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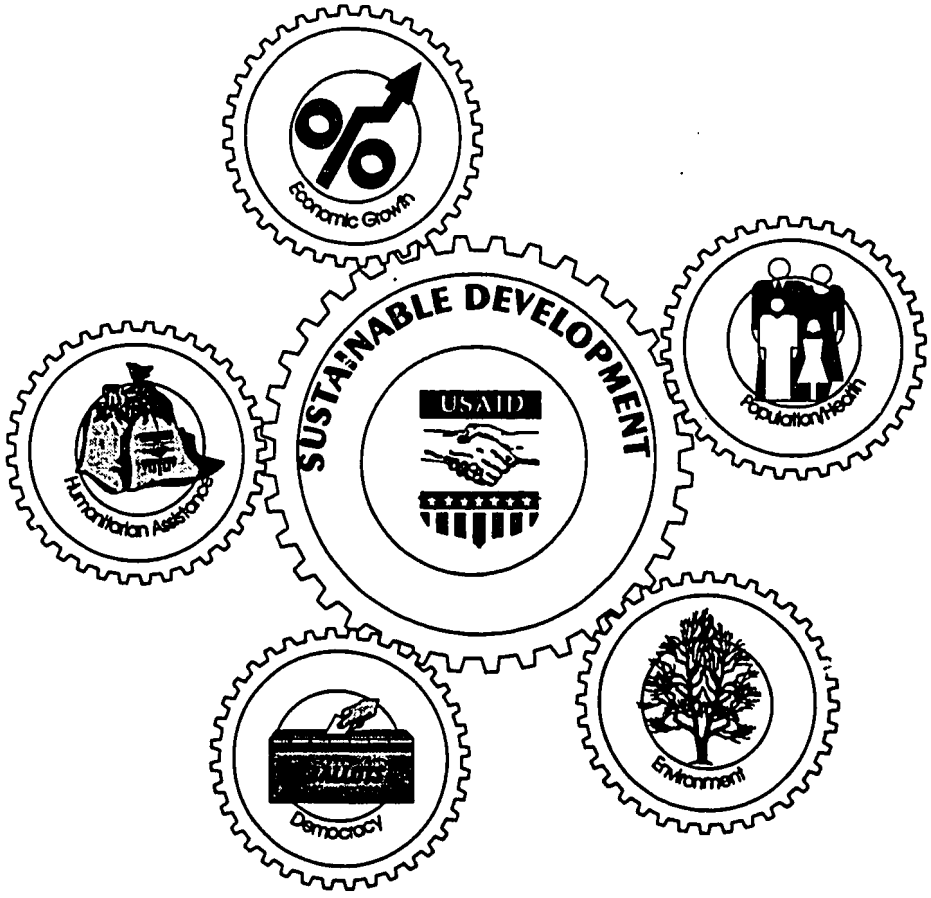

Assessing the Impacts of Microenterprise Interventions:
A Framework For Analysis

Center for Development Information and Evaluation

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March 1995

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ASSESSING THE IMPACTS OF MICROENTERPRISE INTERVENTIONS

A FRAMEWORK FOR ANALYSIS

March 1995

Submitted to USAID/Global Bureau/Office of Microenterprise Development by:

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FOREWORD

This report is part of a series of working papers that CDIE will be issuing periodically as we handle, as an Agency, some new needs in "managing for results." These needs include:

- improving our ability to focus foreign aid on significant and measurable results;
- coaching and supporting a result-oriented, strategic management process; and
- using more comprehensive information about program performance and results to learn, to change, to educate, and to account for the effective use of foreign aid.

In the interest of reducing the processing time for papers in this series, no copy editing is performed on the original working documents.

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EXECUTIVE SUMMARY

This report presents a preliminary framework for assessing how microenterprise interventions contribute to enterprise stability and growth, household security, individual well being, and the economic development of communities. The aim is to introduce a practical, yet conceptually grounded approach for analyzing the broader impacts of microenterprise interventions. Such interventions include financial intermediation through credit, savings, and other financial services; social intermediation through village banking, solidarity groups, and other organizational mechanisms; market intermediation through subsector programs and economic policy and regulatory reforms; and enterprise intermediation through management training, technical assistance, technology services, and the promotion of business associations.

Conceptual Approach

The preliminary framework departs somewhat from conventional approaches to the study of microenterprise impacts by using the household as a starting point for analysis. A rationale for this approach is that microenterprises exist as part of a larger portfolio of household economic activities, and that decisions with respect to microenterprises--whether made jointly or individually vis a vis other members--can be understood more clearly when considered in relation to options and tradeoffs within the overall household economy. These decisions have broader implications for households because microenterprises depend to varying degrees on their households for capital, labor, and other inputs. A household approach not only improves our understanding of dynamics and impacts at the enterprise level, but also allows us to widen the impact lens to consider impacts beyond the enterprise.

The conceptual approach links microenterprises to their broader environment by considering the relationship between microenterprises, household economic security, and economic growth. For the poor, household security is a primary concern and cannot be taken for granted. In poor households, everything counts and microenterprises, though small, play a vital part in providing basic human needs. Microenterprises and other productive activities of households are both a means through which the poor subsist from year to year and a means to gain a slight economic foothold to put them one step ahead of the next crisis. These two functions of microenterprises, described here in the simplest terms, correlate to poverty alleviation as it applies to the poorest of households and economic growth as it applies to all income levels.

Microenterprises and household economic security. Within our preliminary framework, microenterprises are conceptualized as productive investments that generate income for poor people and their households. This income contributes to household security when it is used for basic consumption or for investments in assets, including savings, education, and health. Assets, in turn, improve household stability and economic security by smoothing consumption when income flows are interrupted. Moreover, they proved the basis for taking risks and for generating higher returns by supporting basic consumption when microentrepreneurs consolidate their enterprises, or shift to higher risk activities. Overall, assets improve household economic security by allowing for more control, flexibility, and capacity to plan for the future (Sherraden, 1991).

Microenterprises and economic growth. In considering how microenterprises contribute to economic growth, it is important to define the concept of growth. Interpretations vary widely: traditional interpretations measure economic growth in terms of income, capital accumulation, and factor productivity. Others consider growth in terms of employment. Our conceptual approach departs from convention by using a broad interpretation that links economic growth with economic security, reduction in poverty, and equity (Chen, 1993).

At the enterprise level, growth is represented by increases in income, employment, assets, and the volume of production. The equity of growth is considered by the degree to which microenterprise earnings are distributed between owners and employees (Dunham, 1990). These forms of growth are evident in enterprises at various levels of development, from low growth subsistence enterprises to higher growth enterprises linked to dynamic sectors of the economy. They are also evident in enterprises at various stages of development, from start-up enterprises aiming for viability, to established enterprises seeking stability or higher levels of growth. To fully account for the contributions of microenterprises to the growth process, it is important to include those that grow only a little. This is because small amounts of growth in large numbers of microenterprises can add up in terms of overall growth. Moreover, small amounts of growth can make a big difference in terms of security and well being at the household, enterprise, and individual level.

At the household level, microenterprises promote growth by contributing to net increases in household income, asset accumulation, labor productivity, and economic security--a launching pad for further growth.

At the individual level, microenterprises subsidize the economic growth process in various ways. For example, women's participation in lower risk, lower productivity activities can play an important role in diversifying the economic portfolio of their households or maintaining the welfare of their households while other members search for higher return activities.

At the community level, microenterprises contribute to the growth process by bringing in new income from outside the community, preventing income from leaving the community, providing new employment opportunities, and stimulating backward and forward linkages to other community enterprises. To the extent that poor people within the community benefit from these increases, it can be considered "poverty reducing economic growth".

Analytic Framework

This conceptualization of the relationship between microenterprises and people's lives provides a basis for analyzing the impacts of microenterprise interventions at the household, enterprise, individual and community levels. In order to explore how microenterprise inventions contribute to change, a preliminary framework identifies impact paths towards the broader goals of poverty alleviation and economic growth; for households, advancement in terms of improved economic security; for enterprises, development in terms of viability, stability and growth; for individuals, improved well being; and for communities, increased economic development and civic participation.

To measure change along these impact paths, the framework defines domains of impact. At the household level, three domains of household security are: income, expenditures on household consumption including debt; and assets. At the enterprise level, five domains of development are: the resource base; production processes; management; markets; and financial performance. At the individual level, three domains of well being include: independent control of resources; leverage in household decision-making; and community participation. At the community level, four domains of development are: net changes in employment and income; forward and backward linkages; social networks; and civic participation.

Within each domain there are markers of change. While each marker can stand alone as an indicator of impact, when considered in combination they indicate the movement of households towards (or away from) greater economic security; the movement of enterprises between stages of enterprise development; and changes in individual well being, in civic participation and the economic development of communities. The markers of change suggest the role of microenterprise interventions in expanding options for poor women and men in relation to the broader development goals of poverty alleviation and economic growth.

A final component of the preliminary framework describes mediating processes defined as contextual factors that condition opportunities and/or constraints for change in relation to each impact path. These processes are context specific and should be identified prior to impact assessments. Examples of mediating factors include: household characteristics such as dependency ratios; enterprise characteristics such as the subsector of operation; client characteristics such as gender or ethnicity; economic factors such as inflation, price distortions, monopolistic structures, gender segregated markets, or disruptions due to crisis or insecurity; and the policy environment as it affects factor and product markets, location decisions, and competition.

Methodological Considerations

To operationalize the framework, it is necessary to identify a methodological approach that balances rigor with practicality, yields findings at an appropriate level of depth and detail, and is cost effective. To this end, it is important to consider the purpose of the study, the ultimate use of the impact information, and several design and measurement issues.

Impact assessments can be used for a range of purposes, from monitoring the performance of individual projects, to comparing the results of different types of project interventions, to defending the allocation of resources to microenterprise programs. In a series of expert group meetings convened to guide this effort[1], participants suggested that impact studies supported by USAID's Office of Microenterprise Development (G/EG/MD) should address two objectives: first, to determine the difference that microenterprise interventions make to the client, his/her household, the enterprises, and the community; and second, to generate information useful for improving the design and implementation of microenterprise programs and projects. The findings should be used to account for and to justify the allocation of resources to

[1] Three meetings of experts were held to discuss earlier drafts of the framework.

microenterprise activities. The results also should be used by USAID missions and their development partners for strategic and tactical planning.

An important measurement issue is the need to further develop valid, reliable, and feasible measures of impact. Given USAID's focus on program results, it may be timely for the Agency to develop appropriate tools, techniques, and indicators to improve its ability to document higher level results in the microenterprise sector. Operations research can play an important role in the process.

There are many methodological options and tradeoffs to consider in designing microenterprise impact assessments. In selecting an approach, it is useful to consider several points. First, a combination of quantitative and qualitative methods that are conceptually linked can provide a fuller picture of impacts. Second, time series designs are stronger than one-shot studies which depend on recall to compare two points in time. Third, comparison groups are necessary to determine plausible association of microenterprise interventions with certain impacts, especially if the purpose of an assessment is to document the difference that microenterprise interventions make in the lives of clients. Finally, studying mature projects can help to assure that the causal path is not weak and that resources are well spent.

Recommendations and Priorities

The report recommends that G/EG/MD carry out a series of impact assessments to document the development impact of assistance to microenterprises. The impact assessments should be designed and conducted with a high degree of rigor and use comparison groups. They should be longitudinal, covering at least three to four years and data should be collected several times from a selected subsample or from case studies. The projects studied should be mature so that impacts are discernible.

The report further recommends support for operations research to develop valid, reliable, and feasible measures of impact; to test proxy measures of impact; and to study relationships between key impact variables that are not well understood. This would serve to pretest and further refine tentative propositions prior to their inclusion in larger impact assessments.

Based on the concepts embodied in the preliminary framework, the report identifies a priority set of propositions for study. Propositions that require further refinement of measures and/or posited relationships through operations research are indicated by an asterisk(*).

Enterprise development

- Microenterprise interventions promote enterprise stability by contributing to a more stable resource base, more stable employment, and improved financial performance.

- *Microenterprise interventions promote enterprise growth by contributing to net increases in employment at the enterprise level, an expanded resource base, and reinvestment of enterprise earnings in the enterprise. (Operations research to develop proxy measures for income and productivity.)

Household security

- o Microenterprise interventions contribute to net increases in households income by increasing microenterprise income and through reinvestment of microenterprise income in other household income generating activities.

- o *Microenterprise interventions contribute to household security by generating surplus income for use in the accumulation of assets. (Operations research on the measurement of assets and the posited relationship between net increases in household income, asset accumulation, and household security.)

- o Microenterprise interventions contribute to household security by generating net increases in household income which leads to increased expenditures on food, education, and health.

People's well being

- o Microenterprise interventions contribute to individual well-being by expanding control over resources and increasing leverage in household decision making processes.

Community economic development and civic participation

- o Microenterprise interventions contribute to the economic health of communities through net increases in income and employment at the community level.

- o Microenterprise interventions contribute to greater participation in civic organizations.

ASSESSING THE IMPACTS OF MICROENTERPRISE INTERVENTIONS

A FRAMEWORK FOR ANALYSIS

I. INTRODUCTION

A. Purpose

This report presents a preliminary framework for studying how microenterprise interventions promote economic growth and poverty alleviation by contributing to enterprise stability and growth, household economic security, individual well being, the economic development of communities, and civic participation.

The framework departs somewhat from conventional approaches to the study of microenterprise impacts by using the household as a starting point for analysis. One rationale for this approach is that microenterprises exist as part of a larger portfolio of household economic activities, and that decisions with respect to microenterprises--whether made jointly or individually vis a vis other members of the household--can be understood more clearly when considered in relation to tradeoffs within the overall household economy. Tradeoffs are important because microenterprises depend to varying degrees on their households for capital, labor, and other inputs. A household approach not only improves our understanding of dynamics and impacts at the enterprise level, but also allows us to widen the impact lens to consider impacts beyond the enterprise.

The conceptual approach links microenterprises to their broader environment by considering the relationship between microenterprises, household economic security, and economic growth. Fundamental to understanding the relationship between microenterprises and households is the notion that household economic security is basic to the well being of individuals and households. For the poor, household security is a primary concern and cannot be taken for granted. In poor households, everything counts and microenterprises, though small, play a vital part in providing basic human needs. Microenterprises and other productive activities of households, thus are both a means through which the poor subsist from year to year and a means to gain a slight economic foothold to put them one step ahead of the next crisis. These two functions of microenterprises, described here in the simplest terms, correlate to poverty alleviation and economic growth respectively, two often cited goals of microenterprise programs. While this preliminary framework focuses on the means by which individuals and households attempt to achieve greater household security, we see this process to contain both the elements of poverty alleviation as it applies to the poorest of households as well as economic growth which applies at all income levels.

This approach recognizes the contributions of a wide range of enterprises to household economic security, from small, lower productivity microenterprises in the "survival economy," to more dynamic, growth-oriented microenterprises. Even small investments in one or more microenterprise activities can generate employment and surplus income and provide the basis for household economic security and a prerequisite for riskier investments in growth-oriented microenterprises. Even if microenterprise do not continue to grow beyond a certain limit, they

play a positive role in providing income and employment, smoothing consumption, and offering low cost goods and services to communities.

At the outset, it is important to note that the framework focuses specifically on client level impacts, as distinct from institutional level impacts. Institutional issues such as program outreach, financial viability, operational efficiency, and the institutionalization of microenterprise programs are equally important, but outside the scope of the framework discussed in this report. Ultimately, there is a need for impact assessments that focus both on the institutions providing services and on the clients they serve. While we recognize a need for attention to both to provide a fuller picture of the impact of microenterprise programs, here we emphasize client level impacts.

Background work related to the development of the framework was carried out in late 1994 by a multi-disciplinary team of social scientists, planners, and economists. The process involved a review of research studies, project documents, and evaluation reports related to microenterprise development and impact analysis. The team also interviewed professionals working on microenterprise development and in other fields, such as health and agriculture, to explore approaches to the study of impacts. This was followed by three expert groups meetings involving key stakeholders in the microenterprise field--donors, practitioners, and academics--to discuss and debate the purpose and use of impact studies, key issues and propositions for study, and methodological issues.

This process helped to narrow down the parameters for defining a conceptually grounded, yet practical, approach to the study of impacts. It also contributed to the development of a common frame of reference on the purpose of impact studies, key audiences, the types of programs and projects to include, the levels of impact to consider, and the most useful and practical impact variables to study.

The preliminary framework that emerged from this process is a work in progress, and should not be considered as a final study design or methodology. Rather, it raises issues, establishes parameters, and identifies key impact variables for study. It is intended to provide a starting point to guide USAID and its partners in designing impact assessments. Over time, certain themes will be become more dominant as the framework is elaborated and refined. It is not a final work, but a first step in setting forth a new, broader approach to study the impacts of microenterprise interventions.

B. Structure of the Report

Following this introductory chapter, the second chapter of this report describes the characteristics of microenterprises and discusses their role in promoting household security and economic growth. The third chapter conceptualizes the relationship between households, microenterprises, individuals, and communities and describes two key concepts for understanding economic decision-making: risk and assets. The fourth chapter of the report presents a preliminary framework for analyzing how microenterprise interventions contribute to change at the household, enterprise, individual, and community levels.

The fifth chapter identifies indicators for measuring change at each level. Chapter six discusses methodological considerations and the final chapter makes recommendations and suggests priority propositions for future study.

