# THE SMALL ENTERPRISE APPROACHES TO EMPLOYMENT PROJECT:

# HOW A DECADE OF A.I.D. EFFORT CONTRIBUTED TO THE STATE OF KNOWLEDGE ON SMALL ENTERPRISE ASSISTANCE

(Project No. 931-1090)

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EXECUTIVE SUMMARY

This report assesses the contribution of the Small Enterprise Approaches to Employment Project (SEAE, 931-1090) to the ability of A.I.D. and developing country organizations to assist small and microenterprises. That contribution is considerable. The project has been directly responsible for developing A.I.D.'s knowledge about the nature of small and microenterprises, and how best to assist them. It has also disseminated that knowledge throughout the agency, to American and indigenous PVOs, and to many others. At the same time, the project has made direct contributions in the approximately 25 countries in which its field work has been done. With SEAE as the core of the effort, A.I.D. can now claim to be a leader in small and microenterprise assistance. SEAE's success is in large part attributable to its ten year continuity of effort, the quality of associated personnel, and the dual commitment to generating knowledge (learning) and spreading it (teaching). These factors also make the SEAE model worth emulating in other fields.

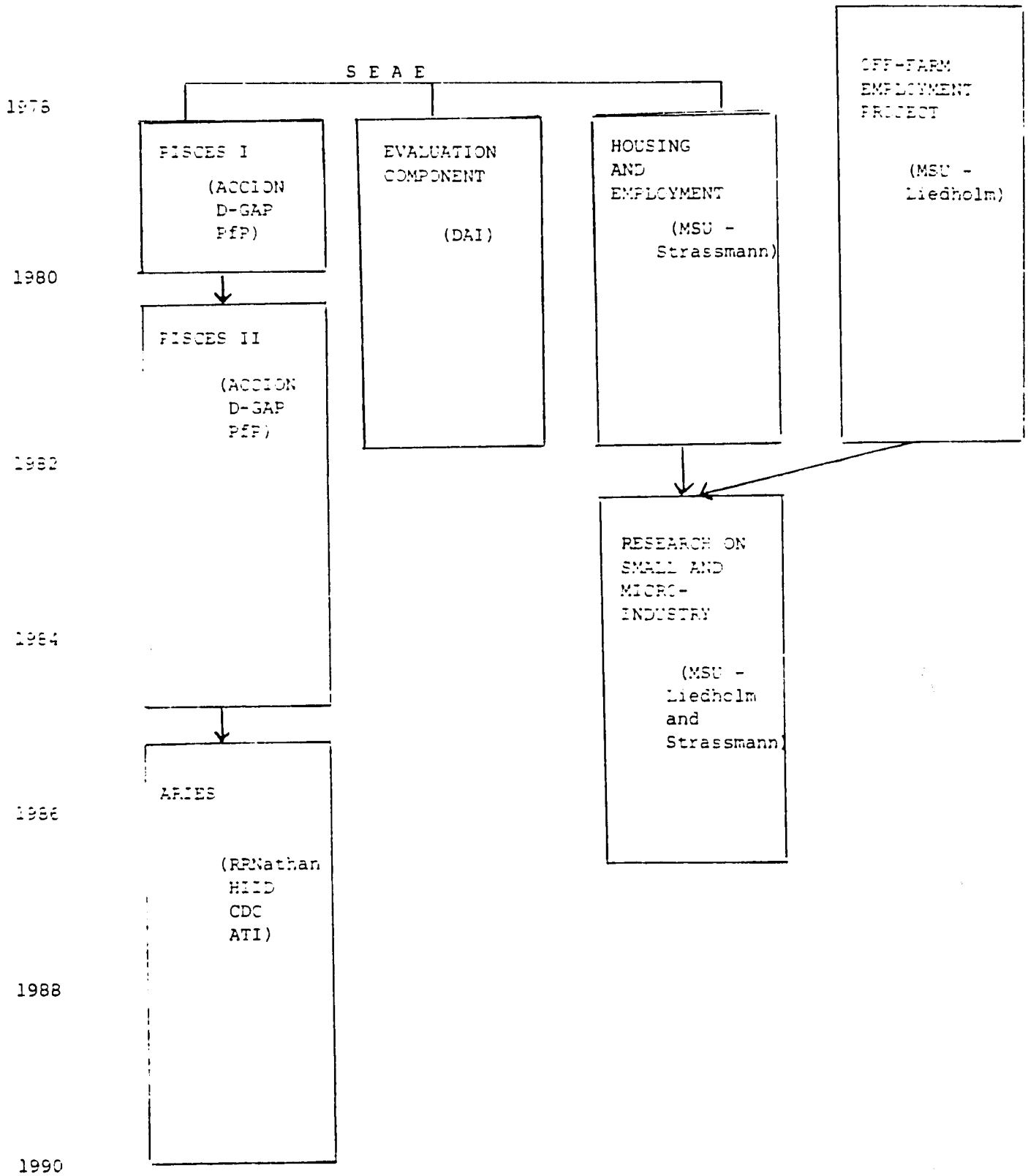
The SEAE project began in 1978 under A.I.D.'s Office of Urban Development, Bureau for Development Support (now Employment and Enterprise Development Division, Office of Rural and Institutional Development, Bureau for Science and Technology, S&T/RD/EED). Its goal was to increase the contribution of small and microenterprises to economic development and to income and employment among the poor. This was to be achieved largely by investigating whether small enterprises, and especially the very smallest, could be assisted effectively.

Originally, SEAE consisted of three components (see figure, p. 5):

- PISCES I and II (Program of Investment in the Small Capital Enterprise Sector), with lead contractor ACCION International/AITEC and subcontractors Development Group for Alternative Policies and Partnership for Productivity. PISCES I consisted of case studies of a wide range of small enterprise projects serving the poor, and a final report which begins to identify characteristics of successful microenterprise assistance efforts. PISCES II consisted of four demonstration projects that contained those elements of success.

- Evaluation Component, with contractor Development Alternatives, Inc. This component produced impact evaluations of four small enterprise credit projects, and a manual describing how to perform impact evaluations of such projects.

SEAE PROJECT COMPONENTS



- Housing and Employment Component, carried out by Michigan State University. Surveys were conducted in several countries of the employment effects of the housing construction industry, with an emphasis on small, independent suppliers and subcontractors.

Two additional components were added through later amendments:

- Research on Small Industries, with cooperator Michigan State University. This component continued research begun under the earlier Off Farm Employment Project, investigating the economic role of small industries and evaluating their efficiency.

- ARIES (Assistance to Resource Institutions for Enterprise Support), with lead contractor Robert R. Nathan Associates and subcontractors Harvard Institute for International Development, Control Data Corporation and Appropriate Technology International. ARIES is a wide-ranging project focused on building capacity among the organizations that implement small enterprise projects. This is done through short term technical assistance, development of training and reference materials, sponsorship of training sessions and seminar, and research on small business assistance organizations. ARIES is the only portion of SEAE that continues today, and is scheduled to end in September 1989.

The heart of the SEAE project was the sequence consisting of PISCES I, PISCES II, and ARIES, which provided a continuous stream of investigation from 1978 to today. The objective of the sequence has been to develop ability to assist the smallest enterprises through intermediary organizations. The ARIES focus on strengthening intermediary organizations was clearly derived from PISCES, which identified poor management of such organizations as one of the most important causes of project failure. The MSU research on small industry represents a separate stream of investigation, also spanning 10 years, through the Off Farm Employment Project and SEAE. It is a credit to the SEAE managers that they made decisions that enabled these two streams to continue past their original time horizons. If PISCES had stopped without ARIES, its lessons would not have been applied to assist implementing organizations, and if the MSU work had stopped before SEAE, the findings would not have been put in a form accessible and convincing to the development community at large.

These two streams have functioned largely independently. Closer interaction between them would have been beneficial, for example, if PISCES work could have been informed by MSU's data on the relative efficiency of various types of firms.

The other two components, while useful, were not as central to the SEAE effort: the housing component produced results most relevant to A.I.D.'s Office of Housing. The evaluation component was tied to the rest of SEAE largely through the influence two of its case studies had on the thinking of the other contractors.

SEAE as a Learning Project

SEAE has been one of the major vehicles in the transformation of A.I.D. from a relative novice in the field of small enterprise development to that of a well-experienced institution, whose knowledge is useful to a broad array of other organizations. At present, A.I.D. possesses an extensive body of written work on small enterprises (much of it in SEAE-sponsored papers); it has a large number of projects designed with SEAE findings in mind; and it has developed a cadre of staff people, consultants and other associates with a strong background in small enterprise promotion. As stated above, the sustained effort of ten years, with its continuity of personnel, both inside A.I.D. and among contractors, and its continuity of objective, is a major reason that it has produced so many important results.

Its two most important contributions have become so generally accepted that they seem obvious, but SEAE was an important factor in producing them:

- The small enterprise sector is a major contributor in most developing countries to national output, income and employment. Most industries in this sector are economically efficient and produce goods for which demand is expected to remain strong. This finding is the product of MSU's research, first under the Off-Farm Employment Project (931-1091), and then under SEAE.

