

PD-ABB-784

68319

IESC EVALUATION: Recommendations For
Short- and Long-Term Changes To
Emphasize "Grass Roots"
Programming and Projects

Prepared for

Bureau of Population
and Humanitarian Assistance

U.S. Agency for
International Development

by

Robert R. Nathan Associates, Inc.
Consulting Economists
Washington, D.C.

October 11, 1977

PREFACE

This report consists of an evaluation together with recommendations concerning the operation of the International Executive Service Corps at the level of "grass roots" development in the poorer nations of the world. The Bureau of Population and Humanitarian Assistance, U.S. Agency for International Development, specifically requested that Robert R. Nathan Associates, Inc. (RRNA) examine existing IESC and AID policies, activities and constraints with respect to the feasibility and desirability of substantially increased small enterprise programming in the short and long run.

The present evaluation, and the recommendations herein, reflect the findings of an earlier RRNA evaluation of IESC's performance effectiveness and development impact; the past experience of the volunteer executives with small (and very small) business as in developing countries; and IESC's current Small Business Assistance Test Program. In addition, comments and suggestions were elicited from AID personnel in charge of other ongoing and proposed technical assistance programs, from knowledgeable persons in other international organizations and from IESC head office executives directly and indirectly involved with program changes.

The work order objective and scope of work are contained in Annex A to this report. Annex B contains the names of the personnel contacted during the course of this evaluation.

CONTENTS

PREFACE	ii
SUMMARY	v
I. THE NATURE OF GRASS ROOTS INVOLVEMENT	1
II. PROBLEMS WITH GRASS ROOTS INVOLVEMENT	4
III. THE MEANS FOR GRASS ROOTS INVOLVEMENT	7
IV. AN ACTION PLAN OF GRASS ROOTS INVOLVEMENT	10
V. BUDGET IMPLICATIONS	18
ANNEX A: AID WORK ORDER	24
ANNEX B: PERSONNEL CONTACTED	25
APPENDIXES	

SUMMARY

Grass roots involvement on the part of the International Executive Service Corps means assisting small businessmen, farmers and other members of the "poor majority", directly and indirectly, to increase local income, employment and productivity through technical assistance.

From its inception in 1964, the IESC has provided technical assistance from time to time to small scale/grass roots business enterprises; it has likewise helped vocational schools, health clinics and other institutions provide better services to the disadvantaged population in many developing countries. There has been no active program to develop these types of projects, however, until recently.

Because of its heavy reliance on funding by the U.S. Agency for International Development, IESC should be willing to change or modify volunteer programming -- to the best of its ability -- in line with congressional mandates. A start in the direction of increased grass roots involvement was made in August 1976 upon commencement of the Small Business Assistance Test Program.

The proper role of IESC is filling the technical assistance gap between its traditional large fee-paying clients and the micro businesses. Because lack of financial assistance as well as managerial know-how is a serious constraint on small business development, volunteers should be programmed wherever possible with credit and capital sources serving the grass roots environment.

Providing organizational and managerial assistance to sponsoring institutions can have a multiplier effect in the grass roots. Volunteers can also "reach through" sponsors to provide person-to-person technical assistance with the sponsor's small business beneficiaries.

Recommendations for achieving a significantly larger IESC involvement with small scale enterprises include:

- (1) immediate preparation of a concise yet penetrating report on the results of IESC's test program to date and circulation of this report throughout the organization;
- (2) the addition of a roving representative in each region whose primary purpose would be identifying potential local sponsors/catalysts and following through with discussions leading to small business assistance agreements;
- (3) assessing the roster of executive volunteers with respect to recruiting needs for supplying more "generalists" for longer terms than is usually the case for traditional projects;
- (4) estimating country by country, the requirements and costs associated with providing additional supporting manpower and services which are likely to be required for grass roots operations, and
- (5) enlisting the assistance of AID to provide a listing of potential sponsors from the Regional Bureau's current and proposed programs and from the other private voluntary organizations which AID supports.