II. BACKGROUND ON MICROENTERPRISES

A. Characteristics of Microenterprises

USAID's Office of Microenterprise Development defines microenterprises as very small, informally organized, non-agricultural businesses that often employ a third or more of the labor force in lower-income countries. Many microenterprises employ just one person, the owner-operator or "microentrepreneur". Some microenterprises include unpaid family workers, and others may have one or several hired employees. Although no single characteristic distinguishes microenterprises from small enterprises, USAID has adopted a threshold of ten employees, including the owner-operator and any family workers, as the upper bound for an enterprise to be considered "micro".

Other important characteristics of microenterprises are the level of assets and the income of the business and of those working in it. USAID's Microenterprise Initiative aims to reach and assist businesses run by and employing the poor, recognizing that definitions of poverty differ from one country context to another.

B. The Importance of Microenterprises

1. Microenterprises and household economic security

Microenterprises play an important role in poor households as a source of income. The centrality of microenterprises to the total level of household income may vary from rural to urban contexts. In rural environments, microenterprises typically supplement seasonal agricultural income, link the agricultural household to local markets through the sale and exchange of products, and provide a source of employment for household members not directly involved in agricultural production. As a source of employment, the microenterprise sector is more reliable than farming in some ways due to its ease of entry and low start-up requirements. Women, in particular, are predominant in non-farm microenterprise activities which involve food processing and preparation, tailoring, trading, and many services in rural areas (cf., Hagblade, Hazell, and Brown, 1989).

In urban areas, by contrast, microenterprises may play a more critical role in household economic security due to limited employment options in the formal sector (cf., Sebstad and Walsh, 1991). As a result, income from the microenterprise often is vital to the provision of basic needs. With increasing rural out-migration to urban areas, market competition has made it more difficult for microenterprises in certain subsectors to reach a level of sufficient profitability for the household. Under such conditions, households find it necessary to diversify their microenterprise investments in order to sustain basic security for household members.

2. Microenterprises and economic growth

Microenterprises have been recognized in recent years for their significant role in the overall economy. This recognition, which has been a long time coming, has occurred with the rapid expansion of the sector in many countries and its growing importance as a source of income and employment. For those concerned with both poverty alleviation and economic growth a key question is: to what extent are microenterprises a source of economic growth.

This question is important in studying impacts because a goal of many micorenterprise programs is to increase incomes and employment for the poor, and economic growth has a direct bearing on opportunities to do so. At both the enterprise and community levels, the potential for increasing incomes and employment depends on whether or not there is expansion in the overall economy and the extent to which microenterprises are linked to the growth process. If not, improvements at the enterprise level are likely to result in the redistribution of existing resources. In some cases this can lead to a more equitable distribution of resources; but in others, it can exacerbate inequities, if improvements are at the expense of other poor people.

Some literature argues that microenterprises and the informal sector in general can become increasingly involved in wider markets. This involvement increases the overall level of economic activity, and can lead to more efficient allocation of resources, and to increased income and welfare for the owners of microenterprises. In this "demand pull" scenario, microenterprises are part of a dynamic economic growth process.

Others argue that microenterprises and the informal sector are merely the result of malfunctioning economies. While they may generate economic benefits in the short-run, they exist because there is a surplus supply of labor, and people have to do something to survive. In this "supply push" scenario, microenterprises are a source of income and employment for excess labor, but are not linked to dynamic growth sectors of the economy.

While these two extreme ends of the debate are important, it is likely that the answer depends on the situation. Microenterprises can be more or less linked to the process of economic growth, depending on different economic, political, and social circumstances and the specific subsector of activity. Across sectors, growth opportunities emerge from increases in income which shift the pattern of demand, changes in the factor prices of capital and labor, new opportunities for international trade, and government policy changes. Within sectors, they emerge from growth in market size, reduction in transportation and other infrastructure costs, product differentiation or innovation, flexible production, and international trade (Biggs, 1986). There are a range of scenarios for growth, e.g., agricultural development and diversification, non-farm rural resource development, labor intensive production for domestic and export markets, and development of the informal sector. These scenarios, to varying degrees, have implications for microenterprises. New opportunities can emerge in all of these areas in the context of macroeconomic reforms and private sector development.

To consider the extent to which microenterprises contribute to economic growth, it is important to define the concept. Interpretations of economic growth vary widely. Traditional interpretations measure economic growth in terms of income, capital accumulation, and factor productivity. Others consider growth in terms of employment. A broader interpretation links

economic growth with economic security, reduction in poverty, and equity (Chen, 1993). One's interpretation of the economic growth concept will affect the answer to the central question.

At the enterprise level, growth is represented by increases in income, assets, and the volume of production. The equity of growth is considered by the degree to which microenterprise earnings are distributed between owners and employees (Dunham, 1990). These forms of growth are evident to varying degrees in enterprises at various levels of development, from low growth subsistence enterprises to higher growth enterprises linked to dynamic sectors of the economy. They are also evident in enterprises at various stages of development, from start up enterprises aiming for viability, to established enterprises seeking stability or higher levels of growth. Enterprises can grow in some areas but not in others; the growth process is not always steady or uni-directional; and growth is not always desirable.

At the household level, microenterprises contribute to growth by leading to net increases in household income, asset accumulation, and economic security--a launching pad for further growth.

At the individual level, microenterprises expand economic participation by improving an individual's control over resources and leverage in household decision making-processes. Moreover, individual participation in microenterprises can subsidize the economic growth process in various ways. For example, women's involvement in lower risk, lower productivity activities can subsidize the growth process by insuring the welfare of their households while male members search for or engage in higher risk, higher return activities. Women's involvement in these activities can provide a basis for the diversification of household economic activities.

At the community level, microenterprises can contribute to growth by bringing in income from outside the community (export promotion), preventing income from leaving the community (import substitution), stimulating backward and forward linkages, providing lower cost goods and services, or offering new goods and services. To the extent that poor people within the community benefit from these improvements, it can be considered "poverty reducing economic growth".

While growth comes in many shapes and forms, it originates at the enterprise level and is conditioned by factors both internal and external to the enterprise. However, not all microenterprises are linked to dynamic growth sectors of the economy. Many grow to a certain limit but not beyond. Several reasons have been advanced:

- small microenterprises have a comparative advantage in the economy. With growth, they lose this advantage (Sanyal and Pradhan, 1989);

- expansion is risky in uncertain economic environments. Poor households are not in a position to take these risks (Sanyal and Pradhan, 1989);

- many small firms grow to the point where family management and labor are exploited to the fullest and then stop. Some owners consider further expansion imprudent, as it would require taking partners and employees outside the family. Owners are reluctant

to hire outside workers because they perceive them as untrustworthy, or they fear once they are trained in the business, they will leave to start a competing business (Tendler, 1987);

- microenterprise owners consider it imprudent to grow beyond the critical limit of direct supervision;

- seasonality of demand is also a major constraint to expansion. Many firms cannot meet demand during the peak seasons, but have no work in between. If they expand to the level necessary to meet peak demand, they have excess capacity between the peaks, and operate at a loss. Smoothing out demand and income is the challenge. Diversification is a strategy for smoothing out demand and income (Tendler, 1987).

Nonetheless, a small portion of microenterprise do grow. Why? Research on this question suggests several factors that influence the growth potential and pattern of microenterprises: the subsector of activity (affecting cost structures and demand); the location of an activity (affecting competition and costs); factor productivity; the capacity to make large and/or lumpy investments; and the policy and regulatory environment (Liedholm and Mead, 1994; Biggs, 1991).

Patterns of enterprise growth are also influenced by the characteristics of entrepreneurs. A Zimbabwe case study of medium size firms that started out as microenterprises identifies several common traits of owners (Daniels and Agwira, 1994). They included the owner's ability to use capital and technology judiciously, previous experience in related business, family connections, the ability to obtain high productivity from their work force, and a willingness to work hard and take risks (Downing and Daniels, 1992). Other studies suggest that gender affects business goals and dynamics and that women entrepreneurs are concerned with income stability and economic security and are less likely to take risks associated with firm expansion. They are more likely to diversify their activities and spread risks.

In studying the impact of microenterprise interventions on economic growth, several points are important. First, growth is a many faceted concept. A broader definition of growth allows for a more comprehensive understanding of the growth process, and of the linkages between growth, economic security, and poverty alleviation.

Second, growth beyond a certain point does not make sense for all microenterprises. Opportunities do exist for microenterprises to link to growth sectors, but there is no magic formula. They depend on the context, the specific subsector, and a range of economic, social and political factors.

Third, to fully understand the contributions of microenterprises to the growth process, it is important to include those that grow only a little. This is because small amounts of growth in large numbers of microenterprises can add up in terms of overall growth. In a review of microenterprise employment data from five African countries, Liedholm and Mead (1994) found that three quarters of all new jobs resulting from the expansion of microenterprises have come from businesses that started with one to four workers and that added one to four workers to their labor force. Moreover, small amounts of growth can make a big difference in terms of security and well being at the household, enterprise, and individual level.

Our approach to studying impacts uses a broader concept of growth, by considering changes in microenterprises at various levels and stages of development. We also consider household security, and individual control over resources as part of the growth process. There are also possibilities for study in terms of community and aggregate level increases.

3. Microenterprises as a source of employment.

Microenterprises play a large and increasing role as a source of employment in many lower income countries. While measuring employment in the sector is challenging, it is estimated that one third or more of the labor force in many countries actively engage in microenterprise activities. Moreover, recent evidence shows that in many countries the proportion of the labor force working in microenterprises is increasing (Liedholm and Mead, 1994). There are large variations in the remuneration and employment status of workers in microenterprises, and many depend on earnings from both the formal and informal sector. Those who rely totally on microenterprises often engage in more than one activity (Sanyal and Pradhan, 1989).

The increasing importance of microenterprises as a source of employment is a result of several converging factors. These include "supply side" factors such as displacement of workers from sectors affected by policy induced structural adjustments or economic decline; and rapid labor force growth resulting from population increases and expansion in the proportion of women and youth in the labor force. Microenterprises are an especially important source of employment for women who face barriers to access in many other sectors due to gender segregated labor markets. "Demand side" factors that make microenterprises an important source of employment include the global trend in flexible specialization (decentralized production systems based on cooperation between big and small firms, and among small firms themselves) and lower factor prices that create a comparative advantage for microenterprises in some sectors.

Increases in the number of workers is frequently used as a proxy for enterprise growth because it is easily and accurately remembered over time by microentrepreneurs. Parker (1994) finds that changes in real sales and employment are positively correlated, but that growth rates in real sales exceed those in employment. Thus, employment growth rates provide lower bound estimates of changes occurring in microenterprises.

While employment is clearly an important indicator of change, employment measures have not always been consistent, so it is difficult to compare data across studies. Moreover, given the nature of employment in the microenterprise sector, conventional employment measures (e.g., converting microenterprise workers into full-time equivalents) do not always capture important changes in qualitative dimensions of employment--for example,whether workers are family members or outside employees; whether they are unpaid or paid; if paid, whether it is on a piece rate or temporal basis; whether workers are full-time, part-time, seasonal, or casual; or whether they are skilled, semi-skilled, or unskilled. Information on changes in the type and status of workers is relatively easy to obtain and can be an important indicator of change in the health, stability, and/or potential for microenterprise growth.

III. CONCEPTUALIZING THE RELATIONSHIP BETWEEN HOUSEHOLDS, MICROENTERPRISES, INDIVIDUALS, AND COMMUNITIES

As a first step in considering the broader impacts of microenterprise interventions, it is necessary to conceptualize the relationship between microenterprise activities and people's lives--as individuals, and as members of households and communities. This concept arises out of what is currently known in the development field, and hence may be deficient in that certain questions have not been asked before. This way of viewing the lives of microentrepreneurs is not counter-intuitive to how we make decisions affecting our own well-being and the well-being of those who depend on us.

A. Rationale for a Household Approach to Studying Impacts

Our conceptual approach starts with the household. The rationale for a household approach comes from the need to account for the economic and social impacts of microenterprise programs which are not readily discernible at the enterprise level. A household approach recognizes that individuals do not make decisions in isolation and that frequently decisions pertaining to the allocation of resources such as labor, capital, and physical assets are made at the household level. Because microenterprises are tied to the household economy, investment decisions at the enterprise level must be viewed in relation to their risks and returns to the household. A household approach also allows us to recognize the relationship between household investments, as in the case where a low return microenterprise is phased out in order to capitalize a higher return activity.

This approach draws on the insights of rural development where the household has been used as the basic unit of analysis to understand the behavior of small farmers and the relationship of the different economic activities of rural households. The productive activities of rural households include: the production of goods and services for consumption in the household (i.e., household "maintenance" activities); farm production for exchange; the home-based, self-employed production of non-farm goods and services for exchange; and off-farm wage labor (see Kusterer, 1989).[2] While urban households are less likely to engage in farm production, household activities are usually spread among the other three activities.

Using the household as the cornerstone of a conceptual approach for the analysis of microenterprises allows us to explore a variety of issues which influence the decisions made by microentrepreneurs. In the next section we discuss two key concepts, risk and assets, that are fundamental to our discussion of the role of microenterprises in the household economy. Following that is a description of the household economy, with sections pertaining to the place of microenterprises and individuals within that economy and the community context in which households and enterprises exist.

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[2] In the USAID sponsored study "Small-Farmer Attitudes and Aspirations", Kusterer (1989) makes no distinction between small farmers and the rural poor who are known to constitute the majority of microentrepreneurs in many countries. His conclusions regarding the goal seeking behavior of households are based on an analysis of over 250 research studies representing more than 100 different regions or cultures in 52 countries in the developing world.

B. Key Concepts: Risk and Assets

Risk is a central feature in decisions related to the household economy and to microenterprise investments. At the most basic level, risk is defined as the chance of a measurable loss. As applied to economic decisions the concept of risk consists of two components; the degree of "chance" or "variability in the outcome" of a decision and the size of the potential loss.

The modern theory of finance is based on the principle that people attempt to minimize risks and maximize returns in their economic decisions and investments. The theory assumes that there is a linear relationship between risk and return--the greater the potential return, the greater the chance and size of loss. To increase returns, people must take higher risks. According to this model, a primary strategy for maximizing returns and minimizing the chance and size of a loss is diversification, that is spreading risks across a range of investments with different risk levels.

For microentrepreneurs and their households, risks are associated with allocation decisions between investments (as in whether to send one's children school or buy a pick-up truck for transporting one's vegetables to market) and within investments (as in whether to increase one's stock of cabbages to wholesale to other vendors or to diversify one's stock to include brussel sprouts and asparagus). Kusterer maintains that regardless of a household's level of economic security, it will not take risks that endanger its continuity at the same level. Households also will not take risks that endanger their basic viability. In either case, households will take high risks with surplus resources--those that do not jeopardize basic security--in efforts to advance to higher levels.

The downside of risk is that it can deplete the enterprise and household assets, while using up time and other resources. An important objective of microenterprise programs is to reduce risks for microenterprises by minimizing variability in the supply of inputs, such as capital, in productive capacity, and in markets.

Another important concept is the notion of assets which are defined as rights or claims to property. Assets play an important role in poverty alleviation because they provide the basis for sustained improvements in welfare. By smoothing out the variability of household income they provide a basis for long term household wealth and welfare which can be passed down to successive generations (Sherraden,1991).

In our conceptual approach, a major factor determining a household's willingness to take higher risks in their investments (including investments in microenterprises) is the availability of surplus resources--income and assets over and above the level required to maintain the household at a constant level.

The availability of surplus resources is associated directly with the household's level of economic security and is key to understanding how households move to higher levels of security. Households with a minimal base of income and assets are highly vulnerable, and thus, likely to be more risk averse. Even small losses could threaten the household's viability. They are likely

to invest any surpluses available in low risk ventures with limited potential for return. Households with a broader base of income and assets are more secure and better able to balance risks by diversifying their resources across a mix of higher and lower risk investments. Households with an even larger resource base are able to risk larger investments in high risk activities.

Conceptually, assets are a critical link between microenterprises and their households. Microenterprises can be viewed as productive investments that generate income; households store surplus income in the form of assets. In discussing the importance of both income and assets for the welfare of individuals and households, Sherraden (1991) uses the analogy of springs and ponds. Ponds (the household) as a store of resources are as important as the constant flow of springs (the microenterprise). Command over resources across time is important to smooth the flow of water so that it is available even when the spring is not flowing. With a more consistent flow of water, the owner of the resource can plan for the future. In other words, the microenterprise generates income, and the household, by holding assets, smooths the flow of income to the household during cyclical fluctuations. A smoother, more predictable flow of income reduces risks and allows the owner of the microenterprise to plan for the future.

C. The Household Economy

1. The decision-making unit

The household is the unit within which many decisions are made about the allocation of resources for consumption, production, and asset accumulation. While a "household" may be defined differently in relation to spheres of production, income, residence, investment, or consumption, here the household is considered to be the decision-making unit with respect to economic welfare (Dunn, 1994). Decisions reflect the economic goals of households and individuals and the household's level of economic security. Decisions also represent trade-offs with respect to short term consumption and longer term investments. Risk figures prominently in household decision-making behavior, affecting decisions with respect to the investment of income generated by microenterprise activities.

