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The PISCES II Experience:

Local Efforts in Micro-Enterprise Development

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Local Efforts in Micro-Enterprise Development

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THE PISCES EXPERIENCE:

LOCAL EFFORTS IN MICRO-ENTERPRISE DEVELOPMENT

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FOREWORD

The PISCES (Program for Investment in the Small Capital Enterprise Sector) Project was funded since 1978 by what is now the Employment and Enterprise Development Division of the Office of Rural and Institutional Development of AID. The purpose of the project was to explore the feasibility of direct assistance to tiny informal sector and microenterprises.

The prime contractor for the PISCES Project was ACCION International/AITEC. ACCION was in charge of the technical direction of the project, the Latin American field work, and the systematization of the study results. The African and Asian components were sub-contracted to the Development Group for Alternative Policies and to Partnership for Productivity, respectively. All three agencies are Private and Voluntary Organizations (PVOs) with considerable experience in small enterprise development.

In Phase I of the PISCES Project, twenty projects in sixteen countries were studied and reported on, and the key elements were identified so as to promote a systematic understanding of why some projects succeed and others fail. The findings of PISCES Phase I were published in a monograph titled, The PISCES Studies: Assisting the Smallest Economic Activites of the Urban Poor. Building on this research experience, in Phase II, demonstration projects were designed, implemented and evaluated in cooperation with USAID missions in four countries. The major lessons learned were presented in three regional conferences -- in the Dominican Republic, the Philippines and Kenya, which were attended by representatives from over 100 local development agencies from 33 countries.

The completion and publication of this final report is the last step of this six-year learning, education, and project implementation process. This does not so much signal the ending of an era, as it heralds the important transition which informal sector and microenterprise assistance are about to undergo. Through prodigious efforts, often above and beyond the call of duty or the letter of their contracts, the individuals who have worked on the PISCES Project have added significantly to the knowledge base in this area of undoubted importance to international development organizations. It is a measure, in part, of the success of this project, however, that the urgency now of further R and D action-oriented initiatives in this area is even more manifest than it was when the project began.

Many readers will know that the PISCES Project originated in the U.S. Agency for International Development during a period in which we were beginning to appreciate the economic and social dimensions and the potential to contribute to economic development of the informal sector and of the microenterprises that are its principal constituent. In particular, during the mid-1970s, the International Labor Office and Michigan State University were providing new descriptive and analytical information on the sector. This was a time when AID was concerned with targeting its assistance for the direct benefit of the so-called "poor majority." As a result, there emerged a growing confidence that working with enterprise and income-generating activities of this heterogeneous sector was potentially an appropriate way of conforming with this Agency mandate, at least so far as the urban portion of the "poor majority" was concerned. When PISCES was launched, its ultimate objective was the upgrading of Agency assistance to the urban informal sector under this poverty redressal rationale.

Events in the policy evolution inside AID overtook the pace of progress of the relatively long-term PISCES R and D initiative. In 1981, the Agency overlaid a predominant "private sector" rationale on all aspects of operations, not so much replacing or subordinating the earlier objectives, as clarifying an important means through which to achieve them. In the end, this has proved opportune for the PISCES Project, for what this project has done is to shed light on strategies and approaches for promoting what is, arguably, numerically the largest component of the private sector in nearly all developing countries. In many cases, this sector includes some of the most dynamic, entrepreneurial and economically efficient firms. Given that AID is interested in promoting development for the benefit of the poor in LDCs, and that it is intent on doing it through the medium of private enterprise development, this report confirms the abundant availability of the requisite raw material and, perhaps more importantly, how to begin to work with it.

The report is honest in discussing the financial implications of increasing assistance to this sector and is candid about limitations in our ability to leverage or wholesale some of the critical elements in the assistance approaches with which the project has experimented successfully. Donor organizations may be disappointed by these findings, but it is in respect of meeting this further challenge that all the work done under PISCES may be seen as only a prologue. The authors do provide us with some conjectural ideas worthy of further experimentation -- like creation of umbrella organizations, better understanding of differing assistance absorptive capacity, building in cultural awareness and behavioral elements that assure enterprise and individual performance -- and some that are definitive and prescriptive, to be taken off the shelf now for execution as required. It is no failure that this report does not provide the last word in describing cost-effective methods of deploying donors' limited resources to promote these small scale activities; rather it is a distinct triumph that the report brings us to a new threshold where our remaining tasks, albeit large ones, may be so clearly defined as they are in the closing chapters of this monograph.

In continuation and validation of all the PISCES investments made up to now, AID's Bureau for Science and Technology intends to go forward, both with further experimentation in this area and in the provision of technical support for design and implementation of USAID mission informal sector and microenterprise assistance projects. This report will be instrumental for both of these purposes -- for researchers, consultant/designers, PVOs, and other private non-governmental organizations that will be involved directly and indirectly in working with this sector.

As my final official word on PISCES Phases I and II, I wish to take this opportunity, above all else, to express my appreciation for the unflagging commitment of these colleagues-become-friends who implemented this project, and for having produced, at the end, such a useful, and I trust, enduring tool.

Michael Farbman, Chief
Employment and Enterprise Development Division
Bureau for Science and Technology
U.S. Agency for International Development
Washington, D.C.
28 February 1985

ACKNOWLEDGEMENTS

The sustained six-year effort of those involved in the PISCES project reflects their hard work and commitment to increasing the public's awareness of the importance of the informal sector. The millions of tiny economic initiatives of the poor--market stall holders, street food vendors and micro-manufacturers--represent the fastest growing part of the private sector, yet their potential for stimulating economic growth has largely been ignored by development professionals. Those who worked in the PISCES project, through studies, in-depth evaluations, assistance to local missions and agencies, workshops, and publications such as this one have sought to bridge the gap.

Foremost among those who should be recognized is Dr. Michael Farbman, now of the Office of Rural and Institutional Development of AID. Seven years ago he and Bill Miner (then of the Office of Urban Development) convinced the agency that direct assistance to the informal sector was an option that AID should explore. Dr. Farbman has actively collaborated with the project since its inception. Jennefer Sebstad, the AID manager in the last two years of the project, was of invaluable assistance, especially in promoting and encouraging a series of regional workshops where over a hundred development agencies from Africa, Asia and Latin America participated. The current project manager, Carol Adoum, oversaw the preparation of the final report.

Next I would like to acknowledge those of the PISCES team with whom I have worked so closely over these years. Douglas Hellinger and Fred O'Regan of the Development Group for Alternative Policies (one of the project's sub-contractors) were involved from the beginning of Phase I and throughout Phase II. They were assisted by Steve Hellinger and, more recently, Blane Lewis. The DGap was instrumental in stressing the importance of assisting the "pre-entrepreneurial" level of project beneficiaries, truly the neediest group. At Partnership for Productivity (the other sub-contractor) my principal co-worker was Jason Brown for the first four years of the contract, with inputs more recently by James Hochschwender and Nancy Berge. Jason Brown helped me understand that projects can be both effective and cost-efficient.

At ACCION, my principal co-workers were Peter Fraser and William Tucker in the first phase and Stephen Gross in the second phase. The two most recent ACCION Executive Directors--John Hammock and William Burrus--have been supportive, not only of ACCION's participation in the project, but of incorporating the findings of the PISCES investigations into ACCION's projects in the field. My principal assistants at ACCION's headquarters in Cambridge were Susan Sawyer, John R. Beardsley and David A.A. Smith in the first phase and Rebecca Reichmann in the second phase. My special thanks to them, especially for the many hours we spent coming to understand how these businesses could be assisted.

I would also like to recognize the active help of the local AID missions and especially the staff of the local organizations and the clients of these projects, who were generous with their time as we continued our almost endless questioning during the project evaluations.

Finally I would like to acknowledge the help of Marjorie Lilly, who worked with me closely throughout the preparation of this report and who was responsible for the final editing. The author, of course, is responsible for the content.

J.A.A.
April, 1985

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PROLOGUE BY THE AUTHOR

Over the last years I have grappled with the link between development efforts and the "micro-scale" economic initiatives of the poor. In this synthesis of the PISCES project, the characteristics of informal sector businesses and how they can be assisted will be discussed at length. Before going into detail, however, I would like to consider the implications of the PISCES project for the development community.

Income-generation projects are not easy to do well. The legacy of under-utilized communal workshops, craft outlets laden with unsold goods, and non-viable enterprises capitalized through seemingly endless subsidies, is evidence enough of that. Crippling default rates, soaring administrative costs, and distressing delays in the delivery of services give little encouragement to practitioners starting such ventures. Yet this need not be the case--effective and efficient projects are possible and do-able, and properly designed projects will almost predictably result in significant increases in income, employment and empowerment. These projects work remarkably well; their objectives for both their clients and staff are clear, the services needed are delivered in a timely fashion, and clients actively participate because the services provided reflect their needs.

The findings of the PISCES investigations presented in the body of the report provide a useful guide for designing successful projects. But here I would like to focus on one often-overlooked element--the explicit and tacit assumptions embodied in the project design and its implementation. The eventual success of a project depends to an important degree on the perception of the problem by the implementing agency. This can be reduced to how the agency answers three questions:

- Who are the owners of these businesses: the impoverished, who need to be cared for because they are poor, or people knowledgeable about doing business within the context of the street economy?

- What is the nature of their business: marginal, redundant activities that should be supplanted, or viable, locally important activities that should be upgraded?

- Who does the project serve: the agency, with its work styles and requirements, its societal goals and objectives, or the work styles and requirements of the clients and their goals and objectives for their businesses and for themselves?

Generally speaking, the more successful projects use as their starting point assumptions that:

o these business owners are capable people who have shown initiative in putting together their economic activity, no matter how small, and that running such a business requires considerable skill, motivation and hard work;

o these enterprises provide a vital source of income, training and goods and services oriented to the needs of the poor;

o projects exist to put the clients' plans into effect.

All this may seem self-evident, but development practitioners often violate these principles. We discredit what our clients are already doing and advise them to become what we want them to be: bigger, more collective, more formal, whatever. And we often end up managing sophisticated businesses the clients do not have the skills to manage themselves, marketing their goods through channels only we have access to, and providing them with training and orientation they never requested. We intensively assist a few when we could use the same resources to assist many more.

It is hoped that this synthesis of the findings of the PISCES investigation will help the practitioner design and implement projects that meet the needs of their clients. The emphasis is on the importance of well-focused objectives, a monitoring system that provides ongoing feedback on whether these goals are being met, efficient administration, participation of the clients in the program, and a commitment to learning.

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Director of the PISCES Project
Senior Associate Director,
ACCION International
April, 1985

CHAPTER I:

INTRODUCTION: THE INFORMAL SECTOR AND THE CASE FOR ASSISTING IT

What economists call the "informal economic sector" is made up of the countless tiny economic enterprises initiated by the poor in the sprawling cities, towns and villages of the developing world. These are the hawkers shouting their wares on the street corners, the shoe repairers patching together sandals in the marketplaces, and the "micro-entrepreneurs" who weld iron grillwork, recycle used bedsprings, make brooms, or sew skirts and running shorts in their homes or in little shops tucked away in back alleys and urban shantytowns.

Informal sector activities--the types of activities described above--employ from 30% to 70% of the labor force in the developing world, depending on the country (and the definition of what constitutes an informal sector activity).[1] Because of massive migration from rural areas to Third World cities in recent decades, the number of informal urban enterprises is increasing both in absolute numbers and as a percentage of the labor force.[2]

In Lagos, half the employment is in the informal sector.[3] In Bombay the figure is 55%.[4] In Lima, it is estimated that 78% of the furniture and 90% of the clothing is produced in

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[1] Some studies use the criteria of the number of workers in a business, others depend on whether the enterprise is legally registered, and others may base their criteria on income (sometimes using the national minimum wage as a standard).

[2] For example, in Freetown, Sierra Leone, one survey indicated a 25% yearly growth in the micro-business sector; the average age of businesses was a little under three years. Sethuraman, S.V. "The urban informal sector in Africa," in the International Labour Review, Vol.117, No.3, Nov-Dec 1977, p.344, Footnote.

Also, D. Forbes (Petty Commodity Production and Underdevelopment: The Case of Pedlars and Trishaw Riders in Ujung Pandang, Indonesia, Pergamon Press, 1981) recorded a growth rate of 6.4% among petty producers in 1975, which he considered a conservative estimate. The number of registered trishaws rose 12.2% between 1974 and 1975.

[3] Sethuraman, S.V., editor. The Urban Informal Sector in Developing Countries, International Labour Office, 1981, p.214.

[4] Mazumdar, D. "The urban informal sector," World Development, 4, 1976, pp.655-79.

the informal sector, and that 85% of transportation by bus is informal.[5] In San Salvador there is a business in 85% of the houses in the poorest barrios.[6]

The informal sector is not only an urban phenomenon. In the rural areas, off-farm employment makes up 43% of the labor force in Colombia, 28% in Kenya, 37% in West Malaysia, and 33% in Iran.[7] The fact that those engaged in informal activities are often the landless or those whose farms are too small to support them, makes the understanding of this sector of the rural economy especially important.

CHARACTERISTICS OF INFORMAL SECTOR BUSINESSES

Informal sector businesses may be manufacturers, services, or commerces. But, despite the variation in size, type of activity and degree of sophistication,[8] they share several characteristics:

Small scale:

People working in the informal sector often work alone or with unpaid family members.[9] A door-to-door survey in the

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[5]De Soto, Hernando of the Instituto para Democracia y Libertad, in a talk titled "Revitalizing the Small-Scale Private Sector in Peru," given in Boston on September 26, 1984.

[6]Farbman, Michael, ed. The PISCES Studies: Assisting the Smallest Economic Activities of the Urban Poor, Agency for International Development, 1981.

[7]The figures for Colombia and West Malaysia include the percentage in "rural towns" as well. Statistics are from Rural Enterprises and Non-farm Employment: A World Bank Paper, January 1978, Washington, D.C.

[8]World Bank, Employment and Development of Small Enterprises: Sector Policy Paper, 1978.

Bromley, R. and Gerry, C., eds. Casual work and poverty in Third World cities, John Wiley, New York, 1979.

[9]In a recent study of informal manufacturers in Lima, 22% of total employment in the sector is family labor (Fernandez, Guillermo, Estudio Evaluativo del Programa PROGRESO, Accion Comunitaria del Peru. Lima, 1984). See also Employment and Development of Small Enterprises: Sector Policy Paper, World Bank, February 1978, Washington, D.C.

poor neighborhoods in San Jose, Costa Rica revealed that there are three single-person cottage enterprises--hawkers, bottle and paper collectors--or single-person cottage manufacturers to every business that had one employee or more.[10] Businesses are often family-owned and -operated, start-up costs are covered with family savings, and most are located in or next to the home.

Labor intensive:

With so few workers, there is little or no division of labor.[11] Production is often by hand, and equipment is simple and hand-made. A great deal of ingenuity goes into the manufacturing activities in the shantytowns and back alleys in cities and villages of the developing world.

Capital inputs minimal:

Total investment in informal sector businesses ranges from a few dollars for the baskets and working capital of a street vendor to less than $4,000 for the simple equipment and working capital of a shoemaking shop employing four or five workers. A survey of tinsmiths, carpenters, cobblers, mattress makers, and tailors in Nairobi showed an average of $15 investment.[12] One hundred and twenty mobile vendors--"tricicleros"--in Santo Domingo, the Dominican Republic, are financed on the combined daily turnover of $2,500 in capital; profits from these 120 businesses provide 90% of the income for the vendors and their

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[10] Ashe, Jeffrey; Moritz de Morales, Nancy. Making a Living in the Poor Barrios of San Jose, Costa Rica: A Study of the Informal Sector, ACCION International/AITEC, 1982.

[11] World Bank, 1978, p.2.

[12] Chana, Tara and Morrison, Hunter. "Nairobi's Informal Economic Sector," Ekistics, Volume 40, No. 237, August 1975, pp.120-30.

nearly 600 dependents.[13]

Local market:

Another distinguishing characteristic of these businesses is their orientation to the local market. In Manila, over 70% of informal sector business owners purchase raw materials and sell their merchandise within the confines of their neighborhood.[14] Only rarely do they export or become involved in the national market.

IMPORTANCE IN THE ECONOMY

The fact that the informal sector is the largest and, in many countries, the fastest-growing part of the private sector[15] presents a powerful case for understanding how these businesses function, what their needs are, and how they can be assisted. They are important for several reasons:

o They are vital as sources of income and employment, especially for the disadvantaged. A staggering 780 million new jobs need to be created in developing countries by the end of the century. It is the street vendors and micro-level industries and services that will generate the majority of employment in the future, not large-scale industries or the Sony and Hewlett-Packard subsidiaries. This is true for several reasons:

1) There are very low capital requirements for these businesses (with a few dollars of merchandise, a vendor can

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13 Gross, Stephen H. Estudio de Factibilidad: Programa de Micro-Empresas, Fundacion Dominicana de Desarrollo, 1980. Their incomes averaged just over the minimum laborer's wage of $136 a month (Reichmann, Rebecca. The Dominican Association of Triciclеros 'San Jose Obrero': A Case Study of Local Empowerment, ACCION International/AITEC, 1984).

14 Farbman, ed. (1981), p.266.

15 These businesses represent both an increasing percentage of the total economically active population (PEA) and a growing percentage of the national economy in many countries (World Bank, 1978).

start selling on a street corner), and ease of entry (a small shop is started on the verandah, the back yard or in a corner of a room).

2) The flexibility of these enterprises makes it easier for women to build their work hours around child-care[16] and makes it possible for product lines to be shifted rapidly according to consumer demand--a bucket maker may switch to making wash basins and sinks when water lines are installed in his community.[17]

3) Informal businesses avoid many regulatory boundaries, such as licensing, safety inspection, and taxes, that tend to mire the establishment of larger businesses in red tape.

4) Also, in many societies (especially in Latin America and Asia), the tradition and knowledge for starting and managing businesses at this tiny level is strong. Establishing a larger business requires skills, education and training that are not accessible to urban migrants.

o Micro-businesses provide goods and services to the poor, at a price they can pay and amounts they can use--an ounce of dishwashing detergent, half an onion, one cigarette. Prepared street foods, for example, are important for those too poor to buy fuel for cooking, who lack cold storage facilities to keep perishables, and who are often too busy with their own economic pursuits to have time to cook.[18] Their owners may also extend informal credit to regular customers.

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[16]Schumacher, Ilsa; Sebstad, Jennefer; Buvinic, Mayra. "Limits to Productivity: Improving Women's Access to Technology and Credit," International Center for Research on Women, Washington, D.C., May 1980.

[17]Smith, David A.A., "Informal Sector Enterprises in Tropical Africa," unpublished manuscript, Harvard University, 1979.

[18]Cohen, Monique. "Informal Sector Activity in Regional Urban Areas: The Street Food Trade," Equity Policy Center, July, 1984.

Research for this report was carried out in secondary cities in the Philippines, Indonesia, Senegal and Bangladesh. Street food customers actually cut across all income levels, but a greater proportion of the income of the informal sector goes toward street foods than that of white collar workers.

o <u>They are a major source of skill and entrepreneurial training, particularly for the poor</u>. Those trained through the institutes funded with international dollars are only a small fraction of those trained in informal sector businesses. Shoemakers, tinsmiths, seamstresses and carpenters often work as employees for a decade before they start their own shops. Working shoulder to shoulder with the business owner, exposed to every aspect of production, repair and distribution, they have the skills (and the savings) needed to establish their own small shops.

A survey of employees of micro-businesses in Santo Domingo showed that three-fourths learned to operate a machine or to make or repair something since their previous employment.[19] In Kenya, most young workers in productive enterprises learn their skills through informal apprenticeships, for which they will often pay a small fee.[20]

o <u>Informal sector activities are a major source of employment for women</u>. The smaller the businesses, the larger the percentage owned by women. Being able to work in the home, or where they can take care of their children, makes certain informal sector activities advantageous for women. The need to earn an independent income--increasingly a factor as the number of female heads-of-

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[19] Of those surveyed, 8% said they had learned to use a machine, 20% said they had learned to repair things, 56% learned to make things such as clothing, shoes or furniture, and the rest learned "other things." From <u>Assisting the Survival Economy: The micro-enterprise and solidarity group projects of the Dominican Development Foundation (Revision and Update: 1984)</u>, Jeffrey Ashe, ACCION International/AITEC.

[20] Government apprenticeship programs, in contrast, deal with only a handful of beneficiaries (about 100 at the time of the study). Because the informal apprenticeship system is outside the law, it suffers occasional harrassment from labor officers who feel the masters are exploiting their trainee-employees. "Skill Acquisition in the Informal Sector of an African Economy: The Kenya Case," by Kenneth J. King, <u>Journal of Development Studies</u>, Vol.11, No.2, Jan. 1975.

by larger businesses.[23] It is the micro-scale trader who links the farmer to the market. Additionally, these businesses provide inexpensive goods and services to formal sector enterprises and consumers.[24] [25]

o <u>These businesses are resilient</u>. In hard times larger enterprises, heavily dependent on foreign markets and imported inputs, tend to fail. The "survival economy" persists under adverse conditions because it is small-scale, flexible, and uses local inputs, and because these owners are resourceful, ingenious, and hardworking. What is distributed is essential to the basic needs of the community. Informal sector activities are the backbone of the economy in many developing countries.

o <u>Informal sector businesses mobilize cash flow</u> in a nation's economy by facilitating informal credit,[26] and generate indirect

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[23]Smith (1979), pp.8, 18.

[24]Cohen (1984) cites the street food trades as an example. De Soto also notes that 50% of all informal businesses acquire goods and materials through formal sector businesses, so that informal sector businesses "serve as a mechanism to increase the volume of sales and the utility of legal busineses." <u>La Prensa</u>, Lima, November 22, 1983.

[25]Not all see these relationships as benign. For example, D. Forbes (1981), focusing on the articulation between the "capitalist" and "pre-capitalist" types of production and distribution systems in the Indonesian city of Ujung Pandang, doubts the value of efforts to promote the informal sector within the current economic framework. He concludes that "while the balance of forces remains intact there is little likelihood that a domestic capitalist class will emerge" from the informal sector.

For a collection of articles with a similar viewpoint based on research world-wide, see <u>Casual Work and Poverty in Third World Cities</u>, Bromley, R. and Gerry, C., eds., Wiley, England, 1979.

See also Santos, Milton, "Articulation of Modes of Production and the Two Circuits of Urban Economy: Wholesalers in Lima, Peru," <u>Pacific Viewpoint</u>, 14, 1976, pp.23-26.

