Ernesto Garcia had stated that he felt that channelling credit to the ADEPI credit unions was inappropriate. "It is the Mission's policy to pay attention to the small enterprise as well as the microenterprise sector through the most appropriate infrastructure. However, FEBOPI is just a policy lobbying group, and now they want to receive their own credit funds; they even organized their own credit unions for this purpose! We should make it very clear to FEBOPI that they can never get the money for lending purposes. We envision the ADEPIs as providing technical services to their members and coordinating with the existing FENACRE credit unions to access credit for members, perhaps provide credit guarantees for their members . . . but let the financial system handle the credit."

Enrique Velasco was well aware of the current deficiencies in the ADEPI credit unions. However, he also felt that it was the best solution to partially resolve the problem of lack of credit for small-scale industrialists. Although he felt that the prime objective of the ADEPIs was to provide technical assistance and training services to members, "in reality, every technical assistance need is dimmed when confronted by the great need for credit." As he explained it, the idea of starting ADEPI credit unions originated at a board meeting, when various members expressed the need for a solution to their common needs. Enrique also expressed his opinion that the inhe ıtly individualistic nature of the Bolivian entrepreneur made a "system of s. . ing," that is, a cooperative, a less attractive option for a sector whose members believed their common interests could best be served by a credit system designed to meet their specific needs. "We trust each other, and it makes sense to do it internally." The ADEPIs also indicated that FENACRE was not receptive to their members and that FENACRE, having limited experience with cooperatives of producers, believed that such a cooperative would not be viable. Enrique noted that the ADEPI members who attended several of FENACRE's training courses for its credit union affiliates believed that the whole focus and orientation was different "and not directed to entrepreneurs."

Enrique was convinced that the problems of the ADEPI credit unions were easily solvable, with funding from USAID to strengthen and reform these institutions. As he wrote in a letter to David Jessee, deputy director of the private sector office, "FEBOPI has detected problems and administrative weaknesses in the credit unions of the ADEPIs. FEBOPI is undertaking a series of actions to strengthen the ADEPIs institutionally and improve the administrative process. We reiterate our firm proposition to work with

USAID in this matter."[20] In response, David wrote, "The MSED program will provide technical assistance for institutional strengthening of the ADEPIs in their role as research and lobbying organizations. This institutional strengthening will result in better administration of the entities, better communication, and lending within more suitable practices and systems."[21]

Angel differed from several of his team members about providing resources to capitalize the loan portfolios of these newly created credit unions and about assisting them to become viable and effective credit unions. As he argued, "There are very few institutions in Latin America that have all the requisite systems in place to implement a project—that's why we have such a large institutional development component in this program!"

PRODEM's Absorptive Capacity: How Much Is Too Much?

Another concern raised by several USAID program design team members upon reading the draft project paper was the level of funding proposed for PRODEM. Although there was no dispute that PRODEM was the most effective institution through which to support microenterprises, several individuals were concerned about such a drastic increase in the level of funding for a relatively new institution. Bob Kramer, the deputy Mission director, had recently arrived in Bolivia after having served in the USAID Mission in Bangladesh for 4 years. Speaking from his vast experience with varied and well-known microenterprise programs, such as the famed Grameen Bank program in Bangladesh, Bob expressed his concern about PRODEM's absorptive capacity. "A concern that I share with several others was that the reason why Grameen was so successful, was that Yunus[22] started very slowly. He could say no to donors—everyone wants to jump on the bandwagon—he understood that if he took or accepted more funds than he could absorb, he would be in trouble, and so he expanded in stages." When Bob first arrived in Bolivia, he organized a coordination meeting of donors interested in funding microenterprise programs there. "Many of us [at USAID] were concerned that Pancho may accept too much—the Germans and the IDB came in wanting to fund PRODEM, and we said no. An institution [PRODEM] has to resist the temptation to say yes to donors, and work slowly. One has only so much absorptive capacity."

A cable from A.I.D./Washington providing "Guidance for the Preparation of Micro- and Small Enterprise Development Projects" read, "Although we concur that PRODEM is the most appropriate institution to carry out the

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20. Letter from Enrique Velasco to David Jessee, February 27, 1989.
21. Letter from David Jessee to Enrique Velasco, March 16, 1989.
22. Mohammed Yunus is the director and founder of the Grameen Bank in Bangladesh, a successful program that makes microenterprise loans to groups of landless villagers for productive purposes.

microenterprise component, concern was expressed regarding the tremendous expansion of credit . . . from the current levels (credit fund is to increase from $225,000 to $1.8 million) . . . . To ensure proper financial control, the project paper might consider providing the credit fund in tranches."[23]

In a memorandum to Angel, Reese Moyers also stated his concern about PRODEM's absorptive capacity, "The analysis contains only general information concerning staffing requirements for the intermediary institutions. For example, a 1,000-percent growth in the PRODEM program will require substantially increased administrative support, but no projected organizational chart is available. Interestingly, it is indicated that PRODEM's staff will increase by only six employees over the LOP [life of project]."[24]

Pancho Otero, the executive director of PRODEM since its inception, had been involved in microenterprise credit programs in Bolivia for the past 14 years. When asked by members of the USAID design team about his ability to absorb the proposed $1.8 million in loan portfolio funds, he replied, "I don't think anyone knows the ideal rhythm to grow, but if it's a question of absorbing loan portfolio funds, PRODEM's absorptive capacity is not an issue. Even though this is a great sum, and a generous amount, it's not going to be enough. In terms of absorbing portfolio funds, we could be a bottomless well.

"I don't think people realize the size and the needs and the potential snowball effect that could be created. People feel that $1.8 million is an extraordinary amount. It is, but I know that the money will be gone in 4 months. When [microenterprise credit] programs open, they create expectations. No sooner have the donors made up their minds about how much they're going to give, than the demand is 10 times greater. When I met Yunus on my trip to Bangladesh, he warned me to go slowly, not because the capacity to lend and to expand is limited, but because he knows that you can't ever have enough funds to cover your start-up costs and to capitalize your loan portfolio."

Pancho went on to say that expansion involved two issues. One was the institution's capacity to absorb additional loan funds, which, he said, "We've never had any problem of managing." The other was the institutional makeup and structure to support a greater loan fund, as well as the "enormous cost burden of complying with complex contracting requirements for managing donor funds." However, he felt that in terms of the second issue, "That is what we're set up for." (See Figure 1 for PRODEM's organization chart and Table 3 for its balance sheet.)

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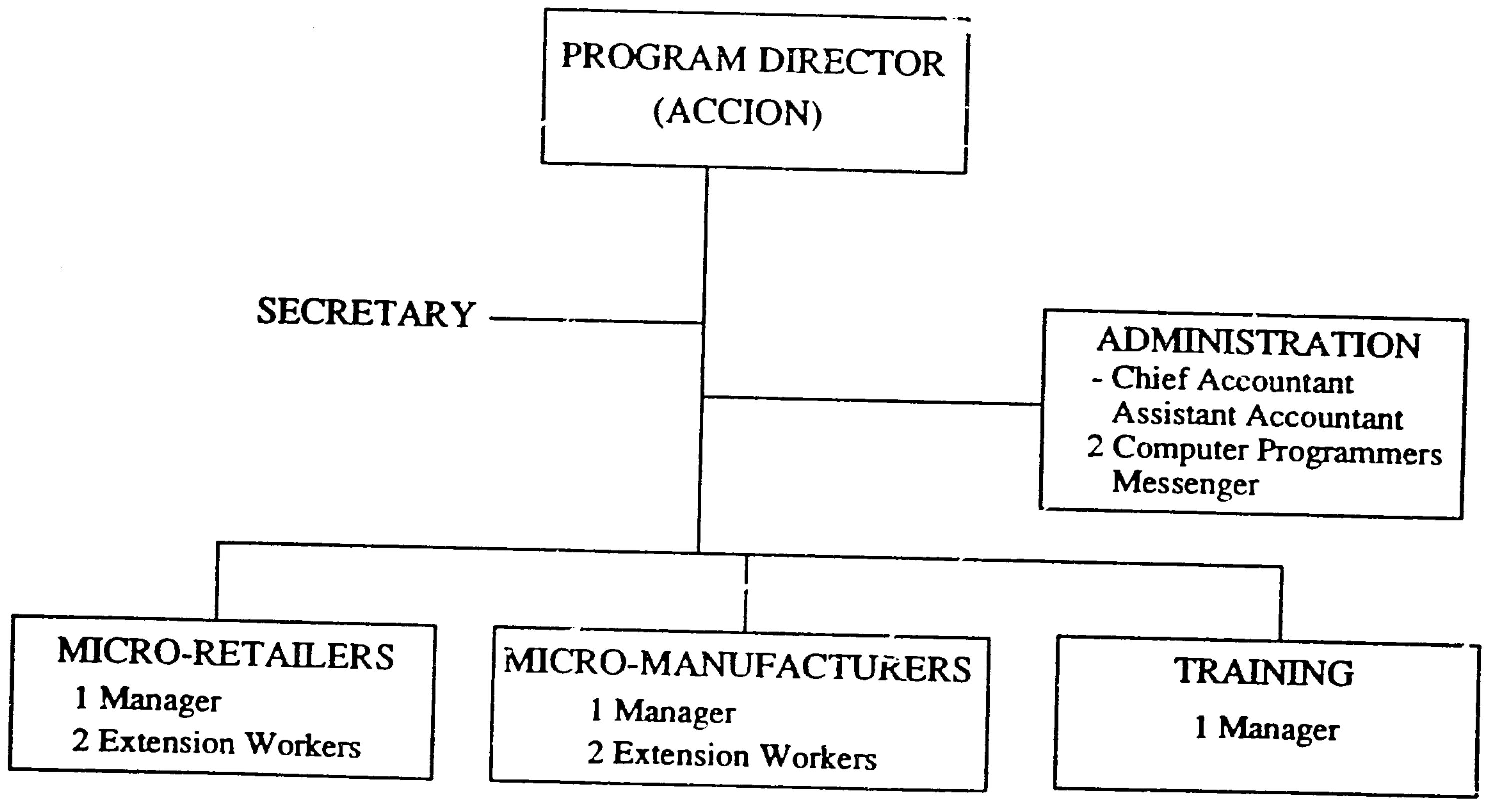
23. Cable, February 12, 1988, from A.I.D./Washington to USAID/Bolivia.
24. July 25, 1988.