2. Hierarchical goals

Households can be described in terms of a continuum: from those operating on the margins of survival to those concerned with a higher standard of living. Kusterer's analysis of over 250 research studies on rural households has carried him beyond the notion of a continuum to a description of the hierarchical goal-seeking behavior of rural households which is driven by a desire to extend basic economic security through time and across generations.

In our conceptualization of households, we have distilled Kusterer's hierarchy of five goals down to three which are generalizable across a broader range of households.[3] Key distinctions among these goals are the level of income or economic security of the household, its ability to tolerate uncertainty, and its capacity to plan for the future. Kusterer suggests that households attempt to minimize the risk of losing the level of economic security already achieved and that higher level motives are activated only when lower level goals have been met.

- The first goal of household is **economic viability**, or the ability to provide for the basic needs of household members including food, shelter, and clothing. Immediate needs are a priority. Such households may aim to purchase a multi-use commodity, such as a cow, primarily for consumption rather than as an investment generating a future income stream.

- The second goal of households is **economic security**, or the ability to protect household assets and income from unpredictable forces or actions, either natural or human. One important means of protection is through economic diversification.

- The third goal of households is **longer term economic security and a higher standard of living** which will be sustained to the next generation. This is accomplished through an improvement in labor productivity and the accumulation of assets. Households that perceive themselves as having reached this level of economic security are more likely to concentrate investments in higher return, but riskier enterprises.

For those at the first level, struggling to meet the basic needs of household members, assets may be very limited and investments may be geared towards deferred consumption, as in the purchase of a cow. Through an accumulation of assets, households are able to move to the next level where there is an orientation towards the provision of longer term economic security for household members. At the second level, assets help to cushion against income shocks resulting from seasonal fluctuations and other causes. With an accumulation of assets households can more effectively diversify their portfolios, which is the basis for further risk-taking. The third level involves a substantial increase in the standard of living of the household, at least some of which is transferable to future generations. Sherraden emphasizes the important part that inheritance plays in establishing household wealth.

3. Labor productivity of household members

Increasing labor productivity is also an important means for households to move to higher levels of security. One way rural households enhance the labor productivity of members is to create surplus labor or products to sell outside the household. This allows it to substitute goods produced by the household, such as food, with goods purchased from outside markets (Kusterer, 1989; Fass, 1992). This process can increase the productivity of family labor and lead to capital

[3] We have left out Kusterer's first level, entitled "escape from subordination", which is more relevant to rural environments. Levels four and five of his hierarchy have been combined into level three.

accumulation when the marginal returns to labor are greater outside the household and exceed the cost of purchasing goods previously produced by the households.

Another way for households to increase labor productivity is to reallocate or reorganize labor and other resources normally linked to household maintenance and reproductive activities, and introduce new income-producing activities to household members freed from this work. Increasing the productivity of activities within the constraints of providing for household needs (e.g., activities that are compatible with child care) is an important step for generating surplus capital, building assets, and creating greater economic security.

In both cases, the costs to individuals and to households should not be overlooked, particularly in light of the limited employment options available to women in most developing countries. Those who have analyzed women's increased participation in the labor force are concerned that without acceptable substitutes for women's reproductive work additional responsibilities in the workplace serve to intensify the demands on women's time (Sebstad, 1991). This is precisely the case where productivity within the household economy has not been altered to effectively afford women more time for productive activities outside the home. Despite this increase in workload, however, numerous studies suggest that women's increased economic contribution may have long term benefits for household members (cf, Pitt and Khandker, 1994).

D. Microenterprises and the household economy

1. The consumption link

Households depend to varying degrees on cash or in-kind income from microenterprises to meet their basic consumption needs. To the extent that a microenterprise generates income over and above that which a household consumes, it can be used to invest in savings, productive investments (including reinvestment in the microenterprise), real property or physical assets, or human capital.

The consumption link between a microenterprise and a household depends on the proportion of household cash income derived from the microenterprise, and the extent to which the household relies on cash income to meet its basic consumption needs. Some microenterprises produce a portion of their goods for direct consumption by household members (e.g., rural agro-processing microenterprises). This allows households to avoid the risks of the market, but may limit their consumption options and their opportunities to increase labor productivity and generate surplus capital. Many households maintain a foothold in production for self-consumption as a strategy to offset the risks of the market, especially in more vulnerable households and communities.

2. The production link

Within the household economy, microenterprises exist as part of a larger portfolio of production and investment activities. Production activities may include crops, livestock, wage employment, and other family enterprises. Investments may be in land, housing, property, education, or

savings. Decisions regarding the allocation of resources to a particular microenterprise activity--which resources are allocated, when they are allocated, and the amounts allocated --reflect the tradeoffs within the household portfolio of activities. A basic assumption is that the overall household economy is efficient in maximizing returns and minimizing risks to the extent of its knowledge and capabilities. In deciding to allocate resources to a particular micorenterprise activity, therefore, net economic returns to the household should offset any losses that the household incurs by giving up an alternative activity or investment (Dunn, 1994).

Households provide a resource base for their microenterprises through the provision of (i) labor; (ii) financial capital; (iii) physical capital in the form of land, premises, infrastructure,or other assets; or (iv) human capital embodied in the skills of household members as related to microenterprises. These resources are often shared between different household production activities (including both market and domestic production) and investment activities.

The size and composition of the resource base shapes decisions and options for the microenterprise. Some microenterprises are tightly linked with the household economy, depending exclusively on the household for labor, capital, and other inputs. This reflects a household's desire to minimize the risks, uncertainties, and costs associated with dependence on outside resources. In this sense, rural microenterprises are likely to be more tightly linked to their household resource base than urban microenterprises.

Other microenterprises, to varying degrees, depend on resources from outside the household. While this may increase the level of risk, it broadens the potential resource base and range of options for the microenterprise.

3. Three stages of microenterprise development in relation to household economic goals

As an income generating investment, microenterprises are part of household strategies for achieving their economic goals. Nonetheless, they are conceptually distinct entities. The specific role they play at each stage in the hierarchy of household economic goals can be considered by describing microenterprises along a continuum of development from viability to stability to growth. While each stage of enterprise development along the continuum is different, the outcome is a result of the same economic process (Liedholm and Mead, 1994).

One end of the continuum represents the initial formation of a viable microenterprise within the household. At this stage, the microenterprise strives to generate net economic returns that are positive for the household. It tests the viability of its production processes, technologies, and markets. It also proves its social viability, that is, whether its activities can be accepted and incorporated into both the household and community order (Dunn, 1994). There is much uncertainty and many microenterprises fail at this stage, before they ever become viable.

Once the short term viability of the micorenterprise is established, it strives for stability. This implies a need for strategies to cope with fluctuations in access to inputs, price of inputs, access to markets, and market prices in order to continue to generate a net economic return to the household. Strategies for achieving stability might include spreading risks by diversifying the enterprise's resource base, production processes, or markets.

At the other end of the continuum is growth which, at the enterprise level, commonly means growth in income, employment, or assets. It can also mean growth in the volume of production, or factor productivity. Strategies for achieving growth include increasing the scale of production, diversifying the mix of activities undertaken within a microenterprise, specializing in a particular product line, or increasing the number of microenterprises within a household. While each of the prior two stages of microenterprise development implies some degree of growth in one or more of these categories, the third category conceptualizes growth as an increase beyond a certain threshold--contextually defined. Growth can be measured as an absolute increase, a percent increase, or the rate of growth.

Each stage of enterprise development--from viability to stability to growth--reflects expanded options and choices for the microenterprise with respect to inputs, production processes and markets. It also reflects an increasing willingness to take risks and a greater capacity to plan for the future. The only sure indication that an enterprise has reached any given level is its tendency to invest in activities that lead it to the next level.[4]

Households at each stage of the three-tier hierarchy described earlier in this chapter are more or less likely to have an enterprise at a particular stage of development. Households at the first level in the hierarchy are focused on survival. Establishing a viable and stable microenterprise may be part of their strategy, but they are unlikely to pursue riskier growth-oriented strategies. Households at the second level of the hierarchy have achieved basic viability, and are aiming for economic security. Diversifying the mix of activities within a microenterprise, or increasing the number of microenterprises within the household, may contribute to this goal. Households at the third level of the hierarchy have achieved basic economic security and are striving for a higher standard of living. They have a more substantial resource base and are in a better position to make larger and riskier enterprise investments such as those required to specialize (Table 1).

Table 1: Stages of Microenterprise Development by Household Economic Goals

Stages of microenterprise development	Household economic goals		
	Economic viability	Economic security	Longer term economic security
Enterprise viability	Likely	Likely	Likely
Enterprise stability	Likely	Likely	Likely
Enterprise growth through diversification		Likely	Likely
Enterprise growth through specialization			Likely

[4] This borrows from Kusterer's idea of how you can tell if a household has reached any given level in a hierarchy of goals.

E. Individuals and the Household Economy

Our conceptualization of the relationship between microenterprises and people's lives recognizes that economic relations interact with social relations, particularly within the context of families. A change in either economic or social relations within the household can have an effect on the other. By using a household approach we have aimed to account for the moderating effect of social relations within the household on the lives of individuals. Much of the literature on women in development suggests that household analysis obscures the intra-household dynamics that affect the extent to which the effects of development may be felt by individuals (cf., Dwyer and Bruce, 1988). For that reason, we propose analyzing certain impacts at the level of the individual. By doing so, we can assess whether changes in household security are accompanied by improvements in the well-being of individual household members.

Individuals, like households,are goal directed. Individuals' goals must be balanced against household goals to the extent that the individual's desires are perceived to conflict with household goals. Hillhorst and Oppennoorth (1992) observe that household members typically share some common goals, although they may not necessarily have the same economic interests. In addition, the perceived risk to the attainment of the individual's goals may affect the behavior of individuals in the household context. Individuals weigh the rewards of participation in household activities against the benefit they are likely to derive from that activity. Household members who are treated equitably have a more positive incentive to contribute. In cases where women have felt few benefits in relation to the fruits of their labor, they have demonstrated less incentive to be productive (cf., Rahman, 1991).

As discussed above, increased productivity of family labor can have implications for both individuals and households.[5] For women, income earned outside the household often has important benefits for the individual which include increased personal income and savings and increased self-confidence (cf., Stoeckel and Sirisena, 1988; Hillhorst and Oppennoorth, 1992; Vengroff and Creevey, 1994). Research in Bangladesh also suggests that bringing income into the household gives women greater leverage in the household decision-making process (Schuler and Hashemi, 1994). Increased productivity of women has also been associated with reduced fertility, improved child survival, increases in the share of family income allocated to food and health care for children, and increased household income, especially of families below the poverty line (The World Bank, 1992).

The degree to which the household constrains individuals varies between and within societies and households. At one end of a spectrum individuals' economic and social welfare is entirely dictated by the household. Individuals are completely constrained by a strict division of labor in the household, often along gender lines. In societies where traditional roles of women require them to stay close to the home there are usually formal constraints affecting a woman's right to own and inherit property as well. For these individuals, the household serves both as a prison

[5] Increased labor productivity within the household can have mixed effects on children. In some cases, it frees up children's time, allowing them time for school or other activities. In other cases, children's labor is simply transferred from household maintenance activities to productive activities outside the home. The effects are negative if increased labor productivity is achieved through greater utilization of child labor which can result in a loss of years in school.

and as a shield against a harsh social reality. Children are especially vulnerable in such societies as they receive benefits only to the degree that decisions are made first by those who control household income, often men, and then by those who nurture them, usually women. Any breakdown or dissolution of the cooperative agreement between income earners and caretakers can be disastrous for household dependents in such contexts.

At the other end of the spectrum individuals are loosely linked to the household. In such cases, the household has little influence on the benefits derived from the individual's economic activities, including microenterprises.

F. Linkages to the Community

Households are also clearly situated in a community context that affects options for income generation and asset accumulation. Links to the community through individuals, enterprises, and households create a context in which the effects of microenterprise programs are felt at a higher level. Changes at the community level may be of an economic, social, or political nature.

Economic effects result from linkages of microenterprises to communities through income and employment. The paid employment of previously unemployed or unpaid persons in the microenterprise sector is an important impact, especially in light of the high rates of unemployment resulting from structural adjustment and other factors. Income earned and spent locally has multiplier effects within the local economy. In addition to creating opportunities for those whose economic options are limited, microenterprises have a positive effect on the incomes of other businesses through forward and backward linkages, to the extent that the enterprise buys and sells locally. Income generated beyond the local market, as in the case of export sales, is especially useful in building the economic base of the community, once again in proportion to the amount of income that is spent locally. Income generated by microenterprises and used to purchase goods elsewhere, on the other hand, has little effect on the local community. Net changes in income and employment provide a more comprehensive picture of the effects of micorenterprise development. Some would argue that only at this level is one able to evaluate programs with respect to the development goal of economic growth.

An important aspect of development at the community level involves the building of social capital, whereby members of the community mutually encourage each other. As with individuals and households, group members may have partly congruent and partly conflicting interests, hence actions which involve group loyalty may involve the sacrifice of purely personal interests, in order to facilitate the greater fulfillment of other personal interests (Sen, 1993). This encouragement within groups or networks may take the form of patronizing each other's businesses or forming market associations to discuss infrastructure improvements. There may also be a social dimension to this encouragement as when members of the community make contributions to a family experiencing a life event, such as a birth, a wedding, or a funeral. Social capital links individuals, enterprises and households to each other through two related channels: information and reputation (Rochlin and Garg, 1994). The transfer of information helps to establish a common belief system and a code of behavior upon which individual and institutional reputations are built. Reputations then become the basis of further interaction, on an economic, social, or political basis.

Social networks are important for the economic and social purposes mentioned above. In some contexts, social networks are able to take on an added political role as well. Where individuals have organized themselves to address a particular problem or concern, the social network may serve as a means of political mobilization. In addition, social networks, which in the short run serve a social function, may in the longer term become vehicles for political action as group members become more linked economically and socially and begin to identify their interests with that of the group.

IV. A PRELIMINARY FRAMEWORK FOR ASSESSING THE IMPACT OF MICROENTERPRISE PROJECT INTERVENTIONS

The purpose of an impact assessment is to estimate whether a project leads to change that is different from what would have occurred without the intervention, or whether the project increases the probability of that change. A simplified representation of impact would be:

---> ---> ---> CASUAL PATH ---> ---> --->

Project Interventions --> Mediating Processes --> Impacts

This chapter presents a preliminary framework for analyzing changes associated with project interventions at the enterprise, household, individual, and community levels. The first section defines four types of microenterprise interventions and provides some examples of how these interventions contribute to change for households, enterprises, individuals, and communities. The second section discusses impacts in more detail, by identifying "impact paths" at each level: for households, advancement in terms of improved economic security; for enterprises, development in terms of viability, stability, and growth; for individuals, improved well being; and for communities, increased economic development and civic participation. To measure change along these paths, we identify "domains" of impact at the household, enterprise, individual and community levels, and "markers of change" within each of these domains. The final section of the chapter discusses mediating processes that may influence impacts.

It is important to note that this is a preliminary framework, intended as a first step in identifying parameters and key variables for studying the broader impacts of microenterprises interventions. It is not a final study design, but will require further development and refinement in relation to particular programs, locations, and contexts. The aim is to suggest a starting point for thinking about impacts within a broader framework.

A. Microenterprise Interventions

Microenterprise interventions can be grouped into four strategies: financial intermediation, social intermediation, market intermediation, and enterprise intermediation.

1. Financial intermediation

Financial intermediation strategies include financial services to clients and their enterprises, primarily credit and savings. Credit may involve individual or group loans delivered through various institutional mechanisms, including NGOs, business associations, credit unions, banks, cooperatives, or other local institutions. Programs use a variety of lending methodologies such as village banking, peer group "solidarity" lending, and innovative individual loans. Loan terms vary with many micorenterprise loan programs using innovative forms of security, such as group guarantees or cash flow analysis in lieu of collateral. Financial services also include

savings and different kinds of insurance, such as life or health insurance and insurance against business loss.

Financial services help people meet their business and household goals by expanding options for increasing the efficiency and productivity of their resources, while reducing risks. Credit allows clients to invest or consume now, drawing on expected future income (Christen, et. al, 1994). At the enterprise level, credit provides a larger and more predictable base of working capital for purchasing inputs or hiring labor. It reduces costs by allowing clients to purchase inputs in bulk or by providing alternatives to high cost supplier credit. By enabling microentrepreneurs to make lumpy investments in tools, equipment, or new technologies, credit improves productivity and, in some cases, allows for specialization. Increased enterprise income resulting from investments of credit can provide the basis for an improved quality of life, asset accumulation, reinvestment in the enterprise, or investment in other productive activities.

Credit is also used for other purposes. At the household level, credit smooths consumption during periods of low income or crisis, thereby precluding the need for households to take money out of their enterprises. Credit is also used for investments in nutrition, education, shelter, or health, or for the direct purchase of assets that provide the basis for household security and future productive investments. Because it is fungible, credit may have more effect on households than other services. At the individual level, access to credit represents a predictable option, permitting individuals to plan ahead. In some cases, credit from outside the household provides an individual with more independent control over this resource than capital originating from within the household.

Savings allows clients to store current income as assets for future use. They provide a sure term source of liquidity and a long term reserve for emergencies. Savings improve household security by smoothing consumption when income flows are interrupted. They also enable households to advance to higher levels of economic security by providing a mechanism to accumulate surplus capital for investment in higher risk, higher return activities. At the individual level, savings enable people to prepare for contingencies in advance. They also provide more flexibility in managing financial processes. Safe and accessible savings facilities further provide individuals more independence and control over their own resources (Christen, et. al, 1994; Gadway, et. al, 1991).