Given the financial structure of IESC's operations, the magnitude of IESC's grass roots involvement will depend heavily on the size of AID's annual contribution. In order for IESC to achieve its "major impact" through small enterprises by 1982, the annual grant projected for that year will range from 50 to 100 percent higher than the current \$4 million level, depending on alternative assumptions as to fees collectable from grass roots projects.

I. THE NATURE OF GRASS ROOTS INVOLVEMENT

Historically, IESC clients or projects have been sought in developing countries through public relations campaigns conducted by the Corps' country directors. Because of their continuous need to find clients able to pay for the technical assistance received and heavy logistical workloads, country representatives are almost forced to concentrate their activity among the larger businesses.¹ IESC's grass roots involvement, therefore, needs to be viewed in the context of operational and financial considerations. Such programming should be aimed at filling the gap between the traditional medium and large business projects and the micro businesses ("Mom and Pop operations") which are clearly beyond reach of an organization such as IESC. It is the upper strata of the "poor majority," so to speak, which should be the operational milieu for new Corps involvement, especially given the levels of technical expertise currently found in the roster of executive volunteers.

The lowest strata of the population, including micro businesses, are more properly and efficiently served by the hundreds of other private voluntary organizations funded by USAID, foundations and charities.

1. In 1976 only 15 percent of the worldwide projects, or approximately one in six, involved clients with less than \$500,000 in annual sales volume.

The term "small business" is not easy to define. However, for the purpose of IESC's involvement it is recommended the following elements be considered:

- a maximum annual sales volume of \$500,000 and a minimum of 5,000 times the minimum daily wage;
- a minimum size loan if required of \$2,500;
- flexibility in the use of these guideline figures as between countries at different levels of development and types of business enterprise;
- a minimum of 5 employees and presence of a dedicated counterpart in order to exclude the micro companies;
- the willingness of the small client to pay some fee, however small, for technical services received;
- the financial and/or intellectual capacity of the small entrepreneur to implement the recommendations of the executive volunteers.

Although IESC's role in national development is primarily in the business community (i.e., manufacturing, commercial services, wholesale and retail trade, agribusiness) it is not implied that new programming continue to be solely emphasized in these areas. Rather, IESC should expand its participation in the health, education and other social sectors in their business organization and management aspects. Equally important, the Corps should, if possible, substantially diversify its activities into rural areas, including organization and initial management of farmer cooperatives and farm credit institutions, access road

Continued

betterment, extention of rural municipal services¹ and rural small enterprise development.²

Grass roots programming should have the same goals as those for large businesses, namely increasing income, employment and productivity plus promotion of the favorable image of U.S. business abroad. It should be recognized that the indirect impact an IESC volunteer will have on GNP is likely to be less at the grass roots level than when working with large companies which have the financial and other means to contribute rapidly to capital formation in the developing country. However, grass roots involvement may yield a more socially desirable income distribution than traditional IESC activities.

1. These include such projects as wholesale and retail markets, small agro-industrial parks, low income housing sites and services, related potable water and sewage facilities and bus terminals.

2. Such businesses might include grain mills, bakeries, sanitary slaughterhouses, rope and leather processors, dairies, and manufacturers of apparel, shoes and household goods.

II. PROBLEMS WITH GRASS ROOTS INVOLVEMENT

The current operational policies and budgetary structure of IESC do not permit a significant grass roots program. These subjects were discussed at some length in the first RRNA evaluation report in connection with the Corps' overall development impact. The most serious constraint on small business programming is a financial one; however, there are also operational factors at work.

AID's level of contribution is barely sufficient to cover the foreign direct costs of IESC's traditional type projects. The home office overhead, precluded by the terms of the support grant from using AID assistance directly, must be paid for by client charges and donations from U.S. businesses or other sources.¹ The pricing policy in most countries served is to charge the client according to ability to pay but with an upper limit of the volunteers' direct costs (travel expenses and per diems). RRNA criticized this policy on the grounds that large clients should be charged full costs (including overheads less promotional and fund raising expenses). If this were done, IESC could shift

1. Donations by foreign corporations are retained in the country of origin for local promotional activities.

the small client "subsidy" from itself to the big businesses it so effectively serves. The IESC maintains that full cost pricing even if limited to the largest client, will reduce the demand for its volunteers in most countries.