Figure 1. PRODEM's Organization Chart



Source: Evaluation and Preliminary Project Design for the USAID/Bolivia Micro & Small Enterprise Development Program, DAI, September 1987.

Table 3. PRODEM's Balance Sheet as of July 31, 1987

(Bs)*

	Itemized	Subtotals
Current Assets		
Petty Cash	-191	-191
Cash in Banks		
Local Currency	10,677	
Dollar Based	2,892	13,568
Loans		
Microretailers	16,009	
Micromanufacturers	38,194	54,202
Interest Receivable		1,580
Accounts Receivable		6,326
Donations Receivable		13,874
Phone Lines		5,249
Total Current Assets		94,608
Fixed Assets		
Building	117,619	
Office Equipment	36,970	
Depreciation	-7,568	147,021
Deferred Assets		
Legal and Inc. Expenses	10,133	
Preoperation Expenses	5,833	
Software Development	10,881	26,846
Total Assets		268,475
Liabilities and Net Worth		
Accounts Payable		341
Long-term Debt		60,228
Total Liabilities		60,569
Net Worth	153,600	
Directors' Donations	54,305	207,905
Current Year Revenue		
Total Liabilities and Fund Balance		268,475

Source: Evaluation and Preliminary Project Design for the USAID/ Bolivia Micro- and Small Enterprise Development Program, DAI, September 1987.

*The exchange rate in 1987 was approximately \$1 = Bs. 2.

Steve Gross, director of Latin American operations for ACCION, offered his own views on PRODEM's expansion and absorptive capacity, based on ACCION's 15 years of experience with 35 programs in nine countries in the region. "Since its origins, PRODEM has been an institution working with its brakes on. Unless we're talking about an infusion of $50 million, we don't have to worry about absorptive capacity. But if you're just talking $2 million—that's 4 months, in just La Paz and El Alto. You're basically facing an unlimited market, but you have to create an excellent organization to serve it. I don't think absorptive capacity is an issue when you're in countries where your informal sector is 50, 60, 70 percent and you have a basic methodology that works. If you're going to start out, and say 'let's lend to the poor' without any idea of how to do it, well . . . but if you have the collective experience of 15 years, you start out with a basic idea of how to do it. We've never had a problem in any of our programs with having money that we couldn't disburse or absorb."

Speaking specifically about PRODEM, Steve said that ACCION used 30 indicators to monitor the health of its programs. He went on to say, "The one I look at most is the late payment rate. It's the prime indicator on a program—it talks about the health of your portfolio, the quality of your services. If it's less than 1 percent, as is PRODEM's, you know you're doing something right."

How To Reach Women Better?

Bob Kramer had arrived at the Mission after the project paper had been drafted. He raised a concern that had not yet been identified in the memorandums that Angel had thus far received, "How can you have a micro- and small enterprise without addressing the issue of women's access to credit? There are a couple of conditions on which I will approve this project paper —look at the policy environment, and look at the problem of women's access to credit." In light of the Mission's focus on targeting enterprises in the manufacturing and service sectors, when research and PRODEM data showed that 85 percent or more of women were concentrated in the commerce sector, Bob drafted a memorandum expressing his concern. "The 'WID' section is very weak. It is unduly pessimistic, in terms of the outlook for women participating in a project of this nature. If no one in the Mission can see the WID opportunities, I suggest the project paper provide for a visit of an ICRW [International Center for Research on Women] team *early* in the implementation phase of the project."[25]

Angel gathered up all the papers on his desk, and sighed deeply, "yet another issue!" He had less than a week to propose a Mission strategy that would address the concerns raised by all members of his team.

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25. August 1, 1988, memorandum on draft PP for MSED program.

Bolivia Case A Teaching Notes

Issues

Intermediary Institutions: How Fast Can They Expand?
When Should New Institutions Be Supported?
How Can Women Best Be Assisted?

Overview

This case addresses some of the strategic issues confronted by program planners in designing programs to support micro- and small entrepreneurs (MSEs), drawing on the experience of the A.I.D. Mission in Bolivia. It can be used to address issues of MSE program design, appropriate selection of intermediary institutions, rapid program expansion and appropriate organizational systems, strategies to assist women, and conflict of donor and grantee objectives. The case leader should choose the topics most appropriate to the audience. This teaching note does not purport to be comprehensive, but serves as a guide. There might be a series of other issues that arise based on the experience of the trainer and the audience, and the discussion questions at the end of this note should be revised accordingly.

Case Scenario

Angel Diaz, the project officer responsible for USAID/Bolivia's Micro- and Small Enterprise Development (MSED) program design, has 1 week in which to propose a strategy to address several unresolved issues to finalize the design of the $10 million program. One of the principal issues he must address is whether the institution selected to implement the policy and research component of the program, FEBOPI, should receive funds to capitalize loan funds for recently established member cooperatives, despite the fact that they have a spotty record in managing credit under a pilot project. FEBOPI argues that they serve a special clientele not served by FENACRE and PRODEM, the two institutions selected to manage the loan funds under the program. The issue here centers on A.I.D.'s role in institutional development: to what extent should A.I.D. be involved in creating or supporting new institutional capabilities as opposed to working with ones with proven capacities?

Another major issue confronting Angel is the amount of money that should be channeled to PRODEM in order to capitalize its loan fund. Although PRODEM had successfully disbursed $260,000 in less than a year under an A.I.D. pilot project, with a delinquency rate of less than 1 percent, A.I.D. was concerned about PRODEM's ability to absorb the proposed $1.8 million in loan funds. The underlying issue involves the ability of an institution to expand as well as to marshal the relevant organizational and administrative capacity necessary for an expanded effort. The discussion point is whether one can determine an appropriate growth rate for a credit institution.

The third issue Angel confronts is the question of how better to target women, which hinges upon the need to satisfy dual but not necessarily conflicting objectives. A.I.D. chose to target manufacturing and service enterprises because of their supposedly greater employment- and income-generating potential. Women in Bolivia, whom A.I.D. has a special mandate to serve through the MSED program, are concentrated in the commercial sector. Careful research first needs to be done about what the actual employment- and income-generating potential of different sectors is. Action is often taken on the basis of asumptions that turn out not to be true. It does not follow that commercial activities are any less valid—particularly when their social impacts and linkages are considered—than industrial activities. A well-designed program may increase both its social and its productive impact by targeting sectors in which many women are present, including commerce.

Pedagogical Objectives of the Case

There are multiple pedagogical objectives in this case, depending on the background and experience of the audience in this field. Overall, the case was written to point to critical issues involved in designing strategies to support MSE development in developing countries. For audiences who do not have significant experience in this area, the case's pedagogical objectives are to introduce the MSE sector, its characteristics, and its role in economic development. At this level, one objective is also to inform case study participants about the sector's heterogeneity and, therefore, appropriate targeting, by distinguishing between micro- and small enterprises.

For an audience well-versed in MSE development issues, a pedagogical objective of the case is to incite discussion on institutional development issues. Discussion at this levels entails questions such as the following:

- Which characteristics of institutional intermediaries lead to effective program implementation?
- Should A.I.D. support the development of new institutional capabilities when these capabilities exist within existing institutions?
- How should donors parcel out funds among competing grantees?

These issues are faced by Angel as he has to decide whether FEBOPI's request for credit should be granted, and whether A.I.D. should assist FEBOPI in developing an institutional capacity to manage growing funding levels. Another issue related to institutional development addresses the expansion capability, or the appropriate absorptive capacity, of an implementing institution to successfully manage a large donor infusion to its capital fund. Angel confronts this as he tries to decide on the appropriate amount of funds to provide to PRODEM.

Another objective of the case is to provoke discussion on appropriate ways to assist women entrepreneurs. In the case, ensuring women's access to program resources is raised as an afterthought in the project design process. Discussion is generated on various targeting issues such as

- What are viable strategies for assisting women?
- How can objectives, such as WID objectives and employment-generation objectives, be coordinated?

Sample Discussion Questions

1. What do we know about the MSE sector from the case?
2. What are the characteristics of microenterprises and small enterprises?
3. What are A.I.D. and the Government of Bolivia's objectives in supporting this program?
4. What is their strategy? (Whom do they target? What kind of enterprises do they target?)
5. What are the implementing institutions?
6. What services do these implementing institutions provide?
7. Who are their target clientele?
8. What is Angel's dilemma?
9. Should FEBOPI receive credit funds?
10. Should PRODEM receive the $1.8 million in loan funds? under what conditions?
11. Where are women in the MSE sector in Bolivia?