2. Social intermediation

Social intermediation strategies are special efforts to integrate poor men and women into formal financial markets, product markets, or services that expand access to resources, skills, and opportunities to improve their well-being and productivity. Group organizing is a primary vehicle for social intermediation. Through groups, members are organized and linked to formal institutions--usually financial institutions. Advocacy is another means to expand access by poor men and women to formal institutions and markets.

The first-round effects of social intermediation are primarily at the individual level. Through the mechanism of groups, individuals develop the skills, confidence, and discipline (human capital) to establish independent relationships with banks and other formal institutions (Bennett, 1993; Bennett, Goldberg and von Pishke, 1994). Groups also are a vehicle through which social

capital is developed to the extent that group members bond and become a source of mutual support to one another. Advocacy efforts expand access to institutions, markets, and resources for restricted individuals and groups. At a broader level, they focus attention on policy and regulatory issues and influence decisions regarding the allocation of financial and institutional resources that affect the lives of the poor. From the standpoint of institutions, social intermediation is an important means of lowering transaction costs.

3. Market intermediation

Market intermediation strategies stabilize or expand market opportunities for microenterprises. Approaches include subsector programs and projects that either open up opportunities for microenterprises along the supply and marketing chain in a subsector in which they currently operate, or link microentrepreneurs to new subsectors with potential for growth. Subsector and/or other market intermediation strategies may include policy or regulatory reforms that improve markets for microenterprise goods and services by stabilizing market prices, changing market prices (reducing supply prices and/or increasing demand prices), increasing market demand, reducing barriers to entry, or improving market-related infrastructure.

At the enterprise level, market intermediation strategies contribute to change by improving access to, or reducing the price of, inputs (capital, labor, tools and equipment, raw materials, or stock). They also contribute to change by improving the demand for, or increasing the price of, microenterprise outputs. At the household level, market intermediation strategies change the price and availability of basic consumer goods or services provided by microenterprises. At the individual level, market intermediation strategies may have a direct impact on women or other restricted groups by creating new options and opportunities for economic participation.

4. Enterprise intermediation

Enterprise intermediation strategies include programs and projects to improve production and management processes within microenterprises. This includes management training and assistance to improve business skills and management practices. It also involves technical training and advice aimed at strengthening technical skills and capacity within microenterprises. Enterprise intermediation also entails the promotion of new technologies, including equipment, tools, products, processes, materials, and skills.

At the enterprise level, improved management (record keeping, cash management, use of bank accounts, debt management) reduces costs and improves production processes by promoting more efficient use of resources and forward planning. These management skills also contribute to better management of the broader household economy and provide individuals with more control over resources.

New technologies improve productivity and profitability at the enterprise level by lowering costs through faster production, reduced labor time, substitution of cheaper materials, lower fuel costs, increased efficiency, and improved selection and organization of equipment, tools, and labor. They also increase product outputs and shelf life, improve product quality, consistency, and reliability, and make the enterprise more bankable (Jeans, Hyman, and O'Donnell, 1990). For

household members, particularly women, new technologies may reduce the amount of time required to generate a level of income and ease the strain of labor.

B. Domains of Impact at the Household, Enterprise, Individual, and Community Level

The conceptual approach described in Chapter III suggests a set of propositions about the relationship between income and assets and how microenterprise interventions contribute to household security, enterprise development, individual well-being, the economic development of communities, and civic participation. These propositions arise from our description of the relationships between households, enterprises, individuals, and communities and how microenterprise interventions affect these relationships. A preliminary set of propositions is detailed an Annex A.

In order to explore how microenterprise interventions affect change within the parameters of our conceptual approach, we identify "impact paths": for households, advancement in terms of improved economic security; for enterprises, development in terms of viability, stability, and growth; for individuals, improved well-being; and for communities, economic development and civic participation. To measure change along each of these paths, we identify domains of impact, markers of change within each of these domains, and mediating processes that influence change.

Depending on the context and program, an impact study could focus on only one or two domains, a subset of markers, and select mediating factors rather than the full range as presented below. The choice of domains, markers, and mediating factors will depend on the specific intervention, the aim of a particular inquiry, and the location of the program.

This section discusses impact domains. At the household level, three domains of household security are: income; expenditures on household consumption including debt; and assets, including savings, productive investments, real property and other physical assets, and human capital. At the enterprise level, five domains of development are: the resource base, production processes, management, markets, and financial performance. Domains of impact at the individual level consist of: independent control of resources, leverage in household decision-making, and community participation. At the community level, the domains of impact include: net changes in employment and income, forward and backward linkages, social networks, and civic participation.

1. Domains of impact at the household level

a. Changes in household income. Variations in the amount, sources, and seasonality of household income may significantly affect how households meet the basic consumption needs of members and accumulate surplus income to invest in future income streams. Diversification of income is a common strategy for poor people to increase their overall income levels, manage the risk of dependence on a particular income stream, and deal with seasonal fluctuations in income. Poor households often rely upon a diverse range of cash and in-kind income sources. In addition to microenterprises, other sources can include, for example, agriculture and livestock activities, wage labor, remittances, or income from passive investments (Figueroa, 1984). Diversification of income sources is important in rural areas as a means of coping with cyclical

variations in income streams from agriculture (affecting income from the sale of agricultural produce, from agricultural labor, and from agro-processing activities). Diversification is also important in urban areas where structural adjustment policies and global trends towards the deregulation of labor have contributed to fewer opportunities for regular, full-time employment and increased use of causal, seasonal and part-time workers. The trend towards the deregulation of labor has corresponded to the "feminization" of work forces worldwide (Standing, 1989).

b. Expenditures on household consumption. Increases in income alone are not sufficient to draw conclusions about the status of household members since income can be spent on leisure or for other non-productive investments. Two areas of consumption that provide meaningful detail on household level impacts are food and debt repayment. Increased expenditures on food may suggest improved nutritional status and well-being of household members. An overall reduction in the indebtedness of a household may have a direct bearing on its level of security and on its capacity to accumulate savings for consumption smoothing or productive investment. Microenterprise interventions can reduce debt burdens in several ways: by generating income to repay existing debts; by providing loans at market rates to refinance loans that have higher interest rates or imply other obligations (as is often the case with loans from money lenders or other informal sources); or by smoothing consumption so that households need not borrow for consumption purposes during periods of low income or crisis.

c. Assets. Income which is not used to provide for basic household needs may be converted into assets as a store of wealth during times of abundance and converted into more usable forms during low income periods. Assets are defined as rights or claims to property rather than as property itself. Assets as a term includes a whole range of resources to which individuals and households have access. Assets include savings or financial capital; productive investments, such as microenterprise activities, which generate future flows of income; real property such as land and housing and infrastructure; other physical assets such as jewelry, machinery, and durable household goods as well as other components of production. Other assets that are more intangible, though nonetheless important, include: human capital, which includes education, skills training, and health in addition to all other aspects or resources contained by individuals; cultural capital or cultural knowledge that allows one to manage social situations with ease and to one's benefit; political capital or the favorable disposition of rules and decisions of the state and local governments; and social capital (Sherraden, 1991). Social capital has been defined as:

> "the set of institutions, values and norms that work to engender interdependent linkages through the development of mutual trust, shared beliefs and common world view. These interactions and networks in turn create opportunities for beneficial exchange" (Rochlin and Garg, 1994).

For our purposes we have also made a distinction between those assets which individuals and households are most directly able to acquire through their own decisions and those over which individuals and households have less control. The assets over which household members have greater control through the decisions they make include: savings; productive investments, including passive and active microenterprise activities; real property which includes land and housing; other physical assets, such as jewelry, machinery, durable household goods, and other components of production; and human capital.

Savings are recognized as a basic indicator of household security, because they provide the cushion against which income shocks to the household may be absorbed. Because the vast majority of enterprises are initially capitalized through personal savings, savings may also indicate the likelihood of future productive investments. Savings takes on many different forms, some more or less secure and more or less liquid (accessible on short notice). For example, savings held in rotating savings and credit associations are accessible only at a very specific (often unpredictable) time. Savings held in personal bank accounts are more readily accessible--depending on the location and hours of the deposit institution.

Productive investments are important assets to households because they generate income in the present and have the potential to generate income in the future. The psychological security households derive from knowing that there will be a source of income for the household tomorrow may be as important as the immediate economic rewards. Were there no assurance that the productive investment would exist tomorrow, households would be much more risk averse in their day-to-day business dealings.

Microenterprises can be either active or passive investments, depending on how much time they require of the microentrepreneur. This distinction becomes relevant to households with diversified activities. Active investments include most types of manufacturing, services, and trading activities. Passive investments which require less on-going effort by the owner include rental housing. In urban areas where the demand for housing is high and the supply is limited such passive investments complement other income sources. In Kibera, a large slum outside of Nairobi, Kenya, rental housing is a very popular microenterprise activity because it provides a reliable source of income with little time expenditure (Neill et. al, 1994).

Other productive investments may include other kinds of income-generating activities in which individuals are engaged, such as agriculture, raising livestock, money-lending, land rental, or group investments.

Real property includes land, housing and infrastructure, all of which are important to households. Investments in land and housing symbolize the establishment of a secure place in which the household can live and carry on its livelihood. The issues related to land are different in rural and urban areas. In urban areas, land is generally too expensive and too politicized to be owned by poor households. In those areas, access to land is more of a concern than land ownership. In rural areas, it is more possible for the poor to own land, where population densities permit. However, rights to land in many countries, especially in Africa, are often determined by traditional customary law, not modern law. One's gender, ability to fulfill social obligations, and ability to manipulate local power structures directly affects access to and ownership of land and other real property.

Access to land as a resource for productive investment, including agricultural production and trade, is also a foremost concern of households. Title to real property can also serve as collateral and a means of accessing loans from formal banking institutions. This is an important issue for women--while in most places women have de jure rights to own property, de facto, it is very difficult for them to obtain title to property.

Households consider housing from three perspectives: as shelter, as a commodity, and as an investment. Households typically allocate 10 to 15 percent of their earnings to rent shelter and make do with whatever that will buy in a location where they will not likely be displaced and that is close enough to a means of transportation to permit access to work opportunities (Serageldin, 1993). Security of occupancy decreases the risk of loss of an investment in basic shelter and necessarily precedes security of tenure, which may take generations to obtain. Access to secure tenure provides a person or household a basis for further investing in housing.

As a commodity, housing offers financial security and social status. According to Serageldin, housing accounts for over 60 percent of total assets owned by low income households. While renters generally do not allocate more than 20 percent of their income to housing related expenditures, property owners are willing to invest over 30 percent of their income to acquire land, to build, or to improve existing structures.

Finally, households see housing as a productive investment generating income through rental of surplus space, the construction of rental shacks on the land, or in the utilization of residential space as a site for a business. Regularization of a squatter area can provide property owners with the opportunity to build upwards, using or renting out the bottom floor for commercial use and the upper floors for residential units for other family members.

Improvements to housing infrastructure are also included under real property as they add value to housing. Improvements in water and sanitation have implications for labor productivity within the household by freeing up the time of those who must collect water daily. Other infrastructure improvements, including the addition of electricity, can have important consequences for microenterprise activities which require these services. Access to infrastructure provides the basis for further investment in housing as well as investment in productive activities.

Other physical assets includes other "hard" assets such as machinery (e.g. a sewing machine) and other business equipment, as well as jewelry and livestock which are sometimes seen as types of savings. In addition, we would include durable household goods, such as televisions, or refrigerators which may be used for productive purposes on occasion or could also be seen as a less liquid kind of savings. Many such assets are shared by the enterprise and the household and are sometimes used as collateral for the purposes of obtaining small loans.

Human capital, an intangible asset, is considered by some to be the most important asset of all. Human capital includes education, training, work experience, health as well as all the other qualities of humans that make them resourceful in a variety of situations. In come cases, investments in education represent the achievement of a level of economic security which is not dependent on the use of children's labor in productive investments. There are many cases, however, where investments in children's education are seen as a route out of poverty. Whenever it occurs, education of children signals an ability to allocate resources away from immediate use into those which have longer term consequences for individuals and households. Investments in health are also important for insuring the productivity of the household's labor force and the more effective utilization of household resources. Investments in women's health, in particular, have significant benefits for both the individuals concerned and for their children who face higher risks of disease and death as a result of poor maternal nutrition.

2. Domains of impact at the enterprise level

Our conceptual approach links microenterprises to households by describing their role in generating income for household consumption and asset accumulation, and their dependence on households (to varying degrees) for productive resources such as labor, capital, or other assets. It further discusses three stages of enterprise development--viability, stability, and growth-- in relation to household economic goals.

To analyze how microenterprise interventions affect the above relationships, we start by considering change at the enterprise level in five areas: the resource base (capital, labor, assets, and inputs); production processes and outputs; management; markets; and financial performance.

a. Resource base. The resource base of a microenterprise can be considered in terms of capital, labor, assets, and inputs. It reflects the supply side of the enterprise. The viability and growth potential of an enterprise depends in part on the size and stability of the resource base, the quality and mix of resources used, and the options available for improving or expanding the resource base.

Capital. Sources of finance for fixed or working capital can include savings, retained earnings, or loans from informal or formal sources. Start-up capital for microenterprises typically originates from personal or household savings. Debt financing from formal or informal sources outside the household is riskier and more common for established enterprises.

Labor. Microenterprises depend largely on their households for labor--working owners and family workers. However, depending on the size, type of enterprise, and stage of development, they may also use labor from outside the household, including full-time wage employees, apprentices, part-time workers, causal labor, or seasonal workers. Skill levels vary and workers can be either unpaid or paid on a daily, monthly, or piece rate basis. The quality, remuneration, and stability of employment within microenterprises varies widely, and several studies have shown gender differences in the use of outside labor (with women owners less likely to employ outside workers) and among employees (with fewer women employed in microenterprises, mostly as unpaid family workers).

Assets. At the enterprise level, assets can be divided into three groups: fixed assets, including land, premises, machinery, equipment and tools; current assets including raw materials, unfinished products, goods for sale, supplier credit, customer debt, cash in the bank, and cash on hand; and intangible assets including security of tenure and access to on-site services. The mix of assets varies according to the type of enterprise. The productive capacity of an enterprise is influenced to a large extent by the size, composition, and quality of the asset base.

Inputs. Inputs to production include raw materials for the production of microenterprise goods or services or stock for sale by microenterprises. The productive capacity of an enterprise is further influenced by the mix, source, quality, availability, and price of inputs.

b. Production processes. Production processes can be analyzed in relation to the volume, mix and quality of outputs. They are influenced by the use of technology, including equipment, tools, products, processes, materials, and skills. Changes in the use of technologies affect

productivity and profitability of microenterprises by: increasing the pace of production; reducing labor time; substituting cheaper materials; lowering fuel costs; increasing efficiency; improving the selection and organization of equipment, tools, and labor; or improving the quality, consistency, and reliability of outputs.[6]

c. **Management.** Management, including both formal and informal practices related to record keeping, cash management, use of bank accounts, debt management, and inventory and stock control, influences costs and efficiencies at the enterprise level. It also reflects the capacity of an enterprise to plan ahead.

d. **Markets.** Markets are critical in determining the viability and profitability of a microenterprise. Access to markets is influenced by market information available to a microentrepreneur, or by the location of an enterprise relative to its market. Access is affected by the time and spatial constraints of a microentrepreneur, and by the availability, cost and reliability transport. Access also depends on the capacity of individuals or groups to overcome barriers to entry in markets controlled by monopolies, elites, or particular ethnic or gender groups. The stability of markets depends on the subsector of activity and is influenced by economic conditions and policies. Market size is determined by ease of entry, the level of competition, and linkages of the market to growth sectors of the economy.

e. **Financial performance.** The financial performance of an enterprise can be measured by changes in the amount and stability of income. Income is the basis for measuring enterprise profitability, which represents the relationship between enterprise outputs and the market.

There is some debate about the practicality of including changes in microenterprise income as an impact indicator. Those who argue against it cite two main reasons. The first is that income is very difficult to measure with any degree of reliability due to fluctuations in production and income cycles, and the fungibility of capital and labor resources between enterprises and among households. Collecting reliable income data requires skilled researchers which increases the cost of an impact assessment. A second reason is that income may not always be the best measure of sustained improvements at either the enterprise or household level if it is consumed.

Those who argue in favor of including income as an impact indicator maintain that it is one of the best measures of positive change in a microenterprise even if it is hard to measure; that it translates into positive change at the individual and/or household level; and that clients themselves place a high value on income as a measure of change.

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[6] We do not include productivity as a variable within our framework because it is a complex concept and challenging to measure. Productivity is the relationship between inputs and outputs. Measuring changes in productivity requires detailed information on changes in labor time, capital inflows and outflows, and other inputs in addition to changes in outputs. Sticky measurement issues arise at each turn: calculating the price and opportunity cost of capital, separating capital stores and capital inflows, depreciating and deflating capital, measuring labor time especially of family workers, measuring outputs, attributing a particular input or set of inputs to a particular output, and drawing temporal boundaries around inputs and outputs to measure productivity within a particular time frame. Previous attempts to measure productivity have proven tedious and difficult. Good proxy measures have not yet been developed.