- Small enterprises can be assisted effectively by organizations that work closely with clients, provided programs are well-designed and well-managed. Good projects for very small enterprises are within the realm of possibility. This is the main finding of PISCES.

In addition, SEAE has contributed much more specific knowledge about how to assist small enterprises. Some of the major themes associated with SEAE are listed below:

Which small businesses should A.I.D. assist? The several components of SEAE were implicitly aimed at different target populations: PISCES at the very poor, MSU at manufacturing and at businesses in the home, DAI at a wide range of sizes. None can pretend to offer a definitive recommendation on whom to assist, as this will depend on goals and circumstances in

specific cases. However, the SEAE components explored the relationships between ultimate goals, target groups and assistance modes. For example, MSU's findings show which manufacturers produce efficiently (all size categories above single person firms, and more technologically advanced rather than traditional producers).

What are the most effective ways of providing assistance to small enterprises? The SEAE project focused initially on credit, and SEAE has helped develop a substantial body of expertise on credit delivery. SEAE chose credit more because the techniques for effective delivery were easier to establish, rather than because credit was known to be the greatest need. The decision to focus on credit was driven by beneficiary demand for it and by institutional capacity to supply it, rather than by a knowledge of its effectiveness. Studies of constraints affecting small businesses often reveal that problems relating to markets, inputs, production techniques, policy environment and business skills are as or more important than finance. However, these relatively intractable problems have not been the focus of SEAE.

PISCES and DAI, together with other non-SEAE work, discredited the traditional type of technical assistance, training and extension in general business management, with an emphasis on bookkeeping. Positive effects could not be shown in studies. Under the MSU component, Liedholm advocated the "missing ingredient" approach, and others advocated a subsector approach with a strong marketing emphasis, two non-traditional ways of approaching technical assistance. Little work has been done to pursue these approaches and improve the capacity for providing non-financial assistance that matches client needs.

Finally, PISCES and MSU both identified areas where government policies needed to be changed. However, the SEAE project was never intended to pursue policy change.[1]

What institutions best support small businesses? The SEAE project has focused on PVOs, both local and international, in part because PVOs are especially good at reaching very small enterprises, and in part because A.I.D. is comfortable working with PVOs. Secondarily, SEAE has shown that selected financial institutions with a desire to reach the very small can also be effective support organizations, and are particularly important for reaching a large number of clients. Other types of institutions, including government ministries and business associations, have not been specifically frowned upon, but rather have been left largely unexplored, as less likely to yield the payoffs that PVOs can bring.

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[1] This task was taken up in the Employment and Enterprise Policy Analysis (EEPA) Project.

What makes a successful enterprise assistance project? The PISCES research and to a lesser degree MSU, ARIES and DAI components have identified several characteristics of good projects. These include cost-effective delivery, financial self-sufficiency of credit funds, sound organizational management, and participation by client groups. Further, the project has developed expertise on how best to achieve these characteristics. ARIES applies these norms in its technical assistance activities, and they have become influential concepts within the small enterprise assistance community. While inference is difficult, it appears that the SEAE project is one of the forces behind the prominence these concepts have achieved in thinking about small enterprise assistance, particularly among U.S. PVOs and within A.I.D

What needs do implementing organizations have? This area has increasingly emerged as the specialty of the SEAE project. It is an area that is little explored outside the project (and the Small Business Capacity Development Project, see discussion of ARIES, below). PISCES I identified the need to work to strengthen implementing organizations, and identified many common pitfalls as well as important ways to improve organizational performance. ARIES has added to this a general framework for understanding organizational capacity, and a strategy for improving it. SEAE contributions in this area include: 1) identifying management of implementing organizations as a key concern; 2) developing technical knowledge on how to structure enterprise assistance projects; 3) developing a general framework for improving management; and 4) developing a strategy, based on training, technical assistance and information, for imparting the knowledge of 2) and 3) to organizations. The great majority of this contribution is directed at PVOs.

SEAE as a Teaching Project

Over its history the SEAE Project has devoted increasing energy to its outreach and communication activities (defined here as teaching) as it has more knowledge and experience to convey. Success in this area is critical to the achievement of the project's ultimate goals. The project has made excellent use of standard dissemination techniques, such as papers and seminars, and other methods, such as regional conferences, the development of the AskARIES knowledgebase, and the use of the case teaching method. With the exception of the MSU work, what SEAE has had to communicate has not been a set of data that could be written down, but experiences with projects and organizations, requiring an interactive teaching approach. For example, PISCES identified strategic planning capability of implementing organizations as a key constraint in project implementation. However, it is not enough to state the problem, or even to distribute manuals on strategic planning. Face to face work with the leaders of an

organization as they go through their own planning may be necessary to communicate the concept and the skills involved. ARIES offers this through teaching cases, training sessions and short term technical assistance.

SEAE's primary audience has been within A.I.D. Most of SEAE's products have been appropriate for A.I.D. policy makers and project designers. The microenterprise stocktaking exercise, underway as this is being written, should help reveal how well the SEAE messages have penetrated the A.I.D. portfolio. SEAE has also worked closely with American PVOs. The project has been successful, though less so, at reaching developing country institutions, including indigenous PVOs. Through field work in about 25 countries, SEAE has had a direct impact on a large number of organizations. For example, SEAE involvement was an important factor in strengthening the National Council of Churches of Kenya's lending program, which continues today, and in working towards the creation and USAID/Kenya sponsorship of the Rural Enterprise Program, serving a large number of PVOs in Kenya. On the other hand, papers and conferences have not reached developing country audiences as much as might be hoped (with the exception of PISCES' regional conferences). ARIES assignments have tended to assist missions more often than indigenous organizations, thus diluting the impact of its stated aim to strengthen the organizations that actually run small enterprise programs.

Several specific papers and events of SEAE deserve special mention, as each has been of high quality and has made important contributions to educating its audience. These are: the PISCES I and PISCES II reports (Farbman and Ashe), the evaluation manual (Goldmark and Rosengard, 1985), the MSU overview paper (Liedholm and Mead), the ARIES Strategic Overview Paper (Grindle, et al, not yet finally published), the 1986 New Directions Conference (often called the Williamsburg Conference) and the 1988 International Conference on Microenterprise. Though neither conference was funded by SEAE, the A.I.D. input of each was largely informed by SEAE results. That a project has produced so many first rate and widely used products is testimony to the importance of its contribution.

## Recommendations

A.I.D. is about to begin two major initiatives in small enterprise assistance. The first is the response to the 1987 legislation directing A.I.D. to increase its microenterprise support activities, and the second, which follows in part from the first, is a new central project, GEMINI (Growth and Equity through Microenterprise Investments and Institutions), which will take up where SEAE leaves off. In responding to the new legislation, A.I.D. should not fall into the pitfall of selecting

a single "right" way to assist small enterprises, or setting out numerical standards of achievement. SEAE experience has shown that there are a variety of potential ways to help small enterprises, and that the performance of small enterprise projects will vary with local conditions, the characteristics of the local institutions, and the target group. With respect to GEMINI, A.I.D. should continue the teaching and outreach thrust that has characterized the last years of SEAE. A.I.D. missions will continue to need assistance in planning and carrying out microenterprise support projects, especially as they respond to the new legislation. Implementing organizations, especially in host countries are a very large audience for future training and assistance, one that SEAE has only begun to reach. In the design of the new project, the S&T Bureau should be prepared not just to serve mission needs, but to provide the active leadership it has shown under SEAE.

Specific suggestions for reaching the A.I.D. audience include continued provision of technical assistance, the development of a guidebook that will help project officers through the process of developing and overseeing a microenterprise project (but will not lay out rules as such), and integration of SEAE ideas into training sessions for the relevant A.I.D. officers, including mission leaders. For reaching the overseas audience, specific suggestions again include continued technical assistance and training programs (including the extension of the teaching cases and trained case teachers), regional conferences and seminars, and systematic distribution of papers to a wider audience in developing countries. If possible, technical assistance to these implementing organizations should be structured to be ongoing or recurrent, and to support implementation as well as planning, to enhance the chances that change will be fostered.

In the area of learning or research, priority should be given to exploring a wide area SEAE did not explore systematically, methods of providing technical assistance to small enterprises. This exploration should encompass delivery methods, such as participatory approaches, as well as content, as advocated by the "missing ingredient" hypothesis. It should also cover types of assistance not strictly defined as technical assistance, including assistance with marketing and production, and project design based on industry subgroups. At this stage, a demonstration project approach should be a suitable way to explore these issues. Basic economic research and data collection on the scope and nature of small enterprise is not as high a priority as it was, thanks to MSU's efforts. Nevertheless, there will be a continued demand for surveys of small enterprise sectors and subsectors in individual countries, as part of planning in those countries. A.I.D. should use SEAE knowledge and should continue to make resources available for such activities. It is also important for some research to be done on the behavior of enterprises over time, and particularly

in response to inputs such as credit. This is needed both for understanding the dynamics of the sector and for understanding the impact interventions can have.