12. How can they be reached?

13. Is there a trade-off between WID objectives and objectives of employment generation and growth?

USAID/BOLIVIA'S MICRO- AND SMALL ENTERPRISE DEVELOPMENT PROGRAM

CASE B: Can You "Graduate" Microentrepreneurs?

This case was written by Mohini Malhotra. It is intended as the basis for class discussion rather than an illustration of either effective or ineffective handling of an administrative situation. The cooperation and support of the many individuals who made this case study possible are gratefully acknowledged.

A formal review of the project paper (PP) for USAID/Bolivia's Micro- and Small Enterprise Development (MSED) program was scheduled to occur in the private sector office on the seventh floor of the USAID Mission in La Paz in mid-1989. A four-person design team had been contracted from Nathan Associates and Development Alternatives, two major consulting firms, to finalize the input into the Mission's PP. The USAID/Bolivia program design review team settled down around the conference table, after getting refills of the staple Bolivian drink, coca tea.

After close review and discussion of several issues and the strategies proposed to meet the constraints of micro- and small enterprises (MSEs) that were specified in the draft PP, Clark Joel, the Mission economist and economic adviser to the program, shuffled some papers he was holding and said, "Well, it looks pretty good overall, but we have one serious issue that remains unresolved. What about the question of graduation?[26] How long will we continue to provide services to the same entrepreneurs? I have a basic philosophical difference with PRODEM's approach of increasing loan amounts and terms to service the same clients. Since it is our objective to reach a substantial and growing number of microenterprises, we should limit

26. For microenterprise development programs, "graduation" generally refers to the client reaching a stage of growth and sufficiency to be able to access credit from formal commercial sources.

the period of assistance to the same clients, at least with A.I.D. funds, to a *maximum* period of 2 years. This will provide other microentrepreneurs with the opportunity to access scarce resources for their operations."

Experience of PRODEM and ACCION

PRODEM, the institution administering loans and technical assistance to microentrepreneurs under USAID/Bolivia's program, was a private nonprofit organization. It began as a pilot project to support microentrepreneurs in the capital of La Paz in February 1987, with the objective of increasing incomes and employment within the microenterprise sector. PRODEM clients tended to have only one or two employees when they first approached the program for credit. The beneficiaries were urban-based and mainly engaged in manufacturing and commercial activities. Sixty-four percent of loans were granted for commercial activities, mainly selling fresh food produced in the surrounding valleys near La Paz.

Thirty-six percent of loans were for manufacturing activities. All informal microenterprise owners with assets under $2,500 located in the area were eligible for credit. Eighty-two percent of the clients were female and 18 percent were male. The average client income level was $30 per month at the time of entering the program.[27] PRODEM extended loans to self-organized client groups of four to seven members, all of whom were responsible for loan repayment and for guaranteeing the loan. PRODEM's objective was to meet the needs of the poorest of the microentrepreneurs.

PRODEM's credit disbursement system involved a visit by potential borrowers to PRODEM's office, an initiation to the program, and a return to the office with members of a guaranty group for further orientation. PRODEM assisted the group members with the initial loan application. If approved, loans were disbursed shortly thereafter. The borrowers repaid their loans in weekly or monthly installments directly into PRODEM's account at a commercial bank. This process, aside from reducing the administrative burden of receiving and recording loan repayments, served to introduce the formal banking sector and the microentrepreneur to each other.

Based on scheduled repayments and the productive use of the loan, PRODEM increased the size and terms of the loan. The ceiling on loan size, however, was $3,000. PRODEM initially stated its intention to graduate clients, that is, service the same group of borrowers until they became eligible for loans from a credit cooperative or other financial institution, a process that was thought to take 4 to 5 years, or even longer. To date, because of its recent origins, PRODEM has not graduated any clients. In light of this, and in

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27. Cable of July 5, 1988, to A.I.D./Washington on microenterprise assistance.

light of the experience with graduation of microenterprise programs in general, PRODEM was redefining its approach to graduating its clients.

ACCION's experience with graduation was much the same. In its 15 years of activity in this field and its experience with 35 programs in nine countries, there had been no graduating clients. According to Steve Gross, director of Latin American operations of ACCION, graduation had not occurred in ACCION's period of involvement in the sector. As he put it, "We've been talking about graduation ever since we've been talking about microenterprise development. Perhaps we should be at the point of admitting that it is not possible, if we want to be honest with ourselves. But that's because of the nature of the the banking system itself. A.I.D. has been trying for years to change bankers . . . but to think that bankers want to do this kind of lending, after the kind of lending they've always done, is like expecting a shoemaker to bake bread. Everyone wants to change the banks, everyone wants to make a baker out of a shoemaker, well—we change ourselves into banks, we don't graduate microenterprises, we graduate institutions."

Steve also believed that graduation did not benefit anyone—either the graduate or the graduator. The graduate had no place to go, and the graduator lost volume from the graduated client. It did this by releasing its "least risky and most profitable clients, the ones who make it easier to make more money with fewer transactions, thus limiting the institution's ability to expand its services to new clients." As Steve pointed out, "the classic example of graduation gone awry" occurred when Pedro Jimenez, the executive director of ADEMI, ACCION's affiliate in the Dominican Republic, "presented his 40 best clients, who had been cured of any credit-unworthiness, on a silver platter to the commercial bank that serviced ADEMI's account, and the bank said, 'Look we'll lend you the money to on-lend, but we'd prefer not to take these 40 clients.' The bank, just because it doesn't know how to bake bread, because they're shoemakers, said, 'We're not against lending to the little guy, we're just not set up for it.' So we have to graduate ourselves into banking institutions—and if you accept the fact that a good portion of your 'profitability' is going to be 'development profitability,' then it makes all the sense in the world to maximize your value."

Steve, speaking from his 12 years of experience with ACCION and his involvement in the sector for the last 20 years, said that he believed that, rather than graduate clients out of the program after a stint of 1 or 2 years, "We should grow with the client. If they can use more money, if they can absorb money, so long as we're not taking away from the little guy, we should meet their needs. But the danger, of course, is to be satisfied with serving the larger ones, and we were created to serve the poor." Steve also believed that ACCION's affiliates were servicing such poor clients, "poor enough to have $60 make a difference," that these individuals would have no place to go once they left the program after a few years, and their credit needs would still be severely unmet.

Pancho Otero, the executive director of PRODEM since its beginning, was no newcomer to the microenterprise sector. His last 14 years had been dedicated to supporting microenterprise growth through credit programs with various credit and cooperative institutions throughout Bolivia. He offered his own perspectives on graduation in discussions with the USAID design team, "If you look at this from a banker's or a credit institution's point of view, you want to keep good clients, why shouldn't good clients have an open line of credit, and if they pay, and they comply, why cut them off? It seems to me that there is a general attitude that these microenterprises are being done a favor, and of course a favor can only be extended for a year or 2—not a lifetime. However, we're not doing anyone a favor, we are providing a service that should exist everywhere, because people are paying for it! We're not giving anything away. Of course, if you're charging subsidized rates, then it's a favor and it can only be limited to a few years. But we don't charge subsidized rates, we're not doing a favor. They [microenterprises] are doing us a favor; we're just another product on the market."

Pancho went on to say, "Where does this idea come from that with 2 years of credit people are out of the woods, that a microeconomic unit can prosper without credit, when even multinationals don't finance their growth out of their own earnings? Once you graduate them from your program, they reenter the cycle of poverty. What is the use of doing a program if they'll return to their previous levels? What we're working on, instead of attempting to pass our clients on to others, is to grow ourselves to better service them."

He also felt that graduation was complicated by another issue. As he explained it, "The term 'micro' means tiny, and when you assist them and they grow to the point where they are no longer micro, they 'graduate' from the adjective 'micro'. But in fact 'micro' is not a size condition. It is a social, cultural, and political condition that involves being marginalized in society. Being a microentrepreneur is not only a question of size. It's a cultural condition that has to do with being excluded from the mainstream of the formal sector. We spend a tremendous amount of time training and educating the bank personnel to change their attitudes and behavior with our clients, and they only accept their *payments* at the bank—they don't extend loans! Being marginalized has a lot to do with literacy and your clothing, and your language and accent. The least of their [microentrepreneurs'] problems is that they want a small loan."

Pancho concluded his views on graduation by saying, "We view these people as clients, not beneficiaries. I believe that this issue of graduation arises out of the idea that these are donated funds. Why should there be situations of exception for microentrepreneurs when in fact we're trying to erase the existing conditions of exception and marginalization?"

Other Views on Graduation

Clark Joel, the USAID/Bolivia Mission economist, was reputed to be one of the most senior and able economists in the A.I.D. system. He had been with the Mission for close to a year, after having worked with A.I.D. in Central America for the past 20 years in a variety of development assistance programs. He believed that graduation was an especially critical issue for the PRODEM component of this program because of the effects of the aging of its program. The PRODEM model initially recruited a large number of clients into the program with small, short-term loans. As these loans were repaid, the groups graduated within the program to larger loans with longer repayment periods. He believed that this affected the program negatively in two critical ways. First, with a fixed loan portfolio, the number of clients the institution could service declined rapidly. As Clark explained it, the demand on credit resources by clients progressing through the system absorbed all available resources so that funds were not available to initiate new groups into the system. With a $1 million portfolio, for example, the program could service 10,000 individuals with first loans of $100, but only 2,000 with fifth loans of $500. This created an inevitable attrition rate of 80 percent within a relatively short period.

