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Institutional Shortcomings of NGOs and Donor Agencies  
Affecting Microenterprise Support Activities

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Paper for Discussion Group II

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## Preface

In reviewing the experience of institutions providing assistance to the small or microenterprise sector, the search for those approaches that have achieved greater success and might be replicated elsewhere receives most attention. While approaches and techniques provide the tools required for assistance of small enterprises, these tools need to be used by intermediary agencies.

In the following pages, attention is given to the dynamics in donor and intermediary agencies. These may affect the design and implementation of enterprise support activities, regardless of the tools that are available.

As the exposure of the author is limited to the African continent, the opinions expressed in this paper will reflect this bias.

### 1. Support of the Microenterprise Sector

#### 1.1. Main Issues

Support of the Microenterprise Sector (MES) should consider three main issues:

- . the availability of credit at short notice and without too much paperwork or collateral requirements;
- . the technological and managerial skills level of Microenterprise operators affecting choices of markets, production and scale, as well as the access to credit and support services.
- . licensing requirements, health and safety regulations, import controls and taxation;

#### 1.2. Activities

In order to achieve a lasting effect of support to the MES, the following typical activities need to be undertaken for an extended period of time:

- identification of microenterprise categories with potential to benefit substantially from MES support activities; analysis of bottlenecks and viable solutions per category;
- promotion of microenterprise as a viable income earning opportunity;
- facilitation of MES access to credit;

- assistance with regard to managerial and technological problems faced by entrepreneurs through entrepreneurship development activities;
- influencing the policy environment through: i) data collection on the contribution of MES to national income, the provision of goods and services and employment creation, ii) facilitating the formation of small enterprise lobby groups and trade associations and iii) the formulation of positive discrimination measures, tax holidays, import restrictions etc.
- application of management information systems to monitor the impact of MES support activities.

### 1.3. Delivery

The scope of activities required, combined with the distribution of small enterprises, calls for a decentralized and non-bureaucratic delivery mechanism. Due to pressure from their target groups and from donor agencies, NGOs are increasingly assuming a role as delivery agent of enterprise support services. But while they often have considerable outreach and knowledge of their constituency, they appear to face major constraints in the actual provision of the support.

### 1.4. Funding

Most of the NGOs referred to above are dependent on external funding. Donors, mostly in Europe and US, play an important role in determining the scope and quality of services rendered by NGOs. While enabling NGOs to provide services to their target groups, donor agencies are restrained by an often limited mandate and accountability to their own providers.

### 1.5. Institutional Framework

Although a great deal of attention is given to approaches and techniques for improved small enterprise development, insufficient consideration may be given to the institutional shortcomings of the two main actors in this field. Donor agencies and NGOs each have shortcomings which - when not explicitly taken into account - stand in the way of successful support of small enterprise development.

Below, some of these shortcomings and their implication for small enterprise support activities are briefly explored.

## 2. Institutional Shortcomings of NGOs

### 2.1. Policy Orientation

Many NGOs have come into being as a result of concern for the most disadvantaged in society. Such agencies undertake a combination of activities aimed at raising the standard of living of their target groups - mostly very poor communities. They tend to support income-generating activities of their target groups as an appendage to their social activities. Assistance is targeted more on those who need it most than provided to those who can be expected to make the best use of it.

As a result, many NGOs support enterprises primarily on the basis of social considerations, with the issue of economic viability coming second. Possibly as a consequence, enterprises initiated with this approach seem to be perceived by the owners not as a means to achieve economic self-reliance, but as an activity to generate some additional income for themselves and their families.

Furthermore, NGOs tend to focus on activities expected to produce benefits for the community rather than for its individual members. Community or group enterprises are favoured over individually owned businesses. In fact, individuals within communities who appear able to improve their situation largely on their own, are often expressly excluded.

This then constitutes an important, but often implicit, policy conflict with the concept of small enterprise development programmes. After all, the latter primarily aim to support economically viable enterprises, seeking out entrepreneurial talents. Impact and cost considerations will moreover tend to provide support services to those who stand the best chance of succeeding. Thus, while NGOs aim to assist the most disadvantaged within a community, enterprise support activities tend to focus on the (potentially) most successful.

### 2.2. Mandate and Justification

The mandate of most NGOs implies that they respond to the direct needs of the poor by providing essential services to disadvantaged sections of society: assistance is given to those who would otherwise be marginalized. The assistance per se appears to provide the justification for most NGO activities, irrespective of the actual impact of such services. The underlying assumption resembles the one often heard about education and training: money spent on teaching people knowledge and skills is a priori well spent. Inadequacies in the teaching process, or the relevance of subjects for subsequent gainful (self)-employment,

are rarely seen as vital issues.

