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ARIES

Assistance to
Resource Institutions
for Enterprise Support

Working Paper No. 6

The State of the Art in Micro- and Small Enterprise Development

Sponsored by

United States Agency for International Development
Contract DAN-1090-C-00-5124-00

Prepared by

Nathan Associates Inc.
July 1990

Over the course of its 5-year life, the A.I.D.-sponsored Assistance to Resource Institutions for Enterprise Support (ARIES) project has sponsored a series of 1-day seminars to disseminate project findings and to draw together micro- and small enterprise (MSE) practitioners and policy makers to discuss cross-cutting issues in MSE development. Seminar proceedings have been published as project working papers. Copies of these papers, or other ARIES working papers listed below, are available from A.I.D./APRE/SMIE, Washington, D.C., 20523 or (upon payment) from Nathan Associates, 1301 Pennsylvania Avenue, N.W., Suite 900, Washington, D.C. 20004.

ARIES Working Papers

Number 1. Small Loans for Microenterprise: Anti-poverty and Pro-productivity. September 1987.

Number 2. Interest Rates, Paying What Freight? September 1988.

Number 3. Prospects for the Promotion of Small Scale Enterprises in Africa. June 1988.

Number 4. The Potential for Financial Innovation in Small and Microenterprise Promotion. June 1988.

Number 5. Mainstreaming Women in Enterprise Development. July 1990.

Number 6. The State of the Art in Micro- and Small Enterprise Development. July 1990.

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INTRODUCTION

Background

The Assistance to Resource Institutions for Enterprise Support (ARIES) project was launched by the United States Agency for International Development (A.I.D.) in 1985 to strengthen promotional institutions for micro- and small enterprise. The project consists of three major components: research, technical assistance, and training. Over the course of its life, promotional institutions in more than 30 countries have received technical assistance and training from the project resources. The project has analyzed the recurrent problems faced by promotional institutions and developed a series of training materials to assist these institutions in overcoming the constraints to their success.

To disseminate project findings, the ARIES project has sponsored a series of short seminars in Washington, D.C., in which its own research findings as well as other works of interest to those in the micro- and small enterprise field have been presented to a diverse audience. The proceedings of the majority of these seminars have been published as project working papers. The first of these was for a seminar on the prospects of micro-enterprise promotion in Africa; the second addressed the potential for financial innovation in MSE promotion. The third seminar was on information sources for microenterprise program management; the fourth was on main-streaming women in microenterprise programs; and the fifth was on the state of the art in MSE promotion, presented in this document.

MSE promotion has received particular emphasis in recent years with growing disillusion over low returns to large, especially state-run or subsidized industrial units, and rising concern with generating sufficient employment to meet the needs of the poor. Of the major donors, A.I.D. and the International Labour Organization (ILO) have been the most active proponents of the MSE sector. A.I.D. has been supporting experimental approaches to microenterprise development for more than a decade. The ILO has emphasized microenterprise development as a tool for job creation and income generation. National programs have sprung up everywhere, as governments have turned to this relatively cost-effective and efficient sector to generate employment and growth. Programs such as that of the Grameen Bank of Bangladesh and various efforts of ACCION International in Latin America have received attention from a wide audience, ranging from practitioners at the grassroots level to policy makers at the international level.

The Seminar

After a decade of support to project interventions in the MSE sector, a number of donor agencies decided the time had arrived for reviewing their experiences and assessing what they had learned in the field. As a result, between 1986 and 1989, A.I.D.; the United Nations Capital Development Fund (UNCDF); the World Bank; and the International Labour Organization (ILO), the United Nations Industrial Development Organization (UNIDO), the United Nations Development Programme (UNDP), and the Netherlands' bilateral aid agency conducted reviews of their MSE portfolios. In May 1989, ARIES sponsored a 1-day seminar to disseminate, compare, and contrast these independent reviews. A retrospective review (conducted for ARIES by Appropriate Technology International (ATI)) of the microenterprise programs that had been studied 10 years ago under the A.I.D.-funded Program for Investment in the Small Capital Enterprise Sector (PISCES) project also was presented.[1]

The purpose of the seminar was to distill lessons learned from these different reviews and to identify which factors contribute to MSE program success. It served to highlight the differences in the reviews and program methodologies of the various funding organizations and to provoke discussion about the relative merits and value of the programs. With regard to the reviews themselves, several points are salient. The reviews were conducted for different purposes and followed different evaluation criteria and research methodologies. In addition, each donor serves a somewhat different clientele, so the reviews assessed noncomparable client groups and different program methodologies. For example

- In its review, UNCDF, a credit agency often implementing technical assistance efforts by other United Nations agencies, examined only credit programs, largely agricultural credit efforts, targeted to microenterprises with one to five employees. The review assessed program recovery rates but not impact data.

- The World Bank reviewed its portfolio, composed mainly of small and medium rather than micro-

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1. Twenty-seven of the original 33 programs were functioning in 1989, at the time of the ATI review.

enterprise projects, typically with a credit focus. Here also, the concern was with program rather than impact data.

- The ILO/UNDP/UNIDO/Netherlands' Aid joint review examined rural industrial units to evaluate the performance of numerous projects and to provide guidelines for improving MSE support strategies. It defined its target group as those with 1 to 4 employees (microenterprises), and those with 5 to 25 employees (small enterprises).

- A.I.D., in its Microenterprise Stocktaking Study, focused on microenterprises with 10 or fewer employees, and it covered credit programs with various mixes of training and technical assistance. In terms of issues, it was concerned with the impact of MSE programs on clients, the extent to which such programs are sustainable, and the assessment of what factors contribute or lead to program success.

- The ATI review studied enterprises with 2 to 10 employees. It was concerned primarily with the long-term sustainability of MSE programs as well as with general program evaluation issues.

Different thematic issues were raised by the presenters and commentators on each review.

UNCDF

Based on its review of 15 projects, which represent 16 percent of the UNCDF MSE portfolio, the UNCDF review identified three basic institutional delivery mechanisms through which credit is delivered in the UNCDF projects. The three types are (1) financial institutions, (2) grassroots institutions, and (3) a mix of financial and nonfinancial institutions. The review found that several factors constrained financial institutions: security requirements, high transaction costs, lengthy approval processes, and inadequate field staff to meet their small borrowers' needs. The constraints on grassroots institutions were the high initial investments required to equip them with the necessary infrastructure and systems, high overhead and administrative costs, and low potential to be self-sustaining. UNCDF had the most success, using partnerships of financial and nonfinancial institutions, especially when there were clear lines of responsibility in the partnership.

The review concluded that certain factors were similar in the more successful projects, which were defined as those with high recovery rates. These factors were the use of grassroots mechanisms, proper accounting systems, and proper training of field staff. The study also stated that, in adverse policy environments, capitalizing revolving loan funds is synonymous with turning "gold into manure." The study outlined specific guidelines for credit programs that largely paralleled those specified in the other studies. The commentator brought up several additional issues not raised by the study, such as concerns with reaching women entrepreneurs and seeking additional delivery mechanisms.

The World Bank

The World Bank study reviewed 70 projects in 36 countries to evaluate the Bank's performance with small and medium enterprise (SME) projects, identify successful approaches to the provision of credit and technical assistance, and identify key factors for success. This study dealt with a universe of clients larger than those of the other reviews. The target enterprises were defined by the size of their fixed assets, rather than by the number of employees, the criteria used by the other donors. The average World Bank loan size to MSEs was $35,000, and ranged from $24,000 in Latin America to $83,000 in Africa. The study looked for factors correlated with success in 15 years of World Bank lending to SMEs. The focus was on how to build viable and sustainable financial and technical assistance programs for SMEs, rather than on overall policy reforms or impact at the firm level. The common factors in successful projects were favorable preexisting country conditions; the selection of implementing institutions; the appropriateness of project designs; and the competence, commitment, and leadership of the individuals involved. The commentator and others raised the point that, although the World Bank study outlined the perfect conditions for success, programs realistically operate in imperfect environments, and program designers need to understand further how to develop successful projects in less than perfect circumstances.

ILO/UNIDO/UNDP/Netherlands' Aid

The ILO/UNIDO/UNDP/Netherlands' Aid joint review focused on rural industrial units with 1 to 25 employees, in areas with a population of less than 20,000, and was based on a desk review of 56 projects, six country field studies, and three country-specific desk studies. The largely negative review of performance to date in providing services to rural small industrial units recommends guidelines for more effective programming. The study concluded that, while supply-side support to MSEs is critical to upgrading skills and technology, its effectiveness is largely determined by the extent that macropolicies create a favorable environment. Effective demand-led policies should include investment in infrastructure and social services in rural areas; price policies to ensure favorable terms of trade to MSEs;

agricultural investments in irrigation, extension, and research; and credit provision. It was concluded that macropolicies relating to agriculture and the rural sector are more beneficial to rural MSEs than macropolicies related to industrialization and trade. The review also favored decentralized organizations, such as PVOs and NGOs, as the delivery mechanism for channeling services to the sector.

Other recommendations and factors for successful projects were maximizing linkages with other sectors, encouraging subcontracting from larger to smaller enterprises, using existing institutions, and harmonizing donor policies and interventions. The commentator stressed the diversity of the MSE sector and stated that, within the broad spectrum, the entities are very different in their needs and potential for growth, and donors need to be precise about which entity to support with what type of assistance. He added that there is a lot to be said for parallel investing and investing in a range of enterprise sizes and types, because restricting investments strictly to MSEs will not lead to major growth.

A.I.D.

The A.I.D. "Microenterprise Stocktaking Evaluation" was based on an extensive desk review and field visits to 24 projects in 10 countries. The study found that, despite limiting the definition of microenterprise to those firms with 10 or fewer employees, microenterprises are a heterogeneous group, and there is a broad continuum of economic activity in the MSE sector. Activities range from microenterprises at the low end pursuing survival activities to those operating more complex and sophisticated firms. In recognition of this diversity, the Stocktaking study identified three distinct, yet overlapping, approaches to MSE development. Each approach has different objectives and different means to achieve those objectives. The three approaches are enterprise formation, enterprise expansion, and enterprise transformation.

The enterprise formation approach assists those at the lowest levels of economic activity. Assistance usually takes the form of a community development project designed to overcome the social and economic constraints that inhibit the poor from becoming entrepreneurs. These programs tend to have a high cost per client and value social benefits highly. The enterprise expansion approach seeks to improve the performance of existing enterprises. This approach usually relies on providing a minimum of inputs (usually only credit, sometimes accompanied by limited technical assistance) to reach a large number of clients at a relatively low cost per client. The enterprise transformation approach strives to graduate larger microenterprises out of the sector and transform them into small or medium enterprises. It is more costly per client than the other approaches and requires greater investment in technical assistance and training. The study found that the enterprise formation approach reached the highest number of women. The enterprise expansion projects were identified as those which were most self-sustaining and cost effective. However, it was concluded that the needs of the vast majority of microenterprises could not be satisfied with the provision of small working capital loans, that is, the expansion approach, and that it was necessary to identify other approaches to assist entrepreneurs who need additional or different inputs from working capital. There was general agreement with the commentator's remark that this study provided a new conceptual framework for the MSE sector.

ATI

The ATI review was interested in assessing the long-term sustainability of enterprise projects and determining the factors that contributed to their continuation. General conclusions do not deviate from those reached by the other studies: the importance of the policy environment, the comparative advantage of NGOs as delivery mechanisms, and the importance of linking with larger enterprises. The commentator noted that this study reiterated what had been voiced by the others—that essentially the supply-side NGO programs are not sufficient to transform MSE development, and that NGOs must coordinate their programs with governments. He also believed that one of the avenues to achieving success is to stimulate internal demand by emphasizing local products and local demand, appropriate investments, and technology.

Conclusions

Each study represented an attempt to distill and synthesize lessons from past experience to determine what makes a credit program or project successful. However, the term "success" was not uniformly defined. For example, A.I.D. defined success in terms of measurable beneficiary impact, as well as institutional sustainability. The UNCDF used institutional recovery rates as a gauge for success. The World Bank also reviewed institutional performance and sustainability as a measure of success; the ILO review did not define success but offered guidelines for more effective and sustainable projects; and, finally, the ATI review defined as successful those projects that have survived a decade, regardless of their actual performance.

Despite the different reference and time frames for each study and the different purposes for which they were conducted, several commonalities are apparent in these independent reviews.

- There was general agreement that policy and macro-economic factors or "demand-led" interventions were far more powerful than institutional development or "supply-led" programs. A consensus was reached that

MSEs do not require preferential treatment; once the playing field is leveled, they can stand on competitive strength in the market.

- There was consensus that well-designed and maintained accounting and management information systems lead to increased institutional performance and more effective project management.

- All of the reviews pointed to the correlation between strong leadership and committed staff to project success. However, the final commentator pointed out that this is true not only for MSE projects, but for the success of most any activity.

- All of the reviews, but in particular the ILO/UNIDO/UNDP/Netherlands' Aid review, pointed to the importance of decentralized delivery mechanisms and to the comparative advantage of grassroots organizations, NGOs, and PVOs in supporting MSEs. The ATI review stated that, through "supply-led" institutional development attempts, the very qualities of NGOs that give them their unique capabilities are stifled, and the centralized bureaucratic structures best avoided are replicated.

- It was agreed that women are strongly represented in the MSE sector and that further research is needed to find better ways to increase women's access to assistance programs. The ILO/UNIDO/UNDP/Netherlands' Aid study found that women are more concentrated in rural enterprise than urban enterprise, and the A.I.D. Stocktaking study revealed that women benefit more at the formation and the expansion stages. This has implications for projects that seek to incorporate women and ensure that they have access to project resources.

- It is apparent that MSE projects do generate significant economic and social benefits for their clients. But there was also consensus that the state of the art, in terms of understanding the magnitude of these benefits and the differential impacts of various interventions and support strategies, is still very limited. It was also agreed that greater efforts need to be put into collecting baseline data, and using more rigorous research studies and surveys to understand the "before and after" and "with and without" effects of MSE projects.