Second, Clark believed that the aging of the portfolio had a decidedly negative impact on earnings for PRODEM. As he wrote in a concept paper that he prepared for the meeting, "PRODEM currently charges an interest rate that barely covers the cost of funds and maintenance of value; administrative costs are covered by a separate commission fee, at the rate of 2.5 percent per loan. A $1 million portfolio of 1-month loans turns over 12 times a year, and under the PRODEM formula, it would generate $300,000 in fee income. On the other hand, a $1 million portfolio of 6-month loans turns over only twice a year and would generate only $50,000 in income."[28] Clark's basic argument was that with a fixed portfolio, and clients staying in the program longer, fewer clients could be served, and PRODEM would earn less to cover its administrative costs.

Clark's thrust was that the purpose of graduation was not to graduate clients to the formal banking system but to graduate them from PRODEM assistance. As he argued, "Allow these people to capitalize themselves—maybe they can double or triple their capital—and then you go on to the next batch. Let somebody else have a chance." He felt that by graduating clients out of its program, PRODEM would be made stronger and more capable of serving a growing number of beneficiaries. He urged that self-capitalization of the assisted enterprises, after a reasonable amount of time, should be an essential design strategy. As he pointed out in his paper, "Although it is important that clients 'graduate' from PRODEM assistance, it is not anticipated that commercial banks will be prepared to do business with

28. Project paper, p. 94.

micro- and small enterprises any time in the medium-term future. Therefore graduation does not imply a transition to alternative financial and technical assistance institutions. Graduated clients will probably have to rely on their own resources."[29] He reiterated this point in a May 1988 memorandum to the Mission director, "The hope that its graduates will eventually be able to borrow from a credit union or the formal banking system strikes me as Utopian in the Bolivian context."

Clark stated his firm views on graduation by saying, "Although their [PRODEM's] goal of 'graduation' is to move these people up to where they can be linked with the formal sector, I would like them to adopt a more modest goal. Let them double or triple their working capital, and then go on to help somebody else to double or triple their working capital. I don't like this elitist approach, where there are a few people that you're going to bring all the way to where they can be linked with the formal credit system . . . where you always have a very narrow base, where you don't do a lot of good for a lot of people, but you do a lot of good for a few. They also assume that their clientele are so desperate that the first loans they make are for consumption, that they will go to buy medicine for the kids. I am inclined to question that assumption. I think that people in even the smallest of businesses have a keen notion of what is working capital and what is not.

"I also think that, from the viewpoint of A.I.D., our purpose is and should be to help large numbers of people and increasing numbers of people—that we should be interested in inducing our grantees to develop a system that is based on the notion of replication and servicing large numbers of people.

"I think that if you tell microentrepreneurs that if they continue to repay their loan they will get a larger amount next time, then the pressure is off. They are going to raise their consumption level before they actually increase sales. I think we should always keep in mind that the vast majority of the informal sector does not have any access to credit, and they have a right to their turn. The idea should be made very clear from the beginning that the purpose [of the loan] is to capitalize the business, and that they [loans] will not continue for ever. Our microenterprise program should have a more modest goal of helping microentrepreneurs to capitalize themselves so they are not dependent on the usurious money-lender. This, admittedly, is a more modest goal than expecting to link microentrepreneurs with the formal sector. Our objective should be to raise people out of poverty, make them less poor—and that is a very worthwhile objective."

To further demonstrate his point, Clark produced some economic analyses he had conducted (see Table 4), which demonstrated that a 2-year graduation period could be sufficient to enable most microentrepreneurs to

29. Project paper, p. 94.

Table 4. Economic Analysis of Microentrepreneurs' Earnings

Average Clothier*
Total Income and Expenditures
(In Bolivianos)

	Quarterly w/o credit	First Quarter w/credit	Second Quarter w/credit	Third Quarter w/credit	Fourth Quarter w/credit	Cumulative w/o credit	Cumulative w/ credit	Difference (Absolute)
1. Income	4,884	6,825	8,496	9,770	10,650	19,536	35,741	16,205
Sales	4,884	3,825	8,496	9,770	10,650	19,536	35,741	16,205
2. Expenditures	4,079	5,272	6,537	7,510	8,194	16,315	27,521	11,205
Labor	408	585	741	852	929	1,632	3,107	1,475
Raw Materials	3,603	4,563	5,655	6,603	7,089	14,412	23,810	9,398
Other	24	27	42	48	53	96	170	74
Equipment	44	97	99	114	124	175	434	259
3. Balance for the entrepreneur (1-2)	805	1,553	1,959	2,253	2,456	3,221	8,221	5,000
4. Cost of providing services	0	36	36	36	36	0	144	144
5. Net total (3-4)	805	1,517	1,923	2,17	2,420	3,221	8,077	4,856
6. Average loan provided								605
7. Balance/Investment (5 as percent of 6)								803

* Average of five clothiers

Average Carpenter*
Total Income and Expenditures
(In Bolivianos)

	Quarterly w/o Credit	First Quarter w/Credit	Second Quarter w/credit	Third Quarter w/credit	Fourth Quarter w/credit	Cumulative w/o credit	Cumulative w/ credit	Difference (Absolute)
1. Income	6,240	7,650	10,950	14,763	19,956	24,960	53,339	28,379
Sales	6,240	7,650	10,950	14,783	19,956	24,960	53,339	28,379
2. Expenditures	3,864	5,455	7,725	10,970	15,578	15,456	39,729	24,273
Labor	840	1,035	1,740	2,471	3,509	3,360	8,754	5,394
Raw Materials	2,940	4,308	5,871	8,337	11,838	11,760	30,354	18,594
Other	60	87	84	119	169	240	460	220
Equipment	24	25	30	43	61	96	160	64
3. Balance for the entrepreneur (1-2)	2,376	2,195	3,225	3,812	4,379	9,504	13,610	4,106
4. Cost of Providing Services	0	36	36	36	36	0	144	144
5. Net total (3-4)	2,376	2,159	3,189	3,776	4,343	9,504	13,466	3,962
6. Average loan provided								646
7. Balance/Investment (5 as percent of 6)								613

*Average of three carpenters

(continued)

Table 4 (Continued)

Average Shoemaker*
Total Income and Expenditures
(In Bolivianos)

	Quarterly w/o credit	First Quarter w/credit	Second Quarter w/credit	Third Quarter w/credit	Fourth Quarter w/credit	Cumulative w/o credit	Cumulative w/ credit	Difference (Absolute)
1. Income	6,144	7,350	8,706	10,186	11,714	24,576	37,056	13,380
Sales	6,144	7,350	8,706	10,106	11,714	24,576	37,056	13,380
2. Expenditures	4,983	5,665	6,784	7,801	8,191	19,931	28,440	8,509
Labor	804	915	1,143	1,463	2,034	3,216	5,555	2,339
Raw Materials	4,110	4,674	5,556	7,112	9,885	16,440	27,227	10,787
Other	24	24	30	38	53	96	146	50
Equipment	45	62	55	70	97	179	273	94
3. Balance for the entrepreneur (1-2)	1,161	1,685	1,922	2,385	3,523	4,645	9,516	4,871
4. Cost of providing services	0	36	36	36	36	0	144	144
5. Net total (3-4)	1,161	1,649	1,886	2,349	3,487	4,645	9,372	4,727
6. Average loan provided								687
7. Balance/Investment (5 as percent of 6)								688

* Average of five shoemakers

Average Merchant*
Total Income and Expenditures
(In Bolivianos)

	Quarterly w/o credit	First Quarter w/credit	Second Quarter w/credit	Third Quarter w/credit	Fourth Quarter w/credit	Cumulative w/o credit	Cumulative w/ credit	Difference (Absolute)
1. Income	1,386	1,802	2,342	3,081	4,005	5,544	11,230	5,686
Sales	1,386	1,802	2,342	3,081	4,005	5,544	11,230	5,686
2. Expenditures	1,059	1,407	1,871	2,457	3,266	4,236	9,001	4,765
Labor	0	0	0	0	0	0	0	0
Raw Materials	1,026	1,365	1,815	2,382	3,168	4,104	8,730	4,626
Other	33	43	56	75	98	132	271	139
Equipment	0	0	30	0	0	0	0	0
3. Balance for the entrepreneur (1-2)	327	394	472	624	740	1,308	2,230	922
4. Cost of providing services	0	36	36	36	36	0	144	144
5. Net total (3-4)	327	358	436	588	704	1,308	2,086	778
6. Average loan provided								420
7. Balance/Investment (5 as percent of 6)								185

*Average of five merchants

(continued)

Table 4 (Continued)

Other Productive Entrepreneurs*
Total Income and Expenditures
(In Bolivianos)

	Quarterly w/o credit	First Quarter w/credit	Second Quarter w/credit	Third Quarter w/credit	Fourth Quarter w/credit	Cumulative w/o credit	Cumulative w/ credit	Difference (Absolute)
1. Income	7,401	9,393	11,475	13,541	15,436	29,604	49,845	20,241
Sales	7,401	9,393	11,475	13,541	15,436	29,604	49,845	20,241
2. Expenditures	5,698	7,396	9,280	10,672	11,205	22,703	38,552	15,759
Labor	798	933	1,428	1,728	2,[illegible]22	3,192	6,110	2,918
Raw Materials	4,818	6,975	7,755	9,384	10,979	19,272	34,492	15,220
Other	21	24	33	40	47	84	144	60
Equipment	61	64	64	77	[illegible]0	245	294	49
3. Balance for the entrepreneur (1-2)	1,703	1,997	2,195	2,869	4,231	6,811	11,293	4,482
4. Cost of providing services	0	36	36	36	36	0	144	144
5. Net total (3-4)	1,703	1,961	2,159	2,833	4,195	6,811	11,149	4,338
6. Average loan provided								728
7. Balance/Investment (5 as percent of 6)								596

*Average of four entrepreneurs

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capitalize themselves to the point where they could finance their working capital requirements on their own. His analysis was based on, in his words, "an admittedly small sample" of 22 entrepreneurs whom he had interviewed in the city of Cochabamba, Bolivia's third-largest city. He also pulled out of a folder several analyses that projected PRODEM's financial situation on the assumption of an average graduation period of 4 years (designed to support the standard or current situation) contrasted with similar projections based on a 2-year graduation period. He had prepared these in collaboration with PRODEM staff (see Table 5).