Finally, A.I.D. should use the SEAE project as a model whenever it seeks to learn about a relatively new area and to communicate that learning to those it assists. The elements of SEAE to replicate are its continuity over the long period of time necessary to produce and distribute results in development; its integration of knowledge generation with knowledge distribution and application, its use of a creative variety of instruments for communication and outreach, and its location of project momentum within A.I.D., across several separate contracts. The second item is particularly crucial. When contractors have responsibility both to answer specific research questions and at the same time to provide assistance in the field, the beneficial effects flow in both directions: learning is influenced by practical needs, and service is informed by a strong intellectual framework.

A last note is that A.I.D. should continue to select interesting names (not necessarily acronyms) for some of its flagship projects, to enhance interest in and acceptance of the projects' results.

## PART I. PROJECT OBJECTIVES AND OUTPUTS

### Origins and Overview of the SEAE Project

The Small Enterprise Approaches to Employment Project (SEAE, 931-1090) began in 1978 under the direction of A.I.D.'s Office of Urban Development, Bureau for Development Support. At the time of its creation, donor agencies, including A.I.D., the World Bank and others, had increasingly been directing their assistance to the poorest segments of societies. Attention focused on small and microenterprises as important routes through which to reach the poor. Small enterprises were observed to provide a major source of income and employment among the poor. It was hoped that if small and microenterprises were assisted, increased income and employment would follow, and at the same time, income distribution would improve and participation by the poor in social and economic development would grow. Accordingly, governments, PVOs and donors had recently begun a large number of small and microenterprise assistance activities.

Yet, there was very little solid information about the contribution of such enterprises to economic and social development, and still less information about how best to assist them, or indeed, if assistance efforts actually worked. The SEAE Project Paper stated, "In short, it is easier to catalogue what we do not know about SSEs [small scale enterprises] -- especially their net income and employment generating capability, their impact on income distribution and their utility as a contributor to the development process -- than it is to identify explicitly their unqualified advantages." The main concern under SEAE was to develop strategies for assisting the sector effectively. At the start, it left basic research on the nature of small enterprises to others, though later it was expanded to embrace this as well. The project would focus on analyzing assistance efforts already underway, and at the same time would develop approaches for improving those efforts.

The initial project design included three components (see figure, p. 5), each quite different from the other, but linked by a concern for enhancing the contribution of small enterprises to the well-being of the poor.

The original purpose of the evaluation component was to evaluate a group of small credit and/or technical assistance programs to determine their economic and social impact. This component was contracted to Development Alternatives, Inc. (DAI). During the course of the contracting process, an additional focus was added, to derive a widely applicable methodology for evaluating small enterprise projects.

The housing and employment component was to review the impact of large urban capital projects on opportunities for employment among the urban poor, with specific reference to projects funded under A.I.D.'s housing guarantee program. In more general terms, it was to investigate employment by small enterprises engaged in construction or supply of building materials, and to see whether major projects helped or hurt such enterprises. This component was closely linked to A.I.D.'s Office of Housing, at that time the organizational sister of the Office of Urban Development. It was primarily a research project, and was contracted to Michigan State University (MSU).

PISCES (Program of Investment in the Small Capital Enterprise Sector) was inspired by a challenge: could A.I.D. deliver very small amounts of financial assistance to small enterprise clients without losing most of the total value of assistance to administrative overhead? PISCES would address this question in two phases. During the first, contractors would review existing programs, to see whether there were any examples of projects that accomplished this task. They would then distill this research into one or more potentially replicable models. During the second phase, the contractors would, with A.I.D. mission support, assist four demonstration projects that would put the lessons of the first phase to a test. PISCES was contracted to ACCION International/AITEC (ACCION), with subcontractors Development Group for Alternative Policies (D-GAP) and Partnership for Productivity (PfP).

Each of the first three project components was carried out according to plan.

A.I.D. amended the SEAE project to add two additional components, one on research on small scale enterprise, added in 1982, and one on upgrading organizations that assist small enterprises, Assistance to Resource Institutions for Enterprise Support (ARIES), added in 1985. SEAE will end in September 1990.

By 1982, when the research component was added, the philosophical and organizational environment in which project management found itself had changed. At the level of general agency policy, A.I.D. had adopted a private sector initiative, and was struggling to find ways to carry the initiative into practice. This gave small enterprise assistance efforts greater impetus. Small enterprise stood at the intersection of two primary (but often conflicting) A.I.D. objectives, its legislative one of reaching the very poor, and the administration's objective of promoting the private sector. Closer to home, the Office of Urban Development had merged with the Office of Rural Development, eventually becoming the Employment and Enterprise Development Division, within the Bureau of Science and Technology's Office of Rural and Institutional Development

(S&T/RD/EED). This new office had a mandate to focus on small enterprise development, either in rural or urban areas.

Prior to the merger, the Office of Rural Development had funded research performed by Michigan State University on the role of small enterprises in the rural economy, under the Off-Farm Employment Project, beginning in 1975. The research had yielded extensive and unprecedented data on the nature and scope of small enterprises. However, it was felt that this work was in an important sense unfinished, and particularly that lessons from the research had not yet been articulated for the potentially broad audience that could use them.

Accordingly, the new component, executed through a cooperative agreement, called on MSU to carry out in-country research and special studies on small enterprises and ways to assist them, and to prepare a major paper giving an overview of conclusions from its own and related research. A subset of this agreement entailed a follow-on to the SEAE housing and employment component, also carried out by MSU, which was to focus on small enterprises based in dwellings (home-based enterprises), a form of enterprise that the earlier component had identified as important.

The second additional component created ARIES, a multi-faceted attempt to improve the abilities of the institutions delivering assistance to small enterprises. ARIES was in many senses a follow-on to PISCES. One of the important findings of PISCES was that good management was both one of the most critical ingredients in successful small enterprise assistance programs, and one of the most often lacking. ARIES was based on the premise that PISCES and other efforts, notably the Small Business Capacity Development Project, had developed a body of knowledge about what kinds of assistance small enterprises needed, and about how institutions could provide it. It was felt that the agency was ready to turn from questions of effectiveness to those of efficiency (cost-effectiveness) and expansion. ARIES was to combine research on institutional needs with actual provision of training and technical assistance to institutions, largely U.S. and local PVOs, and to develop training materials that could be widely disseminated. One further reason for the focus on U.S. PVOs was the joint funding for ARIES provided by A.I.D.'s Office of Private and Voluntary Cooperation, under the Bureau for Food for Peace and Voluntary Assistance, which was becoming increasingly aware of the potential of PVOs as intermediaries for small business promotion. ARIES was contracted to Robert R. Nathan Associates (RRNA), with subcontracts to Harvard Institute for International Development (HIID), Control Data Corporation (CDC) and Appropriate Technology International (ATI). It began in 1985 and is to run until 1990. It is the only facet of SEAE that remains active at the time of this report.

From the start, the SEAE project aimed both to learn and to teach, that is, to develop a body of knowledge and to make sure that the knowledge was spread as widely as possible. The relative proportions of learning and teaching differed from component to component. The life of the project saw a gradual shift toward teaching, as the earlier components produced knowledge that could be disseminated and applied. Nevertheless, despite differences in emphasis, both learning and teaching occurred simultaneously in every component. Under learning can be classified:

- Research on small enterprises themselves (two MSU components).
- Research on existing small enterprise assistance efforts (the DAI evaluation component, PISCES I and to some degree, ARIES).
- Demonstration, under close supervision, of assistance methodologies (PISCES II).

Under teaching comes:

- Production of papers for widespread sharing of knowledge. Some of these papers are now well-known works in their fields (all components). See Bibliography.
- Technical assistance provided to organizations in the course of research (PISCES, MSU components), and as an end in itself (ARIES).
- Conferences, workshops and seminars, including those sponsored by the project, and others at which SEAE project participants spoke (all components).
- Development of training materials (ARIES).
- Training sessions for practitioners (ARIES).

Report Objective and Plan

This report assesses the contributions to development that the SEAE Project has made, using the concepts of learning and teaching just outlined. A detailed evaluation of each component of SEAE is not necessary at this stage. Most of the components have already been evaluated, some more formally than others. Rather, the evaluation reviews the main results of each component, relying on evaluations of the individual components, interviews with key contractor personnel, and the main written products of each component. It also seeks to determine what interactions occurred between the components, asking whether the

inclusion of the several pieces in one project has led to any synergistic effects.

The evaluation is only secondarily concerned with project management, particularly management within components. This is both because of the level of generality of the evaluation, and because all but one of the components is complete, making most management problems into bygones. Moreover, the only ongoing component, ARIES, has recently undergone a management-oriented assessment. Finally, as all the contractors produced the required products, with minor exceptions, and as the quality of the products has been good to outstanding, management issues are not paramount.