The remainder of this document contains materials for each of the presentations made at the conference, that is, the reviews in abbreviated form. Executive summaries of the A.I.D. Stocktaking study, the ILO/UNIDO/ UNDP/Netherlands' Aid review, and the UNCDF and ATI studies have been included, along with an article published in *Small Enterprise Development* on the World Bank review. The remarks of the principal commentators are included as companion pieces to the relevant reviews.

1. IMPROVING THE USE OF CREDIT IN THE UNCDF PROGRAMS

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IMPROVING THE USE OF CREDIT

IN THE UNCDF PROGRAMME

VOLUME I:

REVIEW OF UNCDF EXPERIENCE IN CREDIT

A FRAMEWORK FOR CREDIT POLICY

United Nations Capital Development Fund
Policy Planning and Evaluation Unit

Prepared by
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June 1989

EXECUTIVE SUMMARY

Credit[1] should be a means not an end in itself for any development program. As a means, however, credit can be one of the most important tools to complement project activities. This exercise focuses solely on credit with a view to understanding the nuts and bolts of its operations in the UNCDF programme. To a great extent credit should be considered a matter of logistics and the observations included in this study may be relevant to many other project activities that are essentially services.

Volume I first analyzes how credit services are delivered in UNCDF projects (Part One), and what those credit services should be (Part Two), then seeks to orient the practitioners on ways to improve both the *how* and the *what* of credit in the programme in Volume II.

1. FINDINGS FROM PART ONE: A REVIEW OF UNCDF EXPERIENCE IN CREDIT

The Importance of Credit to UNCDF:

Projects with credit components represent less than 25 percent ($112 million) of the overall CDF project portfolio in terms of funds committed ($460 million) since inception of the programme. Funds committed to credit components themselves ($31 million) represent only 7 percent of the CDF programme.

The principal concentration of projects with credit components is in the sector of agriculture (including irrigation), which comprises some $71 million, or 64 percent, of these projects. In relation to total funds committed by CDF to the sectors of agriculture and irrigation ($155 million), projects with credit components represent 46 percent of the total.

While credit is a relatively small part of the overall CDF programme, it plays a major role in the projects that directly focus on increasing incomes and productivity of low-income populations (small farmers, micro- and small-scale enterprises). Of the $190 million in projects for these beneficiaries, $81 million, or over 40 percent, have credit components.

An analysis of the trend of approval of projects in the CDF programme did not provide the evidence of a consistent trend in relation to funds committed to credit components. There is no evidence of credit assuming a greater role in CDF activities since 1975; most years show that CDF committed between $2.5 million and $3.5 million to credit components. The years when the largest commitments were made were 1982 ($3.7 million), 1983 ($3.2 million) and 1987 ($3.5 million); the next largest annual commitment occurred in 1975 ($2.8 million).

Of the total funds committed to credit components ($31 million) by CDF as of December 30, 1987, approximately $17 million, or 46 percent, had been disbursed to the various implementing agencies.

The sample of fifteen ongoing or completed projects reviewed for this exercise represent 16 percent of all projects with credit in regard of funds committed and 18 percent in terms of number of projects with credit. More importantly, this sample represents 30 percent of all budgeted credit components reflecting the importance of credit activities in this sample.

The delivery mechanisms:

The review concentrated on analyzing how credit is delivered in the UNCDF programme and found that a logical typology to describe the delivery mechanisms was as follows:

Type A - Using financial institutions. Projects which rely on a bank or other financial institution as the implementing agency.

Type B - Using grassroots institutions. Projects which rely on cooperatives, village councils or committees as the means of implementing credit programs. These grassroots entities are given varying degrees of responsibility and authority over credit funds.

Type C - Using a mix of financial and non-financial institutions. Projects which rely on a partnership between two or more institutions with a division of responsibilities. The division usually segregates the tasks of credit administration from those of extension services and technical assistance.

Problems noted in delivery mechanisms:

Using financial institutions. Certain constraints were noted in using financial institutions to reach low-income populations. Chief among these were: 1) security requirements; 2)transaction costs; 3) approval processes; 3) lack or inadequacy of field staff.

Using grassroots institutions. This effort is relatively new for CDF, and these projects are in an early state of implementation. However, certain problems were noted:

- Lack of appraisal of existing entities: For the sample reviewed, the formulation and project agreement documents did not assess the capabilities of the village-level entities to determine their strengths and weaknesses. As a result, the type of assistance these entities will require to properly perform the new functions is not known.

- Dimensioning technical assistance and supervision: In the large projects reviewed in the sample, it was noted that a missing element in project design was the determination of how many field staff would be required to maintain ongoing technical assistance and supervision of the grassroots entities involved. Nor is there any mention of the qualifications for field staff, or how they would be recruited or trained.

- Implications on project costs of using grassroots institutions: In the largest project of this sample ($3.1 million, including UNDP technical assistance), it was found that 45 percent of budgeted funds went to pay for project management costs and infrastructure as well as UNDP technical assistance. These funds do not reach the intended beneficiaries; they are the cost of establishing a delivery mechanism to reach them. A similar trend was noted in other projects reviewed.

- Self-sustainability of projects: Once these projects have been completed, it is unclear how grassroots entities will continue to receive services provided or take over the full management of ongoing project activities, once CTAs and other project-funded personnel have departed.

Using a mix of financial and non-financial institutions: This delivery mechanism uses a partnership approach whereby two institutions are responsible for different aspects of the project.

In particular, credit administration is separate from extension and technical assistance responsibilities. This appears to be a sound principle since credit is a means, not an end in itself, and the entity involved in providing the crucial technical assistance and supervision required may not be competent to administer credit, particularly in terms of accounting and management information systems.

CDF has used this type of mechanism to reach both small holders and entrepreneurs. Certain problems noted in the projects reviewed have to do with the lack of clarity and specificity in defining responsibilities between "partners," lack of accounting systems and lack of field capabilities.

Concerning Elements of Success:

Two remarkably successful projects, BHU/79/CO2 and MLW/79/CO2, were included in the sample reviewed. Over 6,000 farmers in Bhutan and approximately 26,400 farmers in Malawi participated in the first nationwide rural credit schemes in those countries resulting from CDF funded projects. High recovery rates, in excess of 95 percent, and high disbursements were achieved in both projects.

While the delivery mechanism used by each project was different--Bhutan represented the use of a financial institution (Type B), while Malawi was a partnership between two government institutions (Type C)--certain important similarities can be noted:

- Use of grassroots mechanisms: A key factor in the success of disbursement and recovery in both projects was the successful use of farmers clubs in Malawi and the traditional leaders (gups) in Bhutan.

- Proper accounting systems: In both projects, simple, efficient and well thought-out accounting systems were devised. Flow charts and instructions for staff were clearly laid out.

- Proper training of field staff: While the Malawi project did not specifically provide for training, the evaluation does refer to well trained staff. In the case of Bhutan, the training of field staff (provided under the project) had a marked impact on the effectiveness of the staff and, ultimately, on project success.

2. SYNTHESIS OF PART II : A FRAMEWORK FOR CREDIT POLICY

In the LDCs the bulk of the private sector consists of small farmers, micro and small scale enterprises in terms of population and, in many cases, absolute value. The importance of these farmers and entrepreneurs to the future growth and stability of their economies is widely understood by donors and governments but two basic barriers to assisting this private sector remains: needed policy reforms and the effective means to reach this vast market with meaningful services[1]. Structural adjustment programmes have begun to tackle the policy environment but this is proving difficult to implement as, for example, paying farmers the proper incentive price for production means that the urban markets lose purchasing power unless government subsidies are used to compensate. On the other hand, the delivery of services to this important market, despite enormous resources committed since the 1970s, has not been successful. In the field of credit to entrepreneurs, for example, the remarkable success stories are few and far between (Grameen Bank, BKK in Indonesia and isolated instances in Latin America).

As a relatively small donor UNCDF cannot realistically expect to play a role in the larger issues of policy reform which is the domain of the "macro" institutions such as the World Bank and the IMF. On the other hand, the delivery of services is the type of micro intervention that UNCDF seeks to accomplish in its projects. By its size, flexibility and timeliness UNCDF has the capability to invest in delivery mechanisms at a scale that will allow for substantial impact both in terms of the number of clients as well as the demonstration effect of well designed services. The task of striving for an "excellence in the delivery of services" is an achievable goal if UNCDF becomes more systematic, professional and commercially oriented.

UNCDF must however be carefully attuned to the policy environments in the countries where it pursues credit activities. When exchange rate distortions cause hard currency funds to undergo a perverse alchemy best described as "turning gold into manure" credit activities should be minimized. When interest rate ceilings cause a rapid "evaporation" of value due to inflation credit activities should also be minimized. In these cases UNCDF is doing little to benefit its intended clients. In the case of exchange rate distortions more benefit will be accrued to the importer who will have access to scarce hard currency than to the villager where a revolving fund is constituted. In the case of artificially low interest rates either relatively wealthy segments of LDC societies will find a way to gain access or, if the right client is reached, the loan fund will become meaningless in value in a short period (i.e. non-sustainable).

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[1] Services in the areas of marketing, training, technology as well as credit.

That UNCDF's interventions in the field of credit have not, with a few notable exceptions, been remarkably successful coincides with findings from larger development efforts[2]. There is a "new humility" in the development community which bodes well for the 1990s. The overall donor attitude appears to be changing whereby the few remarkable successes are no longer trumpeted as justification for large programme failures but rather failures are begining to be understood as a continual repetition of the same mistakes.

In the same fashion it can be said that LDC governments are adopting a new humility in understanding that capital intensive public sector oriented policies have failed and a genuine commitment to private sector development is emerging. Policy reforms, privatization and changes in legal systems concerning private property are occurring throughout LDCs and provide fertile ground for micro-interventions by UNCDF.

Credit can be an ideal means of intervention for private sector activities as it is generally rated as one of the top needs of small farmers and entrepreneurs. While other services may also be critical credit can, on its own, offer some support to existing traditional economic activities. For UNCDF to achieve a standard of excellence in delivering credit services to the private sector it should become more commercial in its manner of operation by:

- Recognizing that credit activities are self-evaluating when there is the proper accounting system that accurately tracks disbursements and recovery. High recovery rates, especially when interest rates are real and the overhead costs are covered, means that a service of real value is being provided to people who need it. It is also a development activity that can allow for accountability (i.e reward staff for good loans penalize staff for bad ones).

- Using delivery mechanisms (or systems) in our conceptualization, identification and formulation of projects which would better lead to understanding how to build outreach

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[2] See especially "Development of Rural Small Industrial Enterprises-Lessons from Experience" by UNDP, Government of Netherlands, ILO, UNIDO. Other reviews to nctw are the USAID Microenterprise Stock-Taking and a forthcoming World Bank review on SME lending.

capacity and the delivery of services. Many projects have failed or have been ineffective because the implementing institution was not analyzed as a "conveyor belt" delivering services but as a receptacle for technical assistance.

- Minimizing the use of the termbeneficiaries and maximizing the use of the term clients and at the same time charging service fees (and real interest rates) to cover credit services.

- Investing in client surveys that are specific in terms of credit needs, savings practices, traditional practices and the logistical difficulties of reaching the target group.

- Defining the financial products to be offered rather than using blanket terms such as "revolving funds" and "credit" which has caused confusion and misunderstanding.

- Instead of blanket technical assistance which normally assumes that an expatriate(s) will solve all problems balance the use of expatriates with local technical back stopping. For example many credit projects have expensive foreign advisors but lack the basic accounting and management information systems (MIS) without which managing a programme is impossible. The local and/or regionally located accounting and audit services can often times be hired at a fraction of the cost of expatriate technical assistance to set up and maintain an accounting system.

- Build in savings mobilization (forced and voluntary) to credit activities as a means to assist in capital accumulation for the clients of credit programmes. This capital can be used as a means to "empower" the clients to actually own the credit programme as well as give them a greater sense of security.

Volume II of this study (Recommended Operational Guidelines) contains practical suggestions, reporting/MIS formats and guidelines to achieve the above recommendations.

SUMMARY OF ADDITIONAL COMMENTS BY HENRY JACKELEN, UNCDF

Proper Credit Intermediary

UNCDF works with varying degrees of success primarily with three types of credit intermediaries: financial institutions, grassroots organizations, and special organizations that are a mix of financial and nonfinancial organizations. Because of their collateral requirements, transaction costs, and bureaucracies, financial institutions are usually the least suited to work with the target groups that UNCDF is trying to reach. Every now and then there is an exception, as was the case in Bhutan.

Grassroots organizations are better positioned to work with target groups, but they too present problems in dealing with village dynamics, establishing revolving loan funds, and finding responsible village groups to participate in development. Also, owing to the substantial institution-building and technical assistance involved, high administrative costs are incurred—in the range of $1.20 for every dollar being channeled into the village. Since UNCDF has been involved with grassroots organizations for only the past 3 to 4 years, it is still too early to say whether these high costs will continue in later phases of the credit programs.

The third credit delivery mechanism combines features of the two others, with financial institutions assuming the banking function and specialized intermediaries providing the bridge between the bank and the client. Such intermediaries are service providers; they identify, appraise, and approve clients and then, in concert with the financial institution, extend loans. The trouble with these mechanisms is the grey area surrounding risk assumption, final loan approval, and bureaucratic compatibility. These credit programs have proven to be very difficult to implement. But because banks are not the final solution, it is necessary to continue to look for ways of getting specialized intermediaries to work more effectively with banks.

Credit Not a Panacea for Poor Policy Environment

In reviewing the UNCDF experience, it is worth mentioning that credit can be the worst possible use of donor funds under certain circumstances. One syndrome occurs when revolving loan funds are capitalized in countries where foreign exchange polices are unrealistic and the black market is operating at about 50 times the official rate. In this context, monies for the fund do more to increase foreign exchange resources (and facilitate the purchase of imports) than to assist local development initiatives.