As Clark explained the analyses, he demonstrated that PRODEM's financial projections for the first 2 years were identical for both assumptions because no graduation could be expected in the initial period. The difference in the third and fourth years of the two assumptions arose from the additional resource requirements in the 2-year model, for additional loan monitoring and client initiation work, given the higher turnover of beneficiaries. The increased costs in the 2-year model were partially offset by the increased revenues from the 2.5 percent flat fee that PRODEM charged on the face value of every loan and on every loan extension granted, aside from the 27 percent annual interest charged. A 2-year graduation period would assume an average loan term of 3 to 4 months. Under the 4-year model, revenues exceeded expenditures by 10 percent in the fourth year, whereas revenues fell short of covering expenditures by 3 percent in the 2-year model. However, Clark argued that, because the 2-year model permitted a fairly rapid expansion of the number of beneficiaries served by PRODEM, USAID should strongly prefer this alternative: the benefits of reaching a larger population were greater than the deficit PRODEM would experience at the end of the last projected year.

Clark continued with his argument, "They [PRODEM] want to work like a bank, and what we are telling them is 'When you're using our money, you don't operate like a bank—you don't work with an elite, you broaden your base, that's why we give you the money.' But I admit, this involves higher operating costs, more research, a greater default rate, higher risk, but that's development. I insist that, at least with our money, they have a different philosophy. It's mostly a concern for A.I.D., because it's A.I.D. that wants the broadening of the clientele. They are only concerned with the viability of the institution, and they want to do the best they can for a limited number of people."

In a memorandum to G. Reginal van Raalte, the Mission director, Clark wrote, "In a lengthy conversation with PRODEM manager Francisco (Pancho) Otero, I received some insight into their operation. I believe this justifies our request for some changes in PRODEM's operating procedures if we are to channel $1.8 million to it as part of our microenterprise/small business loan. The principles and operating procedures that I find questionable are as follows: 1. The graduation period is theoretically 3 years, . . . However, even that is not rigidly fixed . . . if the need is for credit over a somewhat longer

Table 5 PRODEM's Financial Situation (1) Under Different •Graduation Models

Four-Year Graduation Model (Bolivianos)

	1988	1989	1990	1991
1. Revenues (2)	579,420	1,453,725	2,101,570	2,748,611
Interest revenue	422,820	1,121,445	1,681,256	2,231,955
Commission	156,600	332,280	420,314	516,656
2. Expenditures	527,604	919,986	1,131,932	1,416,704
Financial costs (3)	84,480	136,896	157,232	185,504
Salaries & other costs (4)	443,124	783,090	974,700	1,231,200
3. Operating net profit (1-2)	51,816	533,739	969,638	1,331,907
4. Operating subsidy required	0	0	0	0
5. Net profit (loss) as percent of average current portfolio	3	13	16	16
6. Bad loan reserve adjustment (5)	31,320	83,070	124,538	165,330
7. Adjustment for maintenance of value of the portfolio (6)	313,200	852,720	830,160	916,200
8. Net profit/loss after adjustments (3-6-7)	-292,704	-402,051	14,940	250,377
9. Total subsidy required	292,704	402,051	0	0
10. Self-sufficiency (revenues as percent of 2+6+7)	**66**	**78**	**101**	**110**
A. Total project disbursements	1,464,000	3,450,000	1,902,000	2,244,000
B. Average current portfolio (7)	1,566,000	4,153,500	6,226,875	8,266,500
C. Expenditures/current portfolio (percent)	34	22	18	17
D. Interest rate (percent)	27	27	27	27
E. Commission (2.5 percent per loan)	10	8	7	7
F. Effective interest charged (percent)	37	35	34	34
-maintenance value/current portfolio	20	17	12	10
G. Spread to cover operating costs	17	18	22	23

(continued)

Table 5 (Continued)

Two-Year Graduation Model (Bolivianos)

	1988	1989	1990	1991
1. Revenues (2)	579,420	1,453,725	2,257,242	2,893,275
Interest revenue	422,820	1,121,445	1,681,256	2,231,955
commission	156,600	332,280	575,986	661,320
2. Expenditures	527,604	919,986	1,542,332	1,909,184
Financial costs (3)	84,480	136,896	157,232	185,504
Salaries & other costs (4)	443,124	783,090	1,385,100	1,723,680
3. Operating net profit (1-2)	51,816	533,739	714,910	984,091
4. Operating subsidy required	0	0	0	0
5. Net profit (loss) as percent of average current portfolio	3	13	12	12
6. Bad loan reserve adjustment (5)	31,320	83,070	124,538	165,330
7. Adjustment for maintenance of value of the portfolio (6)	313,200	852,720	830,160	916,200
8. Net profit/loss after adjustments (3-6-7)	-292,704	-402,051	-239,788	-97,439
9. Total subsidy required	292,704	402,051	239,787	97,439
10. Self-sufficiency (revenues as percent of 2+6+7)	**66**	**78**	**90**	**97**
A. Total project disbursements	1,464,000	3,450,000	1,902,000	2,244,000
B. Average current portfolio (7)	1,566,000	4,153,500	6,226,875	8,266,500
C. Expenditures/current portfolio (percent)	34	22	25	23
D. Interest rate (percent)	27	27	27	27
E. Commission (2.5 percent per loan)	10	8	9	8
F. Effective interest charged (percent)	37	35	36	35
-maintenance value/Current portfolio (5)	20	17	12	10
G. Spread to cover operating costs	17	18	24	25

(continued)

Table 5 (Continued)

Notes to Table 5

1. Assumptions: 27 percent interest rate and 2.5 percent flat fee per loan.
2. Revenues are calculated by multiplying the "effective interest charged" by the "current portfolio."
3. "Financial costs" cover interest payments (at 8 percent annually) on loans from P.L. 480 and IBRD.
4. "Salaries and other costs" include salaries, rent, utilities, and supplies.
5. "Bad loan reserve adjustment" is the adjustment allowed for bad loans equivalent to 2 percent of "current portfolio."
6. "Adjustment for maintenance of value of portfolio" is calculated by multiplying assumed inflation rates of 20 percent in 1988, 17 percent in 1989, 12 percent in 1990, and 10 percent 1991 by the "current portfolio" and the amounts undisbursed of each year.
7. "Current portfolio" is calculated on the assumption that at any time only 75 percent of the disbursed amount will be lent out and 25 percent will remain idle.

period, presumably PRODEM would be willing to listen. 2. The beneficiary is not expected to reinvest a major proportion of his additional profits (generated by the loan) into his business. Instead, it is believed that the borrowers, being very poor and unable to satisfy the minimum needs of themselves and their families, will use almost all of their additional profits to meet basic needs. The basic concept is that as long as poor people are not able to meet their basic needs, it is unrealistic to expect them to use their profits to increase their working capital . . . . (Pancho) Otero told me he expects borrowers to use 90 to 99 percent of their additional profits to raise their consumption level. This explains the very slow rate of capital formation that PRODEM is expecting from its clients, and why they consider that the minimum period to graduation is 3 years."

The memorandum went on to state, "The very slow turnover of the credit resources at PRODEM's disposal means that only a small fraction of potentially eligible microenterprises will benefit from the project. Essentially, the major question raised by PRODEM's philosophy is whether A.I.D. should provide its resources to benefit a small elite . . . as opposed to providing credit to a much larger number of beneficiaries. If we would require that the maximum period of a loan to any one beneficiary be limited to 1 year, or at most 18 months, we would be able to provide benefits to two or three times as many borrowers as PRODEM's philosophy permits . . . . The figures provided to us by PRODEM itself with respect to five categories of customers . . . indicate that, after the lapse of only 1 year, profit margins can be expanded by 50 to 100 percent [see data from Table 4]. If these figures are credible, then limiting the maximum period of a loan to a year or 18 months would provide substantial benefits to the borrower, and it would permit a much greater outreach than is possible under current procedures. I would therefore recommend that serious consideration be given to limiting the maximum period of a loan that can be granted to any one beneficiary with our funds to 12 to 18 months, and that this be made a condition for providing a $1.8 million loan to PRODEM."[30]

30. Memorandum dated May 17, 1988.

Bolivia Case B Teaching Notes

Issue

Can you graduate microentrepreneurs?