This report is organized as follows: the rest of Part I describes each component in turn. The descriptions are largely factual; however, some evaluative comments are made, particularly if they are relevant to that component alone. The following section, Part II, evaluates SEAE as a learning project, seeking to determine what the project has contributed to the body of knowledge about small enterprises and small enterprise assistance. Thereafter comes an assessment of SEAE as a teaching project, Part III. This section is primarily concerned with how well the lessons have been disseminated to the various audiences SEAE was intended to reach. Part IV makes recommendations to A.I.D. for future action on the subject of small enterprise, especially in light of activities that are now in process.

Evaluation Component (1978-1983)

The first component described in the SEAE Project Paper focuses on impact evaluation of small enterprise assistance projects. As originally conceived, the component was intended to generate knowledge about the impact of projects providing credit and technical assistance to small enterprises on job creation, productivity, income and income distribution. At the time, A.I.D. believed, such information was woefully scarce, despite the proliferation of projects throughout the development community. The Project Paper stated, "The underlying premise of this first component is that the case for SSEs as an optimal developmental, job/income-enhancing mechanism, however likely, is not yet proven." (p.2) The initial descriptions of the component state that its main purpose was to help prove the case.

A.I.D. selected Development Alternatives, Inc. (DAI) as the contractor. By the time the scope of work had been negotiated in detail, the ultimate goal of the component had shifted somewhat. The primary focus became the methodology of impact evaluation itself, and this remained the focus throughout the contract. Apparently, project designers concluded that in the long run the activity would exert greater leverage if scarce project funds

were used to teach others how to assess the impact of small enterprise projects, in addition to financing individual evaluations.

The evaluation component had three phases. In the first phase, lasting from 1978 to 1981, DAI reviewed existing project evaluations, covering projects of A.I.D. and others. Based on this review, contractors drafted a "state-of-the-art" paper which critiqued evaluation methodologies then in use, and suggested areas for improvement. DAI found that, as had been predicted, methodologically sound evaluations of economic impact were rare. Most evaluations either stopped short of economic impact or used faulty indicators.

In the second phase, from 1982 through 1983, DAI evaluated the impact of four credit and technical assistance projects. The projects varied widely in terms of delivery mechanism, services, size of target enterprises and other characteristics. Selection was limited by the requirement that the local A.I.D. mission support the evaluation with a buy-in contribution. This accounts for what appears otherwise to be an overly diverse assortment of projects. All but one of the projects (BKK) received direct A.I.D. financial support. DAI evaluated the following projects (in chronological order):

- The Rural Development Fund of the Industrial Bank of Peru. This was a small enterprise project sponsored by a government-owned development bank. It provided credit and some technical assistance to small enterprises, with an average loan size just under $5,000. Though still small, these borrowers were quite sophisticated, compared to most of those studied under other parts of SEAE, and more concentrated in manufacturing. DAI found that the project generated economic benefits far in excess of its costs. The evaluation made a number of recommendations for use by the bank in Peru and by USAID/Peru.

- The Partnership for Productivity (PfP) project in Upper Volta. In this project, PfP, a U.S. PVO, provided credit to extremely poor clients, the majority women. Most of the enterprises were trading concerns, many of seasonal or temporary duration. Mean loan size was $670, though the median was far smaller. DAI recognized several positive aspects of the project, but also criticized it severely for its poor loan repayment record, high overhead cost per loan (200 percent of loan principal), low interest rates, and generally lax management.

- The Badan Kredit Kecamatan (BKK) program in Indonesia. BKK provided loans averaging $50 to a vast number of enterprises through a highly streamlined and decentralized branch structure. BKK was a special

program of a government-owned financial institution. The BKK relied on character references to select borrowers, small first time loans to reduce risk, and the prospect of repeat loans to motivate repayment. DAI judged the BKK model to be a highly cost-effective, well-managed way to reach the smallest groups. Its economic development impact was also judged good. Perhaps most important for its future influence, the BKK program was financially self-sustaining.

- The Peruvian Rural Development Agribusiness Fund (FRAI). USAID/Peru asked DAI to evaluate this project and at the same time to assess Peru's agribusiness sector and recommend ways to promote it. DAI wrote one report covering all topics. The project itself was a central bank discount facility used by most financial institutions in Peru. It served medium-sized borrowers, with an average loan size of $234,000. Demand for the project had been high, because it offered low interest rates both to the intermediate financial institutions and to the final borrowers. A severe economic downturn striking Peru during the project period led virtually all the borrowers' businesses to experience declines in sales and profits and to operate below capacity. Positive effects the project might have had were overwhelmed by negative macroeconomic conditions.

Each study gave DAI a chance to experiment with methods for carrying out impact evaluations, although none of the reports stress methodology in their texts. The component's third phase used this experience in the production of a manual to guide the evaluation of small scale enterprise projects. This manual, published in A.I.D.'s Program Design and Evaluation Methods series in 1985, is one of the chief written products of the SEAE project. It reflects a financial and economic (rather than primarily social) orientation. It proceeds in three basic stages: first, analysis of management quality and financial viability of the organization providing assistance; second, analysis of the effect of assistance on the borrowing firms from a financial or business point of view; and third, assessment of the impact of the assistance on economic indicators such as value added, income, and employment, both by changes in the assisted firms and by spread or multiplier effects. In its basic theoretical outlook, the manual stays close to orthodox economic views. Its main contributions lie in translating those views into terms and methods that are easily understood by the non-specialist, and most of all, in providing down-to-earth suggestions about how to obtain the most valuable information given budgetary and temporal constraints. For example, it provides helpful suggestions on how and what to ask small business owners in order to get a picture of the business without provoking secrecy or misinformation. The main drawbacks to the

manual are its somewhat intimidating length, and, according to several observers, the fact that it has not been as vigorously promoted by A.I.D. and DAI as it should have been.

In the most direct sense, the evaluation component simply led up to the production of the manual. However, along the way, the component produced two studies, the BKK evaluation and the PfP evaluation, that clearly influenced SEAE's broad objective of learning how to promote small enterprise development.

The BKK evaluation in some senses began the spread of what has become a most influential concept in small enterprise development, sometimes called here the BKK model. Its key elements, as noted above, are:

- o extremely small loans for the smallest, poorest business people;
- o character-based lending, relying on small initial loans and repeat loans to test and motivate borrowers;
- o highly streamlined and therefore inexpensive loan administration systems;
- o no technical assistance; and
- o financial self-sufficiency attained by low administrative costs and full-cost interest rates.

DAI's evaluation of BKK, a bank with which A.I.D. had no direct relationship, was instrumental in informing A.I.D. and the U.S. PVO community about the program. In so doing it raised hopes that one of the fondest dreams of small enterprise assistance could be realized: a financially viable program serving a large number of the very poor. The PISCES component of the SEAE project took up and tested this model (drawing on other examples, as well as BKK), to the point where it is now strongly identified with PISCES, and particularly with PISCES' lead contractor, ACCION International/AITEC. The DAI report on BKK clearly influenced PISCES, and continues to be requested frequently, five years after its publication.

The PfP evaluation played a key role in the chain of events surrounding the involvement of U.S. PVOs in small enterprise assistance. It helped shape a debate on what the goals of small enterprise assistance programs ought to be. This debate can be briefly characterized as a conflict between business and financial considerations on the one hand and social and humanitarian concerns on the other. DAI's evaluation of PfP's project took the business and finance perspective. It looked at credit management, overhead costs and cost recovery, and saw economic variables as the main indicators of achievement. The

project scored poorly on most of these counts. PfP, which considered the Upper Volta project quite successful, countered that the ultimate goals of the project were social and humanitarian, and that the clients were so poor and their enterprises so marginal that businesslike standards could not be applied to attempts to help them. For example, many borrowers used loan proceeds for family emergencies, and then had difficulty repaying. PfP wished to be lenient in such cases. At the same time, PfP quietly acknowledged that project management needed strengthening.

PfP's angry reaction to the DAI evaluation, aired at a series of workshops with A.I.D. and other PVOs, helped galvanize the PVO community to look more closely at the interaction of cost-effectiveness, financial sustainability and social goals. This was one of several factors leading eventually to the creation of an informal group of PVOs, known as the SEEP Network (Small Enterprise Education and Promotion), that has met regularly since 1985 to explore such questions. Though a summary of the outcome of this debate is necessarily oversimplified, it is fair to say that it led to the adoption by most PVOs of cost-effectiveness, financial self-sustainability and good management as goals or at least important considerations in the design of small enterprise projects, while at the same time, PVOs held fast to their humanitarian aims.

Housing and Employment Component (1978-1982)

The SEAE project's second component explored the construction of housing as a means of generating employment among the poor, particularly through small contractors. This component found its way into SEAE because of the close links that existed between A.I.D.'s Office of Urban Development, which managed SEAE, and its Office of Housing, which managed the Housing Guaranty program. Its specific hypothesis was that housing programs could do more for poor urban dwellers than simply providing shelter, if they were structured to maximize use of small enterprises. The component was to produce guidelines for the Office of Housing on how to do so.