A similar problem occurs when interest rates do not maintain the value of the loan fund, which should grow over time, or at least maintain a reasonable proportion of its value. Without a proper interest rate structure, the value of the fund or the asset created is lost.

Countries with negative policy frameworks try to compensate by controlling prices or providing subsidized credit. This often causes artificial scarcities and other distortions, which result in a concentration of wealth. Therefore, the local policy structure should always be examined before implementing a credit program.

Important Steps to Starting Credit Programs

A list of steps that lay an important foundation for credit programs follows:

- Think along commercial lines; think of credit activities as products and beneficiaries as clients. The concept of delivering a service to a client is important because we are service providers and our performance should be measured as such.

- Conduct institutional assessments to determine how the new credit program will be supported. Too often, agreements with local organizations and partners are signed before the necessary research is done.

- Establish appropriate accounting systems in a cost effective manner. There are good local sources of accounting throughout the developing world. They can easily be contracted at a fraction of the cost of expatriate services. Any credit program without a basic accounting and management information system is doomed: there is no way to track the flow of funds.

- Do not concentrate unduely on staffing concerns at headquarters and bypass the concerns of the field staff. Take into consideration the loneliness of the extension worker and the kind of world in which he lives, as well as the type of interfacing being built between the client group and the staff.

- Accept government interest policies as given (even when they are bad) and develop services fees that capture the loss caused by low interest rate ceilings. The cost of delivering credit and the recovery of that cost can and should be isolated; service fees amounting to 5 to 10 percent of the value of the loans dispersed can be charged. People will pay such fees (as opposed to fees for training) if they are incorporated into the program from its inception.

- To the extent possible, incorporate possible savings into credit activities. UNCDF has suffered from not doing this and from the perception that poor people can not save. Savings can be a part of any lending activity, for example, a "forced" savings scheme whereby a deduction is taken off the loan up-front and deposited into an interest-bearing savings account. The account is made available to the borrower when the loan is repaid or at the end of the project.

COMMENTATOR: MARIA OTERO, ACCION INTERNATIONAL

These comments touch briefly on some of the points raised by Mr. Jackelen, which merit highlighting, and also address areas in the field of credit extension that require more research.

Among those points raised by Mr. Jackelen, the most important is the need to develop the best credit delivery system possible. Mr. Jackelen mentioned three different systems, but there may be others. Existing systems need improvement, but new ones also need to be developed, further refining and combining elements that have worked well. A reformed PVO, for instance, may be the best intermediary. As a corollary to this, it is important to understand better the impact of traditions and cultures on credit delivery programs and the bottlenecks or conduits they may present to credit delivery mechanisms.

Another point concerns the issue of sustainability. Though sustainability is currently described in broad terms, a worthwhile credit program should be able to cover at least its operational costs after a certain period, if not to generate enough capital to remain capitalized.

The question of savings mobilization is still largely unanswered in today's literature. Though many programs have captured savings from the poor and have used them as emergency funds and in other ways, issues surrounding savings mobilization are largely unexplored. For example, in many countries of Latin America, it is illegal for nonprofit organizations to capture savings, and therefore they cannot operate their credit programs as effectively as they would like. How then, can such organizations structure their programs to overcome the absence of benefits usually derived from savings deposits? We know that a significant number of successful programs have forced savings components; yet some new programs, in Indonesia for instance, have adopted voluntary savings instead. How well does voluntary savings work, and what type of underpinnings does it require? More research has to be conducted on these and other topics.

Finally, it is important to look more closely at beneficiaries to get a good sense of the people who are participating in these programs. For them, informality is a way of life and not just a productive activity. It is also necessary to be aware of gender as it relates to microenterprise programs. An increasing percentage of the population in this area are women, and they exhibit different types of behavior from men when it comes to savings, credit, and production.

2. FIFTEEN YEARS OF WORLD BANK LENDING FOR SMALL AND MEDIUM ENTERPRISES

29

Fifteen years of World Bank lending for small and medium enterprises

LEILA WEBSTER

What makes a small enterprise loan work in one country where success would appear to be unlikely, while a loan with seemingly high potential in a country primed for success founders? What determines success in small and medium enterprise (SME) assistance programmes? These questions are among those addressed in a new World Bank study of 70 small and medium enterprise projects in 36 countries. These projects received US$3.2 billion in World Bank loans spanning the period from 1973, when SME lending was initiated in the Bank, to 1989.

The primary objectives of World Bank projects for small enterprises are: strengthening the financial and technical institutions that serve SMEs; job creation at relatively low cost per unit of capital invested; and the correction of imperfections in financial markets that constrain small borrowers' access to credit. The underlying premise is that increasing small firms' access to services normally available only to larger, established firms furthers both industrial growth and income distribution in developing countries.

The review evaluates the performance of the Bank's SME projects, highlights particularly successful approaches to the provision of credit and technical assistance, and identifies key factors for success. The study deals neither with overall policy reforms nor with the impact of projects at the firm level. Rather, the focus is on how to build viable and sustainable financial and technical assistance programmes for small enterprises.

THE WORLD BANK's annual lending to SMEs has been relatively constant since 1980 at about US$200 million, with a low of US$46.5 million in 1988 and a high of almost US$700 million in 1987. The largest total loan amounts have been in Asia (US$1.02 billion) and Latin America (US$998 million) and the smallest have been in Africa (US$508 million) and in Europe and North Africa (US$469 million). The largest number of projects has been in Africa (Figures 1 and 2).

Since most borrowers are engaged in relatively few sectors there is an argument for technical assistance that is sector specific

Trends in SME lending differ by region. In Africa, the number and loan amounts of SME operations have increased since 1985, reflecting a renewed emphasis in the World Bank on broad-based industrial growth in Africa that relies, in part, on enhanced growth and the productivity of small and medium enterprises. In other regions, the general trend is to implement fewer, larger SME programmes, particularly where prior projects have succeeded in establishing effective credit delivery systems, e.g. in Ecuador, the Philippines and Sri Lanka. Projects that have not worked well have been discontinued.

The following article is based on a paper, 'World Bank Lending for Small and Medium Enterprises: Fifteen Years of Experience' by Leila Webster of the Industry Development Division in the Industry and Energy Department of the World Bank. The views expressed in this article are those of the author and should not be attributed to the World Bank.

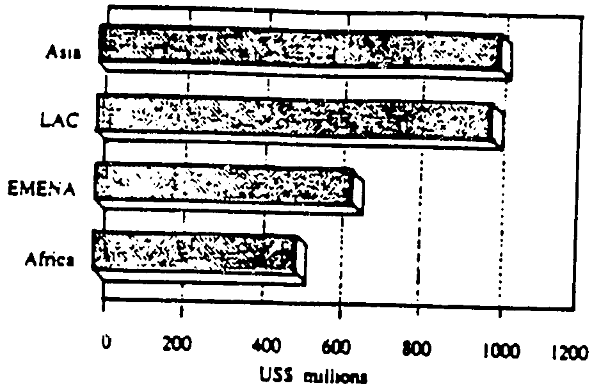

Figure 1: *Regional distribution of SME loans (by loan amounts, 1973–1989).*

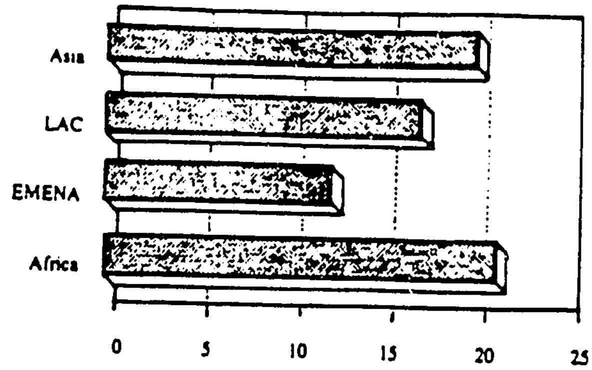

Figure 2: *Regional distribution of SME loans (by number of loans, 1973–1989).*

Sub-sectors. An analysis of firm-level disbursements in completed SME projects shows that seven major sub-sectors have accounted for 81 per cent of funds lent by the Bank. Nearly 60 per cent of funds were lent to firms engaged in metal products, food processing, and textiles and garments.

Loan size. The average loan made to enterprises by completed SME projects was US$35,000, with the smallest average loans in Latin America (US$24,000) and the largest in Africa (US$83,000) (Table 1). At the country level, the smallest loans, averaging US$6,000–14,000 in constant terms, were made in Nepal, Sri Lanka and Ecuador; the largest, over US$320,000, were made in Niger and Mauritania.

Table 1. The number of borrowers and the average loan size (from 33 completed projects)

Region	*W.B credit disbursed[1] (US$ million)*	*No. of borrowers*	*Average loan size (constant $)[2]*
Africa	34.90	419	83,408
Asia	219.85	9,863	31,811
Europe, Middle East and North Africa	154.96	2,823	77,588
Latin America and the Caribbean	268.13	10,465	24,287
TOTAL	677.84	23,570	34,870

1. Credit disbursed is credit components minus amounts cancelled.
2. Amounts include Bank funds and retail banks' contributions. Constant US$ values are derived by using the manufacturing unit value (MUV) index.

Job creation. About 600,000 jobs were created in enterprises assisted by completed projects, approximately 300,000 of them accounted for by two Small Enterprise Development Projects in Indonesia. (Reliable figures for job creation and job creation costs are difficult to obtain. The figures quoted here are taken from Project Completion Reports, which normally tabulate the number of jobs created when the new firm is initiated or expanded rather than over time. The cost per job is calculated according to the fixed cost per job. In some cases, working capital is also included.) The average cost per job created was US$4,675, a figure substantially smaller than in large industry projects. Particularly in the

The average cost per job was substantially smaller than in large industry projects

earlier SME projects. Bank staff maintained a constant pressure on participating banks to finance labour-intensive firms with low job-creation costs. Many projects in Asia performed exceptionally well in creating a large number of jobs at an average cost of US$3,171 per job. One possible explanation for the high job-creation rates of these projects is that 40 per cent of the firms financed in South Asia were engaged in relatively labour-intensive segments of food processing and textiles and garment production. It is also possible that these small firms relied more heavily on local and regional equipment rather than on expensive imported capital goods. The higher cost of US$9,850 per job created in Africa, indicates that sub-loans are being used to purchase more capital equipment rather than expanding production by using existing equipment and increasing the number of people employed.

How well have completed SME projects met their objectives and how durable have credit and technical assistance delivery systems proved to be? The most often cited objectives of World Bank SME projects are: the strengthening of financial and technical assistance institutions that serve small entrepreneurs; job creation; and the correction of market imperfections that restrict small borrowers' access to credit. Comparing actual performance with projected outcomes for completed projects shows that projects have tended either almost entirely to succeed or fail: 55 per cent of completed projects achieved or surpassed at least two of their three primary objectives; 12 per cent reached one objective, and 33 per cent failed to reach any of their primary goals. SME projects in Mexico, Peru and Ecuador achieved all their objectives, that is, the loans were small; the numbers of jobs created surpassed expectations; and the institutions involved were substantially improved.

Insights into the differences between completed projects that reached their objectives and those that did not are drawn from project documentation, discussions with project officers and field visits to four successful projects in Ecuador, Sri Lanka, Nepal, and in Indonesia. The most striking differences between these two groups of projects are: the pre-existing country conditions; the selection of implementing institutions; the appropriateness of project designs; and the competence, commitment and leadership of the individuals involved.

Pre-existing country conditions. A number of the following pre-existing factors can be identified as having contributed to the success of the better projects:

- a strong existing demand for the financial and technical services provided by the project;
- a sufficient number of institutions and individuals capable of implementing the programmes incorporated in the projects;
- a sufficient level of leadership ability and commitment to project goals on the part of governments, implementing institutions, and individuals, to create and sustain programmes;
- political, economic and regulatory environments that may be distorted but are stable enough to allow project completion, without frequent and substantial shifts in policies and institutional leadership.

In no project have all of these conditions been present, but the majority of them have existed in all of the more successful projects. The implementation of SME projects in Mexico, Peru, Ecuador and Korea was made easier because there was a ready demand for services, the governments were committed to the promotion of small business, and participating banks already possessed a high level of competence. In other projects, an important key to success was the ability to compensate in project design for missing or less than optimal conditions. The demand for services was generally sufficient and most governments were committed to small business development. The most common constraint to be overcome was the weakness of the available implementing institutions. Projects in Nepal, Sri Lanka and Pakistan provided extensive training programmes for apex unit staff and for loan officers in retail bank headquarters and branches to improve basic skills and to compensate for a lack of experience both in investment lending and in serving small borrowers. In these same projects, the technical assistance programmes to be implemented by public assistance agencies were highly structured with detailed terms of reference and frequent supervision in an effort to promote accountability and to obtain the best results possible.

In countries where projects had less success, political and economic environments were unstable, with frequent shifts in leadership and institutional mandates. The commitment of some governments to project goals was questionable. Political interference in the formulation of programme policies and procedures as well as in actual credit allocation is evident in some projects. Implementing institutions were demonstrably weak in some cases. Where the Bank tried to compensate for weak institutions through technical assistance, efforts often failed because of the number and severity of the institutional problems.

The selection of institutions. In most of the better projects, all of the major institutions available for project implementation were analysed and the strongest available institutions were selected to implement projects – at times resisting government pressures to employ poorly functioning public agencies. Institutions were appraised in terms of their mandates, management, organizational structures, and current activities. Where they were functioning well, programmes were designed and put into place. Where critical gaps were found, restructuring and staff training programmes were designed and financed.

Project design. The more successful loans incorporated project designs that matched local demand for services and were calibrated with the existing operations and capabilities of implementing institutions. Projects in Mexico, Ecuador and Peru were excellent in most of these respects. Many of the better loans had the following characteristics in common:

- They were extensively prepared, with an in-depth analysis of available implementing institutions and sector work to identify the most promising sub-sectors for promotion.
- The demand for credit and technical assistance (TA) services was judged fairly accurately so that appropriate loan amounts were designated and cancellations were avoided.
- Delivery systems were designed to fit within the existing operating systems of implementing insitutions, minimizing the changes required and encouraging participation.
- The size and the complexity of programmes were in line with the abilities of the institutions selected.