See also Senghass-Knoblock, Eva, "Informal Sector and Peripheral Capitalism: A Critique of a Prevailing Concept of Development," <u>MURA</u> (Manpower and Unemployment Research in Africa), Vol.10, No.2, Nov. 1977.

[26]Judith Tendler in presentation at the Harvard Institute of International Development, Cambridge, Massachusetts on October 1, 1984.

households increases[21]--was mentioned over and over in interviews for the PISCES studies.

Women are at a disadvantage in formal sector employment due to their exclusion from education and skills training, traditional concepts of the sexual division of labor, and the incompatibility of wage employment with household responsibilities. Self-initiated household-oriented enterprises are often the only viable alternative.[22]

o Informal sector enterprises offer the optimal mix of capital, labor and energy in a developing economy. The complex of mutually shared, dependent and competitive relationships within the micro-enterprise sector ensures the optimal use of scarce resources. In the informal economy capital is extremely scarce, energy is expensive, and labor is abundant; reflecting this, production and distribution are labor-intensive and waste products--bottles, cans, cardboard and scrap metal--are collected and reused in a variety of ingenious ways. Capital and equipment are also frequently exchanged through informal lending and borrowing.

o Informal sector businesses provide an important link to modern manufacturers and to rural areas. In Africa it is the army of informal workers who distribute products such as newspapers, ice cream, soft drinks, beer or cigarettes produced

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[21]Carr, Marilyn. Blacksmith, Baker, Roofing-sheet Maker: Employment for rural women in developing countries, Intermediate Technology Publications, London, 1984, p.3.

[22]Sebstad, Jennefer. Struggle and Development Among Self-Employed Women: A Report on the Self-Employed Women's Association, Ahmedabad, India. Agency for International Development, 1982, pp.20-54.

Reichmann, Rebecca. Women's Participation in PROGRESO: A Microenterprise Credit Program Reaching the Smallest Businesses of the Poor in Lima, Peru, ACCION International/AITEC, 1984, pp.11-13, 66.

Almost universally throughout the literature on the informal sector, women's enterprises tend to be extensions or formalizations of domestic activities such as food preparation, garment-making--including spinning, weaving, printing, sewing and selling--making utilitarian goods such as baskets, tables, and brooms, selling firewood or charcoal, or prostitution.

employment through "backward linkages" to farmers and "forward linkages" to modern manufacturers.[27]

PROBLEMS FACED BY INFORMAL SECTOR BUSINESSES

In every country, there are major obstacles limiting the growth and profitability of these businesses:

o A hostile policy environment: Typical problems are policies banning street vendors from choice downtown locations, and licensing and registration requirements that are extremely time-consuming, complex and expensive from the perspective of micro-business owners. Bribes must often be paid to keep clandestine businesses functioning. Reflecting government policy, development banks facilitate low-cost raw materials and machinery for bigger businesses, while micro-entrepreneurs must make do with second-quality goods and equipment purchased at inflated prices, if they are available at all.

o Lack of institutional credit: In most countries there is virtually no access to institutional credit for the informal sector. Banks feel that lending to micro-enterprises is too risky and too expensive, or are simply not interested.[28] Rigid collateral requirements, inappropriate payment schedules and excessive "transaction costs"--reflected in the time and effort it takes to get a loan processed--effectively bar the informal sector. Because the businesses owned by women tend to be smaller, and women are often less educated and have less experience with institutions, the requirements of institutional lenders work especially against them.

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[27] World Bank, 1978, p.19.

[28] Indeed, lacking knowledge of appropriate methodologies and ample access to poor communities, extending credit to these businesses would be risky and expensive. A major contribution of the PISCES research has been to pull together the experiences of institutions that have been able to extend credit at this level successfully.

o High interest charged by moneylenders: Lacking access to institutional credit, business owners use moneylenders who charge interest rates ranging from 10% to 20% a month to 20% a day, a major factor limiting the profitability of informal business.[29] Whether or not the interest charged by moneylenders reflects their true cost of doing business is open to debate, but loans from moneylenders are often too small to stimulate business growth, and payback periods are too short, often a day or a week, to permit longer-term investments in equipment or shop improvements. Similarly, lack of working capital often leaves the business owner little recourse other than to buy from certain suppliers on credit and at very high prices,[30] thus exacerbating the common problem of chronic indebtedness.[31]

o Lack of management skills: While skills may be adequate as long as businesses do not expand significantly, management becomes a problem as businesses begin to add employees and expand sales and production.

o Limited access to raw material and supplies: In many countries, micro-manufacturers either have no access to first-quality raw materials, or access is extremely limited. Also, prices for raw materials in small lots are much higher. Lack of space or facilities to store raw materials may lead to discontinuities in production, and therefore in income, when supplies are available at certain times of the year only at excessive prices.[32]

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[29] Ashe (1984).

[30] Micro-entrepreneurs may also be dependent on distributors for credit. As an example of this, Harper and Tan describe a group of roof tile manufacturers in a village in Indonesia who are dependent on a "Cukong," or trader, both for credit and for distribution, because he is their only marketing channel. Small Enterprises in Developing Countries: Case Studies and Conclusions, by Malcolm Harper and Tan Thiam Soon, Intermediate Technology Publications Ltd., 1979.

[31] Sebstad (1982).

[32] Forbes (1981).

o Marketing: When there is a shrinking local demand due to out-migration or worsening economic conditions, the local market may be inadequate. Even when the market is stable or expanding, high transportation costs, poor prices paid by middlemen, and slow payment once goods are delivered are problems. Also, business owners may lack information on available markets, or many simply go into the same line of business as a relative or a neighbor without considering that the market may be saturated.

That the informal sector has continued to prosper and grow despite these limitations shows the profitability of the enterprises and the dynamism of the business owners.

THE CASE FOR ASSISTING INFORMAL SECTOR BUSINESSES

The case for assisting the informal sector is a powerful one. These enterprises may make up 80% or 90% of all business units existing within a typical poor neighborhood in a developing country.[33] Quite simply, the informal sector is too important to be ignored. That these economic enterprises provide the bulk of goods and services for the poor, the great majority of job and skill training, and virtually all of the entrepreneurial opportunities for women, are additional reasons for assisting the sector.

The results of micro-enterprise programs and the specific details of effective methodologies to reach these businesses will be detailed in the next pages, but it is important to mention here that the impact of these projects is often considerable. Peter Kilby and David D'Zmura in their recent report Searching

[33] Gross (1980), pp.26-27.

for Benefits[34] show that in terms of increased national income, assistance to micro-enterprises is one of the most successful categories of AID assistance. Program planners can calculate that one business can be assisted for every $100 to $300 of loan funds available, that loans will increase income from 10% to 100%, and that a new job will be created for every $1,000 in credit extended.

A little assistance to informal sector development programs can go a long way. A $65,000 revolving loan fund in the PISCES demonstration project in Costa Rica provided credit to 450 enterprises. One hundred and nineteen full-time and 48 part-time jobs were created, and needed income increased over 100% for poor borrowers. And it's not as though the original $65,000 were lost. The same money is being re-lent to assist other businesses, and since payback is weekly, the revolving loan fund is constantly being replenished.

A final argument for assisting micro-scale business activities is equity--providing credit at reasonable rates and other services

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[34] Wesleyan University, May 1984. Kilby and D'Zmura find that a critical proportion of project benefits result not only from higher outputs of the clients' businesses (i.e., increased sales, profits, wages, employment), but also from "unseen external economies" or net economic benefits to national income including:

1. consumer benefits in the form of price reductions and diversion benefits (clients' investments in unknown areas that may be more profitable than investing in their businesses);
2. backward linkages--income spent by clients on purchased inputs;
3. final demand linkages--clients' purchases of consumer goods and services;
4. training benefits;
5. decreased opportunity costs for labor (i.e., when moving into a job with an assisted business, a worker moving up from a less-skilled job is willing to work for less than the entrepreneur himself).

Thus, cost-benefit analyses of programs are not restricted to analyzing whether interest income covers administrative costs and capital erosion. Kilby and D'Zmura note methodological deficiencies in statistical analysis of their five cases of credit assistance projects due to non-uniform reporting procedures, but they do find their results to be generalizable because they determine the "maximum" and "minimum" possible benefits.

to those previously without access to them. This assistance generates a "multiplier effect" that helps poor communities prosper. When the poor are more productive, they earn more. Earning more, they employ carpenters and brickmakers to improve their homes, buy shoes and clothing from local seamstresses and cobblers, and send their children to schools and doctors. The carpenters, seamstresses, brickmakers, schoolteachers and doctors buy from the farmers and other local producers, thus stimulating the local economy.

CHARACTERISTICS OF EFFECTIVE PROJECTS

Assisting the informal sector is not just a matter of "throwing money" at institutions. Micro-enterprise projects are not easy to do well, and the failure of many efforts is evidence of this. The micro-enterprise projects identified in PISCES Phase I and the demonstration projects evaluated in depth in PISCES Phase II varied tremendously in terms of project methodologies, the economic level of beneficiaries, and even assumptions about the nature of the development process. Despite the differences, successful projects were similar in many respects. Donors and practitioners should keep these general parameters in mind as they work with the sector. Effective projects:

o Have good leadership. Behind virtually every program, there is a project director who believes in what the organization is doing and is able to imbue the organization with a vision. The director makes hard decisions and keeps the project on track. It may well be that more programs have been successful because of good leadership than any other factor.

o They have a concerned and dedicated staff genuinely interested in the clients and their businesses and the fact that their businesses progress. Staff often work evenings and on weekends, and under other extremely difficult circumstances, and their wages are often low. Despite the fact that the field staff are often young and not formally trained in business (or perhaps because of this), they develop a real understanding of the clients' needs. They are able to communicate well, forming a vital link between the micro-business owners and the institutional world that people at this level have so little experience with. They show a real willingness to learn.

o They have a developmental philosophy that recognizes the need for shaping projects to meet clients' needs. What often differentiates a successful project from an unsuccessful one is its ability to act as a catalyst for the clients' ideas. This implies that these businesses, however marginal they may appear, be considered as serious economic activities, and that the knowledge and plans of the clients be respected.

o They have a community-based mechanism for selection. A good selection mechanism taps the community's knowledge of who is reliable and who is not; it distinguishes between those who will seriously invest the resources provided by the project and those who will divert them to other ends or not pay their loans.

o They reach a reasonable number of clients efficiently without exhaustive analysis and undue delay. "Reasonable number" and "undue delay" can be interpreted broadly, depending on the type of project, the local setting and the nature of the organization, but when the staff are only working with a few clients and many months are required for assistance to be delivered, a program must be judged ineffective.

Examples of efficient "response mechanisms" include credit systems designed for quick turnaround so that decisions are made in days rather than months, decentralized decision-making so that the field staff can take needed action without a cumbersome approval process, and the efficient allocation of staff responsibilities so that transportation time and costs are minimized.

o They are serious about client commitment and improved business performance. Whatever their specific characteristics, these are business programs and not charity handouts. A well-designed loan program fits the needs and payback capacity of the clients. In other words, it is up to the program to create a structure that the clients can easily understand and participate in, based on their income, experience and aspirations. Often this means very small, short-term initial loans with subsequent loans slowly increasing in size as the business grows. Clients, for their part, must act responsibly in the program, beginning with the prompt repayment of loans. Ideally, clients should be actively involved in the implementation of the project, so they will feel a real commitment to the ongoing effort and take an active role to ensure its success.

o They remain flexible and willing to change to meet client needs. A feedback mechanism from clients should be "built in" so that services can be constantly upgraded to meet changing client needs. Many projects that at first provide a needed service tend to drift from the changing needs of their clients.

David Korten[35] has suggested that development efforts pass through three distinct stages: that of effectiveness (reaching the client with the services needed), efficiency (providing these services in a cost-effective way, although probably with some sacrifice of the original vision), and expansion (scaling up the development effort or disseminating it through other projects). A project that is continually learning about what it is doing and is thoughtful about how it can do it better can have a truly significant impact.

o They are concerned about efficient administration. For all programs, start-up costs are high and efficiency low. A real problem exists when administrative costs remain high or even increase over time. Whatever the project type, costs should tend downwards as the number of clients increases. To achieve

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[35]Korten, David C. "Community Organization and Rural Development: A Learning Process Approach," Public Administration Review, Sept/Oct 1980, pp.480-511.

See also People-Centered Development: Contributions toward Theory and Planning Frameworks, ed. by David Korten and Rudi Klauss, Kumarian Press, 1984. Part Five: "Social Learning and the Nature of Planning."

this, goals, objectives and procedures must be clearly articulated; if not, project staff will be pulled in so many directions that what the program wants to accomplish is often blurred or lost, and costs will remain high.

o They avoid a crippling tendency toward paternalism. This is the belief that since clients are poor, they are incompetent. When staff doubt the capacity clients have to actively participate in the program or to define for themselves the way their businesses should progress, the result is continued dependency and limited economic growth.

o They avoid excessive formality. They do not insist that tiny businesses reflect the norms, organization, and work style of larger firms (in accounting, for example), when simpler systems (or none at all) are more appropriate. They adapt to the clients, rather making the clients adapt to them, thereby avoiding the bureaucratic attitude that often leads to excessive documentation and cumbersome procedures. The essence and strength of informal businesses is their "informality," the often highly personalistic and idiosyncratic ways of running their enterprises.

In this introductory part of the report, the nature of the sector, the case for assisting it, and the general characteristics of organizations that effectively provide direct assistance have been described. The second chapter presents a conceptual framework for choosing an appropriate project methodology, considering local conditions and the goals and objectives of the project. The third chapter summarizes the four demonstration projects.

The fourth chapter provides a "nuts and bolts" synthesis of the findings of the Phase I and Phase II research, dealing sequentially with each major project component, from project design to "monitoring and evaluation" and management. Chapter V describes the process by which donors can become involved in facilitating the activities of national and international organizations interested in assisting these businesses. The last chapter presents the summary and conclusions and the new directions that micro-enterprise projects might take in the future.

CHAPTER II:

TYPES OF MICRO-ENTERPRISE ASSISTANCE PROJECTS

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Micro-enterprise development projects necessarily function within the context of a local economy. The choice of an appropriate methodology is therefore dependent on an accurate assessment of the special characteristics of the "target" area and on the likelihood that expanded businesses will find a market. A typology of projects, ranging from those that extend credit to existing enterprises to those that create export-oriented cooperatives, is presented later in this chapter. Before entering into a discussion of project methodologies, however, it is important to consider what a project designer needs to know about the local economy and the intended beneficiaries before developing a project.

THE LOCAL SETTING

In general, the more favorable the local setting, the less comprehensive and costly the intervention that is required. Essentially:

- o *if* the population is increasing and *if* economic conditions are improving, *then* the local market will also be growing, and new opportunities will tend to open up as more established informal sector businesses reach wider markets;
- o *if* political conditions are stable, *then* business owners will tend to make longer-range plans and investments;
- o *if* government policy is pro informal sector, *then* the legalization and licensing of micro-enterprises, the availability of services, such as credit and business advice, and the availability of raw materials may be less important issues;
- o *if* infrastructure (roads, electricity, and water), commerce (banks, suppliers of raw materials, markets), and services (schools, health care facilities, and social services) are adequate, *then* these need not be concerns of the program;
- o *if* the local tradition is entrepreneurial, *then* the basic

concepts of starting and running a business will be widely understood and encouraged; and, finally,

o _if_ the project site is close to major markets, _then_ these businesses will have a competitive edge because of cheaper tranportation, better communication and better services.

TABLE I

CHARACTERISTICS OF THE LOCAL SETTING

VARIABLE	FAVORABLE FOR INFORMAL SECTOR GROWTH	UNFAVORABLE FOR INFORMAL SECTOR GROWTH
POPULATION	Growing	Declining
LOCAL ECONOMY	Growing	Declining
POLITICAL CONDITIONS	Stable	Unstable
POLICY ENVIRONMENT	Pro informal sector	Anti informal sector
INFRASTRUCTURE	Adequate	Lacking
SERVICES	Adequate	Lacking
COMMERCIAL SERVICES	Adequate	Lacking
TRADITION	Entrepreneurial	Subsistence
DEGREE OF ISOLATION	Close to markets	Far from markets

The table shows the components that should be considered in a project under given local conditions. If the economy and conditions are improving, informal sector businesses will prosper to some degree without outside assistance. Under unfavorable conditions, a major accomplishment might be to stabilize businesses with little expectation of their growth or expansion.

This table should also help project planners assess the trade-offs of working where conditions are particularly favorable or unfavorable. In areas where the economy is stable, where services are generally adequate, and where there is a high density of enterprises, a larger number of businesses can be reached at lower cost, with a good chance of project success in terms of increased income and employment. A dollar invested will yield good returns, and a very important and almost entirely unmet need will have been addressed. Areas where the population and the economy are declining, where services are inadequate, and where there are few businesses face much greater obstacles. A dollar invested will probably yield less--but a more difficult problem will have been dealt with.

LEVEL OF BENEFICIARIES

The characteristics of the local setting are important in defining the inputs a program should include, but one crucial factor has been left out: the level of beneficiaries <u>within</u> that setting.

There are important differences among informal sector businesses in size, profitability, business savvy, and the possibilities for growth that have important implications for project design. The level of beneficiaries attended depends on project objectives--if the project is to reach the poorest, even those with no business or whose businesses are ephemeral or seasonal, the most needy population will be reached. If a project decides to reach the owners of businesses, however small, that have already proved to be viable in the local economy and that represent a full-time source of subsistence level income, program inputs need not be so complex and costly, however, the poorest will probably not be reached.

The owners of these businesses have been categorized into two groups--the "entrepreneurial group," who are poor but who have proved the viability of their tiny enterprises, and the "pre-entrepreneurial group," whose businesses are extremely unproductive, or who are very poor and have no business but are interested in starting one. In some respects, these groups may overlap, or have similar problems or assistance needs, but the distinction is useful for deciding what assistance methodology is most appropriate.

Entrepreneurial group

The business owners in the "entrepreneurial" group, whether they are market stall holders or street vendors with a well-displayed assortment of merchandise, or the owners of front-porch beauty salons, or micro-scale manufacturers of furniture, shoes or tin lamps:

- are business owners by choice, often starting a business after a long period of savings as an employee of a similar micro-business or as a factory worker. They may also be recent migrants to the city who are trained--often as hawkers--by friends or relatives who have been successful selling on the street.
- are experienced and skilled, within the context of the street economy. Even a successful street vendor requires highly-developed skills--attracting customers, doing quick mental calculations, and developing relations with suppliers and moneylenders.

At this level, the project deals with established businesses that are a full-time occupation for their owners and a major source of income to their families. Business income is, on the average, equivalent to the prevailing minimum wage.

This "entrepreneurial group" makes up the bulk of informal sector business activities, however marginal these activities may appear to outsiders. Their owners are committed to their enterprises, have established links to suppliers and customers and, not surprisingly, generally have realistic plans on how their businesses could be improved.[36] Projects reaching this group can focus, at least initially, on the needs their clients identify: small amounts of working capital and longer-term loans to purchase equipment. For those businesses that expand significantly, rudimentary bookkeeping and management assistance may also be called for. Associative activities such as business training workshops, artisan fairs, participation in credit groups and micro-business associations also seem to be important.

Pre-entrepreneurial group

Reaching the "pre-entrepreneurial" group requires a different type of effort. A "pre-entrepreneur" may be one of the hundreds of vendors sitting before small, virtually identical piles of fruit or vegetables in a market town, or may have no economic activity at all. This group is made up of people who:

o are in business often because there is no alternative, and who

o are inexperienced. They may be recent immigrants from rural areas, speak a different language, and have virtually no experience with institutions. Their links to customers and suppliers are tenuous and sporadic, and numeric abilities--a vital skill for vendors and owners of small-scale commerces--may be virtually non-existent. Also, they may have virtually no money to invest in a business.

Not surprisingly, business income is probably well below the prevailing subsistence wage.

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[36]Also not surprisingly, they are seldom interested in relocating (community workshops are a feature of many small enterprise projects), since this would require them to develop new suppliers and customers, increase their transportation costs, and make it difficult to use family labor. They are also seldom interested in working collectively, although they often do share information, tools, and even employees among themselves, with the expectation that the favor will be returned. They generally have enough entrepreneurial spark to feel they can progress better through their own efforts, rather than sharing ownership with others.

Projects reaching this level are concerned with starting new activities for people who have no businesses at all, or upgrading very low-productivity activities. This is often accomplished by grouping businesses so they will be more profitable, or providing training and other inputs so clients may enter more lucrative trades or increase the productivity of the ones they already own.

Project inputs for the "pre-entrepreneurs" tend to be intensive and long-term and cover a broad range of activities in addition to enterprise development. These projects may have social workers on their staffs who are in contact with clients for extended periods before they feel they are ready to even start an economic endeavor. Although more costly per client reached, this kind of assistance is justified and necessary. The poorest are reached, and displacement is minimized.[37]

Both categories of businesses exist in the three regions studied--Africa, Asia, and Latin America--but the pre-entrepreneurial group may be more prevalent in Africa. In Africa there are few large cities, there is a lack of infrastructure, and many

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[37]Stimulating better-established businesses, it is argued, may take away some of the potential market for more marginal businesses, assuming that demand is static or declining. Displacement will tend to be a less important factor if the population is increasing and the economy is improving--the situation in most of the cities and many rural areas in the developing world.

people have only recently migrated from rural villages where there is little entrepreneurial tradition.[38]

TYPOLOGY OF MICRO-ENTERPRISE ASSISTANCE EFFORTS

The accompanying table presents schematically the differences between four general types of informal sector assistance efforts, and provides a framework for deciding what type of project methodology is most appropriate. The first two categories, "simpler" and "somewhat complex," are best adapted to the "entrepreneurial group," the owners of existing viable enterprises--i.e., street food vendors and cottage industries--whose skill levels are generally adequate within the context of the local street economy, and where the local market is sufficiently dynamic to absorb extra production. The third category, "moderately complex," is best adapted to the needs of "pre-entrepreneurs" who in large part sell to the local market. The fourth category, "complex," is appropriate for the poorest inhabitants of declining areas, where a major effort is needed to produce for export or for the national economy.

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[38]The following books provide a partial background on the entrepreneurial traditions among African cultures:

Marris, Peter; Somerset, Anthony. African Businessmen; a study of entrepreneurship and development in Kenya, Routledge and Kegan Paul, 1971. Marris looks at pre-colonial Masai traders and their replacement by Europeans, arguing that similar events occured all over Africa.