To measure changes in income, it is necessary to assess changes in the financial performance of enterprises. Methods range from general qualitative questions on financial trends (which assess whether the microenterprise is in better, the same, or worse condition), to more elaborate analyses of financial data. Financial analysis can range from simple proxy measures of changes in sales or gross profits, to more sophisticated measures that reconstruct enterprise balance sheets to measure changes in assets, or income statements to measure changes in cash income and profits. The choice of measures depends on the type of study (case studies or larger surveys), whether or not the study is longitudinal, and the skill level of interviewers.

We include income as an indicator of change because of its significance to clients, and because of its importance in understanding the relationship between the enterprise and the market, and between the enterprise and the household. However, income should be included only if it is measured with consistency and care, and if it is used in conjunction with other indicators to provide a fuller picture of change.

f. **Summary.** Past efforts to study the impacts of microenterprise interventions at the enterprise level have focused primarily on changes in income and employment. Our approach maintains a focus on income, but stresses the need for careful and consistent measurement, and cautions against using income in isolation from other measures. The framework also retains a focus on employment, by considering it as part of the enterprise's resource base. We further highlight the qualitative aspects of employment by considering changes in the status, type, and skill level of workers.

At the enterprise level, the framework extends beyond income and employment by focusing more widely on changes in the resource base, production processes, and markets. The intent is to provide a fuller picture of the basis for income and employment changes and longer term prospects for growth. There is nothing radically new here in terms of enterprise level issues. But we attempt to frame these issues in a way that considers impacts from the client's perspective--in expanding options and in improving his/her capacity to plan for the future.

3. Domains of impact at the individual level

Individual level impacts are important because benefits accrue to individuals through their direct participation in microenterprise programs and because there are collateral benefits and effects to other individuals in the family. Recognizing that there are differences in the relationship of the individual to the household and in the effects of intra-household dynamics on the benefits individuals derive from microenterprise activities, we have posited three kinds of impact, that are relevant to microenterprise programs. The first of these is the impact on the individual's ability to control his or her own resources; the second is the impact on the individual to have greater leverage in household decisions; and the third is the impact on the individual's involvement in the community.

a. **Control over own resources.** Within this domain it is important to observe whether individuals have achieved greater control over their own resources, including their labor time, their labor power, their assets, their means of production (land, tools, and work space), their output, and the proceeds of their output. This is particularly relevant for women who, generally speaking, have much less control over resources and over their own labor than men as a result

of their reproductive roles and obligations. Time allocation is likely an important indicator of a person's ability to control their labor and to realize economic benefit through a productive activity. A working hypothesis for some organizations, and one that could be more thoroughly investigated, is that through a microenterprise activity, which is perceived as economically viable by household members, an individual is able to gain greater autonomy and control over his or her own resources. Despite the difficultly of obtaining this information directly, it is clear that changes in absolute levels of income for the household need to be complemented by information on who has control of this income.

An area of particular interest is the degree to which individuals are able to exert control over the resource they have obtained access to through microenterprise programs, particularly since programs are often justified on the basis of providing access to those who have few options. There has been some concern that within some credit programs targeting women as beneficiaries it has been difficult for women to maintain control of the loan funds. A study that devised an index of loan control women in Bangladesh reported that only 39 percent (n=253) of the respondents had retained full or significant control of their loan moneys and the larger the amount of money borrowed the more likely it had been appropriated by male household members (Goetz and Gupta, 1993). Related to control of loan funds, is the accompanying debt which is a personal obligation.

b. Leverage in household decisions. The second kind of individual impact pertains to the individual's ability to have greater leverage in household decisions, hence greater access to household resources such as labor and capital which may be needed within one's microenterprise activity. There is widespread evidence that an expanded economic role of women significantly affects their overall status and bargaining position within the households (Brydon and Chant 1988; Hillhorst and Oppennoorth 1992).

Schuler and Hashemi's (1994) study of Bangladesh women mentioned three areas of decision-making that reflect empowerment within the household: the ability to make small purchases, such as items used in daily food preparation; the ability to make large purchases, such as food for the household, or household utensils; and involvement in major decisions, such as whether to buy land or to purchase livestock. These three areas of decision-making affect not only the welfare of the individual, but in all likelihood the welfare of other household members. Past research has demonstrated how expenditure patterns within the household are differentiated by gender (Guyer, 1980; Blumberg, 1988; Dwyer and Bruce, 1988). Women spend greater proportions of their income on food, clothing, and other basic household necessities, while the income of male household members is more often used for productive investments or to make large household purchases. With greater leverage in the household an individual is a more active participant in the decision-making process with respect to the allocation of household resources for productive and consumptive purposes and related to the purchase of household assets. Decisions about the allocation of food affect the productivity of household members as well as their longer term health and well-being. Decisions about the allocation of household labor, capital, and assets may directly affect the individual's ability to generate income which has implications for the individual and the household.

c. **Community participation.** A third kind of impact addresses the relationship of the individual to the community. In those societies where traditional gender relations prevent women from moving about freely, their options are severely limited by lack of information and access to services. Knowledge of one's right within society frequently is obtained through others. Such knowledge helps one to make better decisions that will affect one's future and the future of one's dependents.

Group lending methodologies are often developed as a means of providing access to poorer clients to a service such as credit or savings. Groups may help the individual to establish new informal networks that expand his or her access to resources and information about markets and capital. Furthermore, many in the development field are convinced that social networks are a stepping stone for individuals and communities to become mobilized to undertake political action that will have more far-reaching effects. Grameen Bank, for example, sees its group lending methodology as a vehicle for individuals to become more politically aware and socially active.

Through social networks and civic organization, individuals become linked to the wider community through which they become knowledgeable about economic options and opportunities. Those who have gained such information, particularly women, may also see their status within the household improve as a result. Acharya and Bennett (1982) found, for example, that participation in wider market spheres for women in Nepal contributed to a greater role in decision-making at the household level. Given the benefits of community involvement and social networks, an important impact question to be asked is to what extent individuals are expanding linkages to the community through microenterprise interventions.

4. Domain of impact at the community level

Beyond the individual, enterprise, and household, microenterprise interventions have an impact at the community level, if only through the aggregate effects at other level. Some would argue that USAID's broader goal of economic growth is best viewed at the level of the community where one can account for the net effects of changes that may have occurred. We have described impact at the community level in terms of net increases in employment and income, forward and backward linkages, social networks and civic participation.

Recognizing the importance of the community context presents the task of defining the community. In urban contexts, in particular, the spatial boundaries of the community may be less sharp than in rural areas. Urban residents may live in one neighborhood, and work, attend school go to markets and health facilities in others. In addition, urban communities are often heterogeneous including groups with varying norms for interaction (Wratten, 1994). This heterogeneity obviously poses problems in the measurement of some variables at the community level.

Many microenterprise programs have specific goals with respect to the community which they feel are addressed through particular interventions. Needless to say, organizational goals do not always imply impacts in these areas. The impacts of microenterprise interventions at the community level include both primary and secondary effects of changes which occur at the household, enterprise, and individual levels. Primary effects result directly from microenterprise interventions as in the case of employment of non-family workers. Secondary effects are more

diffuse; many result from the forward and backward linkages of enterprises receiving microenterprise assistance.

a. **Net increases in employment at the community level.** While many microenterprises rely primarily on family labor at start-up, with increased profits they become more able to hire paid labor. The transition to paid labor is an important one which has implications for the individual and community. Net changes in employment within communities is a primary impact of microenterprise interventions.

Measuring increased employment at the enterprise level is relatively straightforward, while at the community level it is more challenging. One approach to measuring community level changes in employment between two points in time is to measure employment in new enterprises plus additional employment in expanding enterprises, minus employment losses in enterprises that contract or close (Liedholm and Mead, 1994). However, this type of aggregate study would be impractical in the context of most impact assessments. Proxy measures of net change in employment can be obtained by studying the employment history of new workers in microenterprises, to find out if they were previously employed, and if so, whether their status has changed (from unpaid to paid; part-time to full-time; or casual to regular). This type of information can show both increases in unemployment and changes in the quality of employment.

b. **Net increases in income at the community level.** As described by Buzzard and Edgecomb (1987), microenterprises can contribute to increased incomes within communities by bringing in money from outside the community, or substituting locally produced goods or services for those previously purchased from outside the community. One way to estimate the economic benefits of microenterprise interventions to communities is to estimate how much new money is coming into the community from the outside (through the sale of goods and services outside the community) and how much is being retained that formerly left (through the local purchase of inputs of consumer goods).

Measuring net increases in income resulting from microenterprise interventions can be challenging if it involves calculation of overall changes in community income in relation to changes in the assisted enterprises. A complex approach would be to calculate for each enterprise how much income is generated through sales outside the community, and how much income is lost through purchase of inputs from outside the community. A simpler proxy measure would be to ask microenterprise owners what portion of their sales are to customers outside the community, and calculate new income that was brought into the community on this basis.

c. **Forward and backward linkages to other community businesses.** Net increases in both employment and income at the community level can be achieved though primary changes at the enterprise level, or through secondary changes in other community enterprises that microenterprises buy from (backward linkages) or sell to (forward linkages). Microenterprises can stimulate other local business activities by buying locally produced inputs, or supplying other local businesses with inputs they previously purchased from outside the community. Identifying new linkages is relatively straightforward and this information can be obtained through interviews with microenterprise owners. Assessing income and employment effects of new

business activity stimulated through forward and backward linkages is more complicated and not practical in the context of most impact assessments.

d. Civic Participation. Groups or associations organized to benefit the larger community or public interest represent an additional community level impact. Such groups may form to overcome a common obstacle or they may evolve from socially oriented groups that recognize their common interests. Hence, a fifth community level impact is the degree to which microenterprise interventions enable entrepreneurs to mobilize for the purpose of promoting change to benefit the wider community.

C. Markers of Change at the Household, Enterprise, Individual and Community Level

The following section suggests markers of change within each impact domain that indicate movement (forward or backward) along the impact paths defined by the framework.

1. Markers of change at the household level

Our preliminary framework identifies three domains of household security: income, expenditures on household consumption, and assets. Within each domain there are markers of change which when seen as a composite, signify movement, either positive or negative, towards or away from greater household security.

a. Household income

(i) Amount of income from productive activities

- Changes in the amount of net income which flows to the household from all income generating activities. Increased income flows to the household for consumption and asset accumulation are associated with increased household security.

- Changes in the amount of net income which flows to the household from the enterprise. Increased profits flowing into the household for consumption and asset accumulation are expected as enterprises move from the viability stage to stability and growth.

(ii) Sources of income

- Changes in the number of income sources through diversification of productive investments, replication of productive investments or increased number of income earners. The framework suggests that more secure households have diversified income sources to protect against fluctuations within a single income stream.

- Diversity of income sources to include those with different income cycles, those with different markets, those with different risk levels, and those with added benefits.

b. Consumption

- Changes in expenditures on basic needs related to nutrition and well-being. Increased expenditure on basic needs, such as food, is expected as households become more secure.

- Changes in amount of debt outstanding for consumption purposes.

- Changes in type of debt outstanding. Refinancing of debt from that having usurious interest rates or which has additional social obligations to debt at reasonable rates and terms is a shift towards greater economic security.

c. Assets

(i) Savings

- Changes in the amount of cash savings held as a cushion against income shocks or for other purposes. More savings is expected as households become more secure.

(ii) Productive investments

- Changes in amount of income reinvested into existing productive investments. Increased reinvestment signifies a greater household focus on planning for the future.

- Changes in number of productive investments as a means of diversifying income sources. Increased diversification of productive investments is one path towards stabilization of household income.

- Changes in type of productive investments. Increased household security based on stable sources of income allows for investment in higher risk, higher return activities. In addition, consolidation of productive investments into a more reliable income generating source is another path towards stabilization of household income.

(iii) Real property

- Changes in real property acquired. Investments in land are generally associated with longer term economic security and may reflect a greater capacity for productive activity.

- Changes in housing infrastructure such as electricity or access to water and sanitation. Secure access to these insures continuity of productive activities which depend on them. Changes in access to water affects productivity of household members responsible for household maintenance activities.

- Changes in security of occupancy and tenure for residency of household members. Secure occupancy is essential to basic household security and affects the type of assets that can be stored. Secure tenure establishes a more permanent base for household members which can be made available for future generations.

- Changes in security of occupancy and tenure for productive activities, including microenterprises. Secure occupancy decreases the risk of investment in that productive activity. Secure tenure provides a base for increased stability and growth of the microenterprise activity.

(iv) Other physical assets

- Changes in number of other physical assets, including durable household goods, such as refrigerators, as well as livestock, jewelry, and other items of value. Savings in the form of physical assets is generally thought to be more secure than cash savings. Such assets are early signs of wealth accumulation.

- Changes in type of other physical assets acquired. The diversity and relative value of such assets likely increases as households develop longer term economic security. Separation between household and enterprise assets becomes clearer as the enterprise develops and the household becomes more secure.

(v) Human capital

- Changes in expenditures on health of household members.

- Changes in expenditures on skills training of household members.

- Changes in expenditure on children's education.

- Changes in the number of school age children in school.

- Changes in the number of school age girls in school.

- Changes in the number of children in school for more than four years (or other culturally appropriate amount of time).

2. Markers of change at the enterprise level

Our framework identifies five domains of enterprise development: the resource base, production processes, management, markets, and financial performance. Markers of change within each domain are described below. While each marker can stand alone as an indicator of change (positive or negative), in combination they suggest movement between the stages of enterprise development--from viability, to stability, to growth--with each stage representing a wider set of options for maximizing returns, minimizing risks, and planning for the future (see Table 2).

Table 2
Domains of Microenterprise Development by Stages of Microenterprise Development

DOMAINS OF MICRO-ENTERPRISE DEVELOP-MENT	*STAGES OF MICROENTERPRISE DEVELOPMENT*			
	VIABILITY	STABILITY	GROWTH	
			THROUGH DIVERSIFICATION	THROUGH SPECIALIZATION
RESOURCE BASE				
Finance - Type of finance - Source of finance	Savings Household	Savings Retained earnings Household Enterprise	Savings Retained earnings Loans Household Enterprise Formal & informal institutions	Savings Retained earnings Loans Enterprise Formal & informal institutions
Labor -Number of workers -Source -Status -Types -Skill level	Working owner Low skill	Working owner Unpaid family workers Low skill	Working owner Unpaid family workers Paid outside--all types Mixed low and medium skills	Working owner Paid outside -- all types All skill levels
Assets - Fixed assets -Current assets - Other assets (security of tenure, access to on site services)	Very few, mostly current assets Insecure tenure Limited access to services	Few, mostly current assets Some low value fixed assets Insecure tenure Limited access to services	More, mix of current and moderate value fixed assets Secure tenure Limited access to services	Many, mix of current and higher value fixed assets Secure tenure Access to services

RESOURCE BASE (Continued)				
Inputs -Source -Mix -Quality -Availability -Cost per unit	Narrow range Few sources, mostly retail Low quality Irregular supply Uncertain and variable costs	Narrow range Few sources, mostly retail Low quality More predictable supply More predictable costs	Broader range More sources, mix of retail and wholesale Better quality More predictable supply More stable, lower costs	Specialized range and sources of inputs Higher quality Regular supply Lower costs
PRODUCTION PROCESSES				
Outputs -Volume -Mix -Quality	Low volume Narrow range Low quality	Predictable volume Narrow range Mixed quality	Higher volume Broader range Mixed quality	Higher volume More specialized Higher quality
Technology	Traditional	Traditional	Mix of traditional and modern	Flexible mix of traditional and modern
MANAGEMENT				
Management practices	Informal	Informal	Mix of informal and formal	Mix of informal and formal
Markets				
Markets -Size of markets -Stability of markets -Types of customers -Location of customers	Uncertain size Uncertain stability End-user, individual customers Local customers	More certain, but limited size Predictable End-user, individual customers Local customers	Moderate size Predictable and more stable Mix of end-user customers and other informal businesses Mix of local and non-local customers	Larger, more specialized markets Predictable and more stable Mix of end-user customers and other formal and informal businesses Mix of local and non-local customers
FINANCIAL PERFORMANCE				
Income -Amount of income -Stability of income	Low Uncertain	Low More predictable	Moderate More stable	Moderate More stable

a. **Resource base**

(i) **Capital**

- Change in the types of finance, to include a mix of savings, retained earnings, debt, and equity. Our framework suggests increasing options at each stage of enterprise development, with a shift away from savings at stage three.

- Change in the source of finance starting with the household and expanding to institutional loans (informal and formal). We show increasing options at each stage, with a shift away from the household as the primary source of finance at stage three.

(ii) **Labor**

- Change in the source of labor to include a mix of family/household and outside workers. Our framework suggests a shift away from household labor and greater dependence on outside labor at stage three.

- Change in the number of workers. By drawing on labor from outside the household, an increase in the number of workers in the microenterprise is more likely at stage three.

- Change in the status of employees from unpaid to paid. A shift away from unpaid workers is likely at stage three.

- Change in the type of employees, to include a mix of casual, seasonal, part-time, and full-time workers. Each stage in our framework suggests expanding options with respect to the types of labor used.

- Change in the skill level of workers, to include a mix of unskilled, low-skilled, and higher skilled workers. Our framework shows a more diverse mix of skill levels at each stage, with the use of workers with higher skill levels more likely at the growth stage.