Individuals. Projects have succeeded where particularly capable individuals have held key positions in the government or in the major institutions that form the delivery system. Such managers have had catalytic effects on projects as they fostered government commitment, marketed credit programmes and solved the innumerable problems that arose with implementation. The opposite situation was common in troubled projects. Some programmes have failed, in part, because government officials and managers in implementing institutions were not particularly capable or committed to the project goals.

The sustainability of credit and TA programmes was evaluated through the assessment of sub-loan repayment rates, the degree to which credit and TA institutions incorporated services for SMEs into their normal operations and the record of projects that have been repeated in given countries. The average loan repayment rate for the completed projects was 80 per cent, with the highest repayment rate in Latin America (92 per cent) and the lowest in Africa (61 per cent). Participating credit institutions in some projects have been able to expand SME operations based on their own funds. In a number of countries, project series implemented over a period of ten years or more have shown improvement, as is evident in the increased efficiency of credit delivery systems, smaller sub-loan sizes, and higher sub-loan repayment rates.

The one element common to projects with high repayment rates is competent banking

The one element that is common to projects with high repayment rates is competent banking. The retail banks' ability, commitment and, in some cases, freedom to select viable sub-projects, disburse funds efficiently, and supervise projects at the levels needed are the chief determinants of the financial viability of credit programmes. Repayment rates are lowest in countries where public development finance institutions have served as single intermediaries and where governments have interfered in the selection of clients. Under the assumption that the borrowers' ability to repay loans is, in part, a function of the economic and financial environment in which businesses are operating, the study attempted to correlate business environments with repayment rates. No correlation was found. Repayment rates were quite high across diverse business conditions found in Mexico, Peru, Ecuador and Sri Lanka. Likewise, little correlation was found between the size of sub-loan and the repayment rate.

Apex credit systems. Lines of credit are channelled through the formal banking system, either directly to a single intermediary or through a second-tier apex system to a group of retail banks, each of which makes loans to individual borrowers. Apex credit systems, which typically involve a mix of commercial banks and development finance institutions (DFIs) as retail banks, have been more successful in achieving high loan repayment rates and reaching smaller borrowers than have credit lines channelled exclusively through DFIs.

Projects using apex systems typically establish an apex unit, either in the central bank or in a development bank with special expertise in lending to SMEs, to channel funds to multiple retail financial institutions. Projects in Latin America typically house apex units in development banks while the newer apex credit systems in Africa are located in central banks. The performance of apex units depends less on the type of parent institution than on the level of competence and commitment within the institution. Locating apex units in financial institutions that have financial, operational, and portfolio problems is worrying, given the likelihood that the difficulties of the larger institution will bleed into the new, smaller unit.

The optimal roles and responsibilities of apex units depend mostly on the experience and competence of the participating banks in lending to SMEs. The more successful apex units have taken active roles in promoting the credit programmes, upgrading the skills of loan officers inexperienced in term lending to SMEs and ensuring that the system functions efficiently. In the few cases where retail banks have been fully competent in their lending operations, apex units have taken a more 'minimalist' approach, for example, in Mexico. The more successful apex units have had a sufficient level of autonomy from the parent institution to design credit programmes that meet the needs of retail banks and SME clients. Often the presence of a particularly strong manager has been the key in successful apex operations.

Participating banks. Analysis of completed loans utilizing apex credit systems shows that the majority of funds has been disbursed by commercial banks (Table 2). On a regional basis, completed projects in Latin America have made the greatest use of commercial banks, though it must be noted that development banks have played major roles in successful SME projects in Peru and in Ecuador. Completed projects in Africa have made virtually no use of commercial banks. As much as 75 per cent of funds were disbursed by banks that were at least 50 per cent publicly owned; 25 per cent of funds were channelled through privately owned banks.

Table 2. Disbursement of SME credit lines by the types of retail financial institutions in apex credit operations (US$million)[1]

	DFIs	*Commercial*	*Others*[2]	*Total*
Private Financial Institutions	23 (5%)	66 (13%)	34 (7%)	123 (25%)
Public Financial Institutions	71 (14%)	295 (59%)	11 (2%)	377 (75%)
Total	94 (19%)	361 (72%)	45 (9%)	500 (100%)

1. Disbursements by the type of institution are calculated from ex post figures on funds channelled through individual retail banks participating in apex credit systems.
2. Others include corporations, credit unions, leasing companies, etc.

Retail banks that participate in apex credit systems are selected according to eligibility criteria set by the project and their desire to participate in the programme. Typically, 80–90 per cent of credit lines is channelled through two to four major banks, regardless of the number of banks that are eligible.

> The performance of SME projects in Africa reflects economic, political and institutional problems

Stringent participation conditions are imperative to bring rigour into apex credit systems and to screen out weaker banks. Specifically, participation conditions serve the following functions:

- to spell out the specific rights, obligations, and the required operating procedures for the apex entity and the retail banks;
- to screen out financial institutions with poor records of credit-worthiness and repayment;
- to establish credit programmes on a sound footing from the beginning, allowing a quicker start-up of operations;
- to re-evaluate the status of retail banks, from one project to the next and within projects, particularly where the financial environment is unstable.

All of the completed SME projects that channel credit through single, public sector, general-purpose development banks have been in Africa. Their performance, therefore, reflects serious overall economic, political, and institutional problems in Africa as well as problems specific to the development banks involved. Loans have been large; relatively few jobs have been created; and repayment rates typically have been below acceptable levels. Available data do not allow disaggregation of the impact of various factors, but it is clear that the following problems, typical of DFIs, have contributed to their generally poor performance, weak and frequently shifting leadership; government pressure to make loans to large public or private influential enterprises; ineffective staffing and management; and the failure to develop strategies consistent with serving small borrowers.

In other regions, where development banks have specialized in lending to SMEs, their performance has been notably better than that of public development banks with a general mandate of industrial development. Examples include the Hulk Bank in Turkey, the Corporación Financiera National in Colombia, the Banco Industrial del Peru and the Small and Medium Industries Bank in Korea. Successful credit intermediation by these development banks is due, in part, to their specialized roles as providers of financial services for SMEs and to the excellence of their management.

Most technical assistance for entrepreneurs has often failed to meet its objectives

Technical assistance is provided in most SME projects to help SMEs build technical, marketing and managerial skills. Technical assistance agencies, usually public institutions, are strengthened normally through consultancies and staff training. TA components for financial institutions typically fund technical advisers, training for apex unit staff members, and courses for loan officers. Several of the most successful projects have provided training for participating banks but little or no technical assistance for entrepreneurs.

Many technical assistance components for entrepreneurs have fallen short of expectations. The reasons for generally poor results include:

- a mismatch between programme requirements and the capabilities of implementing institutions;
- where the components are complex and the implementing institutions weak, the supervision requirements have exceeded the time and resources available to Bank staff;
- some implementing institutions have failed to demonstrate the commitment needed for successful implementation.

Successful extension agencies have usually operated with a great deal of independence

Two exceptional government-sponsored industrial extension services are the Programa Apoyo Integral (PAI) extension service for SMEs in Mexico, and the Institute for the Support of Small and Medium Industrial Enterprises (IAPMEI) in Portugal. Both extension services offered entrepreneurs on-the-spot assistance with simple managerial or technical problems and provided referrals for more complex or specialized services. The unusual success of these two extension services can be attributed to several key variables. Both agencies avoided capture by a large bureaucracy, instead operating as fairly independent organizations with a great deal of managerial and financial autonomy from their parent institutions. Both programmes served as the critical link between entrepreneurs and credit components. While not assuming a direct role in credit provision, extension workers played a key role by informing clients of the existence of the SME credit line and how to obtain it – in effect, the extension services marketed the credit component without biasing credit delivery. Not the least of the success factors was the competence and zeal of officers in both organizations.

Analysis of successful programmes offers some specific lessons:

- The fact that most borrowers are employed in relatively few sub-sectors presents a strong argument for technical assistance for entrepreneurs that is highly sub-sector specific.
- Projects with a small number of TA components have been more successful than those with many components.
- Components that are small and specific to a selected group of beneficiaries or to a region have had fewer problems with implementation than larger, national programmes.
- Most successful TA components have built on existing, already successful programmes rather than establishing new programmes or rehabilitating poorly functioning ones.
- Services such as accounting courses and marketing assistance are most efficiently and effectively delivered to groups of people with similar occupations as opposed to industrial extension services delivered person-by-person.

Many of the new African SME loans contain initiatives that are designed to reach a broader range of clients and to involve a greater variety of agencies as providers of technical assistance. Recent innovations are, in part, a result of disenchantment with many of the public technical assistance institutions employed in the first generation of African SME projects in Niger, Côte d'Ivoire, Cameroon and Burkina Faso. Some of these new initiatives are intended to:

- promote greater involvement of the private sector in the delivery of technical assistance services to SMEs;
- broaden access to credit lines and TA services to include microentrepreneurs;
- promote female entrepreneurs; and
- increase the overall number of entrepreneurs.

In Burundi and Togo, assistance is given to local chambers of commerce to launch industrial extension services for their members. The formation of mutual credit guarantee schemes for microentrepreneurs is financed in Nigeria, Ghana and Togo. In Ghana and The Gambia, local affiliates of Women's World Banking are supported as they formalize operations designed to increase women's access to formal financial institutions. In Ghana, an entrepreneurship development programme is given partial support to identify and train potential entrepreneurs.

New initiatives in Africa are aimed at reaching smaller and previously underserved groups

These new initiatives offer the potential of reaching smaller, and perhaps previously underserved groups through the use of specially designed programmes, but some potential areas of concern must be watched. First, the success of prior programmes has typically depended mainly on the strength of the implementing institutions. Many of the participating institutions in these new components are very small and are either newly organized or weakened by long-standing problems. The gaps between the resources needed to implement the programmes and the capabilities of these institutions will have to be bridged if implementation is to be successful. Second, these new components are likely to require extensive supervision by World Bank project officers, who may have difficulty providing the time needed. Third, the reliance on non-governmental organizations may be problematic, given NGOs' typical small size and the large amounts of money usually involved in World Bank programmes. The route to success will probably involve starting small and building programmes in discreet, planned steps, avoiding pressures to produce big programmes with complex agendas.

The World Bank has had some success in lending to SMEs. A good number of institutions, particularly financial institutions, have been strengtnened. Many small- and medium-sized entrepreneurs have received loans they presumably would not have received without the Bank's credit programme. Although job creation figures must be approached cautiously, it is clear that a large number of jobs have been created at relatively low cost.

Just over half of the completed projects achieved most of their primary objectives. Repayment rates in most projects, while improving in many countries, have not been high enough to generate profits for participating banks. For this reason, sustainability would be a problem for most projects should Bank support be withdrawn. Several projects have resulted in exceptionally effective operations, both meeting their objectives and achieving reasonable levels of sustainability. A relatively small number, particularly small in terms of the percentage of total loan amounts, have failed by all measures.

At the heart of successful SME projects are effective credit delivery systems that are composed of sound institutions managed by competent and committed individuals in borrowing countries. In the most common case where institutions are functional but have critical gaps in their operations, the Bank has had some success with building new capabilities, more so in financial institutions than in technical assistance agencies. The ability to appraise institutions, diagnose problems and to design remedial measures for those chosen to participate in World Bank programmes is critical to effective programme design and implementation. In the best of circumstances where institutions have been well organized and capable of delivering quality services, programmes have built on and expanded that competence. Where institutions have been dysfunctional prior to World Bank involvement, efforts to resuscitate them have mainly failed. Where the will to surmount the obstacles and problems that accompany relatively complex programmes is absent, projects predictably fail.

SME operations can be an effective means of pursuing both growth and equity objectives

An assessment of SME projects under preparation indicates that SME activity can be expected to remain an important part of World Bank lending for the forseeable future. A number of arguments favour continued support for small enterprises. First, small entrepreneurs continue to face discrimination in most countries, particularly in access to credit. The perceptions of untenable risks associated with lending to small borrowers are altered, in part, by helping financial institutions develop sustainable – and profitable – lending programmes for small borrowers. Second, in several countries, SME operations have been successful vehicles for building the term-lending capabilities of commercial banks, first with small enterprise loans and, subsequently, in lending to all levels of industry. Third, SME operations are an effective means of pursuing both growth and equity objectives. A strong small industry sector can be a major contributor to a country's economy and it can offer a source of income to large numbers of people. Finally, over the course of the last 15 years, the World Bank has built some highly effective small enterprise programmes in a number of countries. Withdrawal of support from viable programmes would result in the dismantling of effective credit delivery systems that have good prospects for becoming more permanently integrated into the financial system.

COMMENTATOR: RUSSELL WEBSTER, NATHAN ASSOCIATES INC.

The World Bank's experience in lending to small and medium industries provides a useful summary of the political, economic, regulatory, and institutional requirements for success. Points particularly instructive from the presentation include

- The need to identify and set in place the policy and regulatory conditions for stimulating growth in the micro- and small enterprise (MSE) sector;
- The importance of working with proven institutions in order to reduce risks and help insure projects (though it should be highlighted that oftentimes, credit programs are implemented with institutions that need some kind of technical assistance and training, too);
- The importance of quantifying or knowing the demand for services in order to meet this demand affectively;
- The need for clarity in project objectives and resource requirements, as well as in the roles to be played by the project participants;
- The observation that commercial banks have been more effective than development finance institutions; and
- The importance of institutional development as a precondition for achieving loan effectiveness.

To summarize, the conditions necessary for successful project implementation fall into two major categories: institutional capacity or the ability of intermediaries to provide appropriate and effective services to their clients, and the quality of the intermediary's policy and the regulatory environment. In addition to these conditions, there is the problem of knowing how to operate when neither set of conditions is optimal. Lastly, there is the problem of scale, which hinges on understanding the tradition of enterprise formation in any given economy.