Thus, grass roots involvement by IESC presents a "Catch 22" situation. With its fixed overhead and relatively fixed income from non client sources, a shift of programming away from large clients who are able to reimburse direct costs to small businesses who cannot, will result in operational deficits. On the other hand, retaining a sufficient number of large clients to cover the home office overhead but programming more small business projects will also result in a deficit. This is because, as mentioned above, the level of AID contribution just covers the direct costs of traditional type projects.

IESC's experience with very small businesses has shown that it is difficult and time consuming to obtain such clients on a direct basis. Other difficulties include inability to pay even a fraction of direct cost, lack of an effective counterpart, language barriers even with interpreters, and the amount of time a very small businessman can actually give to an executive volunteer. Frequently, the volunteer ends up running the business himself, without being able to transfer his bundle of skills to the client. This kind of situation is not the purpose or goal of the International Executive Service Corps.

It is likely that involvement at the grass roots level, particularly working with small groups rather than a single client, will require a greater degree of versatility, resourcefulness and stamina on the part of the executive volunteers than is generally the case with large companies.

It is also likely that IESC's usual 2 to 3 months assignment period will be insufficient for grass roots projects. Volunteer assignments up to a year in duration may be required in some cases to realize any tangible results.

Finally, a substantial gap has existed between both IESC's home office personnel and country directors and the small business communities. IESC has rarely turned its back to small entrepreneurs who have come to it seeking help. But for the reasons given above, the tangible results have been such as to discourage country representatives from actively seeking small clients. This situation has been reinforced by already heavy work loads and requirements to fill country quotas with fee-paying larger companies.

III. THE MEANS FOR GRASS ROOTS INVOLVEMENT

Successful small business programming on a significant scale will require IESC to adopt and follow a carefully designed modus operandi. Executive volunteers must reach, directly and indirectly, relatively large numbers of urban and rural entrepreneurs in an efficient manner. Further, for tangible and lasting development benefits to be realized, small businessmen including farmers must have the means to implement the technical advice conveyed to them. Based on the past experience of both local and international assistance organization, success in grass roots development is generally predicated on a combination of technical and capital/financial assistance proffered to clients meeting the criteria prescribed above. Efficiency in identifying and reaching small entrepreneurs implies close association on the part of IESC with local sponsoring or "catalytic" organizations which themselves are trying to assist small businessmen and farmers improve their productivity and incomes.

On a number of occasions executive volunteers have worked directly for institutions serving small businesses, helping to improve their management and operations. Volunteers have also been programmed through catalysts, such as

trade associations and technical institutes, to work directly with small businessmen (See Appendix I). Many of these projects have been successful, but they have been done on an ad hoc basis and in only a few countries (e.g., Brazil, Columbia, and Korea). IESC's major sponsors continue to be local Chambers of Commerce, and Steering Committees, whose members usually include the larger business firms located in the larger cities.

The utilization of executive volunteers in conjunction with capital/financial assistance should be construed broadly by IESC in order to achieve significant penetration at grass roots levels. Such programming, inter alia, might include:

Helping set up new, and improving existing, private and public financial institutions offering loan guarantee and credit extension programs for small businesses and farmers;

Through such institutions, reaching out to provide technical assistance to small cadres or groups of their clients including agricultural and other types of cooperatives;

Helping local housing authorities and banks with low-cost housing schemes and "reaching through" such sponsors to small contractors and construction material suppliers;

Using a similar approach with industrial park authorities where the government is trying to assist and promote small business development with such incentives as rent subsidies and capital equipment leasing;

Promoting the concept of sub-contracting by large companies (and also through government policy) and thereby enlarging the "market" for IESC's technical services.