Overview

This case addresses some of the strategic issues confronted by program planners in designing programs to support micro- and small entrepreneurs, drawing on the experience of the A.I.D. Mission in Bolivia. Its main use is to address the issue of building into the design strategy the assumption of graduating microentrepreneurs from program resources after a designated period of time. This then raises the issue of graduating into what? The case also addresses issues of conflict in donor and grantee objectives, as well as of conflicting donor objectives in terms of mandating intermediary institutions to be self-sufficient, and simultaneously, to service high-risk, lower-return target groups. This teaching note does not purport to be comprehensive, but serves as a guide. There might be a series of other issues which arise based on the experience of the trainer and the audience, and the discussion questions at the end of this note should be revised accordingly.

Case Scenario

In this case, which follows from Case A, the project paper for USAID/Bolivia's MSED program is being reviewed by the USAID program design review team. Clark Joel, the Mission economist, disagrees with the way PRODEM, the intermediary institution implementing the microenterprise credit component, deals with the issue of graduating microentrepreneurs from program resources. In essence, PRODEM does not think that graduating microentrepreneurs is a realistic expectation. Clark argues that microentrepreneurs should be graduated from program assistance in 2 years, in order to provide other microentrepreneurs with the opportunity to access scarce resources and thereby expand the assisted pool. He believes that by assisting the same entrepreneurs through increasing loan sizes and terms, that PRODEM would be assisting a shrinking and increasingly elite microentrepreneur group, thus distracting funds from their true developmental mandate to target the poorest entrepreneurs. Clark saw that self-sustainability for PRODEM would be slightly delayed by mandating that PRODEM have a higher client turnover (transaction costs would increase as a greater number of smaller and new loans were serviced). However, he believes that the increased developmental benefits of assisting a broader group of microentrepreneurs outweigh the increased costs.

PRODEM's program is based on initially providing small, short-term loans and then increasing loan terms and size on the basis of repayment performance, while maintaining the overall loan ceiling at $3,000. PRODEM believes that graduation is basically a myth—it has not yet occurred in any microenterprise program. Pancho Otero, PRODEM's executive director, argues that there is no evidence that microentrepreneurs will graduate from the cycle of poverty within 2 years; he believes that upon graduation they would re-enter the cycle of poverty, because there is no place to which they can graduate. He also argues that the emphasis on graduating microentrepreneurs stems from a welfare mentality, or from the presence of programs that depend for their existence on donating funds from donors to beneficiaries. His premise is that if PRODEM's clients prove themselves to be creditworthy, they deserve a service in the market that caters to their needs, and for which they can pay the true cost. He believes that viewing micro-entrepreneurs as beneficiaries rather than clients is the root of the graduation concept.

Pedagogical Objectives of the Case

The case is intended to provoke discussion on a critical issue of graduation: is it reasonable to graduate microentrepreneurs from program resources after a limited period of time? This issue revolves around the argument for designing poverty alleviation versus microenterprise programs. The former seeks to help a mass group of entrepreneurs survive; the latter aims to help microentrepreneurs grow and expand. Clark argues in favor of the poverty alleviation approach. Although he argues strongly for graduation from program resources, he realistically does not believe that microentrepreneurs will graduate to formal sector banks, as was traditionally implied by the term graduation. However, the fact that A.I.D. mandated operational self-sufficiency in PRODEM's program design raises a seeming contradiction in A.I.D. terms of references for PRODEM: is it possible to run a self-sufficient poverty alleviation program? Clark implies that PRODEM should enforce a high client turnover, send away its proven clients, and take on a whole new set of high risk, unknown clients. These actions would decrease PRODEM's chance of being self-sufficient.

PRODEM's arguments for working with a steady client base also raises questions about the optimal mix of characteristics, if any, for credit organizations to assume. The range of characteristics falls between those of financial intermediaries and those of development institutions. The danger, as voiced by Steve Gross in the case, is that an institution like PRODEM would be tempted to work with a larger-sized, less risky target group, to whom it would make fewer larger-sized loans and thereby reduce its transaction costs.

This case also raises the issue of how to handle multiple but conflicting objectives in program design. Is it feasible for USAID/Bolivia to have several seemingly contradictory objectives in one program? Are there trade-offs in self-sustainability and targeting the poorer of the poor, as Clark is suggesting? Are the evaluation criteria of these types of projects established correctly? Should the various objectives be weighted? For example, should PRODEM be evaluated on its performance in terms of targeting the poorest microentrepreneurs (a high cost option) or on the basis of achieving self-sufficiency?

This case also captures a key philosophical debate centering on microentrepreneurs, namely, how are microenterprise programs and their target groups perceived by different institutional players and individuals. Pancho's argument that microentrepreneurs are clients paying for a service within the parameters of the market and that their needs cannot be denied on social equity grounds is a departure from the typical view of microenterprise beneficiaries. Clark's argument is more conventional in that it favors targeting microenterprise programs to the truly needy. Though not even Pancho disagrees with this need, the debate between the two gentlemen centers on how best to do it.

Sample Discussion Questions

1. How is graduation being defined by Pancho and Steve, and by Clark?
2. Can microentrepreneurs be expected to graduate from program resources after a limited period of time?
3. What are the benefits of graduating microentrepreneurs?
4. What are the costs?
5. Do institutional sustainability and graduation entail competing objectives?

Section C

LESSONS LEARNED AND GUIDELINES FOR FUTURE WORKSHOPS

Some practical lessons in terms of logistics, content, and delivery were learned during the case study workshop. These lessons are presented below to facilitate the planning of and preparation for future workshops.

General Observations

Introducing the Topic

Providing a context or frame of reference is critical to any case study workshop, especially to those workshops covering a broad range of issues and design parameters in a variety of country settings. This was handled at the March 1990 workshop by a conference on the previous day that outlined A.I.D's policy and the state of its overall program in microenterprise development.

Similarly, an introduction to the case method is necessary to explain its purpose, namely the development of stronger interpersonal, communication, and problem-solving skills. This introduction may be succinctly given on the first day of the workshop, or even the evening before the first formal session, subsequent to the arrival of all participants and prior to the distribution of the case studies for individual reading.

Formal Presentations by Participants

Requesting formal presentations from selected participants is an effective way to broaden the participation of all those present at the workshop and to promote exchange on the issues. Such presentations also serve to heighten the relevancy of issues to the participants because they can see how the issues are actually played out in A.I.D. Mission work.

During the March 1990 workshop, Mission presentations were found to increase the opportunities for participants to learn from actual experiences and each other. However, these presentations were limited to ongoing programs whose outcomes were difficult to surmise. This problem can be corrected in future workshops by requesting presentations of fully completed projects. It should be remembered, however, that the interest of participants in undertaking this type of analysis of completed projects is less strong.

Tying Issues to Major Themes

Given the broad array of issues raised in many case study workshops, it is important to develop, midway through the workshop, thematic categories under which all issues discussed can be classified. This exercise crystallizes for all participants the recurrent problems in microenterprise programming and allows presenters to address issues considered critical by everyone present at the workshop. Some guidelines on what those issues might be is found in Appendix C

Obtaining Feedback

It is critical to obtain feedback on all aspects of the workshop from all participants at its conclusion. This type of feedback ensures continuous improvement in the formulation and offering of future workshops. Unlike the March 1990 workshop, at which no time was set aside for completing evaluations, it may be best to require each participant to complete an evaluation during a period specifically allocated for that purpose near the end of the workshop.

Allowing Sufficient Time

Participants in the March 1990 workshop would have preferred more time for the presentations. In the future, workshops should last 3 to 4 days. If the workshop is to occur in the field and is to integrate site visits to model programs, it should be extended further.

Graduating Participants

People who attend case study workshops, often at a high cost in terms of time or distance traveled, like to have their participation and learning experience formally recognized with a graduation ceremony. Several participants in the March 1990 workshop believed that the distribution of certificates was too casual and that it did not underscore sufficiently the importance of each participant in reaching important conclusions (by integrating the new case material with knowledge garnered in the field) and in raising the discussion to an appropriate analytical level.

Underscoring the Value of the Case Study Methodology

Favored by the Harvard Business School and other academic institutions as an effective way to improve problem identification and solving, the case study method is increasingly used by institutions outside academia that are interested in developing similar skills among their staff. The case study method for program design and development has been used by A.I.D. with considerable success on several occasions, including the Private Sector Course and the March 1990 workshop.

A successful microenterprise programming workshop needs extensive planning and preparation. These activities should be done in close collaboration with representatives of potential participants, to ensure the relevance of the issues discussed. Preplanning involves selecting a site, setting a schedule, choosing Mission cases and other materials to be presented, and identifying case leaders. In workshops, cases and presentations have to be commissioned to ensure that necessary points are covered. Case leaders must be experienced in the case teaching process and have a background in the subject matter covered. Care must be taken to use cases for what they are designed for—honing analytical skills for management decisions—not for other skills or indoctrination on noncontroversial subjects or briefing on established policies and procedures.

Once the preplanning is completed, microplanning can be left to the workshop organizers. Particular attention should be given to the appropriate allocation of participants to case discussions and smaller focus groups, to the seating patterns in sessions, and to monitoring the patterns of group interaction and correcting for them. This implies having at least a cursory knowledge of the participants and whom they represent, which can be obtained through a preworkshop bio-data sheet. Case leaders need to be experienced in the case method and prepared with a teaching plan, lists of questions, plans for the use of blackboards, and so forth.

Several potential pitfalls are connected with including in the group people with detailed knowledge about or involvement in the case. Usually this can be handled by asking these people to refrain from participating until the end of the session. Similarly, there may be problems with people who have particular programmatic agendas. These people might also be scheduled at the end of the session, if possible, or carefully placed in groups with people with differing agendas.