The first step was to learn more about the income and employment effects of housing construction in cities, both construction carried out under large scale projects and by individual effort. A.I.D. contracted with Michigan State University to perform a series of studies, under the direction of Dr. W. Paul Strassmann, of the Department of Economics. MSU conducted six studies in 1979, one each in Sri Lanka, Pakistan, Zambia, Kenya, Tunisia and Colombia. A much larger study was conducted the following year in Peru. In each case, MSU graduate students or the staff of local collaborating institutions held structured interviews with samples of households, contractors and construction workers. The

main focus of the surveys was the employment generated by both new construction and home improvement. A secondary focus was the appraisal of construction costs and employment inputs required to build a standardized simple housing plan in each country. The interviews were then coded and statistically analyzed to produce findings.

The project resulted in over twenty separate reports and publications, many of them translated into the local language. Its most immediate impact was the generation of information that the A.I.D. missions and local governments could use in each country studied. Furthermore, when taken together, these studies represent an alternative intellectual framework to the traditional approach to housing projects. This alternative stresses the efficiency of self-initiated building and suggests that housing policy should turn away from mass construction of housing projects, towards setting up preconditions and incentives for self-initiated building. Specific suggestions applicable to the Housing Guaranty program included the following:

- The program should support, or at least allow for, housing built by target area residents themselves.

- It should move away from construction of housing to construction of the supporting infrastructure, particularly water and sewerage. The research found that people would themselves build more permanent, higher quality housing if proper infrastructure were supplied.

- It should use more labor-intensive designs, materials and construction methods. Some practical suggestions on these designs were provided.

A secondary finding was the importance of the house as an income-producing entity, both as a business locale and as a source of rental income. This finding led to the design of the study on home-based enterprises, performed under the fourth component of SEAE, the cooperative agreement with MSU (see below).

The rationale for inclusion of this component in the SEAE project was diminished in 1982 when the Office of Housing moved to the Bureau for Private Enterprise and the Offices of Urban Development and Rural Development were merged, and remained in S&T. The reorganization did not significantly alter the component's output, as the research was essentially completed by the time of the reorganization. However, it exacerbated a problem of follow-up that was already inherent in the use of one office's project to make recommendations for another office's program. MSU was left with the task of convincing the Office of Housing to change its operations in accord with the findings of the research. It was only partly successful in this. The work has, however, had an impact on the policies of other donors and

developing countries towards housing, through journal publications and through Strassmann's participation in workshops and conferences.

PISCES (Program for Investment in the Small Capital Enterprise Sector) (1978-1985)

The aim of PISCES was to investigate methods of providing assistance to enterprises headed by the poorest segments of the urban population. It was driven by the hypothesis that such businesses would benefit from very small loans (less than $100) and simple technical assistance. Project planners realized that A.I.D. had little experience in delivering such assistance, and indeed, did not know if such assistance could be delivered effectively and at a reasonable total cost.

PISCES investigated these questions in two phases. In the first phase, between 1978 and 1980, the PISCES team studied existing enterprise assistance projects throughout the world and attempted to draw lessons from their experience. It was hoped that a distillation of the lessons would lead to one or more approaches that A.I.D. could replicate. A report on the PISCES I studies was published in 1981 (Farbman). In the second phase, the team selected four demonstration projects, funded by A.I.D. missions, that appeared to embody the lessons from PISCES I, and participated in project design, technical assistance and evaluation. The PISCES II projects were observed over a period of two to three years, and the final reports were published in 1985 (Ashe, et al., Volumes I and II).

The lead contractor, ACCION International/AITEC, and two subcontractors, Development Group for Alternative Policies (D-GAP) and Partnership for Productivity (PfP) carried out the PISCES research. All were private non-profit organizations. ACCION and PfP had backgrounds in running small enterprise assistance projects, although generally aimed at somewhat larger firms. D-GAP was not an implementing agency. Rather, it focused on policy and project design, particularly from a grassroots perspective. All had substantial experience working with indigenous organizations serving the very poor. The three contractors each studied one region: ACCION went to Latin America, D-GAP to Africa, and PfP to Asia (India and the Philippines).

For PISCES I, the study teams agreed upon guidelines for carrying out project investigations, using an institutionally-oriented methodology. They judged project success not on a cost-benefit or impact evaluation basis, but on whether the program reached the target group with appropriate types of assistance, and whether its implementing body seemed to be a healthy organization, viable over a period of time, and relating well to

various aspects of its environment. Case studies were prepared on 23 separate projects, roughly evenly divided by region.

The projects reviewed in PISCES I, while all concerned with business development, defy categorization. The nature of the implementing organizations varied widely, and the mix of services even more so. Nearly two-thirds of the projects were carried out by indigenous PVOs. Of the PVO projects, about half were enterprise development projects carried out within the wider framework of a socially-oriented PVO. The other half were carried out by PVOs whose primary purpose was enterprise assistance. Most of the rest were broad government-sponsored enterprise development projects, often donor-funded under government ministries or parastatals. Three were projects of private financial institutions. In all but a few projects a range of services was offered, including from two to several of: credit, management assistance, technical assistance in specialized areas, skill training, management training, production cooperatives, infrastructure and other services. A minority specialized in one service: two in technical training, three in credit, one in production cooperatives and one in providing higher level assistance and consultancy to implementing organizations.

The main product of PISCES I is a volume containing case studies from each of these projects, and an essay by Project Director Jeffrey Ashe, of ACCION, that attempts to draw lessons together and place them into a framework (Farbman). Several observers have noted that the essay does not reflect the ragged diversity of experience of the case studies, but draws a tidier picture. This is accurate. The essay is the first attempt in PISCES to state conclusions and develop replicable models. As such, it makes choices, emphasizing aspects the author finds to have contributed to success, and setting aside others. At this early stage, themes that dominate PISCES II and to a lesser extent ARIES are already evident. They include:

- Emphasis on credit and low-cost mechanisms for its delivery. The initial PISCES concept paper already stressed credit delivery. The report continues this, clearly viewing credit as the cornerstone of small enterprise assistance methods. While the report itself does not use this phrasing, it in effect boils the main micro-enterprise assistance question down to: Credit Alone, or Credit with Technical Assistance? Thus, it sets aside projects that provide other services without credit as the centerpiece, including technical training, production cooperatives, marketing assistance and general technical assistance projects. Such projects are discussed briefly, but as subsequent PISCES work demonstrates, they have become part of the periphery, not among the central themes of PISCES.

- o Emphasis on groups as a mechanism for delivering credit and technical assistance, and for generating social action. Many of the most successful projects studied were found to use groups. Group lending soon became a hallmark of ACCION's own activities, and a major PISCES II theme.

- o Development of two basic paradigms for assistance: first, the credit-only program that reached a large number of existing businesses in a potentially financially self-sustaining way, providing few or no adjunct services; and second, the socially-oriented program, aimed at the very poorest people, that helps start new businesses and provides a range of business and social services. These paradigms were not seen as opposing, but as applicable in different situations. Both are carried into PISCES II. The first one in particular has become highly influential in the field of micro-enterprise development.

- o Emphasis on quality of management by implementing organizations as crucial in determining project success. This is the major theme in ARIES.

- o Emphasis on PVOs, especially local ones, as the main implementing mechanism. The PISCES I summary considers financial institutions to some degree. Government organizations are essentially set aside.

It is important to see first that these choices narrow the field of exploration considerably, and second, that they are not true research results. Rather, they result from a combination of original PISCES objectives, the predispositions of the contractors, particularly ACCION, and actual observation of projects. Another observer viewing the same projects might have found very different points to emphasize, as D-GAP and PfP actually did. This might have led to a different history in subsequent microenterprise assistance efforts, both within SEAE, and because of the influence of PISCES, outside it.

However, upon reflection, it appears to this evaluator that this discriminating process was necessary, and well done. The PISCES I cases were far too diverse to provide guidance to an ongoing R&D effort without winnowing, and in fact, the whole purpose of PISCES I was to winnow. Moreover, the choices made were good ones; the points listed above have proved to be fruitful themes. The major drawback is that some types of assistance have been subsequently neglected, not because they are unworkable, but simply because the authors of the PISCES reports chose to leave them behind.

PISCES II centered around demonstration projects that were to

apply the lessons of success uncovered in PISCES I. Four projects were chosen, two in Central America (Dominican Republic, Cost Rica), one in the Near East (Egypt), and one in Africa (Kenya). Although PfP pursued possibilities in Asia, none materialized. The local A.I.D. mission supported each PISCES II project with grants, a prerequisite to selection. The four projects were:

- Dominican Development Foundation (DDF), Program for the Development of Microenterprise. This was a PVO project providing assistance in formation of solidarity groups, and loans to solidarity group members, most of whom were tricycle cart vendors (tricicleros) in Santo Domingo. Most of the loans assisted the tricicleros to purchase the vehicles they had previously rented. A smaller portion of funds were lent directly to somewhat more established individual enterprises.