Against this background, it is not surprising that many NGOs have poorly developed systems to assess the results of their activities for management information. The prime propellant of activities is, after all, the organization's mandate of assisting the disadvantaged immediately and not the more long-term results. Considerations of sustainability and replicability generally do not feature prominently in the management culture of NGOs. This is not illogical, as the internal sustainability of providing services or education to the poor is inherently questionable.

Consequently, the management style is more one of a spontaneous response to observed wrongs, than one characterized by well-considered, flexible approaches aimed at cost-effective results. Monitoring the results of activities, moreover, takes away manpower from getting or keeping the activities going. Furthermore, there is considerable hesitation about the apparent implication that only cost-effective results justify activities.

When embarking on small enterprise support activities, however, impact assessment can not be avoided. Such activities are only justified if and when they lead to cost-effective and measurable results. Sustainability and replicability are also major determinants of the success or failure of the activities.

### 2.3. The Capacity Gap

Many NGOs are limited in their ability to employ qualified, experienced and motivated personnel. The general scarcity of qualified manpower for small enterprise development activities makes staff in this sector particularly expensive and very mobile. The salaries offered are rarely sufficiently competitive to attract the type of personnel required.

This is largely the result of the widely held view that money for salaries does not serve the ultimate beneficiaries. Offering career prospects or performance related incentives to staff members is, therefore, not easily considered or done. The cost of manpower is often treated as an inevitable evil rather than as a precondition for successful design and implementation of activities.

The limited investment in manpower by NGOs contributes to the lack of 'absorptive capacity' which many donor agencies complain about. It perpetuates the weakness of NGOs to design, implement, review and modify their activities. This in turn reduces the chances of undertaking activities which will score results.

### 3. Institutional Shortcomings of Donor Agencies

#### 3.1. The Home Constituency

Donor agencies bear significant responsibility for the policy orientation and institutional culture of many NGOs. In most cases, donors lay heavy emphasis on direct output. Achievement is defined in terms of the number of enterprises assisted, credit made available and repaid and employment generated.

They tend to fund activities per se, without supporting NGOs to develop the capability to analyze, design, plan, implement, assess and sustain the impact of their actions. Contributing to this phenomenon is the sometimes specialized nature of donor agencies. For recipient NGOs, this often means that they can only get one component of small enterprise support programmes funded by one donor.

Under pressure of safeguarding the continuation of their funding capacity, an important orientation of Donor Agencies is to satisfy their own constituency by showing visible results. That many of these results will not be sustained when support of the activities is discontinued, is not a major consideration. The quest for short-term achievements takes precedence over contributing to sustainable improvements and developing an indigenous capacity to undertake development activities.

Monitoring of achievements is primarily done to inform the donor about the use of its funds; providing management information to the NGOs concerned comes in second place, if at all.

#### 3.2. Spending Pressure

Added to this, is the inevitable pressure on programme officers to move money. At the same time, NGOs are under pressure to attract funding and often find it difficult to reject unrealistic donor requirements. In very many cases, however, more activities mean a greater burden on an already overstretched management capacity.

While never explicit on either side, this often leads to project designs full of incompatible compromises. Together with a sometimes over-optimistic (self-) assessment of the management capacity of an NGO, this is a sure recipe for failure.

There is ample evidence to support this view. How many NGOs have been assisted with capital investments, while in no position to sustain the subsequent recurrent

costs? How many NGOs have been requested to undertake activities for a particular target group only to find the donor agency lose interest some time later and terminate funding? And how many NGOs have had to deal with unexpected and irrational changes in donor policy as a result of changing fashions among the home constituency?

It is not exceptional for a donor to request an NGO to provide unsecured credit at subsidized interest rates for carpentry tools to school leavers in a semi-desert area. Such a request may easily be made even when the NGO has no knowledge of credit administration or the area concerned. Likewise, very serious prodding to "just copy the example of the Grameen Bank" is not uncommon.

### 3.3. Paying for Manpower

There is significant neglect of internal manpower development of NGOs by donor agencies. They also consider salaries of staff as not benefitting the target population. The less money goes towards personnel of the agency the better it is.

The downward pressure on salaries is aggravated by the short term commitments made by donor agencies. It is exceptional that a donor will commit itself to fund activities for more than 3 - 5 years. This implies that the resource base of NGOs is by definition shaky and so is their ability to attract qualified staff, which sees better career prospects elsewhere.