(iii) **Assets**

- Change in the fixed asset base including land, premises, equipment and tools, fixtures and fittings. Our framework shows an increasing and more diversified fixed asset base at each stage and a shift from lower to higher value assets.

- Change in the current asset base including raw materials, unfinished products, goods for sale, supplier credit, customer debt, cash in the bank, and cash on hand. We suggest a more diverse mix of current assets at each stage, and an increase in their value.

- Change in intangible assets such as security of tenure, access to services, and access to markets. Using a broad definition of assets that includes "access", our framework suggests expanded options at each stage, and that enterprises at stage three are likely to have more secure tenure and better access to services and markets.

(iv) **Inputs**

- Change in the source of inputs, including the client's household, other individuals or households, other microenterprises, or formal sector retail or wholesale outlets. Our framework indicates an increase in the potential sources of inputs at each stage, with a shift away from the household at stage three. Microenterprises are more likely to have access to wholesale sources at stage three.

- Change in the range or types of inputs. We show that the range of inputs is narrow at stages one and two but expands at stage three for enterprises that grow through diversification. For enterprises that grow through specialization, we would expect the range of inputs to narrow.

- Change in the quality of inputs with improvements at each stage.

- Change in the regularity of supply with improvements at each stage.

- Change in the cost per unit with stabilization at stage two, and reduction in the cost per unit at stage three.

b. Production processes

(i) **Outputs**

- Change in the volume of outputs with significant increases in growth-oriented enterprises.

- Change in the range or types of outputs, especially for enterprises that diversify.

- Change in the quality of outputs with improvements at stage three.

(ii) **Technology**

- Change in the use of technologies. Our framework suggests that enterprises at the first two stages use primarily traditional technologies. This shifts to a flexible mix of traditional and modern technologies at the growth stage.

c. Management practices

- Change in management practices. Diversification and expansion of enterprises imply a more complex management task at each stage. To cope with this complexity, the framework suggests that the microentrepreneurs diversify their management practices to include a mix of informal and formal practices at the growth stage.

d. Markets

(i) Size of markets

o Change in the size of markets. The framework suggests that market size is limited but predictable at the stability stage. It increases at the diversification and growth stages.

(ii) Diversity of markets

o Change in the types of customers. The framework suggests diversification in the types of customers from end-user individuals and households at the first two stages, to a mix of end-users, and other informal businesses, and formal businesses and institutions at stage three. Specialization in the types of customers is likely in specialized businesses.

o Change in the location of markets. Under our framework there is a shift from primarily local markets at the first two stages to a mix of local and non-local markets at the growth stage.

(iii) Stability of markets

o Change in the stability of markets. The framework shows more predicable and stable markets at each stage with respect to access, prices, and demand.

e. Financial performance

o Change in the stability of the income generated by the enterprise.

o Change in the amount of income generated by the enterprise.

f. Summary. Our preliminary framework identifies markers of change that indicate movement of enterprises along a continuum of development in the context of particular programs and settings. However, it does not presume that all enterprises are on a path to growth. Enterprises may remain at any level, or even "backslide", depending on circumstances. Because the markets are based on a fuller picture of enterprise dynamics, they can provide insight on why change has or has not occurred, and the particular role of microenterprise interventions in this process. Moreover, by expanding our view of impacts to include enterprise viability and stability, the framework widens the "impact lens" to consider change beyond the conventional interpretations of enterprise growth.

3. Markers of change at the individual level

The domains of individual well-being include: control over individual resources, leverage in household decision-making, and community participation. These domains represent areas through which individuals can achieve some level of well-being. In some cultures, particularly where women and children are known to be greatly constrained by the household, it may be useful to investigate some if not all of these variables in order to determine the degree to which

impacts are felt throughout the household. Household security in such contexts does not insure individual well-being.

Recognizing that control is very difficult to establish in practical terms, the following variables under control over own resources are considered to be reasonable proxies.

a. Control over own resources

(i) Time

- Changes in the allocation of time on productive activities. Increased economic participation has positive benefits to the individual and may suggest reallocation of time on household maintenance activities.

- Changes in the allocation of time on household maintenance activities. Reduction of time on such activities may signify increased productivity of labor within the household and may allow greater individual control over own time.

(ii) Labor

- Changes in the allocation of labor on different productive activities, some of which may be paid, some unpaid.

(iii) Income

- Changes in sources of independent income. Access to start-up or working capital may allow individuals to realize profits from productive activity.

- Changes in amount of income reinvested in own enterprise. Increased reinvestment in an individual's productive activity suggest that the individual has control of income or that the household recognizes that the activity is profitable.

- Changes in amount of personal savings over which one has control. Increased personal savings represent increased earnings and ability to maintain control of earnings through one's productive activity.

- Changes in number and type of personal assets, including business assets. As the individual realizes personal gain from his/her own income, the number and relative value of personal assets are likely to increase. Assets for the individual, as for the household, are a basis of economic security and help to insure against future uncertainty, such as a breakdown in the household.

b. Leverage in household decision-making

(i) Consumption decisions

o Changes in role in decisions about consumption for household members, including decisions regarding purchase of food, clothing, and other essential needs. Greater individual participation likely signifies more equitable distribution of household resources.

(ii) Productive decisions

o Changes in role in productive decisions, including decisions regarding microenterprise investments. Individual participation in productive decisions corresponds with a greater responsibility in household economic welfare and ensures consideration of the individual's economic activity in the allocation of household resources.

(iii) Assets

o Changes in role in decisions about asset accumulation, such as purchase of land, housing, livestock, and durable household goods. Increased participation in decision-making suggests greater access to household assets.

c. Community participation

(i) Social networks

o Changes in participation in social networks, such as business organizations, and market associations. Increased individual participation provides a basis for further expansion of individual and household activities by serving as an information resource.

(ii) Civic Participation

o Changes in participation in civic organizations with the purpose of mobilizing individuals, households, or communities to seek their common interests.

4. Markers of change at the community level

The domains of impact at the community level include net changes in employment and income, forward and backward linkages, social networks and civic participation.

a. Net changes in employment

o Changes in the number of new workers employed.

o Changes in the number of paid workers employed.

b. Net changes in income

o Changes in the income of community members.

c. Forward and backward linkages

o Changes in the volume of goods and services purchased from local markets.

o Changes in the volume of goods and services sold in local markets.

o Changes in the volume of goods and services sold to consumers.

d. Civic organizations

o Changes in number of civic organizations in which clients are active.

D. Mediating Processes

Mediating processes are defined as important household, enterprise, individual, or contextual variables that influence opportunities and/or constraints for change, but are unlikely to be affected by the program interventions. These factors should be identified a priori through an initial review of the program context. Examples of some factors to consider in identifying mediating processes follow.

1. Household characteristics

Examples of household characteristics that can affect the household's economic security as well as the degree to which it benefits from microenterprise interventions include dependency ratios, the life cycle of the household, life cycle changes such as births, illness or death, and gender relations within the household.

Dependency ratios or the ratio of non-working household members to working members are generally a better indicator of poverty than is household structure. Having many household dependents obviously limits the amount of resources available to any one person.

The life cycle of households, whether they are newly formed following a marriage, middle-aged with children to feed and educate, or older, where children are grown, also influences the way in which household resources are allocated. Associated with these life cycles are life cycle changes, such as births, sickness and death, that use up household resources, such as capital and labor.

Gender relations within the household are important because men and women have different roles and responsibilities within the context of the household that constrain them both inside and outside of the home. Children also may have differential access to school depending on assigned gender roles.

2. Enterprise characteristics

Examples of enterprise characteristics that influence opportunities and constraints for growth and development include the location of the enterprise, the life cycle of the enterprise, and the subsector of operation.

The location of a microenterprise (e.g., whether it is rural or urban, in an isolated area or near a market town, home-based or market-based, in a fixed premise or mobile, or in a location where tenure is secure or insecure) can affect its access to markets, the size and stability of markets, the availability and price of inputs, operating costs, and its productive capacity.

The life cycle of an enterprise also makes a difference. Start-up enterprises generally have a high risk of failure, while those that have survived the first few years are likely to be more stable and have a greater potential for growth. The closure of a microenterprise following a program intervention has important implications for impacts, but may not in all cases be a negative result. In some instances, owners may close one microenterprise to start another more lucrative venture.

Microenterprises are very heterogeneous and the subsector of operation is an important factor in determining opportunities and constraints for growth and development. Some subsectors are linked to dynamic sectors of the economy, while others have limited potential for growth and are characterized by high competition and low productivity. Within these latter subsectors, growth in one enterprise is often at the expense of another similar enterprise.

3. Client characteristics

Characteristics of clients, such as gender, ethnicity, or religion often influence their opportunities. Of these characteristics, gender is the most widely relevant factor. Men and women generally have different opportunity structures that affect the individual's ability to participate in economic activities. Gender is also a major determinant of one's additional household obligations which constrain the amount of time one has to participate in other activities. Access and control over resources is often differentially experienced based on one's gender. Access to social capital, another important ingredient in the development process, may also be limited based on one's gender.

Discrimination or preferential treatment based on other client characteristics, such as ethnicity, race, or membership in a religious group, also affect an individual's opportunities to experience economic and social benefit from microenterprise programs.

4. The socio-cultural environment

Features of the socio-cultural context including gender relations, ethnic relations, religion, and kinship systems also mediate how clients experience impacts from microenterprise interventions. Gender relations, discussed above, also have consequences for the individual's participation in society.

Ethnic relations are important where one ethnic group has dominance over another, limiting opportunities. With the growing number of ethnic clashes throughout the world, tension between ethnic groups can have significant consequences for individuals and households.

Kinship systems are important in certain parts of the world because they create additional obligations for the individuals who must care for or be accountable to kin networks. Kin networks can also provide support to individuals and households, especially during times of duress.

5. Economic environment

The economic environment affects and is affected by microenterprises, their owners, and their households. Many factors in the broader economic environment mediate opportunities, constraints, and prospects for the growth and development of microenterprises. Some of the factors most frequently cited in the literature include the aggregate level of economic growth which affects incomes and demand; growth in agriculture and other key subsectors that have a direct impact on demand for microenterprise goods and services; the level of competition within particular microenterprise trades or subsectors; the inflation rate; price distortions in the economy; monopolies; disruptions due to crisis or insecurity; and gender segregation in the economy. The relative importance of these factors will differ according to the context and particular subsector of activity, but are presented as examples of factors that might be considered in mediating factors.

6. Policy environment

The policy environment influences the economic and institutional context in which microenterprises operate. At the macroeconomic level, fiscal and monetary policies, labor policies, and price policies affect the general economic climate within which microenterprises operate (i.e., rates of growth and economic stability). They further determine opportunities and constraints for microenterprises through their effects on factor and product markets. Liberalization of fiscal policies affects the price and availability of capital. Deregulation of price controls, exchange rates, and trade influences the price and availability of other inputs. Deregulation of labor narrows the gap in the factor price of labor between the formal and informal sector which, in some cases, may undermine the comparative advantage of microenterprises. Sectoral policies in favor of agriculture vs. industry, or urban vs. rural areas affect income distribution and the demand for micorenterprise goods and services. Privatization may have both positive and negative effects: on one hand, it may create new market opportunities for microenterprises, for example, through subcontracting; on the other hand, contraction of government bureaucracies and public enterprises may increase the supply of labor and competition within the micorenterprise sector (Haggblade et. al, 1989; Steward, 1987; Young, 1994).

At a more direct level, policies targeted specifically to the microenterprise sector also affect incentives, opportunities, and constraints. While not all countries have such policies, some emphasize "leveling the playing field" for small and microenterprises by eliminating biases against them and instituting at least a neutral policy environment. A few encourage public sector demand for microenterprise goods and services. Most focus on the reform of local laws and

regulations related to the governance of financial institutions, enterprise licensing and registration, land allocation and tenure, zoning, rent control, transport, and monopoly privileges. These regulations directly influence microenterprise location decisions, entry and exit, competition, and the relative profitability of different producers (DeGroot, 1990; Haggblade, et. al, 1989; Sanyal and Pradhan, 1989; Young, 1994).

Because the policy and economic environment surrounding microenterprises is complex, it is difficult to understand how policies affect the broader microenterprise sector. It is often easier to understand effects at the level of an individual enterprise or household. In this respect a practical approach for identifying key policies and/or regulations to include as mediating processes would be through interviews with microentrepreneurs.

V. METHODOLOGICAL CONSIDERATIONS

A. Overview

1. Objective of microenterprise impact assessments

Participants at the Experts Group Meeting in November felt that there is a critical need for assessments which document the impacts of microenterprise programs. The key question is: what difference do microenterprise interventions make to the client, his/her household, the enterprise, and/or the community? A secondary objective of such assessments would be to have information to better design and implement programs and projects. The participants recommended that USAID's Microenterprise Office (G/E/MD) consider supporting such impact assessments.

2. Nature of impact assessments

As mentioned earlier, an impact assessment seeks to estimate whether or not a project produces effects different from what would have occurred without the intervention or whether the project increases the probability that the effects will occur. The basic aim is to estimate the impact of an intervention by isolating or controlling for the influence of other processes and events which may affect the results. Conclusions about causality cannot be made with certainty but with varying degrees of plausibility (Rossi and Freeman, 1989).

Since the term "impact" implies that there is a static end-state, our preliminary framework refers to impact variables as "markers of change" along the path to poverty alleviation and economic growth. Some of the impact variables in the framework are lower than others in the cause-effect chain. For example, increased income from microenterprises is an intermediate level impact which, it is hypothesized, leads to a higher level of investment in productive assets.

When microenterprise projects are carried out, it is assumed that the interventions will increase the probability of positive impacts occurring within a particular time frame and population. Projects expand the range of options (through financial, social and/or market intermediation) which permit more microentrepreneurs to improve or stabilize their economic well-being within the short to medium term.

Many evaluations are designed without adequate understanding of the causal pathways. Evaluators end up focusing on the wrong variables and using the wrong proxy measures. The preliminary framework presented above sets out a "substantive" overview to inform the design of assessments.[7] The aim is to provide a basis for testing propositions about factors which influence why and how impacts occur.

Reliability and validity are the key guiding concepts for designing impact assessments. Validity of data centers on whether data accurately reflect the underlying phenomena they are intended

[7] The importance of a substantive approach, that is one which is informed by knowledge and experience related to the phenomena to be studied, is stressed in Chen (1990).

to measure. For example, Parker (1991) suggests that increases in the number of workers is not a good proxy indicator for growth in microenterprise sales. A measure is reliable to the extent that, in a given situation, it produces the same results repeatedly. Differences in the interview situation, variations between interviewers, and respondents' moods and attitude towards the interviewer and the evaluation all affect the reliability of the data.

3. The need for operations research

There is general agreement on the need for sharper tools to study the impact of microenterprise interventions.[8] This includes a need for the further development of valid, reliable, and feasible measures of impacts. Several variables included in the preliminary framework are difficult to measure (e.g., enterprise and household income, consumption, and expenditures) and development practitioners have tended to dismiss some of these on the grounds that they are too difficult to study. However, with USAID's focus on program results, it may be timely for the Agency to improve its ability to document higher level results in the microenterprise sector through the development of appropriate tools, techniques, and indicators.

Operations research can help to identify and develop appropriate measures of impact. It can also be used to develop and test proxies for measuring key impact variables, such as enterprise and household incomes. Operations research can also be used to study relationships between key impact variables (e.g., between enterprise income and asset accumulation) that are not well understood. The results of this type of research could be used for the design of impact assessments, and for the selection of indicators for USAID's program performance measurement system.

4. Suggested uses of the impact assessment

The intended use of the microenterprise impact assessments, together with cost considerations, should assist in guiding decisions on methodological choices. There are various uses which go beyond the evaluations normally undertaken by projects and USAID missions. While these uses are not mutually exclusive, the prime use needs to be specified to determine the degree of rigor required.

First, the results of the impact assessments could be used by USAID and its development partners to account for and justify the allocation of resources to microenterprise activities to alleviate poverty and stimulate economic growth. A very high degree of rigor should be employed in planning, conducting, and analyzing the findings of assessments to be used for this purpose. Participants at the December Experts Group Meeting highly recommended pursuing this use function.

Second, G/E/MD, USAID missions and USAID's development partners might use the findings to compare the results of different types of interventions, e.g. credit and savings only, credit, savings, and training, and credit only. The set of assessments could be used as part of a broader

[8] Most of the top quality studies have focused on the Grameen Bank and similar programs in Bangladesh. Among these, only the research by Pitt and Khandker (1994) includes measuring income.

program evaluation which addresses efficiency and sustainability questions. The comparative results could be used in strategic planning and in developing new activities. This type of assessment should be carried out with a high degree of rigor.

Third, USAID missions and their development partners could use the results of operations research and experience gained in conducting impact assessments to guide the selection of good indicators for measuring program performance and the collection of indicator data. This use links the work to the Agency requirement for missions to specify intended results of programs, to collect monitoring data on key indicators of achievement, and to use the data to better manage resources to achieve the specified results. These studies would enhance the ability of G/E/MD to provide technical guidance to missions on monitoring and evaluating program performance. The USAID program performance measurement system requires a fairly high level of rigor in the collection of longitudinal data on a few variables.[9]

Fourth, impact assessments can also be used by USAID and its partners to improve the design and implementation of program and project interventions to better meet the needs of clients.