Oliver, Roland; Atmore, Anthony. Africa since 1800, Cambridge University Press, 1972. Includes brief sketches of patterns of trade and commerce within the context of the history of the continent.

Cohen, Abner. Customs and Politics in Urban Africa; A Study of Hausa Migrants in Yoruba Towns, University of California Press, 1969. Social and political study of the Hausa people, well-known as long distance traders in West Africa.

Little, Kenneth. African Women in Towns; An Aspect of Africa's Social Revolution, Cambridge University Press, 1973. Chapter titled "Women in the urban economy" describes female traders and market women, often economically dominant in West Africa and other areas.

Within this general framework, components can be added or pared away, depending on local conditions and project objectives. For example, if an objective is to reach the maximum number of clients with minimal services at the lowest possible cost, project inputs will be few and simple; if there is a concern for working more intensively with a smaller number of clients, then project inputs will be more comprehensive.

A word of caution, though: a common error is to design a project that is more complex than the situation warrants. Informal sector business owners, even at the level of street food vendors with curbside stands, are amazingly resourceful and capable, and their abilities are usually underrated. Provided a structure that gives them encouragement and advice from peers and staff, and small, but appropriate, inputs such as credit and simple business orientation, they can often find opportunities unknown to an outsider. The essence of the informal sector is its "informality"--the dense network of special arrangements, contacts, and the sheer effort and will that make things happen because one's livelihood depends on it.

TABLE II

Entrepreneurial group------------------ Local market adequate	"Simpler projects" "Somewhat complex projects"
Pre-entrepreneurial group-------------- Local market adequate	"Moderately complex projects"
Pre-entrepreneurial group-------------- Local market inadequate	"Complex projects"

<u>Simpler projects/Somewhat complex projects</u>

Projects dealing with the entrepreneurial group--i.e., viable economic endeavors where skill levels are adequate--differ only in degree, reflecting different objectives. "Simpler projects" mimic the moneylenders, providing a continuous line of credit in small amounts (although at a lower interest rate than that charged by money lenders), with few other inputs.[39] The "somewhat complex" projects, such as the Santo Domingo and Costa Rica PISCES demonstration projects add orientation and training to credit, but they don't market or provide inputs for project participants. In contrast to the simpler projects, the "somewhat complex" projects are more concerned with helping businesses expand significantly and often have associative and social objectives.

The major advantage of these projects is that they are comparatively low-cost, are easily understood, and a major part of their costs can be covered through interest and service charges. These projects attend a large unmet need and have considerable impact in terms of increased income, new employment and an increased sense of self-esteem and empowerment. In these projects, business development is seen as an isolated process; there is little emphasis on the provision of social services. As businesses progress, it is assumed that the extra income will be used for improved education, nutrition or clothing, or will be invested in housing. They do not, however, tackle the most difficult problem--reaching the destitute or those living in the most remote or declining areas.

Moderately complex projects

Moderately complex projects, typified by the Kenyan and the Egyptian PISCES demonstration projects, attempt to reach the very poorest and destitute. They see enterprise development as part of an integrated process of community upgrading and as a vehicle to provide complementary services in areas such as community organizing, hygiene and literacy. Production and sales to the local market are generally emphasized.

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[39]The BKK (Badan Kredit Kecamatan) project in Indonesia is an example of such an project. In 1983 the program extended 300,000 loans averaging $50 for off-farm economic activities. Credit to Indonesian Entrepreneurs: An Assessment of the Badan Kredit Kecamatan Program, by Susan Goldmark and Jay Rosengard, Development Alternatives, Inc., May 1983.

The major disadvantage of these efforts is the high cost per client reached, especially if social services are factored in. The justification is that since clients are living in absolute poverty, outside donors and local governments should make the investment that was implicit in the success of the "entrepreneurial group," giving them a chance to get ahead.

Complex projects

By setting up a collective enterprise or cooperative endeavor, where people with very limited skills produce a product that must compete on the national and international markets, project planners are undertaking the most difficult challenge. The goal is to create a collectively-run production and exporting business that can compete with formal sector businesses. Consequently, program planners need to provide major and extended inputs in every area--organization, management assistance, skills training, marketing and technology, all carefully orchestrated to ensure project viability.

The advantage of this type of project is that it can have a transforming effect on the clients or on whole communities, adding a new major source of income. But herein lies its greatest risk. The structure created is dependent, often for many years, on expensive outside management, and support may wane before the process is complete. If support is withdrawn, it is unlikely that members of the cooperative will have the necessary skills to manage the business. Another risk is creating a kind of "company town," where the export of one product becomes a central part of the local economy. Project participants are prey to the international market, and will have little to fall back on if this fails.[40] Finally, even with the best outside inputs and a sustained effort, creating a viable enterprise under these conditions is very difficult.

[40]See The PISCES Studies (Farbman, ed.) chapter on the Institute for Cultural Affairs project called the Kawangware Community Upgrading Project in Nairobi, Kenya (p.101).

In the table below, the four types of projects are presented schematically as they relate to each component of the implementation process. The discussion in the next chapters will concentrate on "somewhat complex" and "moderately complex" projects, since most of the PISCES research focused on these types of projects, and these will most likely be the types of programs that will be developed or presented to donors for funding.

TYPOLOGY OF MICRO-ENTERPRISE PROJECTS

COMPONENTS:	SIMPLER PROJECT	MODERATELY COMPLEX	SOMEWHAT COMPLEX	COMPLEX
TYPE OF ECONOMIC ACTIVITY STRENGTH-ENED	Existing, viable enterprises--e.g., street food vendors, cottage producers w/ up to 5 employees, services.	Same	Very unproductive businesses, or marginal activities. In some cases new businesses start up.	New collective production enterprises.
LEVEL OF CLIENTS	Urban slum dwellers, landless rural poor, supplementary income sources of very small farmers. Income close to subsistence.	Same	Income well below minimum or subsistence wage. Minimal skills.	Effort to reach those with no economic activities or very marginal activities--very poorest.
SETTING	Urban areas, rural areas with high population density. Local markets growing or at least stable.	Same	Same, but rates of sub-employment and unemployment may be higher. Local market adequate.	Can be in more isolated rural areas with declining local markets.
BASIC OBJECTIVES	Incremental improvement of existing viable enterprises oriented to local market. Minimum inputs to reach maximum number of clients at lowest possible costs consistent with good management.	Same, except added simple inputs to further stimulate business growth and encourage social impact.	Upgrade very marginal activities, provide training for starting or entering more profitable businesses. Link clients to social services, general community upgrading.	Collective enterprises fundamentally alter economic possibilities of destitute people living in isolated and declining areas.
OUTREACH/ PROMOTION	Self-promoting: word of mouth after initial outreach.	Same	Intensive work with very poor and destitute clients to get to know them individually; referrals from other agencies, direct outreach in the community.	May require considerable convincing, education for prolonged period.

TYPOLOGY OF MICRO-ENTERPRISE PROJECTS (cont'd)

COMPONENTS:	SIMPLER PROJECT	MODERATELY COMPLEX	SOMEWHAT COMPLEX	COMPLEX
SELECTION:	Reputation in the community. Self-selection through continuing participation. Minimal up-front analysis of business viability. Most all enterprises receive some assistence.	Same.	Chosen often after working with project staff for an extended period.	Collective endeavors require sophisticated up-front analysis to check viability before major investments made.
CREDIT	Short-term working capital. Loans gradually increase in size after previous loan successfully paid. Initial loans in the $10 - $100 range. Some longer term loans after business has proven itself.	Same, but more long-term loans requiring more analysis and follow-up.	Same, but with group businesses, larger loans, more up-front analysis and more follow-up.	May require long-term investment. Requires sophisticated up-front analysis to determine viability, availability of market, etc.
ORGANIZATIONAL ASSISTANCE	Orientation of self-formed credit guarantee groups.	Same, plus perhaps formation/training of community selection committees, formation of associations, etc.	Same, but in addition often long-term work with groups to start collective businesses.	Creation of collective/cooperative endeavor. Major training at all levels.
MANAGEMENT ASSISTANCE	None, other than facilitating the exchange between business owners, and through conversations with staff on how the new loan will be used.	Same, except for the minority of businesses that are expanding significantly. Bookkeeping/marketing assistance, etc. If possible owners pay for help.	Considerable business orientation before loan given for business start-up, intensive follow-up.	Major, long-term inputs needed to train very poor people to run comparatively complex collective businesses. Agency may need to manage project for several years.

TYPOLOGY OF MICRO-ENTERPRISE PROJECTS (cont'd)

COMPONENTS:	SIMPLER PROJECT	MODERATELY COMPLEX	SOMEWHAT COMPLEX	COMPLEX
SKILLS TRAINING	None. For viable enterprises skill level is infrequently a major limitation.	May facilitate up-grading of skills of current economic activity.	Same, except skills and training may be a major component if clients are to enter new types of businesses.	May require extensive skills training so owners/employees may engage in new type of economic activity
MARKETING	None. Assumption that local market will absorb increased production.	Same, but may be some orientation on product display, expansion of line of goods, etc., but no direct marketing of goods produced.	Same, but may also market directly through special stores, secure government contracts, etc.	For a collective enterprise, being able to sell products is a major concern that requires considerable analysis.
PROVISION OF INPUTS	None. Assumption that merchandise/raw materials are available from local suppliers.	None, except if a few key materials can be provided at a significantly lower cost.	Same. May also set up workshops for collective businesses.	Often considerable outside inputs provided.
TECHNOLOGY	None. Assumption that appropriate technologies exist and are available.	None, except for certain activities where simple inputs would help considerably, i.e. improved kilns, etc.	Same.	May be required as part of overall package--i.e., improved spinning wheels.
CLIENT ROLE	Program: inform others about program: help select members through forming groups. Business: find suppliers; train workers; produce goods; find markets.	Same.	Depends on staff inputs.	Initially work as a laborer in the economic endeavor created. In the future all functions will be taken over by clients.

TYPOLOGY OF MICRO-ENTERPRISE PROJECTS (cont'd)

COMPONENTS:	SIMPLER PROJECT	MODERATELY COMPLEX	SOMEWHAT COMPLEX	COMPLEX
STAFF ROLE	Efficient administration of a program that provides a limited, but essential input (credit generally) in a way defined by clients.	SAme, but some limited inputs in the areas of organization, management, skills training and marketing.	Administration, plus major inputs in organization, management assistance, skills training, marketing and, perhaps, the provision of raw materials.	Defining the economic activity to be implemented. Providing the needed financial resources. Creating the economic structure. Recruiting the participants. Managing the enterprise and training for eventual turnover to clients. Teaching the necessary skills. Finding a market and establishing linkage with the market. Providing the necessary raw materials. Developing the required appropriate technologies.
EXPECTED IMPACT	Average 30% increase in income. One new job for each $1,000 in credit expended. Nucleus of grassroots organization through credit guarantee group. Enhanced self-image.	Same, except decreased number of business failures with management assistance, creation of grassroots organizations.	Same, except income increase may be higher, especially for those starting at the lowest level.	Potential transforming effect on the group involved. Potential major impact on the local community.

TYPOLOGY OF MICRO-ENTERPRISE PROJECTS (cont'd)

COMPONENT:	SIMPLER PROJECT	MODERATELY COMPLEX	SOMEWHAT COMPLEX	COMPLEX
ADVANTAGES	Low-cost/simple/well-focused inputs. Field work by relatively untrained workers. Easily understood, accepted by clients. Project can potentially be self-sufficient through interest on credit. Impact considerable. Low risk to clients if program fails, since they can fall back on traditional moneylenders.	Same, but additional impact with added inputs on business and community.	Reaches the very poorest and destitute; skills skills training may permit major break with marginal activity;	Can transform a village or cluster of villages villages, and slow migration to cities.
DISADVANTAGES	Very poorest and destitute tend not to be reached.	Administration more complex. Staff need to be better trained. More difficult to cover costs.	Much higher cost: better-trained staff; needs ongoing subsidy; total number reached probably small.	Very risky for agency/clients (because, if activity fails clients are left in worse position). Requires long-term commitment. Replicability difficult. Cost may be very high before activity begins to cover costs.

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CHAPTER III:
CASE STUDIES

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The major activity of the PISCES team in Phase II was to help design and then evaluate projects funded by local AID missions. Team members worked with local missions in Costa Rica, the Dominican Republic, Bangladesh, Indonesia, the Philippines, Kenya, Egypt and Zimbabwe. Of these efforts, four were sufficiently developed in time to be evaluated: the projects in Costa Rica, the Dominican Republic, Kenya and Egypt. The project in Bangladesh was funded but was very delayed in getting started, and when it began providing services, it was to a level of enterprises far larger than the PISCES target population. The project in the Philippines has just become operational; the project initiatives in Zimbabwe and Indonesia were never funded.

The four demonstration projects that were evaluated, however, provide considerable insight on how to reach the entrepreneurial and pre-entrepreneurial groups. Referring to the typology spelled out in Chapter II, the Dominican and Costa Rican projects exclusively reached the entrepreneurial group, while the Egyptian and Kenyan demonstration projects are primarily oriented to reaching the pre-entrepreneurial group. The complete case studies are available in Volume II of this report, but these summaries present the major conclusions and recommendations.

THE PROGRAM FOR DEVELOPMENT OF MICRO-ENTERPRISES (PRODEME) OF THE DOMINICAN DEVELOPMENT FOUNDATION IN SANTO DOMINGO, DOMINICAN REPUBLIC[41]

The Dominican Development Foundation (DDF) is a private voluntary organization founded in 1965 that has worked extensively in rural areas in the Dominican Republic. The DDF became interested in an urban micro-enterprise project in 1980, and that year AID approved funding for a feasibility study[42] that clearly demonstrated the needs of the informal economic sector in Santo Domingo. PRODEME (Program for the Development of Micro-Enterprises) became operational in May 1981 and the first loans were disbursed to micro-business owners in July of that year.[43] ACCION provided to the project a full-time "resident adviser" who helped carry out the feasibility study, designed the funding proposals, trained the staff, set up the internal monitoring system, and worked actively for the dissemination of the project. ACCION's advisor worked with PRODEME through August 1983.

PRODEME includes two components: (1) a "solidarity group" component consisting of small groups of 5-8 members who mutually guarantee a loan made to the group for individual business purposes and (2) a "micro-enterprise" component consisting of loans to individual business owners and management assistance. Through

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[41] Otero, Maria and Blayney. "An Evaluation of the Dominican Development Foundation's Program for the Development of Microenterprises (PRODEME)". Agency for International Development, Nov 1984.This report brings the project results up to date (through mid-1984) and focuses on the roles of ACCION and AID, financial management and recomendations for improving the project. It confirms the initial positive evaluation of the project.

[42] Gross (1980).

[43] PRODEME is funded by the United States Agency for International Development, the Inter-American Foundation, Appropriate Technology International and local Dominican sources. From the start AITEC provided technical assistance through a full-time resident advisor whose contract ended in August 1983.

December 1983, 343 loans to solidarity groups with nearly 2,000 members averaging $233 per member had been granted, and 211 loans averaging $1,817 had gone to those in the micro-enterprise component.

The objectives of the micro-enterprise component are stated in concrete terms of increased income and employment. The solidarity group component, while including these goals, also has the more intangible aim of "empowerment" by means of developing mutual support and leadership through group processes. The results of the solidarity group project are therefore measured according to the criteria of group cohesion and the participation of members, as well as that of increased income.

Solidarity Group Component

The businesses of the solidarity group component are much smaller than the "micro-enterprise" businesses, usually having no employees besides the owner. Eighty-three percent of the project's clients are tricycle cart vendors ('tricicleros') and the other 17% are seamstresses, food vendors, or market stall holders and are known as the "working capital" group. The tricicleros of the project receive $249 toward the purchase of a "triciclo" (which they previously rented) plus $21 for working capital, to be repaid in 52 weekly payments. The working capital group members receive up to $249 to be used for working capital only, also to be paid in one year. A flat interest rate of 24% per annum is charged.

All the tricicleros are male and are on the average 30 years old, whereas 3/4 of the working capital recipients are female, and on the average nearly a decade older. In both groups, almost all are immigrants to Santo Domingo from rural areas (tricicleros average 9.6 years' residence in Santo Domingo and working capital recipients 14 years). On the average, they have lived in their barrio (neighborhood) for 5 or 6 years, and have 4 years of schooling. Both groups work an average of 48 hours a week. The beneficiaries of the solidarity group component are poorer than those of the micro-enterprise component, though not the most destitute members of society, and live in the poorest barrios of the city.

The solidarity group methodology emphasizes participation, and the group members are encouraged to take an active role in the project. Those members already in the project are responsible for recruiting new members, who organize themselves into provisional groups. These newly formed groups attend a 4-hour two-part course on the project emphasizing the solidarity group concept and their responsibility to pay their loans, and at the end of the course, members select group presidents. The group attends barrio-level meetings for one to two months before the credit request is submitted to the DDF, further testing their cohesion as a group and commitment to the project.

Late payment problems are handled by one of the five coordinators of the project responsible for certain barrios within the city. When a member is eight weeks late the possibility of repossessing his triciclo (in the case of tricicleros), or some other measure, is discussed. Group membership reinforces the individual's sense of responsibility for loan payback, as each group member is a cosigner for the debt of the others.

Access to credit at reasonable interest rates is a strongly-felt need among the Dominican poor, since loans are usually obtained from moneylenders at exorbitant rates of up to 20% a day. Besides this, what draws people to the project is the mutual support among members, the easily-understood goals, and the possibility of assuming leadership roles in the solidarity groups or in the "Dominican Association of Tricicleros," formed by group members.

Measuring solidarity

One measurement of solidarity and therefore of the impact of the solidarity component of PRODEME is the opinion of the group members themselves concerning the project. When asked if they would prefer a group loan to an individual loan, six in ten said they would prefer a group loan. Also, most (74%) said they would take out a second loan with the same group, 24% that they would take out one with some of the members of their group, and only 2% said they would prefer to take out a loan with another group altogether, showing that group cohesion is quite strong. Active participation in the project is broad-based: over half said they have recruited others for the project and a third said they are in a group that meets "frequently" outside the regular barrio-level meetings.

Group presidents were also questioned about solidarity. They were asked what functions their groups served in addition to collecting the loan quota, an important measure of the effectiveness of the group mechanism. Ninety percent said that members give each other business advice and 80% and 70%, respectively, said their members help recruit new members and form new groups. Two-thirds of the group presidents said they would be president again, if given the choice. They liked the opportunity to take on responsibility and felt this experience had opened up new paths for them.

The perspective of the PRODEME coordinators on the issue of solidarity was also studied. They consider as among the positive aspects of their groups that 70% have "good presidents," half the groups have "good solidarity," and a third meet among themselves frequently to share ideas and advice. On the negative side, 85% of the groups have had one or more late payments, in a third of the groups it has been necessary to either repossess a triciclo or remove a member because of late payments, and in a quarter of the groups there has been one or more members who have sold or pawned their triciclos. When asked to rate the groups they worked with, one strong trend was that the first groups formed have far more problems than the groups recently formed. When the first flush of enthusiasm fades and other pressing needs arise, payback, which with new groups is 100%

on time, often becomes a second priority. Divisiveness then emerges as group members who are paying on time start pressuring the slower ones.

Perhaps one of the most significant impacts of the solidarity group program has been the formation of an association of tricicleros, known as the "Dominican Association of Tricicleros 'San Jose Obrero,'" showing the degree to which tricicleros are willing to organize and work together for mutual benefit. Through contributions from members, an emergency loan fund has been created, to be used mainly in the event of sickness or death in families. There is also a committee to visit the sick, and Association leaders have agreed to visit members who are put in jail. An Association savings and loan cooperative has been planned. The Association meetings have evolved from the chaotic gatherings of the first months, to orderly meetings with an agenda, elected offices, and parliamentary procedures. The meetings, previously held in a garage, are now held in a rented hall. At least one of the Association leaders attends each of the barrio-level meetings held throughout the city every week.

Changes in income

Changes in income must be related to the health of the economy. If the economy is improving, or at least stable, small informal sector businesses will thrive; if the economy is in a period of severe recession, the street economy will be affected adversely as well. The Dominican economy is in such a period of decline. When asked if current economic conditions made it hard to earn more, 88% of the tricicleros and 73% of the working capital recipients answered yes. Most all say the cost of the items they sell is higher, and a majority are selling more now but earning less because of rising costs.

This partly explains the 11% decrease in income among group members measured from the time they entered the program to the date of the interview. But are program participants better off for having received a loan? For the triciclero, at least, the answer is yes. Simply through ownership of the triciclo they will save $388 a year in rental fees, representing a 16% increase in yearly business income. The 17% who keep their triciclos at home will save an additional $50 a year in garage fees. They are also able to ride further and faster with their new trikes, thus expanding their market. The long-term impact on income of the working capital loan recipients is less clear.

Group members' opinions about the program

When asked what they liked about the project, it is striking that, when added together, "solidarity" (25%) and "the emergency fund" (20%)--two things brought about by the beneficiaries themselves--rate higher than the loan, another indication of the beneficiaries' "ownership" of the program.

When asked what they liked least about the project, most disliked the irresponsibility of some group members. Also mentioned frequently were "the long delay in receiving the loans" and "the way the loan payments are made, or the loan terms," giving hints as to ways the project might be improved.

Showing their desire for additional sources of working capital, 56% of the loan recipients, when asked to rank possibilities for new types of services the project could provide, said they would like a savings and loan cooperative or small working capital loans--while 28% said "a place to buy cheap merchandise," 14% "a course or class," and 2% said "trips or parties." Sixty-five percent feel the project should provide small working capital loans and 80% are interested in taking out a second year-long loan.

Problems and recommendations

The Dominican Development Foundation is to be commended on the success of the solidarity group component of the project.

In 30 months, 343 solidarity groups with nearly 2,000 members have been financed, and many more solidarity groups already organized by project participants are awaiting funding. But despite the undeniable successes, project improvements need to be made.

The 1982 evaluation identified two major, closely intertwined problems: a worrisome problem of low payback, and the slowness of the institution's procedures for disbursing loans resulting in increased administrative costs and unnecessary delays for the project's clients. On the programmatic side, the policies and mechanisms for granting second loans needed to be specified and a system by which smaller, shorter-term working capital loans could be granted needed to be created.