Donor agencies sometimes have more expertise, exposure and research and documentation capacity than the NGOs expected to manage and deliver the support services. That is to say, they are in the position to hire (external) expertise. While they can do so to supplement their own capability, NGOs do not have this facility.

## 4. Implications for Support to Small Enterprise Programmes

### 4.1. Effects of Institutional Shortcomings

It is evident then, that the observed institutional shortcomings of both donors and NGOs affect the proliferation and modalities of small enterprise support activities. To summarize:

- i) they may lead to muddled-up project design: unclear objectives, wrong choices of methodologies and activities and over-estimation of implementation capacity;

- ii) they may lead to unresolved conflicts during the implementation phase with regard to selection of entrepreneurs, interest rates, collateral requirements and social or economic considerations in cases of non-repayment;
- iii) what a NGO may consider a success may be seen by the donor agency as failure;
- iv) modification of project design and implementation modalities is likely to be induced in a shock-wise fashion by external, mostly donor initiated, evaluations;
- v) many NGOs will only undertake to support the MES if they can clearly see the benefits for their target population;

#### 4.2. Four Programme Elements

Donor agencies wishing to make a lasting contribution to the MES will have to ensure that sufficient consideration is given to the following elements:

- . a financial element, i.e. facilitating access to credit; improving the accessibility of finance institutions;
- . a non-financial element, i.e. the provision of business management tools, business promotion and opportunity identification, enabling the entrepreneurs to gain access to bank finance and business counselling;
- . a policy environment element, i.e. collection of data to monitor the impact of MES support activities and efficiency of extension staff. Documentation of the contribution of MES to national production, distribution of goods and services and employment, policy formulation and the facilitation of interest groups;
- . an institutional element, i.e. developing on indigenous capacity, enabling the NGOs to direct their energies to the most productive MES support activities by enhancing project design, implementation and impact measuring capability.

#### 4.3. Reconciling Policy Orientations

While the first three elements do not need elaboration in this context, the institutional element does. In addition to funding capacity development as an integral part of the activities, the policy orientation of NGOs must explicitly be addressed in the project design phase. As we have seen under 2.1. above, this orientation constitutes a bottleneck in NGOs successfully

assuming the role of enterprise support agents. The apparent conflict between the social orientation of NGOs and the economic orientation of enterprise support programmes must be reconciled at an early stage.

Many NGOs may not even begin to support small enterprises if they do not clearly see the benefits for their traditional target groups. Or they may in practice primarily consider social objectives. They must be enabled to appreciate the benefits expected from the activities for their traditional constituency. Those benefits need to go beyond an assumed trickle down effect if they are to be convincing. On the other hand, the donor agency will have to appreciate the mandate of the NGO and incorporate social objectives in the project design and activities.

In reality, small enterprise support is mostly undertaken to accelerate manpower development and employment generation rather than for economic development per se. A mixture of social and economic objectives will be acceptable to both parties. But the parameters to appraise the applicability of the mixture need to be made explicit prior to implementation.

This, however, requires a simultaneous development of the indicators of success of the support activities. The often used performance indicators such as percentage of initiated and surviving enterprises, employment created job\investment ratio and possibly even repayment rates, lose some of their applicability. In many countries a significant proportion of government expenditure goes towards education with often doubtful gains for the country. In that perspective, a better look at the costs and benefits of small enterprise development may well be justified.

#### 4.4. Capacity Development as an Objective

Better approaches and techniques - without considering the institutional shortcomings - will fail to remove the delivery constraints. Moreover, only incidental benefits will be produced for a small number of enterprises if the issues of credit, managerial support and the policy environment are not addressed in a complementary fashion over a long period of time.

This is not to say that every NGO should engage in the full range of activities. But it does imply that an indigenous capacity to handle the entire spectrum must be developed and sustained. The changes required to create a fertile environment for microenterprises will take significantly more than the average funding cycle of donors. Every donor agency genuine in its intention to make a lasting contribution to the MES will have to face these issues.

Hence, lending or business management activities should not be financed in isolation. Developing the capacity of a number of institutions in a country to conceptualize, appraise and deliver support services ought to be incorporated in MES support programmes as an explicit objective and budgeted for.

If this is not done, funding MES support activities is unlikely to result in: i) sustainable impact of the activities, ii) replicability of the activities, iii) changes in policies discriminating against small enterprise and iv) cost-effective implementation of activities.

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