World Bank projects frequently include compliance clauses, typically at the policy level, in order to achieve many of the conditions mentioned above. However, many organizations outside of the World Bank must learn to operate in spite of the various policy, regulatory, and economic constraints that hinder entrepreneurial success and sectoral growth. It would be instructive for project managers and others to review a series of situations (or cases) where the necessary conditions do not exist, to understand what was done and the reasons for program success or failure.

The World Bank also extends loans to enterprises that are generally larger than the ones on which most other donors focus. Therefore, it is necessary to understand how scale might affect the conditions mentioned above. Areas of analysis include

- The role of informal credit markets on MSE production and marketing,
- The affect of social norms on women's participation in credit programs,
- The difference in impact of the minimalist and the integrated approach to service delivery on enterprise formation and growth,
- The degree to which certain services may be subsidized in order to gain long-term social benefits,
- The prerequisite for borrowing and saving, and
- The role of nontraditional banking institutions in credit delivery.

3. DEVELOPMENT OF RURAL SMALL INDUSTRIAL ENTERPRISE: A REVIEW BY ILO, UNDP, UNIDO, AND NETHERLANDS' AID

DEVELOPMENT OF RURAL SMALL INDUSTRIAL ENTERPRISE

Lessons from experience

Joint study by:

United Nations Development Programme

Government of the Netherlands

International Labour Organisation

United Nations Industrial Development Organization

Foreword

Rural Small Industrial Enterprise (RSIE) is a dominant feature of the industrial structure in many developing countries. Past experience has shown that attempts to further the development of this subsector have only met with limited success. In order to determine the potential and problems of RSIE and to establish the most effective means of promoting its development, the Government of the Netherlands, the United Nations Development Programme (UNDP), the International Labour Organisation (ILO) and the United Nations Industrial Development Organization (UNIDO) decided to carry out a thematic evaluation of Technical Co-operation Assistance to RSIE.

Within the framework of this evaluation, a team of core consultants—James Keddie, Subrahmanyan Nanjundan and Roger Teszler—desk-reviewed 56 projects dealing with RSIE, studied the experience of RSIE in nine developing countries, to six of which missions were fielded, and by the end of December 1987 prepared and revised this final report.

In five of the six field missions, donor and agency staff or consultants also participated: Hermine Weyland, Netherlands—Pakistan; Frieda Panis, UNDP—Senegal; Jan Versluis, ILO—Zambia; Adrie de Groot, UNIDO—Indonesia; and Oscar Gonzalez-Hernandez, UNIDO—Peru. In three missions there was also a national consultant: Khalid Aftab—Pakistan; Teobaldo Pinzas—Peru; Sidate Gueye—Senegal. The mission to the United Republic of Tanzania, the first one of the series, was undertaken by the three core consultants as a team.

Based on the findings of this report, a programme advisory note (PAN) will be prepared to facilitate the application of the major conclusions and recommendations of this study to the design and appraisal of RSIE-related projects and programmes.

Summary

Origins and purpose of the study

The United Nations Development Programme (UNDP) has embarked on a series of thematic evaluations of areas in which important amounts of external assistance have been channelled to developing countries. This study is the eighteenth in the series. The aim of these studies is to provide policy and project officials with a series of manuals for the improved preparation, implementation and follow-up of programmes and projects in a number of areas. These manuals or programme advisory notes (PAN) are based on desk and field research.

In order to broaden the scope and the usefulness of such studies, UNDP requests the collaboration of a bilateral donor and of one or more executing agencies actively involved in assisting the area to be reviewed. Thus, towards the end of 1984, the Government of the Netherlands, UNDP, the International Labour Organisation (ILO) and the United Nations Industrial Development Organization (UNIDO) began preparations for a thematic evaluation of rural small industrial enterprise (RSIE). This study was to use projects implemented or funded by the sponsors as entry points for the analysis of policy and institutional environment of RSIE and of the significance of external assistance in this context. The aim was to arrive at conclusions and recommendations for future activities in this field.

The choice of RSIE as a subject was guided by certain considerations. The promotion of large-scale industry, which had earlier been advocated by policy-makers in developing countries and by providers of external assistance, had not provided the momentum essential for development. As a result, small industry, which had previously been somewhat neglected, came increasingly to be considered as a viable alternative or at least as an essential ingredient of an integrated industrial structure, which in turn would promote economic development. The rural context derived further importance from two additional considerations; *(i)* small industry is less dependent on the urban locational amenities which are a veritable life-line for large-industry development, and *(ii)* the development of small industry in rural areas can assist in stemming the migratory flow to already overcrowded urban areas.

Many small-scale industry and RSIE programmes were mounted or expanded from the mid-sixties onwards, assisted with funds and technical expertise from external donors and agencies, including considerable contributions from the sponsors of this study. With the passage of years, the experience of such programmes and increasing knowledge of RSIEs themselves indicated the need for the type of reassessment attempted in this thematic study.

This study begins by analyzing the nature and significance of RSIE and its economic environment (chapter II). This is followed by a review of three categories of intervention in RSIEs; *(i)* demand-side macro-policies (chapter

III), *(ii)* supply-side institutional support (chapter IV), and *(iii)* external assistance from donors and agencies (chapter V). Chapter I aims to set the scene by establishing the rationale for the study and the *modus operandi* of its authors. Chapter VI highlights some conclusions and recommendations and the annexes provide some additional information on the methodology used and data obtained during the course of the study.

After some preparatory work at the headquarters of each of the four sponsors during the first half of 1986, a core team of three consultants was assembled and the study was under way by August 1986. In the first phase (August-September 1986) a total of 56 projects and other relevant information (files, published materials, interviews) were reviewed. This resulted in a second phase involving the study of RSIE in nine countries of which six were visited (Indonesia, Pakistan, Peru, Senegal, the United Republic of Tanzania and Zambia) and three were "desk-studied" (Colombia, Kenya, the Philippines). The nine country studies (March-September 1987) constituted the core input into this study (phase three, October-December 1987), which also benefited from interviews and published sources from donors and agencies (funding as well as executing) and from other—mainly scientific—sources.

RSIE and its economic environment (chapter II)

As regards the role played by RSIE, in general about one-fourth of rural primary employment in developing countries is accounted for by non-farm activities and about one-tenth by manufacturing. The share of total manufacturing employment located in rural areas decreases with the degree of industrialization, from 65-85% in least developed countries, to 45-60% in somewhat more developed, and to 10-30% in the newly industrialized countries (NICs). RSIEs provide secondary employment for 10-20% of the rural male labour force. The share of non-farm income in total income is higher for households with small land holdings. The income share from rural manufacturing is usually substantially larger than the employment share. In order for RSIE to be able to contribute to economic development, it must have the ability to link up with other sectors and activities. Five major focal points in RSIE development are reviewed here:

(a) Interlinkages of industry with other sectors of the economy are crucial for promoting RSIE, since the nature of rural development involves attention to several sectors, embracing a wide range and mix of activities, including projects to raise agricultural output, to improve health and education, to expand communications and to improve housing. In this multi-sectoral approach, industrialization is a means of raising productivity and incomes in all sectors by providing forward and backward linkages between the various markets for goods, services and factors of production (especially labour). In addition, there are the very important "final demand" linkages between increases in rural incomes and the stimulation of RSIE. Linkages are stimulated by economic development and growth in incomes and by the development of infrastructure and markets. In an underdeveloped subsistence rural economy, linkages are few and limited to barter or informal arrangements within the village. The less developed an economy, the less the effects of linkages in stimulating RSIE. Available evidence (*inter alia* from India and Sierra Leone) indicates that final demand linkages are probably the most important for RSIE;

(b) As far as foreign trade is concerned, import linkages of RSIE are severely restricted in most developing countries due to foreign exchange shortage and inaccessibility of imported inputs. Export linkages are important in such sectors as handicrafts, garments and leather goods in the Asian countries studied. Sub-contracting to rural artisans takes place through a trading nexus linking urban to rural areas. On the other hand there is also a tendency for artisans to migrate nearer to urban areas;

(c) With agricultural development, final demand linkages for consumer goods through increase in rural incomes become far more important than forward production linkages of agricultural processing or backward production linkages of manufacture of farm tools and equipment. Where subsistence farming is still important and agricultural growth is slow, RSIEs are involved in forward linkages of grain and oil-milling, wood-processing etc., and backward linkages of blacksmithing, forging etc., rather than in the manufacture of a range of consumer goods. With more developed agriculture, large-scale agro-processing shifts to urban areas, but small-scale processing of staple foods to meet local demands continues in rural areas;

(d) Linkages of RSIE to large-scale industries through sub-contracting or trade channels exist to a limited extent in the Asian countries surveyed. The development of such linkages will depend on the one hand on the expansion of rural markets and of the capacities (including engineering skills) of RSIEs and, on the other hand, the development of infrastructure and communications resulting in a rural-urban continuum. Government initiatives and incentives may accelerate the development of linkages, but they have to be sustained on the basis of competitive advantages in the production costs of RSIEs for the sub-contracted items. In this context, the positive experiences of sub-contracting exchanges in Peru are worthy of attention;

(e) The development of rural infrastructure, both physical (transport, electrification) and social (education, health), is crucial for rural development. RSIE growth is stimulated by access to markets and inputs through road development and the lower cost of production, higher quality and diversification of products made possible by electrification. Social investments improve the quality of labour and skills and make rural areas attractive for non-farm occupations. Infrastructure development should go hand in hand with macro-economic and sectoral policies favourable to RSIE growth. (The latter are reviewed in chapter III.)

As regards the rural environment, its characteristics, rather than a rigid separation of urban from rural areas, delineate the location and scope of RSIE. Variations in agricultural prosperity, population density, degree of urbanization and development of rural infrastructure all have effects on RSIE. Location- and size-spread of RSIE increases with development, but the weight of rural industry declines at high levels of urbanization and industrialization.

The target group of RSIEs considered for evaluation includes micro-enterprises (0-4 employees) and small enterprises (5-25 employees) located in villages and towns where the population is at least up to 20,000 (UN definition), but is often higher in cases where larger urban areas retain the characteristics of smaller towns.

There are varying definitions—administrative and statistical—of RSIE in the countries studied. Analysis confirms that this study's own definition of 0-25 workers per enterprise in locations up to 20,000 or more population is in line with broad official usage.

The overwhelming bulk of RSIEs are household and micro-enterprises employing less than 5 persons. Less than 10% of RSIEs employ 5-25 and very few indeed employ over 25. In terms of the numbers of persons employed, RSIEs account for between hundreds of thousands and millions in different countries. In terms of value added by manufacture, RSIEs' share ranges from 5-50% in different countries. With the increase of industrialization, urbanization and economic development, the share of RSIE in total manufacturing gradually declines. Nevertheless, in most of the developing countries there still remains considerable scope for the expansion of RSIE in rural areas and small towns.

Whereas products catering to local markets and services remain in rural areas, others move to small towns. In the latter category there is a shift to higher value-added types of manufacturing, e.g., in metals, wood and other materials. However, the main branches remain much the same; food, wood, textiles, building materials and metal.

Dominant characteristics of RSIEs include their small size, their private (or family) ownership, providing a source of supplementary income to agriculture, and their dynamic response to agricultural and rural development. New RSIE entrepreneurs originate mainly from the farming community, obtain on-the-job training, obtain capital from personal (or family) savings and prove responsive to technology changes arising from rural electrification (and other infrastructure) and improvements in farming methods. New entrants to RSIE include traders and artisans, but also professionals and civil servants.

There is evidence that the role of women in RSIE ownership and employment is more important than in urban industry. For about half the women in rural areas it provides a supplementary source of income to farming. Women predominate in the food, garment and craft industries.

To sum up on RSIE's strengths and weaknesses:

RSIEs are mostly small, dispersed in area and concentrated in a few branches. They themselves marshal inputs and organize production. While usually passive with regard to innovation, they are good at exploiting market and technology opportunities once these are introduced to them.

The policy environment of RSIE: the demand-side approach (chapter III)

Successful rural industrialization presupposes a favourable economic environment in the rural areas engendered by a high agricultural growth rate and the development of infrastructural and social services. Such an environment has been more favourable in the Asian countries studied during the evaluation than in the African or the Latin American ones.

Country studies and other available research point to two sources of demand-side policies:

(a) Agrarian reforms and the more equitable distribution of land;

(b) Price and market incentives to farmers.

Both can lead to aggregate increases in disposable rural income and as such they appear to have been more effective stimuli for RSIE development

than the (supply-side) provision of inputs to RSIEs themselves, because increased rural income is largely spent on consumer goods produced by RSIE. In the absence of increasing demand for rural non-farm products, supply-side measures may fall flat on their face.

Demand-side or macro-policies should include; *(a)* investment in infrastructure and social services in rural areas, *(b)* price policies to ensure favourable terms of trade for the farmer, *(c)* wide distribution of benefits in rural areas so as to generate sufficient effective demand, *(d)* agricultural investments in irrigation, extension and research and provision of credit to farmers.

Other macro-policies, particularly industrial and commercial, in developing countries have generally affected RSIE adversely by favouring large-scale and capital-intensive industrialization and discriminating against small-scale industry and RSIE. Costs of production and product prices of small-scale industry and RSIE are adversely affected by higher costs of inputs, credit and marketing, compared to large-scale industries. Overvalued exchange rates diminish rural incomes arising from exports. Structural adjustment programmes in some countries (e.g., United Republic of Tanzania) have been favourable for RSIE growth, although, to take full advantage of liberalization, RSIE should be able to adjust to changes in pattern of demand through measures for improved productivity and efficiency. Agricultural prosperity has a favourable effect on RSIE and vice versa. However, there is no conclusive evidence on effects of business cycles. There is evidence from country studies that macro-policies relating to agriculture and the rural sector are more beneficial to RSIE than macro-policies relating to industrialization and trade, unless the general economic distortions created by the latter are severe. Serious distortions created by macro-policies for industry (the Philippines and Zambia) and for virtually every sector (United Republic of Tanzania) led to economic crises, which stunted the whole economy, including RSIE and agriculture.