Problems with repayment became evident in April 1982. Before then, 100% of the payments were on time. By April this percentage had decreased to 80%, and by September 1982 was 67%. The solidarity group coordinators estimated then that they spent half their time with loan collection and repayment problems.

This problem was discussed with the DDF staff and beneficiaries, and at that time the conclusion was that there was little incentive for the solidarity group members to repay their loans other than their moral commitment to the project. Coordinators complained they could not get the backing of the Foundation to repossess triciclos or to take other measures when serious late payment problems emerged. It was also noted that another possible cause of low payback was that only one second loan had been given out. Why pay the loan if there is little possibility of getting a second one and when there are so many other urgent needs to be met?

It was decided that, to improve the late payment problem, PRODEME needed to take two measures:

1. Define the policy on late payments early and make repossession easier for coordinators. For example, triciclos should be repossessed after 8 weeks' default, with the group's approval.

2. Grant second loans as quickly as possible after the first loans are paid. This would provide an incentive for prompt repayment.

Another change that was considered was providing short-term working capital loans. The loan payback period--52 weekly payments--was a problem for many clients. If one considers that virtually none had had experience with business loans that lasted more than a week, one year appeared interminable.

Granting shorter-term loans might have several consequences:

o smaller initial loans granted for shorter periods would help select groups that are responsible about payback;

o being strict about loan repayment would lower the late payment rate;

o success in paying the first loan and subsequent larger loans would help increase solidarity and decrease divisiveness;

o granting second loans quickly would act as a stimulus to pay existing loans;

o these measures should cut the time required to collect on late and defaulted loans considerably and reduce the cost of administering the cost of the project.

By the time of the September 1983 visit some progress had been made in all these areas. An aggressive effort to improve loan payback with the repossession of triciclos from individuals who refused to pay had increased the repayment rate from 67% to 78% for the newer groups and 68% for the older groups. Also, several second loans had been made and the DDF had experience with loan payback periods of as little as six months.

Only modest progress had been made, however, in reducing the time required to make a loan. Indeed, some groups had been waiting for as long as six months to receive their loans. A similar program in San Salvador took less than a month to approve and disburse its first loans and only 2 or 3 days to disburse second and subsequent loans. Increasing the agility of the program will have been worth it if the solidarity component covers its costs, thus opening the way to serving far more clients.

The Micro-Enterprise Component

The businesses of the micro-enterprise component are considerably larger than those of the solidarity group component, having an average of 2.2 full-time equivalent employees (part-time employees are counted as one-half a "full-time equivalent") and $4,272 in total investment. The owners of these businesses average 38 years of age, have 10 years of education and 15 years of experience. In contrast to the solidarity group beneficiaries, members of this group tend to be among the upper strata of the poor. It is the increased employment opportunities offered to the truly poor that justifies this type of project on social grounds.

The methodology of the micro-enterprise component contrasts sharply with the solidarity group assistance effort. Assistance is to individual enterprises and, except for an artisan fair held in September 1983, there is no mechanism to group micro-enterprise beneficiaries together. Assistance to each micro-enterprise is intensive, and considerable effort goes into setting up a bookkeeping system and improving management capacity.

Measuring business success

To assess the impact of the micro-enterprise component of the project, the success of the businesses of the project was compared with that of a "control group" of businesses that had made contact with the DDF but had dropped out early in the project. The impact of the loan and the management training were demonstrated by the fact that the businesses assisted intensively by the project with loans and management assistance outperformed the businesses of the control group on every measure of business success. Subtracting the advances made by the control group from those of the businesses of the project showed net increases of 31% in total investment, 24% in machinery and equipment, 25% in monthly sales, and a 20% increase in "aggregate value" (sales less the cost of raw materials--a simple measurement of overall business change).

Based on the September 1982 study, within the 101 assisted businesses, 141 new full-time equivalent jobs were created that paid an average of $115 a month, representing a 64% net increase in employment compared to the control group. In a year, the total amount of new salaries alone ($195,206) would be greater than the total value of the loans ($194,033). The project also increased the incomes of the owners by 27%. If it is considered that 211 businesses have been aided to date, the impact of the program on poor micro-enterprises has probably more than doubled.

Within the intensively assisted businesses there are sharp differences in the degree of progress, which for the purposes of the study were divided into four categories or levels of success. In profiling the most successful ones it was found that change was not related to the amount of the loan or the amount of management assistance; program inputs were virtually identical for all four groups. What was different about the most successful business owners was the way they used the project inputs. They expanded aggressively, turning their working capital over several times, increasing production, hiring new workers and purchasing new machinery and equipment. They were also more likely to adopt the management suggestions made by the coordinators.

One reason for the differences among the groups may be that the most successful business owners tend to join PRODEME at a critical stage in their evolution as entrepreneurs. They are generally younger and better-educated than the other business owners, their businesses are newer and, having proved that their businesses have been viable for 4 or 5 years, they are highly motivated to expand. The PRODEME project provided the needed management assistance and the capital at an appropriate juncture in their experience.

Job creation

An analysis was also made of the employees of the businesses. Were the jobs being created "marginal?"--apparently not. The average monthly salary of $115 is above the minimum wage in the Dominican Republic of $104 a month. Most of those in the project earning less than $104 are under 19 years of age and are learning their trade; by age 25 three-quarters are earning more than $104 and 50% are earning over $166 a month. It is still too early to know how long these jobs will last, but it is encouraging that 80% of those working before the loan and 90% of those hired since the loan are still working.

The study also showed that micro-businesses are training schools for learning trades and entrepreneurial skills. Most said that they had learned how to use a machine or to repair or make something since they started work. That only 11% of the employees are 35 years of age or older indicates that by that age many probably left to start their own shops or move into formal sector jobs.

Problems and recommendations

When asked in September 1982 what they liked best about the project, 40% of the clients said "the loan," 25% liked the comfortable loan terms, and 30% said they liked the courses. When asked what they didn't like, the "purchase order" rated the highest by far (46% of all responses). To guarantee that the loan money was used for business purposes, the program required that previously agreed-upon goods be purchased from certain merchants: once the goods were purchased, the DDF paid the merchant. The recipients felt this system restricted their ability to get good prices and showed the DDF's lack of faith in them. Beneficiaries also complained of the delay in receiving the loan.

Recommendations for improving the program, based on the 1982 study, corresponded closely to the complaints of the clients. One suggestion was to eliminate the purchase order, perhaps experimenting by granting part of the loans without the purchase order, and then comparing the two groups as to their success and payback rates. Other improvements suggested were the simplification and speeding up of loan application and disbursement procedure.

By the time of the last visit to the program in September 1983, significant progress had been made in most of these areas. To simplify the process of approving a loan and providing follow-up, the number of visits to a micro-enterprise before a loan is approved has been reduced from an average of sixteen visits to eight. The documentation required to complete a loan request was also simplified considerably and the number of visits to micro-businesses after the loan is disbursed was reduced, with the most frequent visits made to those businesses that needed the help and were genuinely interested in adopting improved management techniques.

The project was also modified to counter some of the principal complaints of the clients. The use of the purchase order was reduced and short-term working capital loans were tried out on an experimental basis. Finally, the micro-enterprise staff were much more strict than they had been earlier. That these measures have been effective is reflected in the payback rate. By September 1982, payback was only 56%; one year later it was 71%.

Summary

The solidarity group component of the PRODEME project was evaluated in this study mainly according to degree of group cohesion and participation and development of leadership, and there were many positive indications of this: three-quarters of the members would take out another loan with the same group, over half had recruited new members, and three-quarters of the group presidents would be president again. The member-formed Triciclero Association also indicated a remarkable degree of "solidarity." The participants in the micro-enterprise component, which reached a slightly higher income stratum, experienced gains in every category of business success measured by the survey: investment, amount of machinery and equipment, monthly sales, and aggregate value. Within the 101 assisted businesses, 141 new full-time equivalent jobs were created, paying an average of $115 per month.

The problems in both components identified in the 1982 evaluation--mainly related to the late payments by the loan recipients and the long delay in delivering loans--show that there is room for improvement in the program, although in the intervening year much progress was made.

This study has shown that the solidarity group and micro-enterprise components of PRODEME, though distinct in approach and evaluated according to different criteria, both demonstrate effective methods of reaching and assisting the smallest businesses of the urban poor.

EUS (EMPRENDAMIENTOS URBANOS CON GARANTIA SOLIDARIA/AID TO URBAN BUSINESSES THROUGH A SOLIDARITY GUARANTEE), BANCO POPULAR Y DE DESARROLLO COMUNAL, SAN JOSE, COSTA RICA

The Banco Popular y de Desarrollo Comunal (the Popular Community Development Bank) was established in 1969. Its mandate is to provide access to capital for the workers of Costa Rica, and it is capitalized through a 1% levy on the salaries of all workers. These funds are placed in a savings account that can be withdrawn at the end of the year. The Board of Directors includes members representing government workers, labor, small businesses, teachers, and community organizations. Since there is a strong commitment to extending credit to the poorest, the Board and the bank management were receptive to the idea of opening a line of credit to the informal sector. Prior to the project, the bank loaned to small industries and low-cost housing, but had never worked with the tiny informal sector businesses that were the target group for PISCES.

After a feasibility study was completed[44] and the EUS project was developed, AID/Costa Rica granted $65,000 to finance the revolving loan fund. As its counterpart, the Banco Popular provided a project director, an accountant to keep track of the loans, a secretary, and some access to transportation. The quasi-governmental welfare agency, IMAS (Institute for Social Assistance), provided transportation and three social workers who served as project promoters. Their costs were also covered by AID/Costa Rica.

After an extensive process of selecting a project director, training the staff, and creating a new internal regulation that would integrate the project's activities into the bank, EUS started extending credit in October 1982. By the end of October 1983, loans averaging $247 had been granted to 83 solidarity groups with 447 members (63% male and 37% female), to be paid

[44]Ashe; Moritz de Morales (1982).

back in weekly installments over a year. An interest rate of 21.5% on a declining balance was charged, which was projected to cover program administrative costs within two years.

Of these loans:

- o 27% went to street vendors;
- o 35% went to the owners of very small stores--usually fruit stands, tiny restaurants, etc.;
- o 34% went to micro-industries and services, most frequently shoemakers and seamstresses;
- o and 4% went to businesses in other categories.

Unlike the Dominican project, there was no outside technical assistance provided, except for the periodic visits of the PISCES evaluator. The smooth functioning of the EUS unit after the personnel were trained and administrative systems were set up shows that this type of project can be replicated, provided there is good leadership and a strong institutional commitment. AID/Costa Rica has shown a high degree of interest in the project and is considering the expansion of the solidarity group concept to other banks in the secondary cities.

Local Setting

The Banco Popular project in Costa Rica works exclusively in San Jose, an urban area with an expanding internal market. Promotional efforts were concentrated in the poorest neighborhoods ('tugurios'), often recently-established squatter settlements. In contrast to the Egyptian and Kenyan demonstration projects, EUS does not reach the most destitute. The program works with the owners of existing businesses who share the characteristics of the "entrepreneurial group" more than the "pre-entrepreneurial group," even though many are street food vendors or bottle collectors. Owners average 11 years of experience in this line of work before they apply for credit.

Showing the viability and success of their businesses, income levels were slightly higher than the average for Costa Rica when they first made contact with EUS. In Costa Rica, 48% of the population is "extremely poor" or "poor," indicating they have just enough income to cover their basic food needs: of the beneficiaries, only 40% are in these two categories. For the businesses owned by women-headed households, however, this percentage is 63%.

TABLE III

Poverty level	All Costa Rica	Project
Extremely poor	37%	17%
Poor	11%	23%
Low income	35%	28%
Above low income	17%	32%

Extremely poor = Income insufficient to cover basic food needs
Poor = Can cover basic food needs
Low = Can cover basic food needs plus other minimal services
Above low = Can meet ongoing needs

The average beneficiary of the project has 5.3 years of education, is 38 years old, lives in a household with 5 members, and the business represents 51% of total family income. Business owners work an average of 10 hours a day, 6 days a week.

Given the setting and the nature of the enterprises, it was decided that EUS would:

o attempt to reach the largest number of businesses at at the lowest possible cost;

o emphasize expanding sales of products oriented toward the local market;

o limit its services to credit and management and organizational assistance, and not attempt to meet all the clients' needs.

Assumptions About the Development Process

The basic assumption is that the clients of EUS are skilled business people, within the context of the street economy, even though these activities--such as bottle collecting and selling vegetables from a rickety cart--might appear marginal and their owners "sub-employed." It was further assumed that:

- o Business skills are greater than the size of the businesses, so that expansion is possible with more capital and, only secondarily, management assistance.
- o The owners have feasible plans for expanding their businesses. The project provides resources so they can put their plans into effect.
- o The business owner has an intimate knowledge of how to find raw materials and merchandise, change these into a sellable product, and find clients, so marketing and production need not be direct concerns of the project staff.

Therefore it was decided to focus efforts on what a project based in a bank could do relatively simply--extend credit and some minimal management and organizational assistance, and let clients use these inputs to shape their businesses as they saw fit.

Methodology

Given the setting, the level of beneficiaries, and the characteristics of the micro-entrepreneurs identified in the feasibility study, it was decided to use the solidarity group approach exclusively in Costa Rica. A major innovation was to use the solidarity groups for the micro-industries as well as the smaller vendors and single-person cottage artisan manufacturers, because in the feasibility study, the owners of these slightly larger businesses expressed as high an interest in the solidarity group concept as did the vendors. Also it was felt that the project would be far simpler to manage if there were only one type of loan to grant and administer.

In the EUS project, as in the Dominican project, mutual assistance is stressed along with business development. Each solidarity group is made up of a self-selected association of from 5 to 8 tiny business owners who join together to qualify for a loan. Here, the business owners, tapping into the networks of friendship and other relationships in the community, take a major responsibility for project implementation in these areas:

- o Promotion--The concept that you can receive loans at a fraction of the moneylenders' rate is easy to understand and explain. Once the project started, it found quick acceptance among the micro-business owners, even though the Banco Popular had no previous outreach in the poor communities. After the initial visits, the project was self-promoting, and an average of five solidarity groups organized by the beneficiaries arrived at the EUS office every week.
- o Selection and group formation--The group members, and not the project staff, are responsible for forming solidarity groups. This not only lessens the cost of promotion, but places responsibility on the members of the group. The solidarity groups tend to select well: of the 83 groups, only seven had serious payback problems; the rest always paid back on time or were only slightly behind in their payments.
- o Payment--The groups also have an active role in loan repayment. The group leader is responsible for making collections from the members, and he or she makes the payment at the Banco Popular. Transaction costs to the bank and to the clients are reduced because the bank tracks only one loan to the group, and the group delegates repayment to the leader, saving each member 2 or 3 hours each week.

Project Impact

The impact of the EUS project was examined during two studies; the first six months after the project began, and the second after the end of the first year. A major question was the impact of the "solidarity" component of the program. Was solidarity an illusion of the project planners, or did it have substance that could be measured? Solidarity was checked along various dimensions, as indicated in the table below:

TABLE IV

IMPACT OF SOLIDARITY

VARIABLE	PROJECT CLIENTS
Would take out a loan with the same solidarity group	80%
Prefers group loan to individual loans	61%
Is in a group that meets frequently to discuss problems	58%
Has explained the program to another person	77%
Group helps out an individual who cannot make a payment	74%
Is in a group where members give business advice to each other	79%
President of the group willing to serve as leader through second loan	79%

These findings (similar to those of the Dominican study) show that many aspects of solidarity are measurably strong in the Costa Rican groups. Many mention they like the group, getting to know each other better, and exchanging information. That the solidarity group presidents are willing to continue leading their groups is a promising sign for the continuity of the project and shows that a cadre of leaders is being created.

A major difference between the Dominican and Costa Rica project is that no association such as the Dominican Association of Triciclero: emerged in Costa Rica. Why did this not occur? One important reason may be that the idea of an association was never presented to the solidarity group leaders as an alternative. Another important difference may be that the tricicleros are a relatively homogeneous group in intensive contact during the day as they pedal their heavily-laden delivery trikes through the streets of Santo Domingo. This very likely facilitated the process of creating the Association.

Impact on Income

The increase in income resulting from the loan was impressive. Six months after receiving their loan, median income had increased 96% (after correcting for inflation). By the time of the second study six months later (also correcting for inflation), median income had increased 145%, certainly the most spectacular income increase of any of the demonstration projects. All three groups--street vendors, small-scale commerces and micro-industries--registered similar improvements in income. Only 8% of the clients perceive they are making the same or less money now than before they received the loan. Forty-eight percent say they are earning a little more, 25% twice as much, and 18% feel they have more than doubled their income. Seventy-six percent perceived that family income had increased because of increased business activity.[45]

As a result of the EUS program, there was also an important (and unexpected) increase in employment. For the 450 businesses assisted, there were 119 new full-time and 48 part-time jobs created. Virtually all of these new jobs were created in the industries and services category, underscoring once again that if employment generation is a goal of the project, projects must include these businesses.

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[45]It is significant that the number of "extremely poor" beneficiaries--those who do not earn even enough to provide a nutritious diet for their families--was reduced from 17% to 8% of the beneficiaries; those who were "very poor"--with enough money to purchase enough food for an adequate diet--was reduced from 23% to 11%; and those who were "low income"--with enough income to cover food and basic necessities--was reduced from 28% to 18%; and those with "higher incomes"--sufficient to cover basic services with some reserve--increased from 32% to 63%.

Other Findings

Several other dimensions of project impact were also documented in the study:

- There is a willingness to save: Fifty-five percent have more in their savings account than the minimum required by the bank.
- Most of the loan capital is used to purchase raw materials and merchandise: Ninety-six percent of the clients used their loans for working capital, 40% for personal emergencies (only one used all of the loan for that purpose), 18% used their loan to improve the locale, 14% to purchase equipment, and 6% loaned to another person to start a business.
- Participation in the solidarity group stimulates an interest in starting joint enterprises: Thirty-seven percent of the respondents said they were interested in doing so. Clients' ideas for joint ventures ranged from micro-industries for making kitchen accessories or building furniture to shops for servicing car batteries, or small stores.
- Most are interested in a second loan: The average loan requested ($609) is 2.8 times the size of the original loan.
- Working capital is not depleted as rapidly as was expected: After six months, participants still had 72% of the value of their loan invested in their business; six months later, this figure had decreased only to 66%.
- The dependence on informal credit sources was lessened: Before the loan, 19% used informal credit sources such as moneylenders, friends and relatives; now only 5% use these credit sources. Only 3% of the recipients used institutional credit from banks before receiving their loans.

EUS has proved to be an excellent project. Staff morale is high, late payment rates are low, and interest charges are covering most of the costs of the Banco Popular personnel assigned to the project. The major problem that EUS has faced is a lack of high-level commitment to the project on the part of the Banco Popular. Over the last year, EUS has not made loans to any new groups, and is simply reloaning the reflows to the loan fund to fund the already-established solidarity groups.

THE SMALL BUSINESS SCHEME OF THE NATIONAL CHRISTIAN COUNCIL OF KENYA (NCCK)[46,47]

The National Christian Council of Kenya (NCCK), recently renamed the National Council of Churches of Kenya, is currently carrying out the first income-generation project developed under PISCES in Africa. Its Small Business Scheme (SBS) represents an attempt by a social development agency to respond to the needs and demands of the urban poor for assistance in increasing their incomes and economic self-reliance. Over the past three years, the Council has sought to achieve this through an expanded and flexible program of financial and management assistance integrated into an existing outreach system of social workers working with the urban poor in six program sites.

The Small Business Scheme is distinct from conventional projects in a variety of ways. It does not seek out local entrepreneurs to support nor does it attempt to turn its individual and group clients into prosperous, expanding businesses. It's goal is less ambitious, but more difficult: it seeks to help poor, usually illiterate, sometimes disabled, principally female, at times, totally inexperienced business operators to increase and then stabilize their incomes and improve the quality of their family life.

The record to date is mixed. The project can claim major successes, but it has also suffered some very troublesome problems.

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[46]Written by Douglas Hellinger with Fred O'Regan, Steve Hellenger and Blane Lewis of the Development Group for Alternative Policies.

[47]Hunt,Robery W. and Mirero, Stephen. "End of Project Evaluation of the Small Business Scheme of the National Christian Council of Kenya", Agency for International Development, Bureau of Science and Technology. Washington, D.C., April 1985.
The evaluation was carried out in five sites and applied a methodology for assessing microenterprise projects which is being tested in several countries. The evaluation confirmed the basic positive impact of the S.B.S.

Conversely, while the SBS has fallen far short of achieving some of its goals, it has managed to establish a basic viability and a structure upon which to build and improve in the future. Above all, despite all its problems, NCCK has demonstrated that a small-business project, properly designed, can serve the truly poor and that the very poor self-employed can utilize credit and other assistance effectively to improve their standard of living.

Profile of NCCK and the Urban Community Improvement Program

NCCK is a non-governmental, constituent organization representing about forty distinct member churches and private, mostly religious associations within Kenya. It delivers a broad range of technical, managerial, planning and training services within it's various development projects. These are organized under a number of departments, including the Department of Rural Development, the Urban Community Improvement Program (UCIP), the Village Polytechnic Support Program, the Department of Education and Training, and the Cottage Industries Program. NCCK has over 300 employees and an annual operating budget of roughly Ksh 22 million.[48]

NCCK is considered the nation's pioneer agency in urban development, having established United Community Improvement Program in 1969. Today, UCIP is one of it's larger, better-known and most important programs, with a staff of approximately 40 and an operating budget of Ksh 4.5 million. It's goal is to upgrade the quality of every aspect of life of the very poor in the urban-squatter and peri-urban communities not reached by conventional assistance programs. The program began in Nairobi's

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[48]Most of the figures here are left in Kenyan shillings (Ksh) because the exchange rate with the dollar varied so greatly during the four years PISCES monitored the project. In late 1980, when the grant agreement between USAID and NCCK was signed, the rate was 1 Ksh = US$.13, and at the end of the first phase of the project, in September 1984, the rate was 1 Ksh = US$.07.

Mathare Valley squatter settlement and then expanded to the secondary cities in the mid-1970s, when community workers were placed in Mombasa, Kisumu, Kakamega, Nakuru, Eldoret and Nyeri.

All NCCK/UCIP clients are extremely poor. Over 75% of the beneficiaries are women with, on the average, 6.5 dependents. In addition, the vast majority of clients are illiterate and face myriad social problems, including abandonment, alcoholism, high morbidity, rampant petty crime and police harrassment. The average income of clients in Nairobi at the time they come into contact with the project is roughly US$15.50 per month. Secondary-city clients' incomes are somewhat lower than those in Nairobi.