It should be noted at this point that the current IESC volunteer roster contains those types of rather specialized skills which could be utilized effectively and immediately by sponsors/catalysts of the types above. However, moving on to the next step, the provision of assistance to grass roots entrepreneurs directly on a person-to-person basis will require additional on-site screening, more logistical support and possibly the recruitment of even more versatile and resourceful volunteers than traditional projects require.

IV. AN ACTION PLAN FOR GRASS ROOTS INVOLVEMENT

Assignment of executive volunteers on grass roots projects which have reasonable success probabilities is technically and administratively feasible if certain conditions are fulfilled. Excluding for the moment financial or budgetary considerations, these conditions are:

1. Identification of potential host country sponsors -- public and private -- whose activities are largely directed toward assisting small entrepreneurs including self-employed farmers;

2. A further ongoing attempt to identify new and proposed institutions intended to serve the target population for the purpose of assisting in their organization;

3. Identification and screening of small enterprises which are potentially "qualified" to effectively utilize IESC's technical assistance in conjunction with a sponsor's capital/financial assistance;

4. Utilization by IESC of dedicated program developers for small business projects at least at a regional level. These specialists would operate in consonance with country directors and regional vice presidents for the purpose of identifying and contacting as many potential catalysts as possible;

5. Provision of in-country logistic and interpreter support coordinators reporting to the country director and serving as the liaison between volunteers, sponsoring organizations and small groups of entrepreneurs/farmers as required;

6. Availability of executive volunteers whose technical advice can be effectively communicated in a grass roots environment and whose length of tour is sufficiently flexible to achieve tangible results,

7. A firm commitment to small business programming on the part of IESC's home office personnel.

During the past year, IESC has been looking into the possibilities of new types of programming in line with AID's New Directions. A major part of this effort has been the Small Business Assistance Test Program. This program, headed by the Vice President, Small Scale Enterprises, was designed to determine the most effective and efficient ways of reaching the grass roots with technical assistance and the transfer of technology. Another aim was to identify the

typical kinds of problems volunteers would experience with new types of clients and local sponsoring organizations.¹

The results of the test program are not yet finalized, but a good start (although admittedly limited) has been made. Potential small business catalysts -- both private and public -- were contacted in Iran, Korea, Indonesia, Philippines, Thailand, and Taiwan. In addition, the possible expansion of previous and similar small business involvement in Brazil and Colombia was investigated. A partial listing of the contacts made is found in Appendix II.

It is important to note that from the start of the test program, IESC recognized that grass roots programming requires, and IESC's talents are best suited to, a sponsor or catalyst approach. By providing technical assistance to institutions dealing with small entrepreneurs and farmers, a "multiplier effect" would be realized. The national income and employment benefits generated from this approach would be additive in an economy to IESC's "trickle down" benefits from its traditional large business clients. What the test program has shown so far is that a real and promising possibility exists, in some cases, to interface directly with the small entrepreneurs being otherwise assisted by the sponsoring organizations.

1. In December 1976 a summary report on the first 3 months of the test program was prepared by the Small Enterprise representative for the IESC Advisory Board for Small- and Medium-Sized Enterprises. Fields for further study and experimentation include industrial cooperatives, equipment leasing programs, promoting local content by subcontractors and equity capital institutions.

Several project agreements have already been negotiated with sponsors as a result of the program. One contract was written with a group of small businessmen which was organized by a large corporate sponsor. Some possibilities have fallen through because potential catalysts could not or would not meet the requested fees IESC is required, by its own policy, to charge. The first volunteer assignment under the test program commenced in Iran in August, 1977.

An action plan for grass roots involvement should have a quantified target to be met by some future year. It has been suggested by AID, for the purpose of this evaluation, that recommendations be made with respect to "long term plans to progressively shift the major impact of IESC toward small scale grass root type operations." Because of the measurement problems associated with the benefits generated by IESC, the term "impact" should be construed to mean the number of clients given technical assistance. Such assistance, however, may be direct (person-to-person) or indirect (multiplier effect). In the former case, if 500 large clients in a given year are provided assistance, at least that number or more small scale businesses should also receive personal guidance by executive volunteers to the extent spelled out in the terms of the agreements with the sponsoring organization.¹ If indirect assistance is used as the "impact" determinant, then the "major impact" might be satisfied through agreements between IESC and the sponsoring organizations in their role as multiplier mechanisms. The form of the "impact" would vary in this case, e.g., small entrepreneurs receiving advice by employees of the sponsoring organization who have been trained by the executive volunteers,

1. This suggestion excludes the counting of individual farmers belonging to agricultural cooperatives and the number of households in a cottage industry project.

small businesses qualifying for loans due to volunteer-induced changes in financial circles, or new business starts as a result of industrial park authorities being assisted by volunteers.