Specific countervailing measures of assistance to RSIE could benefit only a very few enterprises. There seems to be considerable scope for promoting RSIE development through sub-contracting from large industries, which has been successful in a small number of RSIE products in Indonesia, Pakistan, Peru and the Philippines through technological upgrading and trade links. Discriminatory measures in favour of RSIE, e.g., differential taxes, may compensate for benefits accruing to large industry, but in the long run RSIE should stand on competitive strength in the market. Supply-side measures (further discussed in chapter IV) while more difficult, are important for upgrading skills and technology in RSIE. The effectiveness of supply-side support to RSIE is largely determined by the extent that macro-policies create a favourable environment for RSIE.

Institutional support of RSIE: the supply-side approach (chapter IV)

Institutional support of RSIE can be justified as a complement (or palliative) to the influence of the broader demand-side policy environment discussed in chapter III. Within this, another important objective is to give Governments, donors and agencies a better idea of what, and what not, to expect from various types of institution and activity.

Institutional support has largely been mounted to correct the perceived weaknesses of RSIE. Although weaknesses exist, they have been over-emphasized, as has the institutional support given, which has frequently become a supply-side palliative to unfavourable demand-side policies, or has resulted from the failure to recognize the role of RSIE in overall rural and industrial development.

Neither planning bodies nor small-industry development agencies have generally had an imaginative approach to RSIE policy formulation and transmittal. Small-scale-industry and RSIE policy has focussed on supply-side, direct-input support and has not been well-integrated into macro-policy-making. There are signs that this may now be gradually changing.

For this study, the following classification of supply-side institutions supporting RSIE has been devised:

(a) Policy and general-purpose institutions

- Policy-forming bodies (including policy-research bodies, and policy-transmittal mechanism);
- General-purpose small industries development agencies (SMIDAs).

(b) Functions and functionally based institutions

- Marketing or raw material supply schemes;
- Publicly-controlled RSIE or rural production centres;
- RSIE co-operatives (i.e. production and marketing co-operatives, *not* savings and loan associations);
- Industrial estates, with or without common service facilities;
- Financial services institutions or programmes, including
  - — commercial banks
  - — development banks
  - — savings and loans associations or credit unions
- Business advice extension services
- Technical service facilities located with RSIE, technical extension services, mobile or on-location technical training
- Formal vocational training centres
- Technology development and diffusion centres

(c) Other institutions

- Area authorities and development programmes, programmes for special target groups (e.g. women);
- Small industry or trade associations;
- Non-governmental organizations (NGOs), private voluntary organizations (PVOs).

(a) Policy and general purpose institutions have in general not been effective at promoting RSIE. This is particularly true for the SMIDAs, the archetypal mechanisms for supply-side, direct-input support. SMIDAs tend to be over-centralized, with a resulting urban bias, and to over-emphasize hardware inputs to RSIE. Individual SMIDAs appear to be progressively distancing themselves from this approach, but reforms are long and difficult;

(b) Functionally based institutions in the countries and projects reviewed appear to have a mixed record. Public intervention in the supply of raw materials to RSIEs and in marketing their products generally has a better chance of success if aimed at stimulating private enterprise to perform these functions. The same principle of self-reliance also applies to sub-contracting.

Public-sector RSIEs are few and far between and usually form part of a larger institution that combines, for example, training with production. The record of such RSIEs was not found to be impressive.

While successful examples exist of RSIE-promotion via co-operatives, co-operative organization is best seen as a complement to RSIE private proprietorship in particular circumstances. Clear-cut benefits to members and careful preparation are essential.

Industrial estates in general are not effective as RSIE-promoters. They may be useful in areas with a thriving small-to-medium industry sector.

Traditionally-run commercial and development banks have not been effective promoters of RSIE, nor have RSIE-financing programmes initiated by non-financial institutions. Savings and loans associations (SLAs), or SLA-type programmes run by rural offices of banks, offer more promise, but are multi-sectoral, not focussed on RSIE. Their effectiveness increases *pari passu* with their local outreach.

Business advice extension services may be effective in support of some other useful promotional effort such as SLAs. RSIE business advice is not much valued in its own right.

Training centres have, with some exceptions, been ineffective promoters of RSIE. The centres are often urban-based and -oriented, with little or no rural outreach and usually attract, with doubtful results, new entrants rather than those engaged in existing RSIE.

On-location technical facilities, extension and training programmes are very often well-received and effective. They must, however, offer realistic new commercial opportunities to their RSIE clients. Also, not all institutions are effective in delivering these programmes.

Technology development and diffusion centres have generally been remote from RSIEs and ineffective at promoting them. A few have effectively served agricultural implement firms by developing close field contacts with them;

(c) The final category of institutions has provided mixed results.

There is little evidence that area-based institutions and programmes are effective at consciously promoting RSIE. They mostly pursue other sectors, such as infrastructure and agriculture.

Small industry and trade associations are observed to perform a useful range of services for regional-town RSIEs in some developing countries. They take time to build up, but could be a promising target for more external technical co-operation assistance (TCA).

NGOs perform a range of RSIE promotional functions to a still-limited extent, but usually efficiently and with good rural fieldwork. Their special strengths are the promotion of RSIE self-reliance through organization, and their emphasis on autonomous local operations. Their weaknesses have been over-emphasis on welfare concerns, and under-emphasis on technical input and upgrading.

Although general rural growth is not an absolute pre-condition for any supply-side RSIE support activity, it does provide an environment in which such institutional support can be used to full advantage. Leaving aside considerations of inadequate management of an institution etc., it would appear that successful supply-side intervention in RSIE is best achieved by only a narrow range of institutions and programmes. This range increases with the size of RSIE. Thus, the smallest RSIEs, the bulk of the sector, are best served by marketing schemes, savings and loans associations, on-location technical facilities, training and extension. If these RSIEs are located in rural towns and regional cities, small industry and trade associations may be added to this list. The larger RSIEs, finally, may also reap some benefits from interventions by SMIDAs and formal banks.

A strong local presence of the intervening institution and a strong involvement from the community (village, town, small industry association, co-operative etc.) greatly enhance the effectiveness of the intervention. At present such support is best supplied, usually, by NGOs and PVOs. Highly centralized organizations are not effective RSIE promoters. Strong field links, based on local presence and local autonomy of action are essential. The need is for changes in public institutional policy, away from centralization, hardware, "centres", would-be comprehensive institutions, and subsidized credit. The crucial issue for RSIE institutions is not whether they are public or private, but whether they support mechanisms which will involve the beneficiaries themselves and make possible transfer of technology, market opportunities, and development of viable credit.

Localization and geographical spread of effective types of institutions is to be encouraged, but the setting-up of new institutional types is not. Relatively few RSIE support institutions are financially self-sustaining. For many institutions, the issue is mounting effective programmes which can secure the loyalty of staff and outside funding. Cost-effectiveness can only be assessed impressionistically, but the likely benefit-versus-cost per recipient should nevertheless always receive cool prior assessment.

Self-monitoring by RSIE support institutions is not generally impressive. In any case, supervisory and planning agencies have an external monitoring responsibility, the execution of which will keep them in closer touch with sectoral problems, linkages and broad policy options.

The list of institutions that can provide effective support to RSIE is relatively short and the effectiveness of this support is determined more often than not by the extent to which existing macro-policies favour RSIE.

External assistance to RSIE (chapter V)

External assistance to RSIE (as to any other sector) has been provided at three levels; *(a)* policy support (demand-side intervention) has only occasionally been provided, *(b)* most emphasis has been laid on institution-building (supply-side intervention) and the disappointing results thus achieved have led certain donors to emphasize *(c)* direct support to RSIE.

External assistance for macro-policies is potentially the most effective level for assistance to RSIE because it can then be directed towards the creation of an RSIE-friendly economic environment and can reach all RSIEs more or less equally. Such assistance could cut across bureaucratic barriers at the top. Unfortunately, many countries consider such interventions as an unwarranted intrusion and will probably continue to do so if TCA policy is not handled as a mutually-persuasive dialogue.

Donors and agencies have a marked preference for external assistance for institution-building, because, if such assistance helps an institution to take off, the latter can then continue its activities without outside support. Many institutions never reach that stage and just survive on outside sustenance, whereas already effective institutions make good use of external support. RSIE-specific institutions are few and far between as are new institutions established via external assistance.

Few external assistance projects to RSIE are dedicated exclusively to direct assistance. The combination of direct assistance and institution-building is more effective than either of these approaches separately. Donors have been known to opt for direct assistance because they feel that host-country agencies are inadequate or because the duration of the required intervention does not justify the establishment of an institution.

The mechanics of project preparation, implementation and follow-up are project- and not RSIE-specific. From an RSIE angle, special importance is accorded to the complexities of design (rural and industrial), the intricacies of management where assistance to RSIE is but part of a larger project, and the need to develop models of external assistance that become expendable in due course. Donors and agencies have not developed a unified approach and field co-ordination leaves much to be desired.

Many problems of project management and follow-up can be reduced to errors in project design, but good project design in itself must not be considered as a guarantee of successful management and follow-up. Good project design is rather a precondition than a guarantee of success. An analogous line of reasoning is less valid for the project document. Whereas inadequate identification and (pre)feasibility studies will certainly result in a poor project document, good groundwork in identification and feasibility analysis account for 90% of a good project document.

The diverse and multifaceted nature of the RSIE sector and its problems makes co-ordination and project management particularly difficult. Problems encountered arose from this complexity rather than from the nature of RSIE. Monitoring was only found in the more successful projects.

Excessive donor or agency intervention stimulates donor dependency, throws up a barrier against future host country take-over and hence against sustainability and replicability in general. External assistance to RSIE is no exception. The potential to carry over external assistance experiences will be greater if cost-effectiveness is higher.

Donors and agencies have different approaches and procedures in external assistance. There is some indication of an increasing preference among donors and agencies for policy assistance, although only few—mostly recent—projects provide assistance at this level. Differences are found in approaches to RSIE, but these mainly concern ways to bypass ineffective institutions.

Responsibility for field co-ordination of donor activities is, in theory, shared by the Resident Representative of UNDP who reviews external assistance efforts annually. As co-operation in this exercise is voluntary, coverage is far from complete and co-ordination results are usually not impressive. Donors might well agree to formalize the pivotal role of UNDP in field co-ordination. In the United Republic of Tanzania, the UNDP Resident Representative recently took the initiative in setting up monthly informal donor and agency meetings. This could be a first step towards the co-ordination of field efforts for a specific subsector.

Recommendations (chapter VI)

The final chapter reviews some findings and recommendations that have resulted from this study, but do not always figure prominently in the text. Some of the major recommendations now follow.

1. Macro-policy favouring the growth of rural income should be given priority in RSIE development strategies and should preferably precede supply-side measures of support to RSIE.

2. The development of an agricultural surplus is a precondition for the stimulation of non-farming activities such as RSIE in rural areas. If no such surplus exists, efforts should be primarily directed towards achieving such a surplus.

3. Because RSIE provides a supplementary source of income for on average 50% of rural women engaged in agriculture, emphasis might be placed on expanding and adding value to this activity. Attention should be given to reducing drudgery and manual work and to training for new types of RSIE work (electrical wiring, electronic assembly etc.).

4. Policies for the support of RSIE should concentrate on maximizing the linkages of RSIE with other sectors.

5. In order to stimulate RSIE, more emphasis should be given to favourable macro-policies and general strategies aimed at economic diversification.

6. Sub-contracting from larger industry to small-scale industry and RSIE should be promoted through policies for upgrading technical skills and special training and extension programmes for small-scale industry and RSIE. Sub-contracting information exchanges are more effectively operated by industry associations than by extension agencies.

7. Purchase, reservation and tax-incentive schemes for small-scale industry and RSIE should only be introduced as temporary measures.

8. SMIDAs should concentrate on the functions which they can perform most effectively and adjust their organizational structure accordingly. This usually involves decentralization and hiving off certain operations (industrial estates, provision of credit).

9. Common-services facilities should be hived off from industrial estates and be transformed into technology centres providing services to nearby small-scale industry and RSIE.

10. Credit for small-scale industry and RSIE should be made available in as decentralized a form as possible. The role of non-bank financial intermediaries in this context should be enlarged.

11. Because on-location, branch-specific technical upgrading programmes are often effective RSIE promoters, especially in more remote areas (mobile training units), they should be stimulated.

12. In the promotion of RSIE development, increasing use should be made of NGOs and PVOs as agents of change because they tend to have a better grasp of the local demands of RSIE than national institutions.

13. In order to optimize its effectiveness, supply-side institutional support for RSIE should be framed in a macro-policy which enhances the growth of disposable rural income. Comprehensive intervention should be limited to situations where RSIE has to be built up from scratch.

14. Donors and agencies should focus on persuading host countries to adopt appropriate macro-policies that favour grass-root and small-enterprise development in rural areas or insist on these macro-policies as a precondition for supply-side assistance.

15. Every effort should be made to make use of existing institutions rather than bypassing them (direct assistance) or setting up new ones. National institutions of the SMIDA variety might be streamlined through external assistance (cf. recommendation 8).

16. Donors and agencies should make every effort to harmonize their external assistance procedures and co-ordinate their field activities. This is especially important when it comes to enterprises which are often located in remote areas, as is the case with RSIE.

COMMENTATOR: MICHAEL FARBMAN, A.I.D.

A worthwhile session was convened in the Netherlands 2 months ago, at which the Government of the Netherlands sponsored a review of this document to determine the extent to which it provided guidance on how to structure programs in micro-, small, or medium enterprise (MSE) development. Considerable discussion was generated, and many ideas were presented. However, at the end of the conference, we left the Hague without developing anything like a strategy for the government to consider, owing to the sometimes conflicting approaches to MSE development that were very convincingly put forth by different participants at the session.

The overriding message in this document, and in discussions about the document, is that successful MSE programs are difficult to find. In this context, though, I believe that we must examine what we mean by success.