As far as UCIP is concerned, all assistance activities revolve around the core activities of its social workers and community organizers. Initially, the NCCK social worker helps organize groups and assists them in determining their most pressing social and economic problems, as well as possible solutions. It was in this fashion that UCIP developed a comprehensive community development program with service components in the areas of self-help housing, child care and nutrition, adult literacy, preventive health and group formation, as well as small-business assistance. One of the principal necessities that surfaced in almost all instances was the need to find income-earning opportunities. In dealing with this problem, NCCK addressed the issue of unemployment, which it found to be a root cause of much of the suffering in urban areas.

Establishment of the Small Business Scheme

Wanting to make an impact in this area, NCCK established the SBS in 1975. The program was designed to provide management and financial assistance to small-scale enterprises in the urban and peri-urban informal sector of Nairobi. It set out to reach both group and individual entrepreneurs far more concerned with their own survival and that of their dependents than with enterprise growth *per se*. Combined lending in 1977 and 1978 amounted to twenty loans totaling $8599.

In response to the demands of the social workers outside Nairobi, the decision was made to seek funding from USAID to technically upgrade the program and expand it to all of the secondary cities in which UCIP operated. USAID provided NCCK with US$275,000 to cover the Nairobi, Mombasa, Kisumu/Kakamega and Nakuru/Eldoret areas and to expand its revolving loan fund to a total of $110,000.

To effectively incorporate these new components into the overall project, the plan called for the new small business promoters (SBPs) to provide back-up business advisory services to the social workers in each of the cities, expand project outreach, coordinate the delivery and collection of loan funds and deliver basic managerial and accounting assistance to individual and group enterprises. Consistent with the program's ongoing operations in Nairobi, these extension agents would work directly with their social-work counterparts, receiving referrals from the latter as clients were continually identified. They would also assist in the organization of work groups, in addition to coordinating the flow of credits and delivering on-site technical assistance. The key to the project's expansion was the ongoing integration of the employment component with UCIP's broader community development project.

Selection and loan administration

NCCK established an interesting and effective client selection process for its Small Business Scheme. In order to ensure that the project retained its social focus and continued to serve the level of clientele traditionally reached by UCIP, it was mandated that all clients be at least interviewed, if not referred, by the social workers in each community. This process has been operating well. The small business promoters make one or two site visits and consider both the general feasibility of the enterprises and the client's willingness to accept managerial advice before making their decision whether to recommend further assistance and determining the client's true requirements. Those who make contact with the SBS for the first time through the local small business promoter are referred to the social worker for an interview aimed at determining need, character and family background. This has also served as an immediate screening, or self-deselection, process, as more established entrepreneurs tend to avoid such an interview.

Lending terms

Many of the decisions relating to client selection, as well as to lending terms and conditions, were made with the participation of the National Task Force Committee (NTFC), established in 1981 to help set project policies. This committee decided to decentralize much of the responsibility for loan review and approval to four regional committees, composed of local government and private-sector representatives, to streamline the decision-making process on loan requests.

This has been only partially achieved. Loans of over Ksh 3000 have been perpetually caught in the bottleneck of the Nairobi bureaucracy--in this case, the irregularity with which the NTFC meets. The problem is exacerbated by the long delays in the actual disbursement of credits approved locally or in Nairobi. In short, the SBS loan program has suffered from an overly bureaucratized, highly centralized administrative and financial system that has served to severely slow the process of extending credits. The situation has been exacerbated by a frequent turnover in the project's key Coordinator position.

NCCK has carefully considered its beneficiary population in setting and modifying its lending terms and conditions. Mindful of its status as a social agency working with an extremely poor clientele, it has resisted commercial-rate lending. By mid-1982 it was becoming evident, however, that many of the program's poor clients could absorb, utilize and repay credits successfully. At the end of 1983, a second increase, this one to 8%, was approved by the SBS National Task Force.

To further ensure that the truly poor are the beneficiaries under this scheme, fixed collateral requirements have been waived for all applicants. Three third-party co-signers acceptable to the SBPs are required of individual applicants. Groups may collectively guarantee repayment. Consistent with the retail and service nature of the enterprises involved, most of NCCK's lending has been for working-capital purposes.

Non-financial aid

As far as non-financial assistance is concerned, there was no pre-set formula, although from previous experience UCIP felt that the teaching of basic adequacy in bookkeeping and help in making marketing linkages and overcoming licensing problems would be extended to many clients. As it has turned out, the three major areas of concentration have been the use of credit (credit education and supervision), procurement and stock control, and the teaching of the cashbook to instill in clients a degree of financial discipline. Licensing, marketing and production-related assistance have been steadily diminished since the early stages of the project, as the SBPs began to focus more on what they saw as the critical enterprise areas.

Social-work assistance, though not technically of a business nature, may be the most important help clients receive within the project. Because personal or family problems underlie many of the business difficulties at this level, frequent visits by the social worker can save an otherwise failing enterprise.

Impact

Over the past three years, the Small Business Scheme has been very successful in achieving one of its major objectives--to reach and assist very poor clients to become self-reliant and to increase their sense of self-worth. The project was designed to help the poor feed and care for their families and to solidify group action. Only a few of the SBS's clients cannot be considered poor by most definitions, and the majority of the others have been very, very needy. The typical client of the Small Business Scheme is a middle-aged female, between 30 and 50 years of age, possessing little or no education and living in an urban slum area with anywhere from 5 to 14 dependents.

Project lending to individuals has been heavily focused on petty retailers, reflecting not so much a bias as the fact that over 80% of UCIP clients and roughly 75% of the SBS clients (outside Nairobi) through 1983 were poor women. Petty retailing is one of the few trades--even in the informal sector--which is open to women who lack both capital and economically competitive skills. Likewise, 90% of the members of groups financed by the SBS are women. They average about 37 years in age, many are elderly and most have almost no real skills. They are involved not only in group activities but also in their own individual retailing efforts.

By mid-1984, the SBS was able to reach over 350 people with financing directed to 16 groups and many more with just management assistance. (Since its inception, UCIP has strongly emphasized the formation of work groups among clients.) This compares with some 368 individual borrowers, despite the fact that the project has sometimes overemphasized individual lending. There is no doubt that there has to be a greater concentration on groups if the project is going to reach significant numbers of the very poor and needy. The SBS has followed up on UCIP's promotional work by extending managerial, marketing and credit assistance to organized groups and by making group lending a major project objective. Unfortunately, the original, more conventional orientation of the SBPs, plus the lack of preparedness of groups functioning in the six cities, has limited such lending except in Kisumu and Kakamega.

The SBS has helped its poor clients generate income and create a number of new job opportunities. Initial income gains have been significant, but monthly profit levels have tended to drop some over time as business capital is diverted to household use. Yet steady work and an improved income stream have had a positive impact on the welfare of families and have provided a psychological lift to most of the clients themselves and to their relationships. Living standards in almost all cases have risen and families are being pulled closer together. With income up, more money is available for household consumption, and the social workers have noted marked improvements in health and nutritional levels.

Clients are also becoming more financially self-reliant--a major objective of the project--as demonstrated by the almost universal ability of clients now to pay school fees and buy school uniforms for their children. The social workers have found that their SBS clients take their advice more seriously on such matters as health, nutrition, cleanliness, personal appearance, child care and family planning--concerns identifiable to clients as directly related to business success or failure.

Problems and recommendations

Loan repayment has been a problem area in the Small Business Scheme. Flaws in the loan supervision and collection system, particularly in Mombasa and Nairobi, have contributed to major problems in this area. Some serious questions about the management of the SBS are raised by the poor oversight of the business promoters, who in a couple of cases have been extremely lax in client supervision and follow-up. Family and personal problems have undermined timely repayment in all the program sites. There has been a severe economic recession that has hit informal sector retailers very hard and a high rate of inflation. Still, the two major factors cited by respondents to a NCCK survey as being responsible for their being in arrears was the lack of sufficient business profits to cover new needs or wants and the need to pay school fees.

While a deteriorating repayment situation precipitated changes in the SBP posts in Nairobi and Mombasa, the promoters had the situation well under control in Nakuru, Eldoret, Kisumu and Kakamega. The project has been strongest in these western cities, due principally to better promotion performance and their greater dedication to the job. Lending patterns have been rather different in the two regions, however, with group lending far more advanced in the Kisumu/Kakamega area and individual lending quite extensive and successful in the other two towns.

Greater consistency in project operations, increased group lending, better repayment rates and accelerated overall credit extension will only be achieved with tighter project administration and supervision. The presence of a strong, full-time project Coordinator gives the SBS the continuity and stability it has not had since its first year of operation. Combined with important staff changes in Nairobi and Mombasa, this new leadership could chart a successful course for the project after the completion of this experimental phase.

THE INCOME AND EMPLOYMENT GENERATION PROGRAM OF THE COPTIC EVANGELICAL ORGANIZATION FOR SOCIAL SERVICES (CEOSS) IN EGYPT[49]

Profile of the implementing agency

The Coptic Evangelical Organization for Social Services (CEOSS) is a well-known and highly regarded Egyptian private development organization. It was founded in 1953 by the Synod of the Nile, a Presbyterian Egyptian Congregation not linked to the Orthodox Coptic Church. The Organization's Community Development Program has a staff of 100, of whom 60 are professional personnel. The majority of staff work in Minia Governorate, where over 80 villages have received CEOSS assistance. While Minia's population contains the majority of Egypt's Evangelical Copts, CEOSS serves both Christians and Muslims.

Over the course of its almost thirty years of development work, CEOSS has evolved an assistance methodology based on comprehensive community development and the encouragement of self-reliance. At the invitation of community leaders, the organization begins a process of needs assessment within the community and then acts as a catalyst, helping local residents start up social and economic improvement projects in response to expressed needs. In support of community undertakings, CEOSS delivers social services (in such areas as preventive health, family planning, literacy, leadership training and skills training), managerial and technical assistance (in agriculture, animal husbandry and enterprise development), and limited financial assistance.

The basic approach of CEOSS is to deliver comprehensive assistance in a small number of communities, helping them start and maintain their own programs and projects, and then to move to other sites while continuing with limited follow-up in those

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[49]Written by Douglas Hellinger with Fred O'Regan, Steve Hellinger and Blane Lewis of the Development Group for Alternative Policies.

villages they have already assisted. At any one time, CEOSS intensively assists about seven villages and delivers follow-up services to roughly 45 additional sites. One of its ultimate aims is to help form village committees that can eventually take over many of the project's administrative functions.

Recently, the need for off-farm income-generating opportunities for women, youth and the truly poor and destitute and for improved infrastrcture and technical skills in villages has moved CEOSS to help fill these gaps. CEOSS' off-farm income-generation program is divided into four distinct projects. The oldest and largest is the 1) Loans for Development Project, designed to help very poor people start or improve their individual trades. Two relatively new efforts are the 2) Community-Owned Projects and the fledgling 3) Group Enterprises Project. The fourth is a newly expanded 4) training program, covering a handful of trades for both young men and women. The intended cumulative impact is to increase income and job opportunities among poor people and groups, while meeting social needs.

The project will be carried out by CEOSS in 26 villages in nine districts. Until May 1983, the three operating components of this program were financed by CEOSS and European sources. USAID will now be covering close to 70% of the program's three-year budget of approximately $535,000. Half of AID's financing goes to CEOSS's loan office to make credit available to participants in the enterprise components of the program; and to graduates from the training programs to help finance new endeavors.

1. Loans for Development Project

The purpose of the Loans for Development Project has been to assist the very poorest of the self-employed or potentially self-employed in local Minia and Assiut communities. It reaches vendors and others engaged in petty trades and services, as well as the totally unemployed. Originally, most of the beneficiaries were very poor women, often widows or divorcees without families to support them, but recently there have been more male borrowers. These include youths recently graduated from a CEOSS training program, and former government workers (or their families).

As the project was originally designed in the late 1970s, potential clients were either contacted by CEOSS workers or referred to the organization by someone in their communities who knew of the project. The outreach worker worked with these people to examine the economic feasibility of their businesses and recommend methods of improvement. One CEOSS technical person, skilled in business management and engineering, served as a back-up and was brought in to advise on a case-by-case basis. For clients with no tangible economic activity, a low-skilled enterprise activity such as cigarette or vegetable selling was sought. In some cases, CEOSS introduced simple ideas and/or machinery among a number of clients. In all such cases, CEOSS field workers based their activity on an analysis of local demand for various goods and services. Promotional and advisory services were followed by the extension of in-kind loans of equipment or basic inventory.

During 1980, the first year of program operations, 15 loans were extended to individuals. CEOSS staff reported that in the early stages of the project results were encouraging, given the difficulty inherent in working with the poorest and least skilled segment of society. After this initial phase of the project, CEOSS wished to both expand and technically upgrade its Loans for Development Project, using the enhanced technical capacity afforded by an additional SSE staff person. The Project did steadily expand during 1981-82 with the help of financing from European sources.

After two years of delays, the CEOSS grant agreement with AID--with about $29,000 allocated to run Loans for Development, plus a total credit operation of some $189,000--was finally signed in May 1983, with Catholic Relief Services as the intermediary. Only 14 loans were made in the third quarter of 1983, however, and most of these were extended to male graduates of a CEOSS carpentry training course. The fourth quarter saw no change in the reduced portfolio of borrowers nor in the new orientation toward funding activities of men. Of the 14 new clients receiving loans during this period, only four were women, and they received the smaller loans, in the $45-105 range, principally to start fruit and vegetable vending businesses. Borrowers were between 26 and 65 years of age, and averaged just short of forty; almost all had children, averaging three apiece, and few had regular sources of income. Lending did pick up in 1984, with 55 loans made during the first eight months of the year.

Flexibility in individual credit terms continues to be considered essential to the project's success by CEOSS. Accordingly, interest is determined on a case-by-case basis, ranging from zero percent for the very poorest clients, such as those forming an enterprise for the first time, up to 4% or 6% per annum for more established clients and second-time borrowers. Loan size also varies significantly, the larger ones extended mainly for the purchase of tools and equipment.

The assistance process still begins with the field staff informing people of the project's services and searching for those goods and services most needed by a particular village. After simple loan requests are discussed in-house, the field staff return to the villages to help qualified applicants fill out questionnaires for both socio-economic information on the client and project information to help determine project feasibility.

Client assistance has not concentrated much on bookkeeping to date and it is felt that it is in this area, as well as marketing, that greater effort is needed. The CEOSS program coordinator/loan officer for the project is being trained to study the market, judge the competition, help clients set a price that is profitable but just, teach them to learn from others and identify and produce for new customers. He is also being trained to further assist clients in the procurement of materials and equipment, proper stocking, the use of profits and general enterprise management.

Project growth has been sacrificed in the short term until staff upgrading has been sufficiently achieved.

2. Community-Owned Projects

Under its Community-Owned Projects operations, and as part of its overall community development effort, CEOSS makes financial and technical assistance available to local communities for the establishment of viable community-owned service and production enterprises. The village development committee identifies a needy local enterprise, begins to mobilize local resources and approaches CEOSS for assistance. Follow-up assistance provided to these ventures usually involves technical assistance in building design and construction, management assistance for the organization of the enterprise, and limited, on-site technical training for the workers in the enterprise. CEOSS also provides complementary financial assistance--usually in-kind in the form of tools, equipment and construction materials.

During the 3-year 1980-82 period, approximately 50 such community enterprises received technical and financial assistance from CEOSS. The types of ventures supported include consumer cooperatives, poultry-raising schemes, bakeries and small handicraft industries, but most of the endeavors would be considered more social or infrastructural in nature--i.e., schools, water projects, dispensaries, sanitation projects, etc. Because most of the community enterprises have proven to be viable, CEOSS expressed interest in expanding the project through a loan--as opposed to a grant program for future enterprise development. The two projects financed since June 1983 with these funds--which act as a counterpart to the USAID funds that finance the other three components of the income-generation project--have been a bakery, receiving an $1,075 loan, and a tractor purchased by a village agricultural society with a CEOSS $7,875 credit.

3. Group Enterprises Project

While working in support of community-owned projects in the Minia area, CEOSS become interested in establishing a lending and management-assistance scheme for private group enterprises not connected to village development committees. In 1980, the organization received over thirty requests for assistance from groups who wished to form collective enterprises. Most of these groups consisted of young people, many of whom had some technical skills and previous job experience but only limited managerial experience and no start-up capital. The idea behind the project, therefore, was to make available a management-assistance person to help these groups form enterprises and to assist them in establishing accounting procedures, selecting appropriate raw materials and equipment, and marketing their goods and services. In addition, CEOSS has established an $85,900 revolving loan fund for these group enterprises. The credits will be extended mainly for the purchase of tools, equipment and raw materials, and, as with the other program components, mainly on an in-kind basis.

CEOSS will soon become active in helping organize groups, in some instances by bringing together individuals requesting assistance for businesses in similar areas. The idea is to allow for the sharing of experiences and responsibilities and to breed cooperation and community service rather than individualism. In addition, staff for help groups undertaking an enterprise to obtain necessary licenses and register as a company with the appropriate ministries. Difficulties in this particular area have contributed to keeping the project from getting off the ground. It was not until the first half of 1984 that CEOSS made its first three loans to group enterprises--two poultry groups and a third selling cooked beans.

4. Training program

To meet local needs for increased income and technical skills, CEOSS has made skills training an increasingly important activity, receiving over $88,750 from USAID to help diversify and expand its project over a three-year period. Given the generally perceived weakness of traditional skills training in Egypt, CEOSS' basic approach in this area is to concentrate on "work-related" training. This means placing trainees in a real-job atmosphere and having them produce goods of marketable quality as soon as possible. This method matches up trainees with skilled craftsmen in a structured apprenticeship system for much of their training.

CEOSS laid the groundwork for this approach in its woodworking courses. A second full-scale, 1-year carpentry class, this one with twelve trainees, was initiated in June 1983. USAID grant funds allowed for the upgrading of the training and a specialization in the manufacture of furniture. All those who did not stay on to work at the training center after they graduated went back to their villages to practice their trade, which was the central intent of the project. Tool kits were given to each, with the obligation to repay half their cost, or $215, over a two- or three-year period. Almost all the graduates from the two classes have found work for themselves, although in two or three cases it was outside their villages. They have already acquired elementary bookkeeping, contracting and other business-related skills and receive follow-up assistance from CEOSS back home.

CEOSS recently has also moved into new skills areas in response to community needs. Electrical work, plumbing and construction painting were chosen due to a lack of trained local people in these areas. CEOSS estimates that the average income earned by its graduates in these three trades and in carpentry, is about LE3 per day. The oldest CEOSS training course, and the only one focusing on women, is sewing. The latest course, in 1983, produced some thirty graduates. All graduates receive a manual sewing machine and various materials. Applicants are required to pay a portion of the cost, based on family income. Those unable to meet their assessed obligation are given loans against the cost of the sewing machine.

Summary

As is the case with NCCK in Kenya, CEOSS has built an income-generation component into a well-established and effective community development scheme in a number of sites. Also, like its Kenyan counterpart, however, CEOSS had limited experience in managing enterprise projects with credit components. This lack of experience, as well as a concern about keeping default and arrearage rates down, is reflected more in the general slowness of project progress than in any other particular problem to date.

The organization has been rather over-cautious in its lending to both individuals and groups, particularly those with whom it has had limited previous contact. As a result, no group enterprise loans were made until 1984 and individual lending is also behind project projections. Significant learning will take place only after this innovative and multi-dimensional project is expanded sufficiently to allow for a thorough assessment of its impact and methodologies.

CHAPTER IV:

PROJECT DESIGN AND IMPLEMENTATION

In this chapter, the program planner will be taken sequentially through the process of implementing a micro-enterprise project. This begins with the feasibility study and goes on to the design of each component of the project--outreach and promotion, selection, credit, management training, organizational assistance, monitoring and evaluation, and project management. Project management is given special emphasis since most projects fail, not because they are poorly designed or even because they do not produce good results with the clients; they generally fail because they are poorly managed.

FEASIBILITY STUDY

Effective projects are not conceived in a central office. Good project design starts with a feasibility study, where the staff learns first-hand about the owners of micro-businesses, their problems and their plans. Project planning that starts with the characteristics and needs of the clients, rather than a pre-conceived scheme, is much more likely to meet their needs.

Since direct assistance to micro-enterprises is a new activity for many institutions, interviewing in the communities is invaluable for staff training. Besides serving to identify leaders around whom the project can organize, the study serves to orient government agencies, potential funders and other implementing organizations. Typically, the informal sector is virtually unknown to policy makers. Its importance for employment, income and the provision of goods and services is little recognized and often underrated, if not discounted altogether.

Assuming an agency is starting a project, the points below might be covered in the feasibility study (an outline of a feasibility study is included in the Annex). The information is catagorized into four main components as follows:

For the local setting:

o population and rate of population change;

o whether the local economy is improving or worsening;

o whether policies favor or are prejudicial to the intended beneficiaries;

o the adequacy of the local infrastructure.

o the experiences of other projects working with the informal sector.

Most of this information can be collected from secondary sources or from the experience of other agencies involved in micro-enterprise development.

For the proposed beneficiaries:

o the characteristics and income level of the families of the owners (or potential owners) of businesses;

o the characteristics of the owner--age, sex, experience, skills, etc.;

o the level and problems of the business--type of business, expenses, earnings, employees, problems in access to credit, raw materials and markets;

o the owner's plans for business improvement and perception of the need for outside assistance;

o the owner's interest in associating with the proposed project.

For the institution:

o outreach in the poor community;

o experience with income-generating projects;

o adequacy of management and internal controls;

o background and training of the staff to be assigned to the project; and

o compatibility of the objectives of the organization to the objectives of the project.

<u>Complementary services</u>:

o services available to the informal sector;

o possible collaborative links between the project and other institutions.

While all of this may seem complex, studies of this type have been carried out quickly, and at low cost. This is possible if the feasibility study does not become an end in itself (which happens all too often). A commitment is needed to move to the operational phase as rapidly as possible so the momentum and enthusiasm generated during the study phase is not lost. Ways of minimizing costs include: using local agency staff as interviewers and coders; reducing the number of interviews and the number of questions in each interview; and producing a brief, focused document that deals with the practical questions outlined above. It is impossible to set guidelines, but if project designers think in weeks rather than months, they will probably be close to the mark.