A successful grass roots program with a real income and employment impact would undoubtedly consist of both direct and indirect assistance projects. It is envisioned, however, that it could take up to 5 years or longer before the IESC's development assistance is predominantly channeled through the ramifications of its grass roots involvement. This is due to the need to work with a variety of sponsoring organizations in each host country. Unlike corporate clients, such institutions often require extensive dialogues over rather long periods before signing an agreement. This is especially true with government agencies and trade associations in some countries.

To shorten the time frame for more intensive, extensive, and effective small business programming, there are several recommendations that AID can make to IESC. There are also several things AID can do for the Corps.

1. IESC should consolidate, in report form, the current status of its Small Business Assistance Test Program and the findings to date. This report should include the countries visited by the Vice President, Small Scale Enterprises, the various types of institutions and private companies contacted, a statement as to their reaction and potential involvement as a sponsor or catalyst, and their recommendations for other contacts to be made in the country. Finally, a listing and brief description of the actual and potential

agreements negotiated or in process should be included. This report should be distributed to IESC's regional vice presidents and country directors. Copies should also be sent to the PHA/PVC/OPNS office in USAID Washington.

2. IESC is considering the addition of several temporary "roving" representatives assigned to regions for the purpose of identifying new forms of volunteer participation, including small business projects. Two such home office representatives will soon spend some time in Indonesia. This effort should be expanded. If small business programming is to be emphasized there should be at least one roving representative assigned to each region for the sole purpose of identifying, contacting and negotiating with potential grass roots catalysts. A considerable amount of "leg work" is required from dedicated and energetic personnel for such project development, as demonstrated by the test program to date. Country directors cannot do the job effectively, as stressed earlier in this evaluation. The regional small business representatives, however, would work in consonance with the country personnel and the regional vice presidents.

3. IESC should give serious thought to establishing a permanent Small Business Department in the home office headed by a vice president. The roving representatives would report to, and channel their activity and paperwork through, this department. There is good reason for this in the light of the work load now carried by the home office personnel involving traditional large business projects. At

this point it appears there is no requirement for a "small business specialist" in the recruitment department, but there might be in the future. Recruiting volunteers for small business projects may be a more difficult and time-consuming task because of the anticipated requirements for longer tours and possibly more versatile or more "generalized" volunteers.

4. IESC should assess each country director's current in-country staff for the purpose of determining where and how much additional logistic and interpreter support may be needed to administer a grass roots program involving, say, 10 to 20 projects a year. The financial implications of any additional local manpower and support should be estimated.

5. All head office executives, while on field trips, should be on the lookout for latent possibilities in a country for institution-building in the public sector to help small entrepreneurs and for promoting the concept of sub-contracting by large companies in the private sector.

AID can and should assist the IESC in grass roots programming efforts:

1. The PHA/PVC/OPNS office, through the regional bureaus, should develop a list of potential catalysts from the ongoing and new country programs. This list should identify, if possible, general types of volunteer skill requirements for the program, or project. Possibilities for IESC participation in the planning and establishment of new institutions for assisting small enterprises should also be enumerated.

2. AID-sponsored PVO's should be queried as to whether any of their present or new projects, which touch on small business activity, might serve as vehicles for IESC involvement. The idea here would be to identify special situations where even some micro businesses might be served by the executive volunteers.