For the conference at the Hague, I was asked to develop a system to classify projects or assistance approaches in some meaningful fashion. I will present my classification scheme today in order to give scope to the document's conclusions.

At the Hague, I opened my comments with a minor dissertation on heterogeneity within the MSE sector. There are two important ways in which heterogeneity influences our view of what we are doing, what we want to do, and how well we have done it. First, within the MSE sector, we tend to target a broad spectrum of entities from household enterprises, cottage industries, urban hawkers and vendors, and market traders, to more substantial small- and medium-scale enterprises that have fixed addresses and are genuinely bankable—including those that may be dependent on rural or agricultural economies. All of these entities are different in their needs and potential for growth. We have to be very precise about what type of assistance we want to provide and for which entities. Second, given this heterogeneity, it becomes difficult to measure project success and determine the degree to which a specific project approach has worked.

Project success can be gauged at many different levels. At the individual level, we are dealing with poverty and we talk about empowerment, income generation, employment generation, and entrepreneurial development. At the firm level, we set such goals as new market access, the simple provision of either working or fixed capital, and even new firm development. At the institutional level, the objectives are generally defined in terms of institutional strengthening, more specifically in terms of strengthening the credit management and technical assistance capacity of NGOs. We also talk more now about savings mobilization and how to get NGOs increasingly involved in savings mobilization to improve their sustainability and expansion potential. At the policy level, we are concerned with whether the environment enables MSE development. Elements of the environment include macro-policies; sectoral policies; foreign exchange regime; trade regime; and informality and transactions costs, and the whole domain of institutional economics (e.g., transactions costs may be used to make the sector more productive, successful, and efficient).

Lastly, there are projects that cannot be judged exclusively at one level because they are combinations of the many different types of intervention just mentioned.

We generally talk about our projects as being successful or unsuccessful, or achieving or not achieving objectives, but we are not always explicit in identifying the ultimate beneficiary and whether the ultimate goal was achieved through the intended intervention. We need to ask ourselves what makes a successful project or a successful intervention? Are we talking about partial successes that we define at the front end? Is simply reaching a particular target group with some kind of a resource or some kind of assistance sufficient?

What about all the indicators that we have been talking about today? We have discussed recovery rates under credit programs, the cost per job created, increased household incomes, and increased demand for labor at the household level. What about sustainability of institutions?

Very few institutions achieve sustainability, though many continue to operate and evolve. This leads me to wonder about incentives. Several people attending this session have commented on the importance of committed people with the same objectives as donors working in these institutions. Many donors are trying to provide the type of incentives that will introduce the rigor and performance standards necessary for sustainability. In fact, these standards too often are not present. The institutions in question continue to exist, and donors and others call them successful, not withstanding their dependence on subsidies of one form or another.

Considering the sporadic nature of institutional reviews, at, say, 10-year intervals, we are apparently missing a lot of information concerning institutional evolution and development. Without staying constantly in touch with these institutions, we cannot understand this process; we miss a lot in the dynamics and the long-term survivability and performance of organizations.

Given that we do not perform continual reviews, how can we think that we are going to create a dynamic process in these institutions that will lead to improved cost effectiveness, sustainability, and other factors on which performance is based?

When I compare the survival rate of institutions with that of firms, as demonstrated by ATI's experience and its 10-year review of 27 institutions, I find it interesting that institutions have a higher rate (82 percent versus 70 percent). However, I am not sure that this is very important. Perhaps firms should have high death rates. We are still quite ignorant about the life-cycle or the growth and development of businesses. It may be that firms arise, grow, disappear and so on, and that they are not trackable 2, 3, or 4 years down the line—and this might be part of a healthy growth process. We simply do not know the answer and this is another gap in our research base, just like the dynamics in the evolution of an institution.

Let me return to the theme of cost per job created. We need to be concerned about balanced growth. We cannot be myopic in our approach to and our concern for micro- and small enterprises. We cannot focus on one particular point in a highly varied, complex, and interrelated sector and expect that we are going to have much of a systematic or continuing effect on it.

Frankly, there is much to be said for parallel investing, that is, for investing not just in micro- and small enterprises but also in entities higher up the scale. In terms of technology and productivity, it is sometimes necessary to work with larger loans. Larger capital investments can create a productive, dynamic process; they can increase value added—the external or secondary benefits of which might be far more important than the primary ones. However, because of our methodological weaknesses, we cannot effectively examine secondary job creation, the externalities, and the surplus value that larger loans have generated in individual households. We cannot give a fair appraisal of the secondary and tertiary impacts of larger-scale investment.

Investments strictly limited to micro- and small enterprises will never lead to any kind of major growth initiative. At least, I am not aware of any case in a developing or newly industrialized country where this has happened.

A synergy has to be tapped or created. I believe that synergy extends across the industrial distribution. We would be fooling ourselves if we tried to work with only micro- and small enterprises. We also have to focus on interventions in the industrial sector that can lead to increased aggregate demand and the deployment of more productive technologies.

To conclude, I have tried to make the point that we cannot propel a growth process with micro- and small enterprise development. At the same time, we have to recognize the important role that MSE development can play in countries where there are labor absorption and underemployment problems. The MSE sector has to be put into a larger context, that of balanced growth. Although it sounds like the "trickle-down effect" to say that we should consider larger investments in larger firms because of the secondary and tertiary benefits, I truly believe that without this type of infusion we will become frustrated in trying to create any kind of a sustainable, dynamic growth on behalf of the micro- and small enterprise sector.

The last point I would make is that the ILO/UNIDO/UNDP/Netherlands' AID document explains quite objectively why government-based and parastatal-based small enterprise promotion institutions are not effective organizations, that is, not well-suited to carrying out their programs. For those of you who might have been frustrated, as I was, by the heavy dose of ideology and the very light dose of objectivity in many project documents, at least this document has leveled that playing field a little bit.

4. THE A.I.D. MICROENTERPRISE STOCKTAKING EVALUATION

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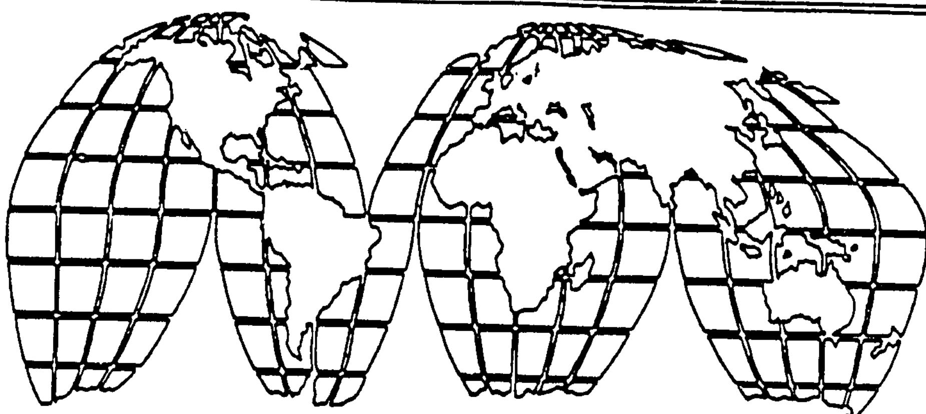
The A.I.D. Microenterprise Stocktaking Evaluation



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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.

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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

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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

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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

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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

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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.

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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.

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COMMENTATOR: SUSAN KINDERVATTER, OEF INTERNATIONAL

This paper is indicative of the significant, even dramatic changes in thinking in the micro- and small enterprise (MSE) development field that have occurred over the past year. Just a year ago the issues on the table were very different. For example, at a conference sponsored by the Ford Foundation in Nairobi, the minimalist credit approach was at center stage. Today we are talking about heterogeneity, which for us, the practitioners on the front lines, is a comfortable place to be because we believe that research has finally caught up with reality. There are now conceptual frameworks that help us improve our work.

Seven points in the report are of particular interest to practitioners. The first is "targeting versus benefiting." This distinction alludes to a dichotomy or debate between efforts at poverty alleviation and economic growth. Formation and expansion strategies focus on helping the poor through self-employment. The transformation strategy focuses more on wage employment and depends on spinoff effects, with people being hired as firms grow. In the past, we have mixed the strategic approaches with their impacts. Now, with dual streams occurring, we are not sure of the final outcome. Therefore we cannot examine just the financial performance of firms, but must also assess impact and determine who is ultimately benefiting from either of these approaches. To support this analysis, indicators and impact measures have to be integrated into credit programs.

The second point is performance benchmarks. The evaluation contains a table entitled "Annual Sustained Increase in Production or Sales," which justifies average program costs per beneficiary. Beginning to distill those kinds of numbers from actual empirical experience is a real help to practitioners because it gives a sense of where people should be in their work. For each variable (approach, time, and regional distinctions), the report provides a reasonable guideline for the number of clients that should be reached, per capita costs that are permissible, and level of benefits that should be attained. The evidence of successful programs is also helpful as programs can be built on those elements.

Until recently, there has been a tendency to compare a first-year enterprise formation program with a fourth- or fifth-year expansion program. Although the argument has been made by both formation and transformation programs that costs decrease dramatically over time, it is still inappropriate to compare benchmark figures at different stages in the life of a credit program. Compiling all types of benchmarks provides, therefore, a better sense of whether and the extent to which the argument is true. It also provides more information on whether to invest more money up-front.

The third point of interest to practitioners deals with institutional delivery systems. We are beginning to see a sorting out of the various roles of different institutions that are involved in this field and almost a selective breeding of which types of institutions appear to be most effective at undertaking certain types of roles. The approach in the report that appears particularly promising is the collaboration between financial institutions, nontargeted financial institutions, and NGOs. The numbers of clients or beneficiaries reached were so much higher for the nontargeted, financial institutions that we cannot discount them. We need to examine more closely collaboration between institutions that have intensive capabilities directed to a small group of clients and those that can reach large numbers of people.

We have heard quite a bit about the organizational capabilities that go with effective programs. Commitment, competence, and leadership are difficult characteristics to build, but they are sometimes easier to select or identify. Until now, we have focused a great deal on institution building and not enough on selection. It can be difficult to identify characteristics in existing institutions, but it is critical to ensure that basic factors are in place when a program is initiated. The expansionist program and the minimalist credit programs have had an easier time because they have to operate as a business. They are selling a product--credit--and they need to cover their costs or they are going to be decapitalized. The formation and transformation programs, because of their more integrated or holistic multifaceted approach, have not had to cover costs in the same way. This may be why their approach with clients or beneficiaries is less businesslike.

The fourth point is the issue of financial sustainability. The report indicates that the bias in favor of self-sustainability of service delivery is of recent vintage. This should be kept in mind. The report also makes the case that any direct lending-related costs should be covered. Making the credit portion of complex, technical assistance projects self-sustainable or establishing them as cost centers is a helpful way of managing such projects.

The fifth point concerns gender. For the formation and expansionist programs overall, the aggregate percentage of women's participation was good. The report pointed out that the most participation occurred when there was direct targeting of women or the sectors in which they predominate. This is important for program planning because there has been considerable debate on the value of targeting. One point that is missing from the report is that many of the areas in which women work have very low rates of economic return. Therefore, efforts also need to be made to involve women in nontraditional areas of work. This is critical if we seek to increase the number of women in that transformation area. Another important area for action relates to the "human economy." The case has been made that the performance of women-owned firms should not be judged differently from male-oriented firms, but perhaps their success should be judged in distinct terms. Research shows that women tend to use their income to invest in the next generation—in the welfare of their children. The use of income and how it affects household needs should be examined in any analysis of firms.

The sixth point is training and technical assistance. Our SEEP group is using its extensive experience in the field to analyze the role of training and technical assistance: how and when it is effective.

The seventh area is external policy environment. Do we work at the macro-level or do we work more directly? I would argue that we have to do both. Many PVOs are becoming involved in policy work, so it is inevitable that we are becoming involved as well. Our work at the direct level has run up against obstacles where it has become essential to work for some kind of policy change as well. A research challenge facing us is to understand the full implications of policy changes before they occur.

5. A RETROSPECTIVE LOOK AT MICROENTERPRISE PROJECTS

A RETROSPECTIVE LOOK AT MICROENTERPRISE PROJECTS

Ton de Wilde, Appropriate Technology International

During the fall of 1988, Appropriate Technology International (ATI), in consultation with Nathan Associates Inc. and USAID's Bureau of Science and Technology, conducted a survey of resource institutions that were designed, assisted, and/or evaluated by USAID's Program for Investment in the Small Capital Enterprise Sector (PISCES I and PISCES II).

PISCES I, started in the late 1970s, identified success factors for micro- and small enterprises (MSEs). PISCES II employed these success factors for the development of MSEs in four regional demonstration projects: Kenya, Egypt, Dominican Republic, and Costa Rica. USAID-sponsored Assistance to Resource Institutions for Enterprise Support (ARIES) and currently Growth and Equity through Microenterprise Investments and Institutions (GEMINI) programs have continued and expanded upon the work of PISCES. The ATI survey offers a retrospective on these microenterprise projects and from an impartial position analyzes challenges faced by resource institutions (primarily nongovernmental organizations) seeking to assist MSEs.

The survey utilized a questionnaire and literature review to investigate the progress made by resource institutions participating in PISCES. A two-part 57-item questionnaire was mailed to 33 MSE resource institutions in Africa, Latin America, and Asia. Eight of the 33 returned the questionnaire and only 5 of the 8 responded to both parts. Part one posed eight open-ended questions regarding the resource institution's strengths, weaknesses, and lessons learned. Part two asked 49 closed and open-ended questions covering program goals, client and beneficiary characteristics, training and technical assistance to clients, financial assistance for clients, impact on clients and beneficiaries, and conclusions regarding successes and failures. The literature review examined PISCES, ARIES, and other publications related to MSE development.

Despite the limited response rate, replies from two African, four Latin American, and two Asian resource institutions made the response geographically complete. Based on the literature review, two additional African resource institutions were included in the analysis, bringing the total sample size to 10. All respondents identified their major program goal as providing credit to stimulate employment and generate income for entrepreneurs formally excluded from formal credit mechanisms.