- Banco Popular, EUS Program. This program, run by a local development bank, also used solidarity groups to guarantee loans. Loans were extended to a variety of established but very small enterprises in San Jose, Costa Rica.

- National Council of Churches of Kenya, Small Business Scheme. This project served the poorest residents of Kenya's major cities, including many people with little or no business experience or skills. The Small Business Scheme itself provided technical assistance and credit, while other NCCK programs assisted in community organizing and provided social services, often to the Scheme's clients.

- Coptic Evangelical Organization for Social Services (CEOSS, Egypt). Within the organizational framework of a socially-oriented PVO, the PISCES demonstration project involved four separate components: individual credit, community-owned enterprises (credit and technical assistance provided), group enterprises (again, credit and technical assistance) and technical training. Negotiations to begin the CEOSS project were completed only toward the end of the PISCES II observation period. Therefore, the lessons from CEOSS are fewer and less clear than those from the other three projects.

Of the four projects, the two in Central America clearly fit the credit-only and solidarity group model identified in PISCES I, that has become so closely identified with ACCION. The NCCK project fits the PISCES I model of a business program serving the very poor, maintaining broad social objectives. CEOSS, both because of the short observation period and because it does not fit the mainstream of PISCES thinking, has had little influence.

It is somewhat difficult to understand how these four locally run, mission-funded projects related to PISCES, that is, what made them "demonstration" projects. As PISCES II evaluator Carol Adoum has pointed out, they were not research projects, in which hypotheses are specifically formulated and tested, using control groups. Rather, they are detailed case studies, in which the contractors played the roles of both researcher/evaluator and designer/advisor. Even here, there are substantial differences. ACCION took an active part in project design and implementation in order to make certain that the lessons of PISCES I were applied. D-GAP, in keeping with its longstanding emphasis on the participation of the poor, took an observational stance. While D-GAP did offer technical assistance, they attempted to refrain from setting requirements or making choices for NCCK. At the time, the ACCION approach seemed to dominate, and was more in line with the project purpose of developing replicable methodologies. However, the D-GAP position showed strength in the long run: NCCK continues to operate a business credit scheme, while both DDF and Banco Popular abandoned theirs with the end of A.I.D. funding. This is due in part to the fact that the objectives of the NCCK project were NCCK's own, while the other two were perceived as "belonging" more to A.I.D. and ACCION, administered by the local organizations. Follow-on to the Central America projects has come from other organizations that have looked to the PISCES projects as models.

The product of PISCES II is a two volume report. The first volume, written mainly by Ashe, expands and refines the tentative conclusions and framework outlined in PISCES I, and provides summary case studies of the four projects. The second volume contains extended case studies, written by the staff of ACCION (Central America) and D-GAP (NCCK and CEOSS). A.I.D. and the contractors distributed these volumes widely, and they continue to be in demand. In addition, lessons from PISCES were spread through several large workshops, both in Washington and in each geographic region. A wide variety of A.I.D. representatives, other donors and most importantly, local PVO staff members attended. PISCES dissemination efforts by ACCION and by S&T/RD have been highly praised by observers and evaluators.

Research on Small Scale Industry, Michigan State University (1982-1987)

The SEAE Project Paper was amended in 1982 to create a fourth project component, research on small scale industry. The component was executed through a cooperative agreement with MSU, under co-directors Carl Liedholm and Paul Strassmann.

An explicit objective of this cooperative agreement was to maintain and extend the applied research capacity established at

MSU under the 1977-1982 Off-Farm Employment Project (931-1191). Under that project, MSU performed detailed studies of the role of small industry in several countries. It applied a basic research methodology, consisting of a Phase I, in which teams of enumerators counted and classified all small industries in selected rural areas and small towns, and a Phase II, involving twice-weekly visits to a small sample of enterprises, maintained for several months. These studies, which MSU carried out in seven countries, resulted in data sets that are among the most comprehensive sources of information on small enterprises ever compiled. MSU drew together data on industry type, employment, location, ownership, capital, inputs and sales to form detailed pictures of the small enterprise sectors in each country. Because the methodology was the same in each, these data sets were suitable for cross-country comparisons. This was one of their great strengths. At the time funding ceased for the Off-Farm Employment Project, both A.I.D. and MSU felt that the potential generated by this research had not yet been fully exploited, and that the research should continue. For example, the data had not yet been used to make direct comparisons of small enterprise performance across countries. The objectives of the SEAE Project, and its strong pragmatic research and development focus made it an appropriate umbrella under which to continue MSU's work.

During the SEAE agreement, the emphasis shifted from basic research to higher level analysis of the information already gathered, consideration of the implications of research findings for policy and project design and greater dissemination of findings. Also, MSU's previous limitation to rural enterprises was dropped, as was that of SEAE to urban enterprises, reflecting the same shift of perspective within A.I.D. that had led to the formation of the Employment and Enterprise Division from the old offices of Urban Development and Rural Development. The fit within SEAE was not exact, however: MSU's research focused only on manufacturing and repair enterprises and included relatively large enterprises, any up to 50 employees.

One portion of the work called for under the fourth component followed from the original SEAE component on Housing and Employment, which MSU had carried out under the direction of Paul Strassmann. During the course of that study, Strassmann became aware that enterprises operated in the home were frequently a means of financing home-building and improvement. As no known research had explicitly concentrated on home-based enterprises, Strassmann wished to look at them more carefully. Accordingly, about one fourth of core funding for the cooperative agreement financed survey research on home-based enterprises. As this was carried out largely independently of the other MSU work, it is better considered an extension of the earlier SEAE component, than an integral part of the new one.

The work performed under this fourth component falls into three categories: overview of small enterprise research, in-country applied research and consultancy, and special studies. The most important activity under this agreement was the preparation of a paper to summarize the research MSU had already done, and to address the central questions in the debate over the role of small enterprises in developing countries. This paper, "Small Scale Industries in Developing Countries: Empirical Evidence and Policy Implications" (Liedholm and Mead, 1987), has been more widely distributed by MSU and A.I.D. than any other document MSU has produced, and is often called the most authoritative work on the subject. The paper makes a very strong case for the importance of small industries in development, and hence the desirability of encouraging them. The case is fortified by the large amount of data from MSU's surveys. The paper shows clearly that in many countries small industry is as important in terms of employment and in some cases value added as large industry. It shows that contrary to some conventional wisdom, demand for the products of small industries tends to use resources of capital and labor efficiently and profitably. All of these are important findings that had not been sufficiently articulated in previous writings. The paper also makes a major contribution in simply describing the components of small industry sectors, showing their internal structure by subsector, size, ownership and other variables. Other sections of the paper describe how small enterprises are affected by government policies and reflect on the experience of efforts to assist small enterprises through credit and technical assistance projects. In these two sections, the paper draws on work performed first under another project (Enterprise and Employment Policy Analysis) and under PISCES. It is valuable to have these issues discussed in the same document that describes the sector itself.

Mission buy-ins funded MSU work of widely varying scope in four countries, and core funding covered a brief assignment in a fifth, Bangladesh.

- In Egypt, MSU completed analysis of extensive Phase I and Phase II surveys taken under the previous project. The research was carried out in conjunction with two local universities. The studies yielded a detailed picture of small enterprises in two Egyptian governorates. In addition, papers were prepared on several subsectors, including garments, carpets, baskets, dairy products, tailoring and shoemaking.

- In Indonesia, a member of the MSU research team was supported for 18 months as a small enterprise advisor to USAID/Indonesia, responsible for design and pre-implementation of the Central Java Enterprise Development Project. This innovative project applied a subsector-based approach to assisting small enterprises, designed

by MSU (see below), focusing on the shrimp, rattan handicrafts and metalworking subsectors.

- In Zambia, MSU carried out a Phase I survey of small industry, in conjunction with the University of Zambia. This study enumerated small industries throughout Zambia's rural areas and towns. It filled a major need in the country, as very little data on small scale enterprises had previously been collected.

- In the Philippines, MSU carried out a brief consultancy to advise the A.I.D. mission on its strategy toward small enterprise, and on implementation of its new small enterprise project (the Small and Medium-Sized Enterprise Project).

- In Bangladesh, MSU carried out a brief study on subcontracting practices. It made recommendations for promoting subcontracting and for using subcontracting as a vehicle for assisting small enterprises.

The in-country work is best viewed as the completion of the earlier Phase I and Phase II research (Egypt, Zambia) and as a means of developing a new subsector-based approach (Indonesia, Egypt, Philippines, Bangladesh). It produced valuable data and methodologies, and in one case (Indonesia) led to a mission-funded project.

Special Studies. Under the portion of the agreement directed by Liedholm, MSU produced three special studies, which were attempts to draw lessons from the MSU research for A.I.D. project and policy design.