V. BUDGET IMPLICATIONS

There are two basic considerations to be borne in mind in connection with a significantly expanded small business program. First, IESC must continue its successful activities in generating sufficient funds from clients to cover the home office overhead but at somewhat more than the existing level of costs. Any new programming will certainly increase, if only marginally, the home office expenses. The additional expenses will include the services of the recommended roving regional representatives.

Second, AID must continue to provide funds for the foreign costs of traditional one-on-one volunteer projects with paying sponsors plus funding the direct costs of volunteers serving grass roots projects. It is recognized that some catalysts/sponsors might be able to underwrite part or all of these direct costs. Nevertheless, it is almost a certainty that grass-roots type projects will result in deficits necessitating additional funding from AID or other donor sources.

It was suggested in the first RRNA evaluation that IESC change its policy and charge its large clients full costs. Even if all large clients paid in full, IESC would still run a deficit. This deficit would consist of a shortfall in

fees from the medium sized clients IESC will continue to serve, plus that from new forms of small business programming which will require, on the average, longer tours abroad by volunteers. Unquestionably, the magnitude of IESC's grass roots involvement will depend heavily on the size of AID's annual contribution.

If IESC continues its test program through 1978 and implements all the recommendations made in the previous section, there will not be, *ceterus paribus*, a significant impact on the organization's financial posture. New types of sponsor-catalyst clients will be added but these are likely to be institutions which can be charged fees high enough to offset a large part of their direct volunteer costs. However, if IESC is to progressively shift its programming to achieve the major impact of its development assistance through the grass roots, the adverse financial impact will become increasingly pronounced.

In recent years the AID annual grant to IESC has been at the \$4 million level, and the number of projects starts has averaged 600. The volunteer cost per project has been rising steadily and amounted to \$7,080 in 1976 for the average 2.4 man/month assignment. The average revenue per project from clients in that year was almost identical to the direct cost, \$7,030.

If IESC's major development impact is to be achieved through grass roots projects, what will be the budgetary implications? To help answer this question the accompanying Table 1 has been constructed. The baseline data in this table were drawn from table 5 in the first RRNA evaluation (pps. 53-54) which presented the financial highlights for 1971-76.

Table 1. Pro Forma Budget Projection for IESC's Major Impact Programming through Grass Roots Involvement

	Year					n
	1978	1979	1980	1981	1982	
Total no. of project starts	600	650	700	750	750	600
Grass roots projects target goals (percent)	20	27.5	35	42.5	50	50
Total no. of grass roots projects	120	180	245	320	375	300
Total no. of traditional projects	480	470	455	430	375	300
<u>Expenses of volunteers</u> (Thousands of dollars)						
Traditional mix	3,360	3,290	3,185	3,010	2,625	2,100
Grass roots	1,200	1,800	2,450	3,200	3,750	3,000
<u>Expenses</u>						
Project expenses:						
Executive volunteers	4,560	5,090	5,636	6,210	6,375	5,100
Country directors	2,250	2,250	2,250	2,250	2,250	2,250
Total project expenses	6,810	7,340	7,886	8,460	8,625	7,350
Non-project expenses	2,500	2,500	2,500	2,500	2,500	2,500
Total expenses	9,310	9,840	10,386	10,960	11,125	9,850
<u>Revenues</u>						
From project clients	3,360	3,290	3,185	3,010	2,625	2,100
Contributions	400	400	400	400	400	400
Required AID grant	5,550	6,150	6,800	7,550	8,100	7,350
Required AID grant under alternative fee assumptions						
I	4,950	5,250	5,575	5,950	6,225	5,850
II	5,130	5,250	5,940	6,430	6,790	6,300

A pro forma projection has been made for the 5 year period 1978 to 1982, during which time the percentage of grass roots projects is assumed to increase from 20 to 50 percent of total project starts. Total project stands are assumed to increase from 600 to 750 per year over the period. It may be recalled that small business projects, as defined earlier, accounted for 15 percent of the total in 1976. The term "project" refers to a single agreement with a client, though a "client" may be a sponsored group of small entrepreneurs or a cooperative with hundreds of member farmers.