The common themes that emerged from the survey of PISCES institutional participants include the following. (1) High inflation rates and the consequent charging of negative real interest rates depletes the institution's resource base and does not allow the loan program to become self-supporting. (2) Restrictive government requirements for licensing and registrations stifle MSE development. (3) Training and technical assistance for clients in addition to financial assistance are necessary and complementary value adding functions. Resource institutions with more developed training and technical assistance programs reported fewer problem loans than institutions with weaker or nonexistent training and technical assistance. (4) It is imperative that institutional development retain qualified staff able to effectively screen and supervise loans.

Survey Implications

The evidence from this survey, though somewhat limited, suggests that microenterprise support programs, of which PISCES participant resource institutions are a component, depend upon the country's macroeconomic policies and performance. High inflation and restrictive business laws jeopardize the sustainability of the resource institutions and development of MSEs. Donor-funded structural adjustment programs need to place a higher emphasis on the informal sector and the issue of poverty elimination so that the microenterprise support programs have the intended results.

Training and technical assistance are necessary program components and should be designed to meet the needs of the clients. Flexible and informal training styles were favored by the respondents. The resource institutions identified further training needs but at the same time require mechanisms that help them manage training and technical assistance costs.

Conclusion

The results of this survey support the PISCES hypothesis that a direct intervention system can upgrade MSEs into stronger economic entities and that resource institutions (particularly nongovernmental organizations) can be efficient, effective, and sustainable vehicles to empower MSEs. All respondents reported new job creation, a 20 percent to 375 percent increase in clients' net incomes, and relatively low enterprise failure rates. The positive benefits have been demonstrated, but macroeconomic improvements, training and technical assistance, and institutional development must continue if the resource institutions are to become sustainable. Appendices to the paper include survey questions, complied responses, organizations contacted, and references.

COMMENTATOR: ROSS BIGELOW, A.I.D.

It is sobering to look at the projects supported by PISCES that began more than 10 years ago. As voyagers in the zodiac of enterprise development we have gone from ARIES to GEMINI—who knows what will be next. It puts the seemingly mundane day to day work that we do into perspective. In evaluation, we have talked about what we did, what we might have done, and what should have been done; and that is scary. The lesson of ATI's evaluation of the PISCES materials is that it is difficult to measure the impac of these programs over time. Of 33 projects, 27 apparently still exist. That is a interesting lesson in itself.

The conclusions that ATI has reached are remarkable in view of the small data base. There were only nine respondents, and seven did not answer all the questions. How ambitious it is to send out questionnaires to 33 project organizations that have been operating for a number of years and ask them to fill them out. These are intimidating questionnaires. Respondents may not have all the information. To the extent that the information is not available, respondents may have manufactured it. This may not be the case, and regardless, we have some interesting information. Little money was spent on this retrospective, and it obviously uncovered some things that would not have been found without this questionnaire process.

The result is a readable report with an attractive thesis. Essentially, it says that the supply-side NGO programs are not enough to transform small and microenterprise development. NGO's must work with governments.

The report suggests that one of the avenues to achieving success is to stimulate internal demand, that is, to emphasize local products and local demand, appropriate investments, and technology. This brings us close to the uneasy marriage between the macro- and the microenvironments—a problem we have struggled with.

PISCES has shown that small business is serious business. PISCES has also demonstrated that NGO's have a role to play in providing assistance. Experience shows that NGO's have handled credit programs successfully. The next step is to look at noncredit projects, as our new project GEMINI will do. PISCES (especially PISCES II) has shown that small loans can be made and be repaid. PISCES found out what money lenders already knew and had been taking advantage of for years: small, short-term loans get repaid and cover costs. PISCES went into the business of competing with money lenders—apparently in many cases, very successfully.

Another section of the ATI report is called "For Whom Does the Bell Toll." This section relates the trade-offs between the best use of limited resources and targeting of assistance to particular disadvantaged groups. It examines whether development professionals' actions are in the best economic interest of a particular area, institution, or group of people, and whether certain disadvantaged groups should be targeted. Another difficult topic is impact: how much can be determined about impact through studies. Having participated in the Stocktaking process, I know it is difficult to get impact data on small business development.

To do impact evaluations, we need to have in place stronger management information systems, monitoring systems, and systems by which the institution can become its own monitor for its own benefit. This task would be simpler if management information systems were comparable. Most people ask the same questions: what is the size of the loan, who gets the loan, what is the interest rate, and what is the source of the loan. The design of questionnaires should be similiar. Perhaps local institutions could design them in collaboration with one another. Perhaps locally produced data would then be available when an organization sends out a questionnaire like ATI's. Perhaps an association could be helpful in collectively working on better microenterprise monitoring. Donors can help by providing an enabling environment. Donors should provide resources and be there to help, but in the end only the local institutions can do the job itself. We are in the business of promoting microenterprise development and see the value of doing it, but we still search for the best means to do that.

In summary, we have a report from ATI that provides some interesting lessons. It resonates with experience from the field and is reenforced by a handful of examples that have come out of the exercise. All we can do now is put in place a system of collecting data so that we can monitor microenterprise development better in the future.

6. FINAL COMMENTS

FINAL COMMENTS

Mohini Malhotra,
Nathan Associates Inc.

This state-of-the-art seminar has brought together independent reviews conducted by donors documenting their different experiences, at different points in time, of the different projects they have been implementing. All are here under the mantle of micro- and small enterprise (MSE) development but talking about different things: the word microenterprise means different things to different people. I would like to summarize some of the definitions we have been using. The A.I.D. Stocktaking study defines microenterprises as any enterprise with up to 10 employees, the UNCDF uses the definition of 1 to 5 employees, the ILO/UNDP review defines 1 to 4 employees as a micro-enterprise and 5 to 25 employees as a small enterprise, and the ATI definition is 2 to 10 employees. The World Bank did not use employees as a measure but rather looked at the fixed assets of the enterprises. Obviously, we are dealing with a continuum or a spectrum of economic activities not a universal definition of a term.

Within the rubric of small enterprise, we are dealing with both urban and rural locations. We are talking about targeting different sectors and dealing with different sizes of enterprises. This range of activities, development strategies, and interventions is an indication of the complexity and the heterogeneity of the sector.

However, there is a homogeneous thread throughout the presentations: we are looking at a development initiative that grew out of a common disillusionment with ineffective "trickle-down" development policies and practices. MSE development represents an attempt to "trickle up." We are also looking at interventions intended to increase incomes and employment for the vast majority of the developing world—for a sector which constitutes a major portion of the labor force and contributes significantly to national income. However, this is also the sector that is constrained in its access to institutional forms of credit and services.

The implicit purpose of conducting these reviews is to look at factors for success or lessons learned. What can we say about what we have done? I have not heard a satisfactory definition of success, much less a common definition that we have all referred to. For example, the ATI review determines success by the mere survival of the projects over a decade, regardless of their actual performance. The A.I.D. Stocktaking study weights the beneficiary impact factor significantly and also considers institutional sustainability a measure of success. UNCDF uses credit as a measure of success or impact, that is, levels of loan disbursement and recovery rates serve as proxies of success.

Equally indefinite are the factors responsible for success. The most common factor mentioned is the intangible, "human" element of committed staff and strong charismatic leaders. However, this is not a determinant unique to microenterprise projects. The human element is inherent in success in general.

Several determining factors of success specific to microenterprise projects have emerged. These are adequate control and accounting mechanisms, adequate evaluation monitoring techniques, and MIS systems, which constantly work to monitor project performance and measure output in relation to project goals and performance indicators.

All of the studies address the issue of supply or institutional-strengthening interventions versus demand-led or macropolicy interventions. There is a general consensus that we cannot talk about micro- and small enterprise projects without looking at both sides of the coin. The ILO/UNDP/UNCDF/Netherlands' Aid study went so far as to say that the institutional strengthening, or supply-led interventions, are secondary to the most important aspect of demand-led interventions.

Unfortunately, most assistance has focused on institutional strengthening mechanisms, primarily because they are easier to accomplish. Most of these interventions have not been preceded by adequate baseline surveys or by assessments of client needs. Often this overemphasis on institutional support establishes the corporate, bureaucratic structure that we are trying to escape. We end up creating a bureaucracy in the NGO that interferes with its unique comparative advantage, which is its grassroots initiative and volunteer spirit. The supply-side overkill is strengthening the centralized, bureaucratic structures rather than creating effective delivery systems for the small and microentrepreneur. There is evidence that policy-led interventions are very effective and that reversing policy constraints, which discriminate against small and microentrepreneurs and tend to favor large capital intensive industries, would significantly assist small entrepreneurs. The other extreme, practiced on occasion by the Government of India, is to give small and microentrepreneurs preferential treatment. Although this may be a short-term solution to reversing some of the inherent structural inequities of the system, in the long run we would argue against it. Microentrepreneurs can compete effectively on their own given a neutral policy environment.

On the issue of gender, we constantly need to be reminded that when we are dealing with microenterprise, women are strongly represented. It is important, at the predesign and preappraisal stage, to incorporate women into microenterprise projects and to ensure that they receive adequate access to the projects that are designed to benefit microentrepreneurs. The ILO/UNIDO/UNDP/Netherlands' Aid study found that women are more concentrated in rural enterprise than urban enterprise, and the Stocktaking study reveals that women benefit more at the formation and the expansion stages. This has implications for projects that seek to incorporate women and ensure that they have access to project resources.

Finally, it appears that there is a general consensus that MSE interventions do generate significant economic and social benefits for clients, but we do not know the level or the magnitude of these benefits. We have a limited understanding of the differential impact of various interventions, approaches, and strategies. Though we review our substantial advances in the MSE field, our literature and understanding of the sector is in its infancy. If we redo the seminar in a few more years, we will have moved from point A to point B. We have brought more questions to this forum than answers and are just beginning to work on addressing them. Under the ARIES project we are working with A.I.D. missions in Ecuador, Bolivia, and the Dominican Republic to name just a few, to design monitoring and evaluation systems to gather the kind of baseline data necessary to answer many of the questions we have raised in this forum.

Appendix A

ANNOUNCEMENT OF STATE-OF-THE-ART WORKSHOP IN MICRO- AND SMALL ENTERPRISE DEVELOPMENT

State-of-the-Art Workshop in Micro- and Small Enterprise Development

May 30, 1989

In collaboration with the United States Agency for International Development (A.I.D.), the ARIES Project will hold a State-of-the-Art Workshop that will focus on the most recent studies and accomplishments in the field of small and microenterprises. The workshop, to be held from 9:00-12:15 and from 2:00-5:00 on Tuesday May 30, will include the latest studies from such organizations as the World Bank, A.I.D., and the United Nations.

Workshop Schedule

CHAIRPERSON: DR. THOMAS TIMBERG, ARIES Project Director

9:00 - 10:00	HENRY JACKELEN, UN Capital Development Fund "Improving the Use of Credit in the UNCDF Programme." Commentator: Maria Otero, ACCION International
10:00 - 11:00	LEILA WEBSTER, The World Bank "Lending to Small & Medium Industries: 15 Years of Experience." Commentator: Russell Webster, ARIES Project
11:00 - 11:15	BREAK
11:15 - 12:15	TON DE WILDE, Appropriate Technology International "A Retrospective Look at Microenterprise Projects." Commentator: Ross Bigelow, A.I.D., S&T/RD/EED
12:15 - 2:00	LUNCH
2:00 - 3:00	JACOB LEVITSKY, independent consultant A Review of ILO, UNDP, UNIDO, and Dutch Support of Rural Small Industrial Enterprises. Commentator: Mike Farbman, A.I.D., S&T/RD/EED
3:00 - 3:15	BREAK
3:15 - 4:15	JAMES BOOMGARD, Development Alternatives, Inc. "Taking Stock of A.I.D.'s Microenterprise Portfolio." Commentators: Suzanne Kindervatter, OEF Int'l Elizabeth Rhyne, A.I.D., S&T/RD/EED
4:15 - 4:30	FINAL COMMENTS Mohini Malhotra, ARIES Project
4:30 - 5:00	CLOSING Thomas Timberg, ARIES Project Director

The workshop will be held in the board room of The Council of Governments, 1875 I Street, NW, Suite 200. Non-A.I.D. participants will be asked to contribute a $5.00 fee. Please RSVP to Ms. Wendy S. Weidner at (202) 626-8250 by May 26.

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Appendix B

SUMMARY OF GENDER ISSUES DISCUSSED IN THE WORKSHOP

Mari Clark, Consultant to the
Office of Women in Development
Agency for International Development

On May 30, speakers and commentators reported the findings of recent studies and accomplishments in micro- and small enterprise in programs sponsored by UNCDF, the World Bank, ILO, UNDP, UNIDO, and A.I.D. The importance of taking gender into account in microenterprise projects was one of several major issues discussed in the workshop. Maria Otero, ACCION International, criticized the UNCDF study's failure to mention women. She insisted that gender, as it relates to microenterprise programs, is a crucial point we must understand if technical advisers expect to provide sound advice. She noted that increasing numbers of microentrepreneurs are women; they often exhibit different approaches to business; projects that involve women have been more successful; women are the best clients with high rates of loan repayments She proposed an addendum to the report to address women's issues.

In his comments on the World Bank Small and Medium Enterprise report, Russell Webster, Nathan Associates, stressed the importance of considering social norms such as gender-specific attitudes and regulations. He gave an example from Bangladesh—the limits on female ownership of land needed for collateral for loans. Suzanne Kindervatter, OEF International, praised the A.I.D. microenterprise stocktaking report for addressing gender issues and presenting gender disaggregated data. Particularly useful were data on the types of programs with the highest female participation and the suggestion that projects target sectors were women work rather than simply targeting women, she said. However, she added that many women work in areas that offer low economic return and thus it is important to involve women in nontraditional work as well. Because women tend to invest their profits in human capital—their children—their business success should be judged in different terms than men's, she argued.

Other important issues discussed included 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. Several participants suggested that current measures of sustainability need rethinking.