Fifth, the impact assessments can serve as "best practice" models for USAID missions and their development partners to design evaluations focused on the broader impacts of microenterprise projects, and how and why the impacts are being achieved. The lessons learned and insights gained could feed into strategic and tactical decision-making in USAID missions. The studies should be carried out with a fairly high degree of rigor.

B. Design and Measurement Issues

1. Quantitative versus qualitative approach

The qualitative versus quantitative debate as to which method is best, has tended to fade into the background among evaluation practitioners. There is growing awareness and acceptance of the fallibility of all methods. This recognition is leading experts and stakeholders to more critically scrutinize the evaluation questions and methods prior to the data collection phase (Shadish, Cook and Leviton, 1991). The implications of specific questions and the methods proposed for measuring key variables may be debated among experts and examined through exploratory studies. Examination of key aspects prior to launching a major field survey helps to ensure the value of the end product.

Moreover, evaluators are increasingly using triangulation. In the classic sense, triangulation refers to using mixed methods, data sources, and investigators to study the same phenomenon. The term is also used in a more general way to mean the use of multiple methods. The work by Schuler and Hashemi provides an example of the sequential use of methods. Their first phase consisted of focus group discussions and in-depth interviews to determine the most appropriate categories in the local context for measuring "empowerment." Their second phase consisted

[9] The draft of Chapter 3 of USAID's operations Business Area Analysis report (12/1/94) states: "Performance monitoring does not embody the kind of controlled comparisons needed to test hypotheses and link observed results to our interventions. Nor is it concerned with broader impacts."

of a quantitative survey which used indicators of empowerment domains developed in the exploratory first phase.

A fundamental difference between qualitative and quantitative information is that the latter can be statistically manipulated. Multi-variate analysis, for example, permits experimental manipulation of the independent variables and controlling for mediating variables. Causal modeling, a form of multi-variate analysis, is a highly sophisticated way of assessing direct and indirect effects of independent and intervening variables. (See Pitt and Khandker, 1994, for a excellent example.)

Another difference between the two methods centers on resource requirements. The cost of quantitative surveys can be relatively high, depending in part on the size of the sample required to increase the validity of the measure, so the sample represents the entire population from which it is drawn.[10] The time required for collection and analysis of the information tends to be longer for quantitative than qualitative studies. However, the skill level of the interviewers can be much lower in quantitative studies. Qualitative studies require a higher level of sophistication from the interviewers in order to obtain internally reliable information (Moser, Gatehouse and Garcia, 1994).

2. Measurement of degree, pattern, or direction of change

A key issue is to determine the degree of precision needed to document impact. Is it sufficient to show direction and pattern of change or are quantitative data on the degree of change required?[11] The response to the question should be guided by the inherent nature of the impact variable, the use of the findings, and the cost of collecting the information.

Impact variables such as "savings" permit quantitative measurement of the degree of change. While the exact difference between measurement points (i.e. and interval measure) can be obtained for the variables (e.g. household consumption and value of physical assets), it is more difficult and costly to do so. Some markers of change do not lend themselves to quantitative measurement of the degree of change (but may be analyzed in terms of ratio scales). For example, change in an individual's civic participation is not a concept which lends itself to measurement of the degree of change; this change can be expressed by using a pattern (ordinal) scale. Other variables, such as use of modern family planning methods, indicate direction of change. Information on direction of change can be gathered on any of the impact variables, but for some variables (e.g. income) the data are not robust.

At the December Experts Group Meeting, there was a general preference for obtaining interval measures on key variables such as enterprise income, productive investments, savings, and value of real property. Taking into account resources required for obtaining reliable measurements,

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[10] The variation will in most cases be higher when measuring degree of change (i.e. using interval measures), rather than measuring the direction or pattern of change.

[11] In statistics this is referred to as an interval measure: we are able to say by how much one observation is higher than another.

it is suggested that interval measures be obtained for a very limited number of markers of change in a single survey, or through case studies or sub-samples of a larger survey group.

3. The meaning of the impacts and client satisfaction

Related to measuring impact is the notion of the meaning of that change, as well as the meaning attached to having access as a result of the project. To outsiders, be it the funder or evaluator, a relatively small degree of change in monetary terms or a change in the client's non-economic behavior may appear insignificant in the larger picture of economic growth. However, clients and their household members may attach an entirely different meaning to the impacts, be it the ability to advance in terms of economic security, the ability to cope in situations of downward pressures, or experiencing effects deemed negative by outsiders.

The meaning clients attach to the impacts is mediated through their values and priorities. Our framework captures some of this meaning. Both to test the framework and to allow for a client perspective to penetrate the analysis of the findings, focus groups, in-depth interviews, and/or case studies should be used to elicit the meaning of the impacts to those involved.

Information on target group satisfaction with the project can also be obtained by using focus groups. Clients' opinions should be sought on: the projects's responsiveness to local needs and perspectives, the project's responsiveness compared to the norm for services in that context, the services found most useful, and the primary reasons for dissatisfaction. In addition, data could be obtained on concrete, objective indicators of satisfaction, e.g. the number of persons with repeat loans, and of dissatisfaction, e.g., the number of drop-outs from X service.

4. Temporal considerations

An impact assessment implies that at least two points in time are compared to measure changes in a specific variable. The aim of data collection "before" as well as "later" is to strengthen the reliability of responses on markers of change where a) recall would be weak and b) attitudes, opinions and behaviors might change or vary through time. Collection of information at more than one point in time yields more reliable information. Casely and Lury (1981) contend that, in developing countries, non-sampling errors are relatively more important than sampling ones. There are alarmingly high levels of response errors. Measurement errors relate to the length of the recall (or reference) period.[12]

The markers of change that might not suffer greatly from one-shot interviews which ask for recall about the "before" period are: number of schoolage children attending school, adoption of family planning methods, and investment in housing and land. Recall reliability may be enhanced by utilizing tools (e.g. the matrix used by H. Naponen, 1990) or time reference points in that situation (e.g. before/after X event). Such techniques are useful in longitudinal as well as one-shot studies.

[12] Liedholm, 1991, discusses these.

What is the appropriate time interval between client involvement in the project, "before" data collection and "later" data collection to determine impacts? The first part of the question raises the issue of the length of time between first-time clients so that the "baseline" information truly reflects the status before project contact. However, there may compelling reasons for including clients who have been engaged for some months/years in the project even though no "before" data exist on them. For example, one might want to include clients who have been in the project for some years and compare them with first-time clients to determine if there is a difference in the level of enterprise income or in the use of the income within the household economy. Particularly when the time frame for an impact assessment period is limited to less than five years, the decision might be made to include in the study those who have participated in the project for some years.

If data are to be collected both before and later, what time interval is deemed appropriate in terms of when the impacts should be evident? The answer to this should be guided by an informed estimate of the time interval necessary between receiving microenterprise services and the actions and events necessary to turn project involvement into assets or other impact phenomena.

When the project focuses on policy or regulatory changes to improve market conditions, it is important to understand the actions and events that are necessary in order for these changes to affect actions at the enterprise level. The ideal is to plan for a time interval which allows for the causal processes to unfold fully, without having begun to fade and without unnecessary contamination by extraneous events.

The difficulty of choosing the proper time interval between measures is diminished by time series designs, such as panel studies. Collection of information at several points in time helps to account for variations through time. The positive aspects of time series designs, however, need to be weighed against pitfalls and resource requirements. For example, panel studies suffer from dropouts from the study, client reaction to answering the same or similar questions repeatedly, and interviewer fatigue or replacement.

Before and later interviews pose several design challenges. Respondents may come to "game" their responses to the second round of data collection since they may have been clued to the "right" answers in the first round. Adequate pretesting of instruments can alleviate most of this. Rotating statistical samples is another technique for circumventing this problem. Another issue is regression to the mean; that is, extremely high or low scores on the first administration are statistically likely to be closer to the group mean score at the second round. Care in the initial sampling can help control for this. In addition, supplementing the basic design with a smaller sample of after-only or before-only measurement can help to analytically gauge the effect of the before-after measurement (Fremming, 1994).

C. Techniques for Examining the Association of the Project with the Impacts

1. Use of comparison groups

Use of comparison or control groups [13] is a common way to strengthen the conclusion that a project is plausibly associated with the impacts. Data on the comparison/control group assist in accounting for changes which may have occurred irrespective of the intervention. This makes the findings about the clients more robust and credible in terms of accounting for the effects of the project.

At the Experts Group Meeting in December there was a general consensus that comparison or control groups should be used in the assessments designed to meet the objectives specified above (Section IV, A, 1). Some participants felt that an experimental rather than quasi-experimental design should be employed; this related to their belief that the assessments should be used to make a strong case for resources to fund microenterprise programs (the first use function described in Section V, A. 4 above.) In an experimental design, some of the individuals who would come forward to participate in the microenterprise project would be randomly assigned to the control group. This was justified on the grounds that resources are scarce and hence not everyone wanting assistance can be served.

Use of an experimental design raises ethical and logistical issues. For example, if a person is refused assistance, would she/he be willing to respond periodically to the study questions? One option is to randomly assign communities to the control and "experimental" groups, and then select individuals for the control group from a community eligible for assistance, but not receiving it.[14]

There are many difficulties linked with the use of comparison/control groups, some of which can be ameliorated. Participants at the December Experts Group Meeting felt that it is worth trying to ameliorate the difficulties in order to have comparison/control groups, given the proposed objective and potential uses of the assessments.

Table 3: Difficulties with the Use of Control Groups

DIFFICULTY	EXAMPLES OF AMELIORATING ACTIONS
Selecting the most important variables for matching client & comparison/control group.	Use statistical techniques to control for other factors during analysis phase.
Matching individuals in comparison/control group with client group on key household, individual and/or enterprise variables.	Use of participatory techniques to categorize individuals.
Controlling for self-selection of project clients.	Select individuals for comparison who would be eligible for project assistance.

[13] The term control rather than comparison group is used when access to the project is controlled by random assignment of individuals.

[14] Freedom From Hunger is employing this method in some of its impact assessment studies.

DIFFICULTY	EXAMPLES OF AMELIORATING ACTIONS
Controlling for the use of loans from other sources.	Use of logic and statistical controls to assess impact of project loans; monitor acquisition among both client and comparison/control groups. Positive outcome if clients gain access to credit through other formal channels.
Physical location of comparison group, since location affects demand for services/products, cost of inputs, etc.[15]	Select people in nearby communities with similar key community features; select those in same community who meet the eligibility criteria.
Drop outs from study (unwilling to participate, unable to locate) likely to be greater among comparison/control group than client group.	Control statistically for drop-outs.

2. Case studies

Case studies may be used for addressing the plausible association of a project with the markers of change. According to the General Accounting Office (GAO), "a case study is a method for learning about a complex instance, based on a comprehensive understanding of that instance obtained by extensive description and analysis of that instance taken as a whole and in its context." A feature of the case study method for assessing program effects is the search for disproving-proving evidence. This means that alternative interpretations are thoroughly searched for and checked through identification of instances that do not fit the general pattern. The search process ought to be documented and reasons for the outliers understood. Presentation of chain of evidence permits a fairly direct assessment of how convincingly the evidence and conclusions are related (GAO, 1990).

Participants at the December meeting did not tend to favor this approach over use of comparison/control groups and quantitative longitudinal studies. They felt that it could be useful for studying propositions in an operations research mode. Case studies could also be employed to address alternative explanations of why changes have occurred, when comparison/control groups are not used.

3. Before and later study of clients

This type of design involves collecting information from clients before or immediately after the intervention and then later (one or more times). The design is very weak in terms of causality. The design only controls for the client's access to the project occurring prior to the impact change. When data are collected and analyzed on possible other reasons for the impact change, the conclusions are strengthened.

Most experts participating in the December meeting felt that this type of design is not strong enough to fulfill the proposed objective of the assessments. They favored longitudinal studies

[15] Anheier, 1992, shows the strong influence of geographic location upon firm characteristics and business behavior.

of both clients and control/comparison groups. The resources required for such longitudinal studies can be lowered by collecting multiple data points on a sub-sample of the larger group.

It should be noted, however, that multiple data points on clients only (complemented by statistics on the proportion of clients to the larger target group) are commonly used by USAID missions in their program performance measurement systems. Thus, this type of design might suffice to meet use function number three discussed in Section V,A.4 above.

D. An Approach to the Design of Impact Assessments

1. The breadth of the effort

There should be a strategy for narrowing the scope of impact assessments, to meet the objectives of the assessments and intended use function, which is sensitive to resource requirements. Each study should be planned taking into account the cost of gathering and analyzing the data, and the ability to manage the process.

A guiding principle should be that the project studied is in a mature stage. If there are institutional or other difficulties which affect implementation, then the initial link (project interventions) in the causal path is weak. In such cases, resources are not well spent on an impact assessment since this type of study assumes a strong causal path.

As revealed in the framework, there can be several kinds of impacts resulting from project interventions. Conducting a project assessment focused on all impact domains or numerous markers of change would be extremely difficult and resource intensive. The aim should not be to cover all possible impacts. Rather, the assessment should be well-designed and executed, and the data adequately analyzed.

2. Selection of the impact variables

A rational process should be followed to determine which impact variables should be covered by an assessment. This process ought to include attention to the ability to ascertain certain types of impacts, the time span for the entire assessment work vis a vis the likely amount of time it would take for certain higher level impacts to occur, and the difficulty of obtaining good data on certain measures.

One way of limiting the markers of change to be studied would be to follow these steps:

- Consider the stated objective of the project and the USAID strategic objective and program outcomes to which the project contributes. Are any elements contained in the project which would lead one to believe that the intended impacts would in fact be within the impact domains identified in the framework?

- Use rapid appraisal techniques to assess client perspectives on impact. What evidence is there that the intended impacts are the main impacts experienced by this project's past or current clients?

- Review all of the possible impact domains and their markers of change. Eliminate those which are not applicable and not realistic to measure.

- Then classify the domains and their markers of change according to major and minor ones. "Major" should be defined in terms of clients' lives and in terms of the basis for decision-making about project/program funding.

- If there are still too many major variables, determine which ones should be studied rigorously and which ones should be subject to less rigorous techniques.

- Narrow the list further by identifying the most likely impacts which will occur. This should be done through discussions with past clients, taking care that the discussion will not influence the response of those covered by the assessment.

- Select one or a few minor impact variables to include in the study. The resources required to obtain reliable and valid measures of these, and to gather and analyze the information should enter into the decision-making process.

A program impact assessment is a means of gathering impact information on a variety of impact domains and variables. In this type of assessment, a series of studies would be carried out within a larger research design. Using the steps listed immediately above, the key major and minor domains, and markers of change within each, could be studied through a series of assessments, each focused on a limited number of impact variables.

3. Limiting the collection of original data

A strategy is needed for limiting the amount of original data to be collected by an assessment team. One way of doing this is to use relatively low cost methods to obtain descriptive information on the project inputs and implementation and on contextual factors, as suggested below.

a. **Project inputs and implementation.** The type, extent, degree and intensity of the services provided all relate to the force of the inputs to generating change. Project implementation also affects who receives the services. Information on actual project inputs and implementation could be obtained through project records, focus groups with implementers, clients and intended clients, and key informant interviews.

b. **Contextual factors.** The context of microenterprises and microenterprise households should be treated as descriptive but not static information. Macro level information, for example, on the political economy, could be obtained through secondary data sources. Key informant interviews, secondary data sources, and participation observation (for example, from local people actively involved in conducting the assessment) could provide micro level information. If the role of the assessment is to help determine under what conditions microenterprise interventions are important and feasible to implement with some likelihood of success, then more attention to the contextual factors is justified.

c. **Mediating factors.** Conceptually, any of the contextual factors may be mediating factors. The latter are defined as those forces which greatly influence the impacts. Some mediating factors are taken into account when using control/comparison groups and various statistical procedures in data analysis. A few mediating factors or hypotheses related to these should be identified for original data collection.

Another way to lower the cost of the impact assessments is to study those projects which have sound monitoring systems or whose manager are willing to institute a more thorough system. The internal monitoring system would include tracking information on key lower level impact variables (for example, associated with access) and documenting project implementation.

VI. RECOMMENDATIONS AND PRIORITIES

A. Recommendations

Building on the framework and the methodological considerations discussed in prior sections of the report, we recommend that G/E/MD carry out a series of impact assessments to document the development impact of assistance to microenterprises. The assessments should be used to account for and justify the allocation of resources to microenterprise activities. The results should also be used by USAID missions and their development partners to plan strategically and tactically. This follows on suggestions of participants at the December Experts' Group Meeting. The assessments should be designed and conducted with a high degree of rigor and the data analyzed using the latest statistical techniques. Comparison groups should be used with individuals selected from control communities and, if feasible, from project communities. The studies should be longitudinal, covering at least three to four years, and data collected several times from a selected subsample or through case studies. The impact variables studied should be selected based on the steps given in Section IV.D.3 above. The projects studied should be mature so that impacts are discernible.

We also recommend support for operations research to develop valid, reliable, and feasible measures of key impact variables which could be used by USAID missions and their development partners to monitor program performance, especially at the strategic objective level. This should be preceded by a review of the program performance measures currently being used by USAID missions, a review of experience with measuring each impact variable, and debate among experts on each measure.