The direct costs of a grass roots project is budgeted at \$10,000 to reflect an average volunteer tour of 4 months instead of the usual 2.4 months. Traditional clients will continue to have an average direct cost of \$7,000. It is also assumed that fees will average \$7,000 per project for the overall mix of paying clients.

One last assumption is very sensitive. The revenue figures shown in table 1 are based on fee collections from traditional types of projects only. This was deliberately done to present the "worst case" financial impact on IESC. Undoubtedly, fees of some kind will be collected from grass roots sponsors, but it is impossible to tell (at this point in IESC's test program) what the average recovery rate will be for direct costs. However, for every dollar so collected the operating deficit will be reduced by the same amount. In this connection it should be noted that in 1982, when

traditional clients account for only half of the total, an average fee of \$7,000 will completely cover IESC's non-project expenses, i.e., the home office overhead.

The last three lines in the table show the AID contributions (grants) required to support the grass roots program under the above set of assumptions and two alternative assumptions involving fee payments by grass roots clients. Under the "worst case" conditions, the AID grant requirement rises from \$5,550,000 in 1978 (20 percent grass roots projects) to \$8,100,000 in 1982 (50 percent). This latter figure is double the present level of AID assistance.

Under alternative assumption I, fees are collected from grass roots clients and these fees average -- over the group -- 50 percent of direct volunteer costs, or \$5,000 per project. If this could be realized, the required AID grant by 1982 would be \$6,250,000, or 55 percent higher than at present.

The assumed average fee charged grass roots clients under alternative II is 50 percent of what the average large business pays, or \$3,500 per project. This might represent a sales/public relations type of fee scale to encourage grass roots sponsors to sign agreements. They can be told that, in effect, they are only being charged half of what big businesses pay while, at the same time, they are receiving almost twice the amount of volunteer time. The resulting AID requirement under alternative II by 1982 would be \$6,790,000 or 70 percent higher than the current level.

A final column in table 1 presents the financial consequences of a 50-50 project mix between traditional and grass-roots clients at a much lower total level of activity (600 project starts instead of 750). Under these conditions, the required AID contribution would be \$7,350,000 if the grass-roots clients paid nothing toward the cost of the program. If grass-roots client contributions covered 50 percent of volunteers' direct cost (alternative) the shortfall would be \$5,850,000; if the grass-roots contribution was half as large as that of traditional clients, the AID requirement would be \$6.3 million.

ANNEX A

AID Work OrderObjective

The purpose of this work order is to refine the evaluation recently completed by RRNA of the performance effectiveness and the development impact of International Executive Service Corps evaluation and to make specific recommendations for immediate and long range changes in International Executive Service Corps evaluation operation.

Scope of Work

Based on the evaluation of IESC, performed by Robert R. Nathan Associates (RRNA), dated May 27, 1977, revised June 2, 1977; a review of the IESC 3-year program; and consultation with IESC executives, members of PHA/PVC staff, and members of AID regional bureaus, RRNA shall prepare recommendations for the following:

1. Short-term changes by IESC to allow a greater emphasis on "grass roots" small entrepreneurs or small business projects;
2. Long-term plans to progressively shift the major impact of IESC toward small scale grass root type operation;
3. AID's role in relation to the proposed changes and;
4. Budget projections for the recommendations.

ANNEX B

(continued)

IESC
(continued)

Bruno Winkler, Vice President,
South America

Wallace Elton, Vice President,
Development

Brian Copping, Assistant Vice President,
Statistics

William Wichman, Senior Adviser

Appendix I

Examples of Previous IESC Experience with Small Business

Since its inception, the IESC has sent executive volunteers abroad to provide a range of technical expertise to small businessmen, some of whom have fewer than 10 employees. Much insight into the nature of volunteer involvement with small entrepreneurs has been gained by the New York staff and this has been reflected in this report.

Direct Contacts

1. A volunteer was sent to a Central American country at the request of a businessman. The technical assistance provided, as it turned out, was to start up a German made envelope making machine. The client's sales volume was only \$5,000 a year, and hence he was only able to pay a very small fee. IESC's home office personnel do not consider this type of assistance to be suitable for executive volunteers.