A good feasibility study provides an overview of the particular problems and strengths of a micro-enterprise community for project designers. These problems are typically identified:

o Credit from moneylenders and suppliers is available, but interest charges are so high and loans are so small that businesses can seldom progress.

o Micro-business owners lack access to institutional credit. For the limited credit services available, transaction costs (i.e., the number of visits to the bank, legal requirements, documentation, collateral, etc.) are excessive and inappropriate for micro-businesses.

o As businesses expand significantly, their failure rate increases because owners lack the skills to manage them effectively.

- o Micro-business owners have no place to save.
- o Micro-business owners lack an organization to present their case to government agencies and other institutions. They also lack a forum for exchanging information among themselves.
- o Ongoing efforts to provide assistance to tiny enterprises are plagued by high operational costs, a low volume of activities, poor payback and high subsidies. Projects are poorly monitored and evaluated, and there is little systematic learning on how programs function and how to improve them.

On the other hand, these strengths are often identified:

- o Many businesses have plans for using small loans which fall within the range of the suggested loan package.
- o There is great interest in participating in the proposed project.
- o Local funding agencies have demonstrated a strong interest in the project.
- o The proposed implementing agency for the project has good leadership, and personnel are well-motivated after participating in the feasibility study.
- o A local bank is willing to administer the individual loans and to open savings accounts for each member.

Based on this assessment of local conditions, a project can be designed that is fine-tuned to the needs of the potential clients. The factors that should be taken into consideration in the design of each component of the project follow.

OUTREACH AND PROMOTION

One of the first elements of design is outreach: how do people learn about the project and decide they want to participate? Given the goal of assisting the owners of extremely small informal sector businesses (who may not even conceive of their activities as "businesses" or as "enterprises" and who have little experience with institutions), direct promotion in poor communities is necessary. If an agency simply opens an office or advertises in the newspapers or on the radio, the owners of larger, better-established businesses who are more experienced with institutions will be attracted, inundating the project with requests for services from those it does not want to serve.[50]

In the Latin American demonstration projects, after initial contacts were made during the feasibility study, and after a brief period where the field staff explained the project at meetings and made a few visits to individual businesses, project beneficiaries spread the word. In San Jose, within a few months, an average of five newly-organized solidarity groups a week arrived at the Banco Popular office without any promotion on the part of the project staff.

If word does not spread, it may be that the project is simply not attractive from the clients' perspective. Business owners size up these projects, at least initially, in terms of the time and effort it takes to receive assistance. If repeated visits by field staff and a lengthy and uncertain selection process is required before receiving assistance, business owners may consider that it is simply not worth the effort. What draws people to these projects is often credit. The demand for other services, such as management training and the organization of collective endeavors, tends to evolve later.[51]

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[50]It may be more practical to concentrate promotional efforts in a limited area--in a major neighborhood, for example--so that inordinate time is not spent serving dispersed clients.

[51]If promotion is by word of mouth, it is important to monitor the level of potential clients. In Costa Rica, the income level of the "average" client tended to drift up over time, so the poorest were no longer being reached. Further direct promotional efforts by the field staff were required.

Outreach to pre-entrepreneurs is a longer and more intensive process. The NCCK and CEOSS project staff worked for a long time in communities getting to know clients and their problems before beginning to work with the pre-entrepreneurs in improving or initiating businesses.

The proper entree varies from site to site, and this needs to be determined locally. The village chiefs or mayors may be appropriate "bridges" between the project and the people the project wants to reach. In the CEOSS project, formal and informal leaders are intimately involved in explaining and legitimizing the project. Other programs--the Kenya demonstration project is an example--may get referrals from the churches, other institutions, or their own social workers, who have done the initial work with clients.[52]

SELECTION

Once people hear about the project and start coming in for assistance, how are those who will prove reliable selected? Whatever the level of clients, there are good risks and bad.

The first selection filters are the parameters the project uses for including clients in the project. These include personal criteria such as age, sex, family income, and recommendation by a government program or referral by an agency, and business characteristics, such as the years the business has existed, the legal status of the business, the number of employees, the amount of assets, the type of business, and so forth.

Selection criteria need to be established with care to avoid inadvertently selecting out those whom the project hopes to assist--e.g., if the business must be legalized to receive assistance, in many countries this would mean that most owning informal busineses would be ineligible. Criteria that are too

[52]The drawback of using social agencies as conduits is that the business promotion tends to be confused with welfare and social services.

broad--providing services to businesses ranging from vendors to small-scale enterprises with 20 employees--work against the poor clients, because the more articulate, better-prepared owners of the larger businesses will tend to monopolize the project's resources.

Before discussing the actual mechanisms by which clients are selected, one other aspect of selection should be mentioned--the process of graduating clients from the project. It is easy for projects to stay with their best clients and limit their outreach to new ones, showing good results in terms of increased income and employment, but leaving no room for the new businesses the project wants to assist.

Four means of selection, either alone or in combination, were used in the demonstration projects or in the projects which evolved from them. The first two are fairly traditional-- 1) an economic analysis of the business, and 2) the recommendation of clients by project staff who know them intimately. The other two are somewhat more experimental--3) the formation of groups by peers who mutually guarantee each other's loans and 4) offering assistance to virtually all who have a business within the parameters established by the project and "selecting" clients for continuing assistance based on the on-time payment of short-term loans and <u>their</u> interest in continuing with the project.

1) <u>Economic analysis and traditional guarantees</u>:

What might first occur to a designer of a micro-enterprise project is to adopt the selection criteria used by banks--a comprehensive economic analysis showing the current functioning of the business and projections of how a loan or other assistance might help. The loans would then be secured by equipment, land titles, or a cosigner or co-maker who would assume responsibility if the loan is not paid.

There are major limitations to this approach. First, if traditional guarantees are required, few would qualify for assistance--the owners of these businesses have little equipment to repossess, are unlikely to have land titles, and would have difficulty finding someone to guarantee a loan for them. Also, if the goal is to reach the smallest businesses in the community, whose initial credit needs range from fifty to a few hundred dollars, the time and expense of making a financial analysis are probably not justified.[53] It is significant that the success of micro-enterprise projects requiring extensive financial analysis is little better than those that do virtually none.

2) Knowing the clients personally:

The Kenyan and Egyptian demonstration projects rely on project social workers or community development staff knowing potential clients well enough to recommend them for a loan. The team of CEOSS field workers in Egypt assigned to each village are resident in that village for four years, and come to know the community and the needs of the individuals well. In Kenya, the NCCK social workers may work with a group for one to three years before the groups are considered sufficiently developed to receive a loan; generating income, however, is not the only objective of the broader NCCK urban community improvement project.

Knowing each client individually ensures that the most needy are selected and that follow-up is readily available. The disadvantage is that this makes reaching a large number of clients difficult and time-consuming.

3) Delegating selection to the community:

One of the most important findings of the PISCES research is that selection can be delegated to the community (at least for the "entrepreneurial group"), making traditional guarantees

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[53]In the micro-enterprise component of the Dominican Republic project, an average of 16 visits were required to carry out a complete financial analysis of the business, which also involved setting up a simple bookkeeping system. This was a major factor increasing the expense of this component of the project.

largely unnecessary. By sharply limiting the time spent on selection, the number of clients per staff person can increase significantly.

In the solidarity group components of both the Dominican and Costa Rican demonstration projects, selection occurs through the process of forming small groups who cosign on a collective loan. It is made clear from the start that they must select carefully: if one or more members are unable to pay their loan, the other members must pay from their own pockets, or the group will be ineligible for subsequent loans. The following elements of the success of solidarity groups are distilled from the experience of these projects:

- o <u>Groups are self-formed</u>: Those who organize the groups know who is responsible and who is not. Staff from outside will find it virtually impossible to select clients without getting to know them very well.
- o <u>Groups have from five to eight members</u>: Over eight is unwieldy, making it difficult to collect payments from each member and making it less likely that clients will know each other well; non-payment is too costly for the other members to absorb in groups under five.
- o <u>Groups receive orientation before they complete the selection process</u>: In the initial months of the Santo Domingo project, groups were put together too hastily in the rush to get loans. Members did not know each other well or fully understand their obligations, and payback became a major problem. Now orientation classes are required for groups before they recieve their loans--including a clear explanation of the obligations of the group members to each other. The orientation classes let the group remove those they consider unreliable, or who are unwilling to commit themselves to the others. For this reason, the group is considered a "pre-group" until after the orientation and the final selection process has occured.

o Groups are made up of neighbors or work-mates who see each other daily in the markets, the shops, or in the streets: Making sure group members know each other well has proved more important than having members share the same types of businesses or be of the same sex.

o Groups have the opportunity to remove unreliable members at the end of each loan: Selection is an ongoing process, and members that appear to be reliable initially sometimes prove to be unreliable later on.

The advantage of the solidarity group is that it has proved effective for encouraging high loan payback; the disadvantage is that the owners of fairly well-established businesses tend to be selected. The "pre-entrepreneurial" group, generally, is effectively excluded.[54]

4) Self-selection through project participation:

Selection is a continuing process: in all projects, those who do not pay their loans are ineligible for further assistance. Taking this concept a step further, in some new projects virtually all clients who request assistance receive some help; selection

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[54]More experimentation is needed. Delegating selection to the communities has not proved itself with pre-entrepreneurs, but there is some evidence that it might work. For example, in the Manila Community Service Program identified in PISCES Phase I, specially trained community leaders manage a small revolving loan fund to make $5 to $20 loans to very poor people for starting businesses or for reestablishing their businesses after they had to sell their stock to buy medicine or meet some other emergency.

In the BKK (Badan Kredit Kecamatan) [Goldberg; Rosengard (1983)] project in Indonesia, very small $10 to $20 loans are given out to those who had no businesses on the recommendation of local village mayors. These businesses have been generally successful. In the Costa Rica demonstration project, pre-entrepreneurs were helped in some groups when clients who received the loan divided it with friends and family members to set them up in business, a practice that might be encouraged in the future.

occurs after the client has started to receive assistance.[55] In these projects, the job of the field staff is not to select, but to document that the person has a business, that it is within the size parameters of the project, and that the owner understands the project and has a plan for the use of a small loan. Once this is established, the business owner receives a very small short-term working capital loan--about $20 for hawkers and street food sellers and approximately $100 for the owners of micro-industries with 2 to 4 employees--payable in a month. A few days before the loan is due, a visit to the business is made to see how the previous loan was used and to discuss plans for the next loan. If the first loan is not paid on time, the loan is refinanced and the owner loses the opportunity to receive another loan for a month. If he or she defaults a second time, the participant is dropped from the project.

EXTENDING CREDIT

Potential clients of micro-enterprise projects often consider credit to be their most important and immediate need. Most of the projects studied in Phase I and all of the demonstration projects had a credit component. Many of these were successful in developing mechanisms for granting small loans that achieved good loan repayment; some also did this at low cost.

This is a major accomplishment. These businesses that have traditionally been written off as too costly or too risky to assist have proven themselves, in well-structured programs, by paying back reliably.

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[55]This occurred in the projects that evolved from the Dominican project in Santo Domingo, Ecuador and Peru.

Should credit come before training?

Project staff can argue that business changes, such as developing a bookkeeping system or improving inventory control or display, should be adopted before the loan is given. But in many cases it is credit that draws clients to the projects. In Santo Domingo, when participants promote the project to potential clients, they almost invariably present it in terms of the loan, no matter how the project is seen by staff.

Considerable experimentation has shown that loans can be disbursed responsibly under certain circumstances before training is given--when the project is reaching existing businesses and starting with very small loans where the risk to the business and the project is minimal. As the size of the loans increases, clients are then exposed to other components of the project, such as management training. Larger initial loans require more up-front (pre-loan) analysis and training. If a loan is large enough to fundamentally transform a business, and requires the purchase of new equipment and major investments in inventory, a feasibility study should be carried out.

Owners of new businesses, especially those with no business experience, and members of collective ventures will almost certainly require considerable training and orientation before a loan is granted.

Scaling the loan to the needs of the clients

The first element of an effective credit component is scaling the size of the loan and the payback period to the needs of the clients. The better the fit, the better the project is likely to function. If a project is working with already-existing businesses and is concerned principally with their modest expansion within the local market, the logical starting point is the client's own plans. These plans are generally realistic and well-considered, and are doubly important in that they reflect the business owner's own thinking rather than being a pre-conceived scheme of the project staff.

But even though the client's needs for credit may be comparatively large--from a few hundred to over a thousand dollars--this does not mean the initial loan should meet all these needs. A series of short-term loans enabling the business to build gradually to meet the expansion plans of the owner is often the most prudent course. Projects are more likely to err in making loans too big rather than too small.

This example from the Bangalur Layout project in India[56] provides a good example. To sell kerosene at a good profit requires an investment of about $425. This includes:

Working capital	$50
Three barrels	$125
Cart	$125
Bullock	$125
TOTAL	$425

The loan is staged in this way. The initial loan for $50 is for working capital; the bullock, cart and barrels are rented. Once in business, the woman will net $3.13 to $4.35 a day, and pay $5 each week to cancel the loan. When the first loan is paid, she is lent $125 to purchase the barrels. When this is paid, she purchases the cart, and with the final loan she purchases the bullock. In one year and eight months she owns her business free and clear.

If initial loans are too large, at least some clients will purchase raw materials that are inappropriate for their businesses or direct money from the businesses to personal needs. In the Costa Rica demonstration project, most of the loan recipients who had not progressed complained that their working capital

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[56] Farbman, ed. (1981), pp.361-65.

had been stolen, that it had been appropriated by a spouse, or that they purchased the wrong raw materials. The problems in payback occurred later.

Loans can also be too small. For example, in the Santo Domingo demonstration project, the $249 loan to "tricicleros" (tricycle cart vendors) was adequate to purchase a triciclo, but the $21 loan reserved for working capital was too small. Many tricicleros found that they had to resort to local moneylenders for working capital, and these 10% a day loans cut significantly into each day's profit. Another example of this was in the NCCK project in Kenya, where the loans given through groups were so small that the money received after such an extensive period of analysis and waiting was insufficient to significantly expand their business activities.

In general, in planning a revolving loan fund, the best advice seems to be to "go slow" and "think small." With the smallest informal sector businesses, loans as small as $20 or $40 may be significant. Loans over a few hundred dollars should be the rare exceptions, as, for instance, when a major piece of equipment must be purchased, or a major stock of raw materials must be laid in.

Loan terms and frequency of payback

Loans with short payback periods were found to be a crucial element in the success of two projects identified in PISCES Phase I: the Working Woman's Forum in India and the PRIDECO/FEDEC-CREDITO program in El Salvador.[57]

Year-long initial loans have proved difficult to pay back for clients whose experience with moneylenders involves repayment in day or a week; a year for them stretches interminably. This was the case in both the Santo Domingo and Costa Rican demonstration projects. In Santo Domingo, the fact that some clients were

[57] Farbman, ed. (1981), pp.141-148 and pp.162-192.

paying back their loans responsibly while others refused to pay caused almost irreparable damage to some solidarity groups, and loan repayment had to be rescheduled on an individual basis in several cases.

The frequency of payback is another area that needs to be monitored and adjusted to client needs. Weekly payback schedules generally seem to work best, but loans to vendors whose capital turns over daily might be best paid back every day. For certain manufacturers--shoemakers, for example--monthly or bi-monthly payments may be more appropriate. The determining factor is the frequency that merchandise turns over in a certain business. While the project staff may justify infrequent repayment schedules to cut administrative costs, the evidence is that this requires an ability to save that is beyond the abilities of most micro-business owners.

After a group or an individual has been tested, loan repayment might be rescheduled on a more infrequent basis. Paying the loan can waste valuable hours during the working day.

Interest rates

In the micro-enterprise field, one of the most debated issues is whether clients should be charged a highly subsidized interest rate, a commercial interest rate, or a rate that covers the operational costs of the project. There is no question that the clients of projects reaching the informal sector are poor and need more income to cover urgent needs. But there are reasons for charging a higher rate, especially to existing enterprises that have shown they can compete effectively on the market. In most cases, it is a choice between serving fewer people with lower-cost credit and serving more people with unsubsidized credit.

The case for an unsubsidized interest rate is quite convincing:

o Before the business owners had access to the credit the project offered, some were already paying interest rates to moneylenders that were 5 to 20 times the commercial rate. In Santo Domingo, for example, most vendors received loans mainly at 10% a day from moneylenders. That these businesses were able to survive, and even prosper, is evidence of their profitability.

A counter-argument is that very marginal businesses cannot afford or do not have access even to moneylender credit. A subsidized interest rate to these businesses may make the difference between the same growth and no growth at all.

o Charging a subsidized interest rate encourages a dependence that makes it even more difficult to break into regular credit channels when they have to pay the commercial rate.

A counter-argument to that may be that for very marginal businesses receiving even subsidized credit at least introduces them to the standards of "formal" institutions. The skills learned through participating in the project can be later transferred to banks and other financial institutions.

o Charging a lower rate prevents a project from achieving self-sufficiency. The Dominican and Costa Rican demonstration projects, which have achieved much in terms of generating income and employment, have covered about half of their operational expenses through interest charges. Even if total self-sufficiency is not achieved, interest payments and other charges help defray costs.

For more socially-oriented projects where micro-enterprise development is only one part of an integrated effort, interest charges would never represent more than a token income source to the project.

o The interest rate is generally not considered an important factor by project clients. When asked to comment on the project, the questionnaire respondents in Santo Domingo put a higher priority on the speed of loan disbursal, the easy availability of second loans, and the simplicity of procedures than on interest rates.

In the NCCK study, it was agreed that paying commercial interest rates is within the capacity of most project clients.

o Increased interest charges can be absorbed by extending the payback period of loans slightly. In this way the burden to clients is reduced, and the project gains an important source of income.

Donors should be aware, however, that social agencies--the NCCK is an example--often see charging high interest rates as exploitive of the poor. For new, very marginal or collective enterprises, which demonstrably would not be profitable while paying a commercial interest rate, a subsidized rate may be justified. But it is significant that the NCCK is now charging higher interest rates as it has gained operational experience.

Building incentives for loan payback

The best incentive for high loan payback is a well-administered project. If, as in the NCCK project, staff are not available to receive paybacks or if, as in the Costa Rica project, solidarity group presidents need to spend a half a day waiting in lines to get their loan payments made and then registered, loan payments can be expected to sag. Ideally, loan payback should be convenient, simple and quick.

Another incentive for high loan payback is the immediate availability of a second loan. Clients should think not in terms of an individual loan but of their access to a line of credit. In the Costa Rican, Kenyan, and Dominican demonstration projects, the lack of access to second loans--and the laborious and time-consuming process required to process these second loans--was cited as a major source of client dissatisfaction.

The history of loan payback problems in the Dominican project underscores the importance of building in incentives. After a group of clients had waited over a year for a second loan, the idea quickly spread that there was no point in paying back loans. Now that second loans are being given out, the payback rate has improved.

Dealing with non-repayment

The structure of the loan program is essential, but good management of the loan fund is also important, starting with a system that immediately informs the appropriate promoters when a loan payment has not come in on time. Once field staff know about a repayment problem, they should take prompt action, and this action should be backed by the agency. The consequences of late payment should be explained as clearly as possible, and a plan for repayment worked out with the client.

In the Dominican Republic, these steps were taken:

o The importance of prompt loan payback was emphasized in general community meetings.

o If payments fell behind, solidarity group leaders were encouraged to pressure their groups.

o If the problem peristed, promoters visited individual solidarity groups to discuss it with them. In some cases loans were rescheduled so the loan repayments would not be so burdensome; in other cases, loan repayments were rescheduled on an individual basis.

o When all these measures failed, the project repossessed the equipment purchased with the loan.

These measures may seem drastic, but the consequences of not taking immediate action are often severe. Once a few clients realize they do not need to pay their loans, the attitude quickly spreads to the rest that they do not have to pay either. The problem quickly compounds itself if remedial action is not taken, and project staff soon finds that repayment problems come to occupy a major part of their time, leading to an acrimonious relationship between the field staff and the clients.

There is a need for some flexibilty, however. Family emergencies do occur, businesses can fail, clients can make poor choices on the use of their capital, capital can be lost or, as occurred with several loan recipients in Kenya, businesses can be destroyed by fire. After all measures are exhausted, a few loans--hopefully under 5% of the total amount loaned--will have to be written off. One hundred and twenty days seems to be a common point for considering a loan irrecuperable.

Loans: cash or in kind?

One way to control the use of loan funds is to provide inputs in the form of materials, equipment and merchandise, rather than cash. The clients, however--especially those with some business experience--generally prefer cash. The truth is that clients can often work out a better deal than project staff can. For example, a pillow manufacturer in Costa Rica cut his operational costs by having a friend bring in remnants from cloth manufacturers in Panama and then using the waste material from a foam mattress factory for stuffing, shredding the foam rubber in a modified coffee grinder. Using pawn shops, odd pieces, and recycled materials, and building their equipment by hand, business owners can often save half or more of the price from a major store.

When working with very inexperienced business owners there may be a case for purchasing inputs for the clients or making sure they get the right piece of equipment or machinery. As the business owners' skills develop, clients should make their own arrangements for the purchase of raw materials and equipment.

Encouraging savings

It is assumed that poor people have little surplus to save; in reality there is a tremendous untapped savings potential in the informal sector. In Santo Domingo, it was observed that clients purchase appliances such as radios and fans both to use and to be sold for ready cash or pawned in the case of a family emergency. But most of the clients of these projects have never stepped inside a bank, much less opened a savings account in one.

Business owners could use savings to cover a family emergency rather than liquidate their businesses or go to a moneylender. They could even gain eventual independence from the project by capitalizing their own businesses without the need for additional loans. It is generally agreed that regular savings proves the "credit-worthiness" of the clients and provides an experience in setting aside money, preparing them to participate in regular bank programs later.

Savings are also important from the perspective of the project. If savings can be plowed back into a revolving loan fund, there is a possibility of eventual independence from outside capital sources. Some programs, such as the BKK in Indonesia,[58] the PISCES spin-off projects in Peru and the Dominican Republic, and many cooperatives, have forced savings requiring clients to help capitalize the loan fund. Such projects should have a guarantee scheme for client savings so that the clients will be protected if the project fails.

Credit administration

Simplicity, agility, and good follow-up are the most essential components of a well-administered credit component. Many small enterprise projects bog down in the bureaucratic procedures

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[58] Goldberg; Rosengard (1983).

required for improving loans.