Concerns Related to Teaching Cases

Using the Correct Type of Teacher

The case study methodology is a specialized teaching tool that is highly dependent on the case leader for its success. To be effective, the case leader or teacher must be thoroughly versed in both the subject matter and the case methodology and, during early stages of the case discussion, must be able to draw the workshop participants into an analysis of the case. Later in the discussion, the case leader must allow the participants to drive the analysis to its logical conclusions. The discussion must never be allowed to become too academic or theoretical, or participants will lose interest. Also, the case leader must never dominate the discussion because there is never one correct or best answer to the issues raised by the case, and the practitioners are often seasoned project managers and designers. These points were adhered to during the March 1990 workshop, and the resulting consensus was that the case teachers played a considerable role in the seminar's success.

Case leaders for a workshop like this need to be somewhat stronger and more interventionist than in many other training sessions. Strong bureaucratic and organizational stakes may be at issue, and it is necessary to ensure that everyone gets a chance to participate and that all viewpoints are fairly aired. Further, USAID has its own policy agenda that needs to be actively promoted, which is not necessarily true in more academic sessions. The strength of intervention can be traded off against careful planning, scheduling, and allocation of participants to groups.

Adhering to the Concerns of the Case

There may be moments in case study workshops when the discussion digresses from the issues raised by the case under study. During the March 1990 workshop, the following problems were noted: participants with country-specific agendas or with greater knowledge of case specifics dominating the discussion, and participants hotly debating peripheral points. In most instances, a strong case leader can overcome these problems and focus the discussion on more relevant concerns.

Balancing Case Group Participation

Given the dynamic role played by participants, it is critical that participants from different missions, regional areas, and programs be spread among the case study groups whenever there is a need to break a largely plenary session into smaller working groups. This allows for positive interaction within and among working groups. Also, to ensure adequate participation from all present, working groups should number no more than 30.

Using Study Questions

Though the need for original and unimpeded input from participants has been raised repeatedly above, it is often necessary to channel case discussions into productive areas. This is especially true when the participants are unfamiliar with the case methodology and its goals, or when the case study format is being used simultaneously to improve the problem-solving skills of participants and to resolve a critical point in program implementation. A set of written study questions distributed to the case group will sharpen the focus of the discussions.

Adequate Class Size

A general rule is to limit case study sessions to fewer than 30 participants. Experience has shown that smaller groups facilitate participation and increase class dynamics. In the March conference, the 60 participants were divided into two groups, and parallel case sessions were conducted simultaneously. Smaller discussion groups should generally be limited to no more than five individuals.

Adequate Preparation Time

To the extent possible, case studies should be distributed in advance to allow participants sufficient preparation time. An exception to the rule should be applied when sequence case studies, such as those at the March conference (see Section B of this volume), are used. Sequence case studies are those in which Case B is a follow-on or a continuation of the scenario developed in Case A. The B cases should not be distributed in advance because they often provide the outcome of the A case. As a general rule, an hour should be allotted for individual study time, an hour for study group discussion, and up to 2 hours for the larger plenary discussion session. See the workshop agenda in Appendix A for general guidance on designing an adequate agenda.

Gender Focus

In microenterprise design, it is critical to consider the importance of social norms such as gender-specific attitudes and regulations and to collect gender disaggregated data on sectors with high female participation. Other important issues include the need for: beneficiary impact data, a better understanding of the policy and regulatory environment affecting small enterprises, recognition of the heterogeneity of micro- and small enterprises, understanding the best type of delivery system, innovation, and combining savings with credit programs.

Appendix A

SUCCESSFUL MICROENTERPRISE PROGRAMMING: WORKSHOP SCHEDULE

How To Develop and Implement a Microenterprise Development Program in Your Country

March 6 - 7, 1990
The Rosslyn Westpark Hotel—Arlington, VA

March 5

06:00 - 6:30 P.M.	Introduction to the Workshop
6:30 P.M. onward	Individual study and preparation/Case Study 1, Part A

March 6

09:00 - 10:00 A.M.	Study group discussion/Case Study 1, Part A
10:00 - 10:15 A.M.	*Coffee break*
10:15 - 12:00 A.M.	Plenary discussion/Case Study 1, Part A
12:00	Distribute Part B
12:00 - 01:00 P.M.	*Lunch*
01:00 - 01:45 P.M.	Personal study time/Case Study 1, Part B
01:45 - 02:45 P.M.	Study group discussion/Case Study 1, Part B
02:45 - 03:00 P.M.	*Coffee break*

March 6 (Continued)

03:00 - 04:30 P.M.	Plenary discussion/Case Study 1, Part B
04:30 - 06:00 P.M.	USAID Mission presentations
06:00 - 08:00 P.M.	Individual study and preparation/Case Study 2, Part A

March 7

09:00 - 10:00 A.M.	Study group discussion/Case study 2, Part A
10:00 - 10:15 A.M.	*Coffee break*
10:15 - 12:00 A.M.	Plenary discussion/Case study 2, Part A
12:00	Distribute Part B
12:00 - 01:00 P.M.	*Lunch*
01:00 - 01:45 P.M.	Personal study time/Case Study 2, Part B
01:45 - 02:45 P.M.	Study group discussion/Case Study 2, Part B
02:45 - 03:00 P.M.	*Coffee break*
03:00 - 04:30 P.M.	Plenary discussion/Case Study 2, Part B
04:30 - 05:30 P.M.	The Framework for ME Program Design—The Issues
05:30 - 06:30 P.M.	Special topics Session—Financial Innovation
Evening	AskARIES Database demonstration

Appendix B

CONFERENCE SCHEDULES

Where Should A.I.D. Go with Micro- and Small Enterprise?

March 5, 1990

A.I.D./S&T/RD/EED and ARIES sponsored a 1-day conference to discuss critical issues affecting MSE development. The conference presented the cumulative lessons on institutional development for MSE promotion learned from the experience of the ARIES project, A.I.D. strategy and thinking, and the identification of future priorities and options. The agenda was as follows:

09:00 - 09:30 A.M.	Introduction and welcome, Ms. Andrea Baumann
09:30 - 10:00 A.M.	A.I.D.: Where We Have Been and How We Have Come to This Meeting, Dr. Michael Farbman
10:00 - 10:30 A.M.	*Coffee Break*
10:30 - 12:30 P.M.	The Cumulative Results of ARIES—Lessons Learned Chairperson, Dr. Ross Bigelow
10:30 - 11:00 A.M.	Paper presentation, Dr. Thomas Timberg
11:00 - 11:45 A.M.	Panel discussion, Dr. Carl Leidholm, Dr. Charles Mann, Ms. Tulin Pulley
11:45 - 12:30 P.M.	Open discussion
12:30 - 02:15 P.M.	Lunch and address by A.I.D. Acting Administrator, Ambassador Mark L. Edelman

Where Should A.I.D. Go (Continued)

02:15 - 03:15 P.M.	Report from the Advisory Committee for Microenterprise Development (ACME), Dr. Peter Bittner
03:15 - 03:30 P.M.	*Coffee Break*
03:30 - 05:00 P.M.	The GEMINI Agenda, Dr. James Boomgard
05:00 - 05:15 P.M.	Summary and conclusions, Dr. Thomas Timberg

ARIES/Small Enterprise Evaluation Program
Training Package Workshop

March 8 - 9, 1990

March 8

09:00 - 09:15 A.M.	Introduction
09:15 - 10:00 A.M.	Personal study time/The Strategic Management Package (SMP)—cases from *Seeking Solutions*
10:00 - 10:15 A.M.	*Coffee Break*
10:15 - 11:00 A.M.	Study group discussions
11:00 - 12:15 P.M.	The SMP—four cases from *Seeking Solutions* taught in parallel sessions B. Campbell, E. Edgecomb, S. Gross, R. Webster
12:15 - 12:45 P.M.	Panel on the teaching experience with the SMP M. Malhotra, B. Campbell, C. Mann
12:45 - 02:00 P.M.	*Lunch*
02:00 - 03:45 P.M.	Report and feedback on AskARIES* Field Tests C. Mann
03:45 - 04:00 P.M.	*Coffee Break*
04:00 - 05:00 P.M.	The Need for Human Resource Management Training for SME Promotional Institutions: Themes and Issues J. Ickes
05:00 - 09:00 P.M.	ARIES Technical Review Board (TRB) dinner meeting**

March 9

09:00 - 10:15 A.M.	The Credit Management Training Package (CMP) M. Davalos
10:15 - 11:15 A.M.	Panel on the teaching experience with the CMP M. Davalos, M. Garcia, E. Edgecomb, M. Malhotra, A. Tall
11:15 - 11:30 A.M.	*Coffee Break*
11:30 - 12:30 P.M.	Strategies for Training Microentrepreneurs: ARIES research on entrepreneur training programs M. Malhotra Panel: J. Cabal, S. Kindervatter, S. K. Gupta
12:30 - 01:45 P.M.	*Lunch*
01:45 - 02:30 P.M.	Strategies for Training Microentrepreneurs (continued): SEEP research S. Sawyer
02:30 - 02:45 P.M.	Summary and conclusions
02:45 - 03:00 P.M.	*Coffee break*
03:00 - 05:00 P.M.	Training Materials Resource Fair
03:00 - 04:00 P.M.	Final meeting of the ARIES TRB**

* The AskARIES Knowledgebase will be available all day on March 8 and 9.
** TRB sessions by invitation only.