2. In Guayaquil, Ecuador, a group of small businessmen requested IESC to review their business insurance coverage and costs. Two volunteers, an actuary and an insurance executive, solved their sponsors' insurance problems by substantially cutting their premium costs while increasing the amount of their protection.

Indirect Contacts

1. Through a technical institute, the Korean Institute of Science and Technology, volunteers were sent to a variety

of small businessmen who were being assisted by KIST. Each client was charged a small fee which was supplemented by the institute.

2. Amigos del Cise is a non profit organization in Colombia established to promote IESC and to help small businessmen in that country. Clients pay only one third of the direct volunteer costs while Amigos pay the other two thirds. In return for its promotional activities, IESC itself is helping to subsidize the technical assistance provided to Colombian small businesses.

3. The Korean Traders Associations (KTA) gives IESC \$2,500 for a 3 month volunteer assignment. Over 50 projects have been so financed, involving businesses of all sizes in all sections of the country.

4. In Malaysia IESC helped a bank, Malay Banking Berhard, organize a farm loan program. IESC also assisted the Ghana Investment Bank improve the agency's operations in the financing of small businessmen. These are but two examples of bank type projects where the assistance of volunteers indirectly helped small businessmen.

5. In 1974 IESC sent two retired executives from the U.S. Small Business Administration to Brazil at the request of the government. The training program consisted of both management seminars for small businessmen and on-the-job training in the field.

6. Another type of assistance which eventually and indirectly benefits small businesses is that provided by IESC to government and private sponsors of industrial parks and shopping arcades. Such projects have been undertaken in El Salvador, Guatemala, Nicaragua, Panama, Taiwan and Thailand.

Appendix II

Examples of Sponsor/Catalyst Contacts in the
Small Business Administration Test ProgramGovernment Agencies

- Iran IDRO, the agency for helping small business has signed an agreement with IESC, and a volunteer has been sent. His scope of work is broad, covering many aspects of planning and technical assistance with small entrepreneurs throughout the country.
- Taiwan International Development Bureau (IDB) assists all enterprises with a branch devoted to small businesses. The Bureau has requested a volunteer to determine what kinds of assistance small businesses need.
- Thailand Industrial Promotion Department, Ministry of Industry would like two studies for developing a small and a medium size business program. Budget restrictions would limit fee payment to \$500 per month.
- Philippines Deputy Minister of Industry will attempt coordinating the activity of 12 agencies which help small businessmen. There will be three projects aimed at promoting sub-contracting by large to small businesses.

Trade Associations

- Thailand Thailand Management Association wants to develop a program for helping small enterprises through seminars and in-plant visitations. Requested IESC to help make a feasibility study for such a program.

Trade Associations (con't)

Taiwan Taiwan Electrical Appliance Manufacturers Association has 100 large company members and 900 small and medium sized company members. The Association will pay for volunteers to help small members in various ways.

Banks

Indonesia Small Business Department, Bank of Indonesia, wants IESC to help develop markets for leather footwear made by village households. The aim is to help villages "escape" from a monopolistic supplier and an monopsonistic buyer.

Taiwan Medium Business Bank loans only to medium and small companies with a 70 percent government guarantee. The requested volunteers to help small companies with loans outstanding and to revise the loan application paperwork to expedite processing.

Private Companies

Korea An auto maker is helping its small plastic parts sub constructors to finance the cost of volunteers for production, quality control, and other technical assistance.

Thailand A new small producer of printing ink with 11 employees has requested a volunteer and will contribute to his cost. This new company is owned by a large corporation.

Other Contacts

Taiwan A large U.S. based company, which makes supplementary food for cattle, suggested IESC try to provide help to farmer

cooperatives in marketing and poultry production. Recommended they contact Provincial Farmers Association and the Joint Committee on Rural Reconstruction as potential sponsors.

Philippines

International Rice Research Institute suggested that IESC try to help farmers with their marketing (and pricing) problems by working through the Ministry of Agriculture and the National Grain Authority.