In both Kenya and Santo Domingo, clients often had to wait six months for their loans, and this period extended as long as a year in some cases. Loan committees met infrequently, the process of issuing checks was cumbersome and complex, and the information required in the credit application form was excessive. A goal should be a one- to two-page application form, a credit committee that meets weekly, and the issuing of a first loan within two weeks of the application. Subsequent loans should be approved even more quickly.

The clients' needs for credit are usually immediate and simple, and waiting for a loan often means that a piece of second-hand equipment or the special lot of raw materials is no longer available by the time the money finally arrives. Also, excessive delay tends to create an adversary relationship between the client and the staff, who must spend much of their time explaining why the services promised were not available when promised.

Agility in the approval process is essential, but good follow-up is equally important. The problems that a business will have can rarely be foreseen in the application process, and in many programs there is a misplaced emphasis, with too much time going into filling out the credit application forms and too little time going into supervision of the loan after it is given out.

Credit administered by a local project or through a bank or other financial institution

Unless a local PVO has sophisticated controls, administering a credit project can often be overwhelming. In many cases, the strength of a local grassroots organization is its outreach into the community, not its ability to manage a loan fund. Ideally, a bank or some other kind of financial institution should administer the revolving loan fund and savings account. In the PISCES spin-off project in the Dominican Republic, a bank administered the loans and gave the interest payments to the project to help cover operational costs, using the excess liquidity in the loan fund to help it cover its own costs.

Banks and other financial institutions are preferable in administering loan programs for three reasons:

o Clients will tend to take their loan obligations more seriously if payments are made to a bank. Non-governmental organizations are rarely perceived to be as strict about loan repayment as a bank.

o Receiving a loan through a bank creates a relationship with the bank and a credit history that can be used as the basis for the graduation from the project in the future.

o Using the bank as an intermediary will tend to educate banks and other financial institutions about the capacity of these clients and the special needs they have. A staff person may accompany a client to the bank to ensure that the original contact is a positive one. In this way, staff can serve as a buffer to the more formal institution.

While banks at their best have proved capable of administering the loan funds, issuing checks, and keeping small savings accounts, it has often proved counter-productive to have them involved in decisions as to who should receive the loans, especially if the loan approval process involves the same complex procedures that banks generally require of their ordinary business clients. The selection and approval process should be left in the hands of the implementing agency.

MANAGEMENT ASSISTANCE

Is management training needed?

There are many millions of informal sector businesses in developing countries, and, of these, only a small percentage keep records or are formally trained in what are considered the indispensable tools of running a business. This indicates the viability of informal management mechanisms and the way they are transmitted among business owners.

Is management assistance needed at all? The answer depends on the level of enterprise and the objectives of the project. If the project is starting new enterprises with people who have little or no experience in running a business, especially if it is mounting a new collective enterprise or providing longer-term assistance to slightly larger enterprises, then management assistance will almost certainly be necessary.

If a project works with viable businesses at the very smallest level--street vendors, curbside food sellers, the smallest of cottage manufacturers--and is concerned with modest expansion to the local market, a case can be made for simply extending credit and not complicating the project with management training.

Credit or management assistance first?

A strategy adopted in some new projects[59] is to provide short-term credit initially, and as the size of the loans strains the capacity of the owner to manage the business properly, then provide technical assistance. By that time the demand for training is generated by the entrepreneurs, who have come to see this as a real need rather than an imposed requirement.

How should management assistance be provided?

How can business concepts be translated into a form usable by the clients of these projects? Various approaches were tested in the demonstration projects:

o Informal orientation: When the promoter fills out a loan application and returns to supervise the loan, or to prepare a request for an additional loan, he or she repeatedly asks

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[59]ADEMI (Dominican Republic), PROGRESO (Peru), Fundacion Ecuatoriana de Desarrollo (Ecuador).

questions about sales, profits, production, and the owner's specific plans for the expansion of the business. This does two things: it develops the client's awareness of a conceptual framework--profits, sales, future plans, etc.--that provide benchmarks to measure progress, and it causes the promoter's expectation that the business will progress to be internalized by the client. Since clients of these projects so often identify with the project and promoters, these expectations are important.

o The participatory approach: The informal orientation of the promoters can be structured through a group discussion of management problems, with the promoter acting not so much as a provider of information, but as a facilitator of the discussion. In Santo Domingo, case studies of businesses like their own are presented to the group, illustrating a major problem--the importance of providing quality goods to clients or the importance of keeping records, for example. Those clients with more experience advise the others. This process also builds bonds of solidarity among business owners through mutual assistance.

o Formal classes and courses: Another approach is to teach micro-business owners concepts such as targeting their markets, improving display, bookkeeping, and so forth, through classes. If the lecture approach is to be effective, careful consideration must be given to scaling the material to the level and the concrete, immediate needs of the micro-entrepreneurs.[60] Considerable work has been done in this field, including the development of highly simplified and well-illustrated manuals which are

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[60]A typical approach is to hire an instructor from a local university and provide the micro-entrepreneur courses that are little more than a rehash of courses given to university students and to larger businesses. Discussion with participants after such sessions usually reveals that they learned little of relevance to themselves and often end up feeling that managing a business (even though they have been doing it for many years) is something beyond their ability.

used with some success in the Santo Domingo project.[61] The problem with manuals, even very simple ones, is that they assume a level of literacy which is beyond the level of participants in many countries.

o <u>One-on-one management assistance</u>: Another approach is to visit business individually to provide advice, help set up a bookkeeping system, and monitor the bookkeeping system once it is in place. In the NCCK project, individual assistance is given in stocking, display, and the discussion of possible new product lines, in addition to bookkeeping. The feeling of the NCCK promoters was that an intensive program of visits--generally every two or three weeks--was necessary with the pre-entrepreneurial group to insure that fledgling businesses got a good start. In the Santo Domingo project, the larger micro-industries assisted by the project were visited almost every week.

The drawback to one-on-one visits is, of course, the expense. To the degree the same material can be learned through group training, as is increasingly being advocated by NCCK staff, the cost will decrease.

To sum up, a good management assistance training effort will probably combine all four approaches--informal orientation, promoting the active exchange of information between clients, formal training through courses, and more formal one-on-one training. The core of the management training effort would be participatory meetings where micro-entrepreneurs discussed common management problems. Lectures should be used sparingly, taking care that the information presented was couched in terms that the business owners could understand. Simple illustrated manuals summarizing the major points could aid in this process. One-on-one follow-up visits to teach bookkeeping, for example,

[61] Three manuals were developed by the Dominican Development Foundation: 1) <u>Planificacion de Proyectos</u>, 2) <u>Controles para la Expansion de la Empresa</u>, and 3) <u>Mercadeo</u>.

The PRODEM component of the Compartir program in Colombia also published two manuals: <u>Contabilidad</u> and <u>Mercadeo</u>.

All of these manuals are available through ACCION International.

would be limited because of the expense. During the visits for loan application the promoter could help keep the level of motivation high and informally orient the client to concepts of business growth and improvement.

<u>What should be covered in a management assistance project?</u>

The basic assumption of many projects is that management assistance begins and ends with bookkeeping; this emphasis is beginning to be questioned. Among business owners at this economic level there is a resistance to keeping books. Bookkeeping systems are often kept because they are requirements for receiving loans, but abandoned once the loan is granted.

The time of the promoters might be better spent helping the clients plan for business growth or discussing other aspects of the business. Whatever the specific content, the demand for the service and specific issues to be discussed should come from the business owners themselves, rather than imposed as a standard "management assistance package" by the project's promoters.

If bookkeeping is taught, the most important rule is to keep the system very simple. Many ingenious teaching methods have been devised, with perhaps the most simple being the "three box system," where money to pay the loan goes into one box, money to pay for the next day's merchandise goes into another, and the money remaining for family needs is placed in a third. In the NCCK program, simple ledgers for registering expenses and income were emphasized. Even though many abandoned this system after the period of intensive visits by the promoter was over, the NCCK staff felt the expense and time had been worthwhile because at least their clients had been exposed to bookkeeping. The in-depth studies of the demonstration projects showed a positive correlation between bookkeeping and business success.

At issue is whether bookkeeping should be taught before or after the loan is disbursed. Staff from some projects suggest that the time and expense of setting up a bookkeeping system before the loan is often wasted because the business owners themselves do not feel the need for it. They argue that bookkeeping training should be provided when the business has expanded enough to make it a necessity.

Many other topics have been included in management assistance efforts. In Kenya, three major areas of concentration were credit use, procurement and stock control, and bookkeeping. Typically, 95% of the management assistance was in these three areas, with credit use occupying 35% of the time, accounting 29%, and procurement and stock control 26%. The Costa Rica project focused almost entirely on bookkeeping, and in the micro-enterprise component of the Santo Domingo project the emphasis was on bookkeeping, marketing, and the management of employees. As with bookkeeping, the rule for these other inputs is: keep the information simple, and teach as much as possible through encouraging the exchange of information among the business owners themselves.

ORGANIZATIONAL ASSISTANCE

There is a strong emphasis on working through a group structure in all of the PISCES demonstration projects. This takes many forms, ranging from the collective community enterprises in the CEOSS project in Egypt, the collective business enterprises of the NCCK project, the association and solidarity groups of the Dominican Development Foundation and Costa Rica projects, and the participatory training of the micro-enterprise component of the Dominican project. In all these projects, it was argued that the associative mechanism would create an additional impact, including mutual cooperation, the informal exchange of information, and empowerment through grassroots organizations. In the Latin American demonstration projects, the grassroots organizational structure was seen as an effective way to cut costs while aiding in selection and outreach. Also, the groups were seen as the means of facilitating the delivery of services.

Perhaps the clearest example of increasing the impact of a program through promoting a grassroots organizational structure was seen in the work with the Dominican "triciclercs", where the association that evolved out of this process formalized traditions of mutual assistance by providing emergency loans, small grants to cover funeral expenses, and visiting members when they were sick. This organization has also created a strong sense of solidarity among its members and increased their orientation toward assistance in community improvement efforts. Indeed, the number of project clients participating in community activities doubled in one year. Another important aspect of the additional impact of the association was seen in the increased exchange of business information between members, the increased informal lending among members, and the role of the association as an informal support group.

In the Tototo Home Industries program (related to the NCCK project) collective marketing of the products of the group was done with some success, and in the NCCK effort there was at least one example of developing a collective workspace for fish-mongers.

Promoting collective efforts

The NCCK and DDF demonstration projects reflect two approaches to promoting collective efforts. The NCCK approach is direct. Social workers identify the most needy people in the local community, come to know them well, urge them to form groups, and help turn these groups into economic endeavors. Social workers may work with the same groups for one to three years, an appropriate length of time considering the client's extremely low economic level and lack of institutional experience.

The approach used by the DDF working with its entrepreneurial clients was to depend on their initiative for the formation of solidarity groups and the Association. The high degree of client participation in this process is seen in evaluation results, showing that over a fifth of the clients had helped organize solidarity groups and half had recruited for the program. The fact that the tricicleros of Santo Domingo were a homogeneous group already involved in a common type of economic endeavor and that many already had links between them provided an ideal setting for the rapid spread of the project and the eventual creation of the Association.

MONITORING AND EVALUATION

Every project needs a mechanism to monitor its activities, determine the impact of its efforts, and understand its problems so it can improve its efforts in the future. Unfortunately, few micro-enterprise projects have a good monitoring and evaluation system, and of these, many carry out these activities within a separate department divorced from operational decisions.

Monitoring

The key to a useful monitoring system is its integration into the decision-making process. Data is collected to be used. The information collected must be immediately relevant to the practical issues related to the goals and objectives of the project.

A useful monitoring system is also a simple one. While all information is "interesting," every piece of data collected has its cost. The more complex the monitoring, the less likely it will be kept up-to-date, and the less likely the staff (who are extremely busy with the day-to-day operation of the project) will use it.

Monitoring is all too often given a low priority for project managers or is carried out as an exercise only to fulfil the requirements of donors or the central office and is not integrated into the decision-making process. To insure its use, the monitoring system must be built in from the start of the project, and the responsibilities for keeping the system up-to-date need to be clearly assigned. To the degree possible, monitoring data should be drawn from the credit application forms and changes measured in subsequent applications for assistance, thus avoiding the need for a separate data collection effort.

Results should be summarized monthly or quarterly and presented formally to the staff for discussion.

Evaluation

Evaluation is a more reflective and time-consuming (and costly) process. In contrast to the monitoring system, which is maintained internally, evaluation is usually carried out by someone from outside the project or even outside the agency. The purpose of evaluation is to take the reflective process one step further than monitoring does. While it is important, for example, to know how many new jobs are being created, it is also important that the agency understand the nature of the jobs created. Are these jobs part-time or full-time? Is the income from these jobs adequate? What kind of skills are being imparted? An understanding of this theme in one or two project can be generalized and transferred to other projects of this type with some degree of confidence.

A simplified monitoring and evaluation system

The following is a monitoring and evaluation system for a typical project, showing how a few indicators can provide essential information for the project:

TABLE V

Objectives	Monitoring Data	Evaluation Themes
To reach poor people	Percentage under pre-defined poverty levels	Can poor clients be reached? Who is left out?
To increase income	Percentage of increase in income	How is additional income used?
To increase employment	Number of new jobs created	Are jobs marginal? What skills are learned?
To reduce transaction cost to beneficiaries	Time required by beneficiaries to receive assistance	How could the program be fine-tuned to better meet client needs?
To provide a place to save	Savings per client	How are savings used?
To upgrade business skills	Business skills taught that are adopted	Do new business skills result in better managed businesses?
To reduce operational costs	Operational costs as percentage of the value of loans granted	How can project efficiency be improved further?
To reach a large number of clients	Number of clients reached	How can the project grow more quickly?
To minimize late payments	Percentage of loans late; percentage of loans defaulted	What are the client's reasons for late payment?

The ~~clearer the~~ objectives, the easier it is to set up the system.

Beneficiary participation in the evaluation process

A micro-enterprise project should accurately and efficiently deal with immediate needs of the clients. It stands to reason, then, that monitoring and evaluation system should have a mechanism built into it to get feedback from clients on how the project is meeting their needs, and to incorporate their suggestions on how the program might be improved. Client participation in this process begins at the design phase with the feasibility study.

As the project progresses, regular meetings--perhaps quarterly--should be held with clients for them to give feedback on their perceptions of the project and their ideas for its improvement. This kind of intensive participation on their part insures that the project does not get too far out of step with their needs. Also, by being involved in the process, they feel more "ownership" of the project.

PROJECT MANAGEMENT

Some agencies develop micro-enterprise projects that provide quality service but find that staff are torn apart by internal bickering, low morale, and low productivity. What do they need to know to improve the management of their organization?

Good management is particularly important for micro-enterprise projects because of the large number of clients reached, the great volume of loan transactions to be accurately recorded, and the ongoing nature of the supervision. All four demonstration projects suffered from management problems that significantly impaired their impact.

Good project management has two components: a structure that facilitates rather than hinders the organization from achieving its objectives, and the hiring, training and motivation of staff that promotes their active and enthusiastic participation. The way projects can be structured will be discussed first, since a properly structured project lessens many of the problems of poorly motivated staff and internal bickering that sap the effectiveness of projects.

Management

The effective management of micro-enterprise projects has eight characteristics:

1) Well-focused goals and objectives

Too many projects have foundered because they did not clearly define what it is they were trying to accomplish. Defining goals and objectives is particularly difficult for socially oriented projects, since objectives can include greater use of project services, improved family health and nutrition, improved family relationships, education, health care, empowerment--the list could be extended indefinitely.

Even a project that focuses exclusively on enterprise development can lose its focus. Goals of reaching the poorest and loaning money as quickly as possible can contradict each other, for example.

These questions may help define project objectives:

o Who does the project intend to reach?--(Level of enterprise, stratum of poverty, etc.)

o What does the project intend to accomplish?--(Increase income, employment or skill levels, improve self-image, increase access to basic services, encourage involvement in community activities, etc.)

o What is the project strategy?--(Mass credit efforts aimed at reaching the largest number of clients at the lowest possible cost; or intensive work with the most disadvantaged members of the community to change them from being welfare recipients to autonomously functioning community members.)

o By what means does the project intend to accomplish this?--(The extension of credit, management assistance, linkages with other organizations, linkages with formal sector lending institutions, direct marketing, the creation of group economic activities, the development of community enterprises, etc.)

2) <u>Commitment to these goals by the leadership and staff</u>

The relation of goals, objectives, strategies and approaches of the project needs to be internalized by the staff. To the degree the staff share a common vision and are not working at cross purposes, the project will tend to work smoothly.

3) <u>Streamlined administrative procedures</u>

Decisions need to be made rapidly and moved through bureaucratic channels with as little delay as possible. A goal might be to have the approval process take no more than two weeks for a first request for services and considerably less for second and subsequent requests. The application forms should be simple and the steps required for approval should be as few and as unambiguous as possible.

4) <u>Good internal controls</u>

Good internal controls flow from clearly defined objectives and an agile, smoothly-working administrative structure. Records of loan applications, loan payback, and other statistics need to be tallied daily and reported frequently. Field staff need to know immediately if a loan payment has not come in--delays in this process caused problems in the Dominican project.

It is also important to keep track of the portfolio of each field staff person in terms of the number of clients and payback. In this way, one promoter's performance can be compared to that of others along commonly agreed-upon objective criteria.

The importance of good internal controls can hardly be over-emphasized. A director of a project in Ecuador summed it up this way: "For me, good internal controls are at least 60% of management. Unless I have a good idea of what the disbursal of loans, the repayment, and the performance of my field staff are like, I won't have the information I need to run my project."

5) Goals for staff to encourage efficiency

The incentives for staff to encourage efficiency are a direct outgrowth of the previous steps. If data is kept on each staff member in terms of numbers of clients, types and numbers of businesses assisted, total loan portfolio, payback, or other criteria relevant for the specific project, then the staff who do comparatively better can be rewarded. Those who fall behind can be encouraged to do better, and those who are simply not productive can be let go.

When the staff feel there are well-defined and commonly agreed-upon criteria for their performance and that the organization itself enables them to do their jobs adequately, they tend to work well. What has been remarkable in all the demonstration projects is the degree to which the field staff identify with the work they are doing, despite major management difficulties.

6) The inclusion of field staff in the decision-making process

It is the field staff--who spend most of every day talking to clients, providing management assistance, helping develop proposals, and dealing with payback problems--who best know how the project is working in the field. Yet, a major complaint by field staff in the demonstration projects was that decisions were made at the top and the ideas of the field staff were rarely taken into consideration. Field staff felt that many of the decisions made by senior staff were ill-considered and ill-founded. As a consequence, morale and project efficiency declined.
Being involved in decision-making improves staff morale and provides a valuable additional source of information for improving a project.

7) Inclusion of beneficiaries in project assessment

Including the beneficiaries in the assessment of the project gives them a chance to say what they like and don't like about the project, and how the project affects them. But there is another consequence of active beneficiary participation that is more basic. Clients develop a sense of ownership of the project and take their commitment to the project more seriously--actively recruiting more members, encouraging payback within their group, and participating actively in microenterprise associations.

8) <u>The ongoing design and fine-tuning of the methodology to make it better fit client needs</u>

A well-operated project, with good internal controls and monitoring, provides the data needed to fine-tune the project. If this learning process is carried out conscientiously, the project will continue to evolve to meet the needs of the clients as they enter the project and to respond to their changing needs over time.

To the degree a project lives up to these ideals, it is likely to remain productive while others founder.

Improving Staff Efficiency and Effectiveness

A well-administered project--one that reflects the eight principles mentioned above--has taken the most important step to improve staff functioning: providing a structure and a climate that facilitates and encourages their work rather than hinders it. Within this context, how should staff be selected and trained?

Staff selection

The most important criteria of staff selection is attitudinal--that the potential staff have what Latin Americans call "mistica," an identification with the mission of the agency and a commitment to working with the poor. If the potential staff members believe that it is beneath his or her level of skills to work with micro-businesses, they will probably be condescending and arrogant. Similarly, if the staff sees the owners of these businesses as poor, dependent people with little potential for improving themselves, they will be unlikely to promote business growth.

Ideally, a staff person should have a willingness to serve, a desire to provide a necessary service without being intrusive, a willingness to work long hours, often outside of the usual office hours, an ability to communicate with people at the social level of micro-entrepreneurs, and an appreciation for the business owners and the activities they are engaged in. Typically the field staff of these projects are young, often from the educated class, with a strong sense of social mission.

It is useful for project staff to have some background in business, although even that is not indispensable. (An excellent project identified in the Phase I research was run entirely by electrical engineering students. They knew little of business, but were trained to be pragmatic, systematic and thorough.)

The assumption is that project staff come from a much higher educational level than the participants. But can the beneficiaries themselves be directly involved as field staff in these projects? Their involvement so far has only been in the form of participation in groups, spreading information about the project to their friends, and informally providing assistance to each other. Hiring clients as field staff might be an area for experimentation in the future.

Staff training

Once staff are selected, they must be trained. Training starts with a good understanding of the project and the staff person's role in the program. Then the staff need to become familiar with the basic forms and procedures used in the program. Often, the best orientation is to have them work as apprentices with the current staff.

A second component is training in the technical aspects of assistance. This training can be brief or extensive, depending on the objectives of the project. For example, in the NCCK demonstration project the training period was extensive because a major effort was made to integrate the social workers and the small business promoters, allowing each an extended opportunity to get to know and appreciate each other's roles in the program.

Training is an ongoing process: the field staff needs to have an opportunity to come together to share ideas at regular intervals. This is especially important in decentralized projects working in several different cities, such as in the NCCK project, where the staff can feel very isolated. These training sessions can be an important factor in building staff morale.

Staff management

The sometimes painful experiences in the demonstration projects provided some guidelines for project managers that should also be kept in mind. The first is that ineffective workers should be let go. Uninterested, arrogant and trouble-making staff lead to the demoralization of the others. Making these decisions as quickly as possible helps the rest of the staff recognize that they are being rewarded for their good efforts. Another general guideline is the importance of keeping the staff busy. Often morale sags when staff does not have enough to do or when what they have to do is not sufficiently organized. New field staff should be hired only when there is a crying need. Staff seem to work best when they are working at their capacity.

The eight characteristics of a well-managed project and the criteria for maintaining a well-motivated staff show why private and voluntary organizations and not typical government bureaucracies are ideal mechanisms for assisting businesses at this level. The PVOs, at their best, have the small size, flexibility and committed staff that help make this kind of project a reality.