- One of the most important and also largely unanticipated contributions of the agreement was the development and articulation of the industry-specific subsector approach to analysis of small enterprises. This approach was derived from the collective experience of in-country research under both the Off-Farm and SEAE projects. Subsector analysis focuses on the vertical production and marketing structures for a single product or group of closely related products. The researcher examines channels that link suppliers, producers and marketers, seeking to understand the growth potential of the various channels, strategic nodes and bottlenecks in the process. The approach leads to the identification of very specific problems that are important to large proportions of the businesses in a subsector, such as input supply, production methods and market access. The problem identification aspect of subsector analysis leads to identification of possible interventions that are quite different from those of the more standard credit and

technical assistance projects, such as those PISCES investigated. However, the implications for project design are only beginning to be explored.

- A special study was prepared on the potential for use of inventory norms in credit projects. Inventory norms are defined as standardized sales/inventory ratios for various industries. The paper proposes that such norms be developed, and that lenders use them to help evaluate the soundness of applicants for credit and the amount of credit needed. This is proposed as a shortcut to project feasibility studies and a supplement to character-based references.

- A special study on subcontracting describes project and policy interventions that could promote the use of subcontracting as a beneficial arrangement for small producers, and could use subcontracting relationships as vehicles for assisting small producers. The proposals include a mix of project-type interventions and policy changes to make the environment more conducive to subcontracting.

The agreement funded surveys of home-based enterprises in Peru and Sri Lanka. These studies, carried out in conjunction with indigenous research institutions, documented previously little-known phenomena, and left behind useful data in the two countries. They also resulted in a spate of academic publications (see Bibliography), the combined message of which is: home-based enterprises are for many a preferred means of earning income and of financing housing; these enterprises should be allowed in any urban planning projects; and the more efficient among them, which are identified by major grouping, should be particularly encouraged.

ARIES (Assistance to Resource Institutions for Enterprise Support) (1985 to present)

In 1985 A.I.D. amended the SEAE Project Paper once again, to create ARIES, the only portion of SEAE that continues as this report is being written. As the name suggests, ARIES is a direct descendant of PISCES. Its design was strongly influenced by another S&T project as well, the 1983-1985 Small Business Capacity Development (SBCD) Project, a part of the larger Performance Management Project (936-5317).

At the close of PISCES, observers had varied opinions about the lessons it had taught, but all were in agreement about at least two points. First, PISCES had generated a large amount of information about how microenterprise support projects actually functioned and about some characteristics of the more successful

projects. Second, PISCES had pointed out that project failure was due more often to management failure within implementing organizations than to any other single cause, and that these organizations needed help to learn to manage their efforts better. Moreover, A.I.D. realized that its own comparative advantage for providing assistance was with intermediary organizations rather than microenterprises themselves.

In the logical next step, ARIES was to begin to turn the accumulated experience of PISCES to the advantage of implementing organizations, and in so doing, A.I.D's role was to evolve from learning into teaching, with a strong focus on management. The SBCD Project had already begun to do some of this. Its research component had attempted to categorize the types of institutions providing microenterprise support, and to assess their strengths, weaknesses and needs. According to an evaluation by Adoum (1986), the SBCD project contributed relatively little to the body of knowledge about these resource institutions, for reasons including its short duration, choice of contractors without adequate research background and changes in A.I.D. management. Nevertheless, she points out, the effort by A.I.D. staff in managing SBCD, promoting it to missions and reviewing written products helped to crystallize the thinking that led to the design of ARIES. Specifically, it further underscored the hypothesis that better management by intermediaries (also called resource institutions), also known as intermediaries, should be the next priority, and that A.I.D. should find ways to help these institutions improve their management.

A third factor entered into the design of ARIES, the U.S. PVO community. Most of the intermediaries that PISCES, and to a lesser degree SBCD, had studied were indigenous PVOs. Two-thirds of PISCES I projects and three of the four PISCES II projects were run by local groups. During the early 1980s the U.S. PVO community was becoming increasingly interested in working with microenterprises, but many PVOs realized that they lacked the expertise to do well in this difficult field. A.I.D.'s Office of Private and Voluntary Cooperation in the Bureau of Food for Peace and Voluntary Assistance (FVA/PVC) accordingly joined with S&T to provide initial core funding for ARIES. This entailed a shift from the main target audience of PISCES, to more of a mixture of U.S. and indigenous organizations.

As it actually operates, ARIES is a broad-ranging project carrying out a wide variety of activities. Almost all of these activities fall under the SEAE function of teaching, with only a small focus on the development of new learning. ARIES activities include services delivered, in the forms of technical assistance and training, the development of several kinds of training materials and information, and the staging of workshops and seminars. A salient characteristic of ARIES is its eclectic

approach. ARIES possesses a resource pool of expertise, through its four contractors. Though it targets a specific set of activities for these contractors, it consciously leaves room for initiative and improvisation in pursuit of the underlying objectives. The structure of the project is perhaps most easily explained by reviewing the activities of each of the contractors.

Robert R. Nathan Associates, the lead contractor, provides project coordination, and is therefore involved in all the ARIES activities. Its major direct responsibility is technical assistance. RRNA responds to buy-in requests by A.I.D. missions, U.S. PVOs (through FVA/PVC) or other A.I.D. bureaus to provide teams of experts to address specific questions on a short term basis. By the end of its third year, ARIES contractors had performed roughly 20 technical assistance assignments, of which about three quarters were commissioned by A.I.D. missions and one quarter by central A.I.D. offices. All assignments involved in-country field work. Most of these assignments have resulted in reports that have proved useful to the buying-in mission or office, and several that are of interest to a more general audience. Other contractors, ATI and Control Data, also contribute personnel to technical assistance teams.

One important issue in the provision of technical assistance by ARIES is its breadth. The original concept of ARIES was to support resource institutions that manage microenterprise assistance programs. In practice, however, because ARIES technical assistance can only be accessed by A.I.D. missions or offices, much of the work has focused on A.I.D.'s mission needs rather than the needs of the local PVOs. Many of the assignments have covered strategy, project design or project evaluation. Examples include: an evaluation of a small business development project in Honduras; an assessment of the small enterprise sector and strategy recommendations for El Salvador; a sector assessment, project concept paper and design for financing small enterprises in Jordan; and preparation of a PVO co-financing project in the Philippines. A goodly portion, but by no means all, of these assignments have required either assessments (before project) or evaluations (after project) of local organizations. Assessments and evaluations can help identify problems and solutions for the PVOs. However, a minority of the ARIES assignments have been exclusively or even primarily devoted to working with local intermediaries to increase their management capacity. A few ARIES assignments have done this for U.S. PVOs, including Foster Parents Plan and the Freedom from Hunger Foundation. The broad definition of areas in which ARIES will work has both positive and negative implications that will be discussed later in the evaluation.

Harvard Institute for International Development is the second most active contractor under ARIES. Under the official label of "research", it has developed several products. Rather than

traditional research, however, HIID's activities are more accurately described as the development of materials that support training and to a lesser degree technical assistance. These materials rely on secondary sources rather than field work. HIID has produced (or is producing) three main outputs. The first was a paper entitled, "Capacity Building for Resource Institutions for Small and Micro-Enterprises: A Strategic Overview Paper (Grindle, et al., 1987). This paper provides a framework for, as it says, diagnosing the ills of resource institutions and for prescribing capacity-building therapy. It is intended to provide the underpinnings for the development of training materials of several types and, to a lesser extent, to guide the delivery of technical assistance under ARIES. There is a sequence problem, in that the paper and related materials were being produced simultaneously with technical assistance assignments, and were not applied during the first two years' assignments. In the latter half of ARIES, more buy-ins have related to its emerging training capacity.

While the Strategic Overview Paper explicitly states its debt to PISCES, and uses much of the PISCES material in its descriptive and diagnostic sections, it by no means limits itself to PISCES, and in fact, it adopts a significantly different conceptual framework. The PISCES summary reports attempted to prescribe specific operational steps that would make for a successful microenterprise program. The prescriptions given in the ARIES report are much more general. The ARIES paper states that better management leads to better projects, and it identifies specific problems common to enterprise development programs. However, it does not attempt to define what projects ought to look like, but limits its prescription to four types of capacity that organizations need: strategic, technical, administrative and communications. Its approach is in sympathy with the PISCES subcontractors, D-GAP and PfP, and with the staff of S&T/RD/EED, who were always somewhat at variance with the ACCION stance that appears in the PISCES summaries. The ARIES paper also introduces a perspective that owes its debt to anthropology and sociology, in characterizing entrepreneurs and analyzing organizational behavior and needs. Previous work had been more pragmatic, linked to development practice or had come from a financial and economic perspective.

HIID is also preparing a series of teaching cases on problems in managing microenterprise projects. The concept behind these cases stems from Harvard's historical commitment to the case method as a means of teaching students how to analyze problems and make decisions. Many of the cases focus on a recurring problem described in the overview paper, that resource institutions lack strategic planning capacity, that is, the ability to articulate their objectives and devise policies and actions to reach them. A large proportion of the cases review projects that are already well-known among those in the

microenterprise assistance field, including several from PISCES and the DAI evaluation components of SEAE. HIID is also training a cadre of PVO staff and other development professionals in how to teach the cases.