Operations research is also recommended to test proxy measures of impact. In particular, it is suggested that studies be conducted which:

- compare microenterprise financial performance variables with resource base variables across major subsectors to determine if there are good, relatively easy to monitor proxy measures of positive impacts within the enterprise;

- examine feasible ways to measure increases in household assets and determine the extent to which these are better measures than household income and household consumption expenditures in showing the positive benefits from microenterprise project activities; and

- identify the best variables, which are relatively low cost to collect, to demonstrate positive impacts in communities.

We also recommend operations research to study relationships between key impact variables that are not well understood (such as the relationship between increases in enterprise income and accumulation of household assets and the relationship between asset accumulation, household security, and enterprise growth). This would serve to pretest and further refine tentative propositions and hypotheses prior to their inclusion in larger, longitudinal impact assessments.

Ideally, the operations research to refine measures and explore preliminary hypotheses should be conducted prior to the larger impact assessment described above. This will help to insure that

the larger assessments are based on solid hypotheses, use the most appropriate indicators, and say something meaningful about impact.

The operations research phase will provide an opportunity for continued involvement of stakeholders and experts in the process of developing practical and useful methodologies for studying microenterprise impacts. The three expert group meetings held in late 1994 have been constructive in evolving a common frame of reference and terminology on impact. A continuation of this process will enable USAID and its development partners to analyze impact issues with greater specificity and precision. Involvement of representatives from USAID field missions and partner organizations, especially potential participants in the larger impact assessments, will be important.

In the impact assessments and the operations research, we recommend the use of both qualitative and quantitative research methods, i.e. triangulation. In particular, the sequential use of methods should be employed to identify good measures within the local context. Focus groups involving implementers and key informant interviews should be held prior to a study to determine if the variables selected are good indicators of likely impacts in that context. Moreover, the final data collection effort should ascertain the meaning of impacts through case studies or focus groups of clients. In addition, case study methods should be employed in testing hypotheses. The case studies should follow the guidelines established by the GAO, so that they are deemed credible.

B. Priority Propositions for Study

It is further recommended that the impact assessments test a conceptually grounded set of propositions on how microenterprise interventions contribute to economic growth and poverty alleviation by promoting enterprise stability and growth, household security, the well-being of people, and the economic health of communities. Priority propositions are presented below.[16] Some are based on sufficient empirical data to allow us to test them without additional research. Others are still tentative and will require further refinement of measures and of posited relationships through operations research, as described above. These are indicated by an asterisk (*) in the text.

1. Enterprise development

a. Microenterprise interventions promote enterprise stability by contributing to a more stable resource base, more stable employment, and improved financial performance.

*b. Microenterprise interventions promote enterprise growth by contributing to net increases in enterprise income, net increases in employment at the enterprise level, an expanded resource base, and reinvestment of enterprise earnings in the enterprise. (Operations research to develop proxy measures for income and productivity.)

[16] These priority propositions have been selected from the list presented in Annex A.

2. Household security

a. Microenterprise interventions contribute to net increases in household income by increasing microenterprise income and through reinvestment of microenterprise income in other household income-generating activities.

*b. Microenterprise interventions contribute to household security by generating surplus income for use in the accumulation of assets. (Operations research on the measurement of assets and the posited relationship between net increases in household income, asset accumulation, and household security.)

c. Microenterprise interventions contribute to net increases in household income which leads to increased expenditures on food, education, and health, and thus economic security.

3. People's well-being

a. Microenterprise interventions contribute to individual well-being by expanding control over resources and leverage in household decision-making processes.

4. Economic development and civic participation

a. Microenterprise interventions contribute to the economic health of communities through net increases in income and employment at the community level.

b. Microenterprise interventions contribute to greater participation in civic organizations.

ANNEX A

PROPOSITIONS ABOUT THE IMPACTS OF MICROENTERPRISE INTERVENTION

Within our framework, microenterprise development is seen to contribute to improved household security, and, ultimately, the advancement of individuals and households in relation to the broader goals of poverty alleviation and economic growth.

The framework provides a basis for developing a set of propositions related to impacts at the household, enterprise, individual, and community levels. Some of these propositions have only been suggested by the literature and will need further refinement of measures and of posited relationships through operations research. Some of the more specific propositions on the impacts of microenterprise interventions could serve as the basis for the design of particular impact assessments. Also included are impacts for households and enterprises whereby microenterprise interventions have merely helped to maintain a position despite downward pressures. Some possible negative impacts for households and individuals are also mentioned (See Annex B for a discussion of these latter two types of impact.)

1.0 The Relationship Between Income and Assets

1.1 Surplus income generated by microenterprises and other productive investments contributes to the accumulation of household assets.

1.2 Household assets improve stability and economic security by providing a cushion when income flows are interrupted.

1.3 Household assets provide a foundation for risk taking. With more assets, households can diversify their holdings more effectively which may create higher returns for a given level of risk.

1.4 Household assets enable focus and specialization by providing the basis for purchasing tools and skills required for specialization in advance of the income flows from specialized activities. They also provide a resource base to support basic consumption while making the shift to specialization.

1.5 Household assets provide a basis for future planning. They allow for more predictability, control, and flexibility. They are a counterweight to vulnerability.

2.0 The Role of Microenterprise Interventions in Promoting Household Security

2.1 Surplus income generated by microenterprises and other productive investments contributes to household viability by:

-allowing for additional expenditures on basic household expenditures for improved nutrition, health and well-being;

-allowing for the repayment of excessive debt obligations which use up household resources and undermine the basic security of the household's asset base.

2.2 Surplus income generated by microenterprise and other productive investments contributes to household security by:

-allowing for savings, whether in the form of cash or other physical assets, such as livestock or jewelry. Savings, as well as other household assets, can contribute to household economic security by providing a cushion when income flows are interrupted;

-allowing for the reinvestment of income into productive activities including microenterprise activities;

-allowing for the diversification of productive investments to provide a variety of income sources, some more stable than others, some involving more risk;

-providing more options with respect to housing for residential or productive purposes. Investments in real property may focus on attaining secure occupancy or secure tenure;

-allowing for investments in human capital, such as children's education.

2.3 Surplus income generated by microenterprise and other productive investments contributes to longer term economic security by:

-allowing for more savings, including bank savings, which link the household to formal financial institutions;

-allowing for increased investments in real property as a means of providing longer term stability for housing and productive activities;

-allowing for purchase of additional assets which expand the household economic base. Diversified assets allow the household to better manage risk;

-encouraging the growth of microenterprises through specialization. Surplus income may be used for purchasing tools and skills required for specialization.

3.0 The Role of Microenterprise Interventions in Assisting Households to Maintain their Level of Economic Security in the Face of Downward Pressures

3.1 Savings help to protect households from selling off household assets to meet consumption needs during times of stress.

3.2 Microenterprise credit and savings help households diversify income sources to cope with seasonal or other short-lived periods of stress.

3.3 Social intermediation strategies provide information and networks that assist households to cope with stress. They also foster the mobilization of community resources as mechanisms for coping with crisis.

3.4 Management training focused on household budgeting and longer term financial planning strengthens the capacity of individuals and households to cope with stress.

4.0 Some Negative Impacts of Microenterprise Interventions on Households

4.1 Under some circumstances, credit may increase the indebtedness of households at the margins of survival or under stress because they have limited opportunities for productive investment within or outside microenterprise activities.

4.2 Credit may increase the indebtedness of households if the cash flow of the enterprise is insufficient to cover loan repayments, and the household does not have other sources of income to cover repayments.

5.0 The Role of Microenterprise Interventions in Promoting Microenterprise Development

5.1 Microenterprise interventions contribute to the establishment of viable microenterprises by:

-encouraging the accumulation of start up capital through savings. Providing safe and accessible savings facilities is important since most poor people start microenterprises with savings;

-improving knowledge and information about new business opportunities or about resources or markets through social intermediation strategies such as group formation;

-creating market demand through market intermediation strategies subsector (e.g., BRAC sericulture, Grameen Check);

-providing credit to start new enterprises within households that have other sources of income to cover loan repayments.

5.2 Microenterprise interventions contribute to the stabilization of microenterprise income by:

-providing a more stable source of finance through the sustainable provision of savings facilities and/or credit. More stable finance, in turn, allows for a steady and more predictable supply of inputs and improves the capacity of the microentrepreneur to plan ahead;

-promoting more secure tenure and access to services through regulatory reforms;

-promoting more stable prices for both inputs and outputs (goods and services provided) through policy interventions.

5.3 Microenterprise interventions contribute to enterprise growth through diversification by:

-improving access to larger amounts of capital through credit and savings. Access to larger sums of capital enables diversification of inputs, production processes, outputs, and/or assets. This provides a basis for spreading risks, reducing costs, and increasing productivity and income;

-diversifying and expanding markets through market intermediation strategies, including subsector strategies that improve market access and regulatory and policy reforms that change prices, increase demand, and promote infrastructure development.

5.4 Microenterprise interventions contribute to growth through specialization by:

-providing capital on appropriate terms and in the right amounts for acquisition of inputs, tools, equipment, and physical assets required for specialization;

-improving technical and managerial skills required for specialization through training;

-improving access to markets for specialized goods and/or services through subsector strategies and policies that promote infrastructure development;

-improving the stability of markets for specialized goods and/or services through policies and other market intermediation strategies;

-expanding market demand in specific subsectors through policies and other market intermediation strategies.

5.5 Microenterprise interventions increase incomes and expand employment opportunities by contributing to the viability, stability, and growth of microenterprises.

6.0 The Role of Microenterprise Interventions in Maintaining Microenterprises at a Constant Position in the Face of Downward Pressures

6.1 Savings help to protect households from selling off business assets (tools, equipment, machinery, premises) or depleting working capital during times of stress.

6.2 Microenterprise credit and savings assist individuals and households to rebuild the productive capacity and business asset base following periods of stress.

7.0 Some Negative Impacts of Microenterprise Interventions on Enterprises

7.1 Policy reforms may have a negative impact when they increase prices for microentrepreneurs who are net producers of goods.

7.2 In situations where markets are saturated, microenterprise interventions may contribute to reduced market shares, lower product prices, or displacement of other microenterprises.

8.0 The Role of Mircroenterprise Interventions in Promoting Improvements for the Individual

8.1 Mircroenterprise interventions contribute to the well-being of individuals within the household by:

-providing access to capital and encouraging personal savings over which the individual has control;

-providing access to information and knowledge through social intermediation that allows the individual more options in relation to markets and resources;

-providing access to enterprise services, including instruction in business skills and practices, that allow the individual more options with respect to business operations;

-providing a means by which the individual can increase their economic value to the household, thereby giving them more leverage in household decision-making processes;

-providing a means by which the individual can build his/her social capital, through becoming involved in social networks which may lead to business partnerships, market interaction, and civic participation.

9.0 Some Negative Impacts of Microenterprise Interventions on Individuals

9.1 Credit may increase the indebtedness of individuals beyond their capacity to repay in the case where the cash flow of the enterprise is insufficient to cover loan repayments and the loan funds are used by other household members.

9.2 Targeted microenterprise interventions which exclude access to some household members may exacerbate tensions in the household resulting in added pressures on the individual.

9.3 An inappropriate training program that takes time and money may result in income losses for a microentrepreneur.

10.0 Impact of Microenterprise Interventions at the Community Level

10.1 Microenterprise interventions contribute to community economic development and civic participation through:

-net increases in employment at the community level;

-net increases in income at the community level;

-lower cost goods or services through the substitution of formal sector goods and services with those from microenterprises;

-provision of new and lower cost goods or services by microenterprises;

-contribution to the formation of social networks and increased participation in civic organizations.

ANNEX B

THREE TYPES OF IMPACTS

The analytic framework presented in this report discusses impacts primarily in relation to the forward movement of households towards greater economic security and well-being, the formation of viable and remunerative microenterprises, and the movement of microenterprises towards viability, stability, and/or growth; improved individual well being, the economic development of communities, and civic participation.

However change is not always positive or linear. Microenterprise interventions can help to maintain households and enterprises at a constant position in the face of downward pressures. In some cases, they can also have negative effects when the costs to the client and/or the household are greater than the benefits because the intervention is inappropriate, or because of unforseen events. These two types of impacts are discussed below.

Maintaining households and microenterprises at a constant level in the face of downward pressures: Households and microenterprises regularly face downward pressures that erode their economic position by depleting savings and assets, increasing indebtedness, and reducing income. Downward pressures undermine the viability of microenterprises and the future security of households. They affect households at all economic levels, and microenterprises of all types. However, they are particularly devastating for vulnerable households existing on the margins of survival.

Downward pressures fall into three categories: (i) normal life cycle factors such as birth of a child, loss of a household income earner, an increase in number of dependents, or seasonal variations in production; (ii) crisis factors such as natural disasters, crop failures, losses due to fire or theft, illness or death, displacement of home or business, robberies, physical and domestic violence, civil strife, court cases, or other social pathologies; and (iii) structural factors including economic downswings, high inflation, or other adverse conditions. Previous impact studies commonly cite these factors as reasons that some microenterprises contract or fail.

Individual and household coping strategies are diverse and conditioned by the vulnerability of the household. Walker (1993) describes four types of strategies. The first type responds to normal life-cycle or seasonal stress or shorter term periods of stress. Under these circumstances, coping strategies might include altering cropping and pasturing practices, rationing food, increasing kinship transfers and loans, diversifying income sources, temporary migration in search of work, sale of non-essential possessions, or sale of excess animals. These strategies do not affect the basis of the person's household's potential economy. The fundamental resource base (land, tools, labor) remains intact, and the stress is reversible.

One hypothesis is that microenterprise strategies can strengthen the coping strategies of individuals and households at this first level of response. Savings programs can enable households to build a cushion of savings for times of stress. Credit can permit the diversification of microenterprise activities and household income sources to spread risks. Social intermediation strategies can strengthen community support networks and provide more information on economic options. Management training focused on household budgeting can

encourage cost saving consumption strategies. In general, microenterprise interventions can help to prevent households from depleting their productive capacity and backsliding to a more vulnerable level where they are forced into more desperate responses which undermine the survival of individuals and households.

A second type of coping strategy occurs under conditions of prolonged stress due to crisis or insecurity. Under these circumstances, essential livestock and tools are sold, money is borrowed from outside kinship relations, and land is mortgaged or sold. The working capital or assets of the microenterprise are sold off. Individuals and households sacrifice future security for present survival. These strategies erode the base of an individual's or households's means of survival.

Once an individual or household has reached this stage, microenterprise strategies are probably less relevant. Some could actually have adverse effects. Under these circumstances, for example, credit may increase the indebtedness of households. However if the conditions causing the stress are reversed, microenterprise strategies can play a role in helping households rebuild their base of assets through productive investments in microenterprises.

Once individuals and households lose their basic means of survival, they are forced to resort to distress migration and reliance on food aid. In extreme circumstances, individuals face the real possibility of starvation or death. Individuals and households are highly vulnerable at this point and microenterprise strategies have little role to play. Again, if the conditions causing the stress are reversed, microenterprise interventions can play a role in generating income, employment and rebuilding assets.

Negative impacts: Concerns about the negative impacts of microenterprise programs come from two camps. The first camp includes finance specialists who worry that microenterprise credit can increase the indebtedness of households, because their microenterprises have limited potential for productive investment. Consequently, investments at this level will have little impact in creating new income or employment. Under these circumstances, households will be forced to deplete their savings, assets, or other investments to repay the loans. Moreover, the overall economy will suffer because scarce capital resources are being diverted from more productive growth oriented enterprises that can generate employment opportunities for the poor. Proponents of this view argue that improved access to savings facilities is a more appropriate financial intervention for microentrepreneurs in the survival economy, since a majority finance their businesses from savings anyway (von Pishke, 1991; Adams and von Pischke, 1993).

Poverty alleviation specialists who question the "enterprise" or "entrepreneurial" model of development also worry about the negative effects of microenterprise interventions (Wood, 1994). Proponents of this view, similarly, see that a majority of very poor households do not have the basic resources and skills required to operate a viable business. Lack of assets and an unstable domestic economy undermine their capacity to operate a business. Oligopolistic and monopolistic structures and other factors in the political economy further stack the odds against the poor and reduce their capacity to compete in the market. This group argues for an "empowerment" model of poverty alleviation that takes a broader and more structural approach to increasing income and employment opportunities for the poor. Such strategies include, for example: special employment programs (e.g., innovative public works programs that enhance participant's control over infrastructure or resources); social ventures that reduce the risks and

facilitate linkages of poor people to growth sectors of the economy (e.g., sectoral strategies); and resource management strategies that provide the poor access to, ownership of, and control over productive assets (fish ponds, tubewells, common property resources).

One hypothesis is that under some circumstances, microenterprise interventions can have negative impacts. For example, if the investment does not generate a cash flow sufficient to cover loan payments, it can increase the indebtedness of households. Increased indebtedness can have a negative effect on the enterprise itself by depleting working capital or productive assets. It could also effect the overall household, by diverting investment from other productive activities, by forcing households to sell off assets, or by requiring household members to work excessively long hours to repay the loans.

In another example, the diversification or expansion of microenterprise activities may increase women's already heavy work burdens if not accompanied by measures to reduce the time required for household maintenance activities.

Another possible negative impact might occur when microenterprise investments encourage entry or expansion into already crowded business activities. If the market is saturated, the growth of one business could be at the expense of another, either through displacement or reduced prices. Other negative impacts might be exploitative use of family or other labor, or reduced consumption levels when households shift from domestic production to the market economy.

ANNEX C

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ANNEX D

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