CHAPTER V:

IMPLICATIONS FOR DONORS

INTRODUCTION

The number of direct assistance projects to micro-enterprises is small, and the proportion of the informal sector that has been served by these projects is miniscule. Yet these efforts show that the smallest economic activities of the poor can be assisted, often very effectively, with significant increases in employment, income and empowerment. The challenge for donors is to constructively promote micro-enterprise projects on a wider scale. The starting point is to assist the organizations who are currently doing this, or interested in doing so.

Donor organizations are at a critical point in their evolution as funders of direct assistance efforts to the informal sector. The experience to date with the PISCES demonstration projects and other similar efforts show that AID is willing to fund these projects, through such mechanisms as operational program grants, accelerated impact projects and more conventional channels.

Momentum is building, however, for much larger participation in the future. Donors are increasingly aware that these tiny enterprises make up the largest and fastest-growing part of the private sector in many developing countries, and that the majority of new jobs will be created in these businesses in the decades to come. The fact that micro-enterprises are owned by the poor and, at the smallest level, tend to be owned by women is an additional reason for AID and other major donors' support for enterprises at this level.

To date, micro-enterprise assistance efforts have been funded on an ad hoc basis, whenever there was a fortuitous link between an interested project officer and a local institution. In the past, however, many projects were poorly conceived, and the mistakes that led to the failure of many similar efforts were repeated. From the clients' viewpoint:

o Many projects did not reach the beneficiaries: Those reached were comparatively better-off;

o Many projects simply did not work: Business owners were little better off for their participation;

o Clients were dependent on continued project imputs to maintain their activities, and were in a vulnerable position if the project should fail or support was withdrawn.

From the institutional perspective:

o The costs per client assisted were too high: Project efficiency was not a major concern;

o The scale was too small: A disproportionate effort went into reaching a comparative handful of clients;

o The transaction costs were excessive: The decision-making process became mired in bureaucratic delays;

o In the case of loan programs, payback sagged, leading to the decapitalization of loan funds: Project staff did not take the needed action to ensure payback;

o The project was not institutionalized locally, and was dependent on the inputs of an outside technical assistance agency.

These common problems lead to the following suggestions for establishing a series of objectives for AID's informal sector strategy. Vis-a-vis the clients, these goals are to:

o reach the poorest level of beneficiaries who have demonstrated their initiative by starting an economic endeavor or are actively interested in doing so;

o raise levels of income and employment for project beneficiaries and their employees;

o encourage the empowerment of clients through their active participation in the project through the formation of groups and associations;

o graduate clients from the project so they may move on to national institutions, banks, or cooperatives, or continue with their activities with no further outside inputs.

The goals for the institutions may be to:

- o improve project efficiency by reducing the cost per client over time;
- o minimize the transaction costs to clients by creating an agile mechanism for extending services that minimizes unnecessary delay;
- o be business-like in the administration of the loan fund by designing a loan package that fits client needs and by following up vigorously on late payment problems;
- o be conscious of the process of local institutionalization from the inception of the project, recognizing that developing viable local institutions that will carry on the work is more important than the short-term objectives of creating new jobs or increasing income.

The PISCES project documented how assistance to the informal sector would be delivered through projects with a variety of objectives appropriate to the strikingly different needs of the entrepreneurial and the pre-entrepreneurial groups. The types of organizations assisting the sector identified in Phase I and tested in Phase II is diverse, including small non-governmental organizations (Manila Community Services, Bangalur Layout), more sophisticated non-governmental organizations with nation-wide or regional outreach (National Christian Council of Kenya, Dominican Development Foundation, Coptic Evangelical Organization for Social Services), projects of government agencies (Metro-Manila Barangay Industries) and of commercial banks (Banco Popular of Costa Rica, the Philippines Commercial and Industrial Bank), but most efforts are small-scale.

Donors will need to find ways to reach and support very decentralized, small-scale efforts with limited capacity to absorb funding, at least initially. The long-term goal will be to develop the institutional capacity of local organizations so they can deliver services to an appreciable number of clients. The strategy proposed here assumes that if assisting the informal sector is a priority, the local AID mission will have little alternative other than to work with existing local organizations with outreach into the poor communities. An integrated approach to increasing their capacity to reach informal sector businesses is outlined below.

STRATEGY

The first part of the strategy, as implied earlier, is the decision on the part of the local mission to commit resources to direct assistance efforts to the informal sector. This mission would have made the decision that, rather than funding one or two projects on an ad hoc basis, it would make informal sector development part of an integrated long-term strategy that included efforts in agricultural development, health care, population, and so forth.

Phase I

The first step would be to visit local institutions to determine their experience, level of interest, and capacity for assisting the sector. As was documented many times in the PISCES research, it is likely that the only organizations interested in reaching the sector, and who are capable of doing it, are the small private and voluntary organizations.

To reduce the "transaction costs" of providing help to a large number of small-scale initiatives, it may well be advisable to create a kind of "umbrella organization," or technical assistance and financing wholesaler, to facilitate local efforts. The local organization should have the same characteristics as the well-managed micro-enterprise development efforts described earlier:

o focused goals and objectives;

- o commitment to these goals and objectives by the leadership and staff;
- o streamlined operating procedures;
- o good internal controls;
- o goals for staff to encourage efficiency;
- o the inclusion of field staff in the decision-making;
- o the inclusion of the assisted agencies in the assessment of the project; and
- o an ongoing commitment to institutional learning, both for the "umbrella" agency wholesaler and for the local agencies.

This institution would be chartered locally and serve as a conduit for AID assistance. An eventual goal would be to have the organization supported locally through fees or funding from local governmental and private sources.

Phase II

Once the umbrella organization was created, taking care to include the major local PVOs and other interested local organizations in the process, the operations would begin. In its simplest form, the new organization would provide three types of services:

o Training small local organizations to set up small revolving loan funds and provide other assistance.

o Providing small grants or loans to start operations. The grants to local institutions could range from $5,000 to $50,000, depending on the organization, with access to increasing amounts as the local organizations demonstrated their capacity to provide services.

o Facilitate the learning process. On a periodic basis, organizations receiving assistance from the "umbrella agency" would assess their efforts.

Phase III: Expansion

Those organizations that were best able to manage their portfolios would be eligible for significant additions to their funds through regular AID or other donor channels. As the more successful organizations were "graduated," the staff of the wholesaling institution would identify and fund more small local organizations in the process.

If this process were carried out conscientiously, the institutional capacity of many local organizations would have been developed considerably, and the goal of reaching an appreciable number of informal sector businesses would have been met. Another likely result would be an increase in the awareness of the government and the private sector as to the importance of assisting these businesses. More assistance from the government and the private sector in the future might be expected, as well as an improved policy environment for informal sector assistance.

This is, of course, only one alternative. If a bank were interested in assisting the sector, or was willing to serve as an intermediary between a local PVO and the micro-entrepreneurs, or if a government agency were interested in this kind of effort, direct assistance to these larger-scale efforts might also be feasible. The approach outlined above, however, does reflect the reality in many countries.

CHAPTER VI:

SUMMARY AND NEW DIRECTIONS

SUMMARY

There is an almost countless number of very small enterprises that could profitably use the inputs of a micro-enterprise project, and perhaps as large a number of pre-entrepreneurs who could enter the sector with some assistance. The needs of these businesses have been defined, and methodologies--from simple to complex--have been developed which result in significant increases in income, employment, and empowerment.

This chapter summarizes the findings of the PISCES research presented in detail in the body of the report and spells out the new directions micro-enterprise projects might take in the future.

Philosophical Underpinnings

Most agencies assisting micro-enterprises believe that working with the poor is a goal in itself, not only for the creation of income and employment, but for promoting an equitable society and strengthening the underpinnings of democracy. Another common assumption is that poor people can become increasingly self-reliant, and that this process is vital for developing their capacity to earn a living and improving their own sense of well-being.

Project Design

The most important element of project design is to match services to the micro-business owners' needs. Project design can be visualized as a problem in marketing--what do people want? and, how can their needs be met?

Another way of looking at project design is to think of creating a structure the micro-entrepreneurs can easily grasp and understand. The starting point is their skills and experiences. If they are accustomed to one-day, small loans from moneylenders, for example, then the program should begin with small short-term loans. It is better to ask clients to take small steps rather than leaps, to focus on incremental improvements defined by them rather than encouraging them to move so fast that their management capacity is exceeded and their businesses fail.

Good project design includes a feasibility study, where staff will come to know their clients, the characteristics of their businesses, their plans for growth, and the kinds of services they need. Projects need to be continually fine-tuned to meet the evolving needs of their clients. Design is not a one-time activity.

Outreach

In working with the "entrepreneurial group," information about the project should increasingly spread by word of mouth, after an initial period of promotion by staff. If there is a continual need to convince people to join the project, it probably does not meet their needs.

Outreach with the "pre-entrepreneurial" group is more intensive and time-consuming. Working generally with the most destitute members of society who have little or no experience with institutions, it takes a long time just to get to know people. Other types of services might be required to prepare people before enterprise assistance becomes appropriate.

Selection

If a project intends to extend credit to the hawkers, street food vendors and tiny cottage manufacturers of the informal sector, a system must be devised that does not require guarantees such as property, equipment or cosigners. What the PISCES investigations have documented is that, if traditional guarantees are not used, one's reputation in the community becomes the key element in the selection process.

This takes several forms: in the Latin American demonstration projects, clients were required to form a group that was mutually responsible for loan payment (the solidarity group approach); the pre-entrepreneurial projects tended to base selection on getting to know the client intimately before deciding to provide assistance.

When working with the smallest businesses whose credit needs are less than $1,000 and often less than $100, a detailed financial analysis is generally not needed. The Phase I research showed that projects conducting extensive pre-credit studies of the businesses fared no better in terms of payback and improved business performance than those requiring virtually no up-front (pre-loan) analysis in terms of payback and improved business performance. More important is the assistance given after a loan is approved.

Extending Credit

There is a universal demand, if not need, for credit. When working at the "entrepreneurial group" level, credit is what draws people to micro-enterprise projects. Once clients begin to receive loans, they became interested in other project services such as bookkeeping, management training, and forming associations. Short-term loans with frequent payback require less up-front analysis than do longer-term loans for the purchase of equipment or large stocks of raw materials. If possible, it is better to start with short-term loans (most often for working capital) and then work up to more significant inputs over time. The risk to both client and program is minimized.

In the pre-entrepreneurial group, considerable work is required to prepare the client for the loan. Collective enterprises will always require considerable up-front analysis, training and orientation.

The successful administration of the credit fund has proved to be the major stumbling block of many micro-enterprise efforts, since the organizations that carry out these projects--often small private, voluntary organizations--have little experience in administering projects that require quick decisions, the efficient flow of information, and the accurate recording of large numbers of transactions. Ideally, these functions should be delegated to a bank or other financial institutions. Lacking this option, credit administration needs to be designed with great care.

Management Assistance

There is some question as to whether management assistance is needed initially for existing enterprises at this level, as long as loans are small and short-term and production is oriented to local markets. Substantial increases in income and even employment can occur as long as the management and entrepreneurial demands do not outstrip the skills of the owner. The best time to provide management assistance is when businesses start to grow significantly--and after the business owner has felt the need for additional training and orientation.

For the pre-entrepreneurial group, however, a good case can be made for providing management assistance before a loan is given, since clients at this level must be taught the basic concepts of running a business. This is certainly the case for any collective enterprise, which requires a level of organizational complexity far more sophisticated than managing a simple micro-enterprise.

Management assistance was provided in four ways in the demonstration projects, and, ideally, the four approaches should be combined:

- <u>Orientation</u>--the informal process of talking about the business while filling out the request for project services and discussing how the loan could be used;
- <u>Participation</u>--facilitating communication between business owners, encouraging those who are slightly more advanced

to help those who are only starting;

o Teaching--imparting information (on bookkeeping, for example) through courses, classes and seminars geared to the level of the business owners;

o One-on-one--providing individualized assistance for setting up a bookkeeping system, developing a marketing strategy, and so forth, through ongoing visits of the project staff to individual businesses.

Organizational Assistance

In all of the demonstration projects there is a preference for working with enterprises organized in groups rather than with each business individually. In the Latin American projects this takes the form of "solidarity groups" that serve at first only to guarantee loans, but later begin to assume other functions such as being the nuclei around which larger grassroots associations may form.

In the pre-entrepreneurial projects, social workers bring groups of very poor people together, and often work with them for one to three years before the clients are ready to move from the welfare aspects of the program to starting their own businesses.

Monitoring

A common problem of micro-enterprise efforts is that although much information is collected, it is seldom analyzed and therefore unavailable for decision-making. A simple monitoring system closely related to the objectives of the project--i.e., increased income, increased employment, good loan payback and reduced "transaction costs" (the time that it takes a client to receive services)--have proved very helpful. Regular reporting makes it easier to detect problems and to carry out mid-course adjustments.

Management

Micro-enterprise projects tend to fail not because there is a lack of demand for their services, or because existing methodologies do not work, but because projects are poorly managed. Good management was seen to involve eight fundamental components:

1. Well-focused goals and objectives--so that it is clear what the program is trying to accomplish and the means by which it hopes to achieve this;
2. Commitment to these goals by the leadership and staff--the internalization of a vision of what the project is trying to do;
3. Streamlined procedures--cutting out unnecessary steps and simplifying the process, so delivery of services will be quicker and easier;
4. Good internal controls--so that staff have the information they need to assess the program and to make decisions;
5. Incentives for efficiency--providing guidelines for staff so they can evaluate whether their work is at an acceptable level;
6. The inclusion of promoters in the decision-making process--recognizing that it is the promoters who have the best information about how the project is actually functioning;
7. The inclusion of beneficiaries in the assessment of the project--for the dual purpose of getting their feedback on project functioning and increasing their "ownership" of the project;
8. A commitment to learning--to meet the ever-changing needs of the clients.

Project Impact

All the demonstration projects showed that clients achieved an appreciable increase in income, usually in the 30% range. This additional income--as evidenced by the NCCK program--was often used for improving the family diet and for paying school fees. Micro-enterprise projects also had an appreciable impact on employment, with the Dominican and Costa Rican demonstration projects showing that a new job was created for every $500 to $1,500 in credit extended, a rate 1/10 to 1/20 of the cost of creating a job in the formal sector. A detailed look at the jobs created in Santo Domingo showed that, on the average, workers were being paid the equivalent of a minimum wage and that, additionally, over three-quarters of those employed were learning new job-related skills that would put them in a better competitive position in the labor market in the future.

The impact of these projects was not only economic; the management of the businesses also improved. Working with the pre-entrepreneurial group in Kenya, project staff were able to teach simple bookkeeping techniques, and in many cases books were kept, even if a literate child or relative had to be called in to help. The evaluation of the micro-entrepreneurs assisted in the Santo Domingo project showed major improvements in record-keeping, marketing, the treatment of employees, and the organization of production as a result of project inputs.

On another level, project impact could be seen in such intangibles as increased self-esteem, improved social functioning, and, in the case of the "pre-entrepreneurial" NCCK project, increased receptivity to other project inputs such as improved nutrition, hygiene, and health-care.

CONCLUSION

The informal sector is increasingly recognized as a vital part of the private sector and as perhaps the most significant source of job and income creation in the decades to come. The PISCES research in both Phase I and Phase II has documented that there are viable ways of directly assisting the smallest economic activities of the poor that promote a grassroots approach to economic development, resulting in an increase in national income while encouraging its more just distribution.

It is worth repeating that micro-enterprise projects have both social and business objectives. They are business projects to the degree they apply the concepts of profit and loss and of management to the two pots and charcoal brazier of the street food vendor and the pair of scissors and aging sewing machine of the seamstress, taking these businesses seriously and listening carefully to the owners' plans.

At the same time, micro-enterprise projects are social programs in that they have a commitment to the poor, and are concerned about their welfare. They recognize that traditional requirements, guarantees, and methods of training do not apply to businesses at this level and take the effort to understand the obstacles that limit the profitability and growth of these enterprises. Innovative approaches are developed that are more relevant to the often uneducated, recent rural migrants who have virtually no experience with institutions of any kind.

NEW DIRECTIONS

Institutional efforts to directly assist the smallest economic enterprises of the informal sector are a relatively new phenomena. Most of the projects identified in the PISCES Phase I research had only been underway a few years, and the entire micro-enterprise field has made enormous strides in the last four years. Increasingly, the informal sector and efforts to assist it are becoming a focus of development organizations and international lending institutions. In this respect AID is to be commended on its very early effort to explore how the sector could be assisted.

To build on the momentum gained, however, micro-enterprise projects need to keep evolving. What are the major challenges facing micro-enterprise efforts? Where are the areas where breakthroughs need to occur?

o Institutionalizing the capacity to reach the informal sector: At the present time, every micro-enterprise project is "hand-built", and the same mistakes are often repeated. Ideas on assisting micro-businesses need to be disseminated so that agencies with outreach in the community can start mounting projects. This learning could be synthesized into a "kit" enabling organizations to design their own efforts. The dissemination process could also be facilitated through seminars where local organizations could exchange information and short-term technical assistance.

o Scaling up projects and lowering project costs: If informal sector enterprises are to be reached in significant numbers, small efforts need to be scaled up. The best efforts documented by PISCES to date reached 1,000 to 2,000 businesses a year, but in many of the cities where these projects are located, the number of tiny enterprises may range from 20,000 to 500,000 units. Projects in these cities are reaching less than 1% of the potential beneficiaries.

The Indonesian Badan Kredit Kecamatan (BKK)[62] project shows important insights into how this scaling up might occur. In 1983 the BKK project granted close to 300,000 loans averaging $50 to well over 100,000 loan recipients. Also, the Grameen Bank project in Bangladesh[63] assisted almost 64,000 clients with year-long loans from $20 to $80 from its inception in August 1976 through January 1984. The mechanism used by both projects is remarkably similar--decentralized, autonomous offices where small teams of specially-trained workers manage the program of loans to clients. In the BKK project, for example, there are 485 such "BKKs" spread out through Central Java. The role of the central office is to provide technical assistance to these units. Ongoing supervision and training permits the better-functioning units to expand as their capacity to manage funds

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[62]Goldmark; Rosengard (1983).
[63]Ford Foundation document, 1984.

increases. Units with problems are quickly indentified through the monitoring system and are provided assistance.

What both the BKK and Grameen Bank programs have achieved is the creation of a structure embodying the good management principles for small enterprise projects documented by the PISCES team, and the duplication of these in each of the local offices as well as the central office. These projects show that, properly structured, they can reach a truly impressive number of clients.

IMPLICATIONS FOR DONORS

The challenge for donors is to facilitate the development of institutional capacity to assist the informal sector. In each country, an assessment of the existing capacity of local organizations needs to be made and, ideally, a kind of "umbrella organization" created that would efficiently channel technical assistance and financial resources to a number of organizations. Over a number of years, some of the local organizations should have evolved to the point where they can assist much larger numbers of micro-enterprises.

A commitment to assisting the informal sector by important donors such as AID, the Inter-American Development Bank, the Asian Development Bank, the World Bank, and some of the larger foundations implies a major commitment to staff training. The materials needed for this training already exist in the various micro-enterprise development efforts that have been carried out, and only need to be systematically packaged and disseminated.

Another way donors could help would be to encourage changes in policy that promote the informal sector. PISCES focused on methods for directly assisting micro-scale economic activities, but such activities often function in an adverse policy environment. Government policy is often pro big business and, at best, ignores the informal sector. Positive changes in policy, including simplified licensing procedures, access to credit, and equitable prices for raw materials, should greatly enhance the competitive position and thereby the capacity of the sector to generate income and employment for the poorer stratum of society.

It can be argued that a change in policy--such as that in India requiring all banks to lend 1% of their portfolio to the so-called "weaker sector"--may have as significant an impact on helping these businesses as the direct assistance efforts described here. But even if the banking sector is required to lend to the informal sector, institutions that can deliver the credit at the community level are still needed. Policy change and the development of institutional capacity to deliver assistance go hand-in-hand.

Reflecting back on this five-year process of experimentation, where the PISCES team had a truly unique opportunity to learn about informal enterprises and the pioneering efforts to assist them, we are well aware that we have only scratched the surface. There is still much more to be discovered about how to effectively and efficiently attend to this sector of the economy. The learning process should continue.

ANNEX:

FEASIBILITY STUDY FROM COSTA RICAN

DEMONSTRATION PROJECT

There are three steps: 1) a quick census of poor neighborhoods to determine the number and types of businesses, 2) an in-depth look at types of businesses of interest to the project, and 3) meetings with business owners to solicit their ideas about program inputs.

PART I: Census: a door-to-door survey of households in selected neighborhoods

o Purpose:

- determine the percentage of households where someone owns a micro-business;

- define the types and sizes of businesses[64] and the importance of business income for the household.

o Questions:

- Does someone in the household own a business?

- Type of business?

- Is the business owner the head of a household, the husband or wife, a child, or another adult living with the family?

- Is the business a full-time or part-time employment for the owner?

- How many work in the business?

- Is the business is located in the house, outside the house, or on the street?

- How important is the business for family income (only source of income, more than half, less than half)?

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[64] If the population and average number of inhabitants per household is known, the number of businesses can be estimated.

PART II: In-depth look at businesses of particular interest through a structured questionnaire.

First theme: Determine the personal characteristics and income level of the proposed beneficiaries.

o Questions (asked to the owners of the businesses):

- age;

- sex;

- education;

- years of experience in this type of business;

- years resided in area;

- number living in the house;

- their economic activities and total family income.

Second theme: Determine the level and problems of these businesses.

o Questions:

- type of business;

- when it was established;

- where it is located;

- amount and type of business expenses;

- daily net income;[65]

- hours worked per week;

- employees: full-time/part-time, family/non-family;

- credit sources/problems in access to credit;

- other problems: raw materials, management, job skills, marketing, etc.

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[65] It is often easier to talk in terms of a "good day" and a "bad day" and arrive at an average.

<u>Third theme</u>: Owners' plans for business improvement

o perception if business could expand and income could increase;

o plans that the owner has for expansion;

o if a loan or other assistance is needed to facilitate this expansion;

o size of loan needed;

o how loan would be used;

o what other business services are needed;

o perception of market existed for expanded production or sales;

o where this market exists.

<u>Fourth theme</u>: Degree of interest in associating with the proposed project.

o <u>Questions</u>: After describing the concept of the project briefly, ask if the person is interested and determine reservations.

PART III: <u>Group meetings with potential beneficiaries to solicit their initial impressions of the proposed project and the services they find useful</u>.

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