Appendix C

KEY MSE PROGRAMMING ISSUES: GUIDELINES FOR PARTICIPANT PRESENTATIONS

Survey Stage

Understanding the Sector and Its Universe

- On MSEs and the sector in general: who are they? what is the sector's profile? what are the returns? constraints? opportunities? how are women involved? what are the sector's dimensions in relation to the macroeconomy?

- On institutional possibilities for serving the MSE sector: do they exist? have they been assessed?

- On the macroeconomic and policy environment: how conducive is it to MSE development? has it been assessed?

Concept Stage

Design Options/Strategy

What are the design options? who should be targeted? what services best meet the constraints—credit, technical assistance, training, policy dialogue, or some combination

Target Beneficiaries

Where do the target beneficiaries fit in the three program types of the A.I.D. Microenterprise Stocktaking conceptual framework?

Choice of Implementing Institution

Institutional Delivery Mechanisms

- What are the essential characteristics of a strong and effective delivery institution?
- What are the alternative interventions to institutional ones?

Project Design Process

Critical Design Issues

- Can successful MSE programs be designed without MSE and WID expertise?
- Should projects be freestanding or part of a larger project?
- Are the proposed interventions appropriate for the target beneficiaries?
- Are there built-in evaluation criteria, including gender-specific data and a preliminary database?

Appendix D

EVALUATION FORM FOR BUILDING A SUCCESSFUL MICROENTERPRISE PROGRAM

EVALUATION FORM
BUILDING A SUCCESSFUL MICROENTERPRISE PROGRAM

Please answer the following questions as fully as you can. Your comments will help us improve the quality of future workshops.

1. Did this workshop meet most of your training expectations? Why or why not?

2. Did this workshop increase or improve your understanding of some of the critical issues involved in microenterprise program design?

3. Did the Mission presentations contribute to your understanding of alternative models for microenterprise program design and implementation?

4. What did you like most about this workshop?

5. What did you like least about this workshop?

6. Do you think that it would be worthwhile to repeat this workshop in your country, or on a regional basis?

7. Would you suggest adding anything to this workshop to increase its effectiveness?

8. General comments and recommendations

With 1 as the lowest score, and 10 as the highest, please rate the contribution of the following to the value of the workshop:

Written Case Materials	1	2	3	4	5	6	7	8	9	10
Case Leaders	1	2	3	4	5	6	7	8	9	10
Agenda/Workshop Organization	1	2	3	4	5	6	7	8	9	10
Participants' Contributions	1	2	3	4	5	6	7	8	9	10
Facilities	1	2	3	4	5	6	7	8	9	10

Appendix E

LIST OF PARTICIPANTS AT THE FIRST SUCCESSFUL MICROENTERPRISES PROGRAMMING WORKSHOP

ARIES CONFERENCE - MARCH 6,7

NAME	ORGANIZATION	ADDRESS			
Martha Abarca	FUNADEH	Apartado Postal 299		San Pedro Sula	
Rosa Alvares	USAID/El Salvador	c/o Department of State		Washington	20520
Karen Anderson	AID/Wash.	c/o Department of State		Washington	20520
Melody Bacha	AID/Wash.	c/o Department of State		Washington	20520
Demba Balde	PC/Senegal	c/o Peace Corps 1990 K St., NW	8th Floor	Washington	20526
Andrea Baumann	AID/Wash.	c/o Department of State		Washington	20520
Anne Beasley	USAID/Dom Repub	c/o Department of State		Washington	20520
Maria Beebe	USAID/Liberia	c/o Department of State		Washington	20520
Lynn Bennett	The World Bank	Internat. Develop. Assoc.		Washington	20433
Ross Bigelow	AID/Wash.	c/o Department of State		Washington	20520
Beleida Hamilton Bonilla	Save the Children				
Jim Boomgard	DAI	624 9th St., NW	Suite 600	Washington	20001
Paul Bundick	Consultant	4545 Connecticut Ave. NW	#635	Washington	20008
Edward Comstock	PC/Pakistan	c/o Peace Corps 1990 K St., NW	8th Floor	Washington	20526
Alex Corpeno	PC/Honduras	c/o Peace Corps 1990 K St., NW	8th Floor	Washington	20526
Rafael Cruz	EDUDALC				
Mario Davalos	RRNA Consultant	1301 Pennsylvania Ave., NW	Suite 900	Washington	20004
Mike Deal	USAID/Ecuador	c/o Department of State		Washington	20520
Jill Donahue	PC/Mali	c/o Peace Corps 1990 K St., NW	8th Floor	Washington	20526
Curtis Dowds	Economic Consultant	2901 Q St. NW	#2	Washington	20007
Melvin Edwards	CAIC				
Nabil El Shami	Alexandria Businessmen Assoc.				
Peter Fraser	Consultant	1919 Shiver Dr.		Alexandria	22307
Miguel A. Garcia	INCAE	P.O. Box 2485		Managua	
Ernesto Garcia	USAID/Bolivia	c/o Department of State		Washington	20520
Tara Gilday	AID/Wash.	c/o Department of State		Washington	20520
Steve Gross	ACCION Internat.	1385 Cambridge St.		Cambridge	02139
Jack Grubbs	Transform. Int.	1050 17th St. NW	Suite 820	Washington	20036
S.K. Gupta	ATI	1331 H Street NW		Washington	20005
Don Henry	READI Project	P.O. Box 30455		Lilongwe 3	
Ralph Hertwig	PC/Botswana	c/o Peace Corps 1990 K St., NW	8th Floor	Washington	20526
Hilario Hooker	RRNA/Honduras	1301 Pennsylvania Ave. NW	Suite 900	Washington	20004
John Ickes	Austin Assoc.	50 Church St.		Cambridge	02138
Karl Jensen	USAID/Egypt	c/o Department of State		Washington	20520

ARIES CONFERENCE - MARCH 6,7

NAME	ORGANIZATION	ADDRESS			
Pedro Jimenez	ADEMI	Vicente Celestino Duarte 48		Santo Domingo	
Mohammed Kanare	Africare/Mali	c/o Africare House 440 R St.NW		Washington	20001
Fred Kirstein	AID/PPC	c/o Department of State		Washington	20520
Skip Kissinger	USAID/Haiti	c/o Department of State		Washington	20520
Adelaide Kotelei	PC/Lesotho	c/o Peace Corps 1990 K St., NW	8th Floor	Washington	20526
Roberto Leiva	PC/Guatemala	c/o Peace Corps 1990 K St., NW	8th Floor	Washington	20526
Arnold Lessard	USAID/Zaire	c/o Department of State		Washington	20520
Nancy MacDonald	PC/West Samoa	c/o Peace Corps 1990 K St., NW	8th Floor	Washington	20526
Bill Macheel	PC/Lesotho	c/o Peace Corps 1990 K St., NW	8th Floor	Washington	20526
Pro Malepe	Get Ahead Found.	P.O. Box 3776		Pretoria	0001
Mohini Malhotra	RRNA	1301 Pennsylvania Avenue NW	Suite 900	Washington	20004
Charles Mann	HIID	One Eliot St.		Cambridge	02138
Luis Mata	PC/Costa Rica	c/o Peace Corps 1990 K St., NW	8th Floor	Washington	20526
Catherine McGrath	Internat. Exec. Corps	Box 10005		Stanford	06904-2005
Peter Medford	USAID/Barbados	c/o Department of State		Washington	20520
Deborah Miller	AID/Wash.	c/o Department of State		Washington	20520
Patricia Monahan	Peoples of S. Pacific	200 West 57th Street		New York	10019
Helen Nankani	The World Bank	Internat. Develop. Assoc.		Washington	20433
Eddie Ntuli	Get Ahead Found.	P.O. Box 3776		Pretoria	0001
Ray Panczyk	Peace Corps	1919 K Street NW	8th Floor	Washington	20526
Mariangela Pledl	USAID/Fiji	c/o Department of State		Washington	20520
Tulin Pulley	A.I.D.	Women in Development Office	Rm.3720 NS	Washington	20523
Cary Raditz	Consultant	8709 Bradford Rd.		Silver Springs	20901
Jaime Reibel	USAID/Lesotho	c/o Department of State		Washington	
Susan Reynolds	Peace Corps	1990 K St., NW	8th Floor	Washington	20526
Jeff Robertson	PC/Fiji	c/o Peace Corps 1990 K St., NW	8th Floor	Washington	20526
Flora Ruiz	USAID/Costa Rica	c/o Department of State		Washington	20520
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Attachment

EVALUATION FORM FOR THE TRAINING PACKAGE ON KEY ISSUES IN DESIGNING MSE PROGRAMS

EVALUATION FORM FOR THE TRAINING PACKAGE ON KEY ISSUES IN DESIGNING MSE PROGRAMS

Please complete this evaluation form and mail it to A.I.D./APRE/SMIE, Washington, D.C., 20523, to the attention of Melody Bacha, ARIES Project Officer, or to Nathan Associates Inc., 1301 Pennsylvania Avenue, N.W., Washington, D.C., 20004, to the attention of Thomas Timberg, ARIES Director. We would like to receive any comments you have on the usefulness of this document and/or suggestions for its improvement.

1. What do you like most about this document?

2. What do you like least about this document?

3. Do you believe that these materials are useful and appropriate for conducting or planning a training workshop on the subject matter?

4. Do you think these materials are sufficient for planning a workshop?

5. Would you suggest adding anything to this document to increase its effectiveness?

6. General comments and recommendations.