The third HIID output is a computerized reference system on microenterprise assistance, called AskARIES. This is a series of over 1,200 bibliographical entries, 300 of which have been annotated by HIID researchers. The annotations give abstracts of the document as well as commentary that often involves a critical assessment of the work and a discussion of its relationship to other works. AskARIES will be packaged as IBM-compatible software and sold to field institutions, PVOs and universities both in the U.S. and abroad.

Another contractor under ARIES, Control Data Corporation, has been developing training materials for classroom or workshop in the form of curriculum modules. Five of these are directed at resource institutions, and cover: strategy development, credit management, financial management, human resource management, and staff training. A final module is planned, to be directed at microentrepreneurs themselves, which would cover the gamut of business management topics. Rather than a discrete module, this will be a curriculum guide that will reference existing materials. CDC, in conjunction with the other contractors, also conducts training sessions, using these materials as a base.

In addition to these activities, ARIES contractors have also carried out the following:

- Creation and delivery of training programs to several U.S. and local PVOs, including CARE, Catholic Relief Services and institutes in Bangladesh and the Philippines.

- A major workshop on credit management attended by a wide variety of field participants from A.I.D. missions, indigenous PVOs and local PVOs, which was co-sponsored by the SEEP Network of U.S. PVOs.

- Day seminars on specialized topics, including financial innovations, prospects for microenterprise development in Africa, the AskARIES data and mainstreaming women in microenterprise projects (planned).

- Preparation of papers on special topics such as the design of savings generation projects and the effect of microenterprise lending on poverty.

ARIES is much less focused on finding out specific things than were any of the other SEAE components. While all the other components had their own agendas, ARIES is fundamentally

responsive to needs and requests. This is in keeping with its role as more of a teaching activity than a learning one. However, given that a specific learning agenda has not been articulated, learning from ARIES activities tends to be opportunistic and haphazard. In some respects this is good, as it maximizes the chances of learning unanticipated lessons. However, it is more difficult to ensure that lessons will actually be learned and transmitted, and it is more difficult for AIRES to establish itself as an agency leader.

## Project Interactions

Now that the five components of the SEAE Project have been described in some detail, it is important to ask whether they amount to a whole, rather than a collection of five parts. This question has two facets. First, was it sensible to connect these five components in one project? Second, did the five inform each other to create greater learning?

The heart of the SEAE Project was a sequence consisting of PISCES I, PISCES II and ARIES. These components provided a continuous stream of investigation and activity, stretching from 1978 to the present. Each clearly led to the next, through deliberate learning. The SBCD Project should be added between PISCES II and ARIES, because its concerns were similar, and because its lessons were important in shaping ARIES. The objective of this sequence of activity has been to develop ability to design and implement projects to assist the smallest enterprises, through intermediary organizations. The key words in that objective statement, "projects", "smallest enterprises", and "intermediary organizations" define the PISCES/ARIES approach, and distinguish it from the other components.

A second stream, lasting from 1978 to 1987, is represented by the MSU research into the role of small industries in developing countries. This stream consists of the Off-Farm Employment Project, and only enters the SEAE picture in 1982. In a world in which projects were strictly logically defined, this MSU work would have been done through one distinct project, and not as part of SEAE. However, nothing was lost, except neatness, by structuring the projects as they were, in response to the evolving knowledge the components were producing.

These two streams of investigation, PISCES/ARIES and MSU, represent a type of continuity in learning that is all too rare in the international development business. In each case, the basic focus of concern was maintained over the course of ten years. A decade is a reasonable amount of time over which to observe events in the development process (which proceed slowly), assimilate those observations and finally to distribute findings. It is a credit to all concerned, and particularly to S&T/RD/EED,

and its chief, Michael Farbman, that this continuity was maintained. The A.I.D. division made decisions to continue the work at critical junctures in the early 1980s. These decisions turned PISCES I into PISCES II, and then into ARIES, and enabled the MSU work to be carried out to its full conclusion. It is unlikely that these decisions would have been made if not for continuity in the division staff, and their strong intellectual commitment to the work of the project. The major benefits from this sustained effort have been more complete learning and teaching. If the work had stopped at the end of PISCES II and the Off-Farm Employment Project, loose ends would have continued to dangle. Equally important, the second phases of the work have enabled the learning to be translated into teaching, so that the full value of the lessons learned can be transmitted from the researchers to the development community at large. Major vehicles for this include the ARIES Strategic Overview Paper (Grindle, et al., 1987) and the MSU State-of-the-Art paper (Liedholm and Mead, 1987).

The two remaining SEAE components, housing and employment, and evaluation, are not as well tied in to these two major streams. While both made significant contributions, neither constitutes an effort of the same magnitude or importance as PISCES/ARIES and MSU. The DAI component was in principle closely tied to PISCES/ARIES. Both PISCES I and the evaluation component had as their primary activity the review of specific small enterprise projects. As has been noted, two of the DAI evaluations, of BKK and PfP's Upper Volta project, entered the mainstream of PISCES. However, as it unfolded, the DAI component was separated from the PISCES/ARIES stream first by its concern with impact evaluation rather than implementing organizations and their methods, and second by the far greater size range of enterprises it studied. Both of the studies on Peru concerned enterprises far larger than those within the PISCES scope; and in one of the projects they are more accurately characterized as medium-sized than as small. This is one reason that so little has been made of these two studies, at least within SEAE. The concern with impact evaluation was actually complementary to both the PISCES/ARIES concern with project implementation and to the MSU concern with economic efficiency of small industry. However, the fact that the contract itself was separate from either of these activities tended to reduce its usefulness. DAI was not closely linked to any of the other contractors, and pursued its tasks on a schedule that did not happen to mesh well with the other components. The evaluation manual, which could have been an influence on PISCES, was not published until PISCES was nearly complete, and the MSU research, which could have influenced the manual, appeared in summary form still later. In retrospect, the complementary nature of the DAI concerns with PISCES would have been enhanced if they had been specifically connected in some way, rather than connected only through the mechanism of the SEAE Project, an entity known only to A.I.D.

The housing and employment component was less germane to the main subject of SEAE than was any other component. Its concern with housing and the employment potential it generated related to small enterprises only in that small enterprises provided much of the employment in the construction industry. More important, however, was the audience for whom the research was intended. This was primarily the Office of Housing, which had become part of A.I.D.'s Bureau for Private Enterprise (PRE) by the time the research was complete. This meant that the entity that was to become the Employment and Enterprise Development Division, which commissioned the study, was not its major audience. This organizational wrinkle was not a problem for any other component. Each of the others was well within the main body of concern of the Division. There was some interaction between the housing and employment component and the MSU research Liedholm directed, first because both were carried out at MSU and second because the follow-on research on home-based enterprises was folded into the cooperative agreement on the role of small industries. Cross-fertilization is apparent is a few instances. However, for the most part, the work was carried out separately, focused on separate issues, and aimed at different audiences. A fruitful dialogue could have emerged has Strassmann's conclusions on the efficiency of various types of home-based enterprises been compared with Liedholm's data.

Given their location within one project, it is surprising that the two main streams, PISCES/ARIES and MSU, did not influence each other more strongly. PISCES contractors were largely uninfluenced by the MSU research, and therefore did not incorporate its lessons. This was in part a matter of timing. The PISCES work took place at a time when MSU had completed only a few of its country studies, under Off-Farm Employment. The state-of-the-art paper, which made the results across countries more explicit, and was directed at an audience that included practitioners such as those involved in PISCES, was not completed until after PISCES II ended. The lack of influence of the MSU work on PISCES is important, because of the strong divergence between them in point of view. MSU's focus on industry rather than commerce and services, differed sharply from PISCES, as did its range of sizes. Most importantly, however, was the concern MSU had with finding economically efficient enterprises, whatever the size, in contrast to PISCES' concern with assisting the poor. A fruitful debate could have taken place had PISCES attempted to grapple with MSU's findings on the relative efficiency of different sizes and types of businesses, and to decide whether the superior economic efficiency of certain types of business should make any difference in the design of assistance projects. As it is, without the interaction during the project, the two points of view simply exist alongside each other, rather than challenging and deepening each other.

The timing of the two components made it possible for some of the PISCES conclusions on credit and technical assistance to be included in the MSU state-of-the-art paper. This was an important interaction, as it is the only example where findings on the nature of small enterprises are presented in the same text with findings on how to assist them.

The SEAE Project is an entity known only to A.I.D.'s S&T Bureau. The contractors themselves, and all the important audiences, within A.I.D. and outside it, saw the individual components only. This is not a problem, as the components, particularly PISCES/ARIES and MSU were very strong in themselves. However, it means that the main source of continuity throughout has not been the project as an entity, but the supervising office, S&T/RD/EED. This office has done an excellent job of maintaining focus over a long period of time, and of therefore supporting work in which progress can be seen. It would have perhaps been more effective if it had encouraged more interaction between components, in particular, between PISCES and DAI and between PISCES and MSU.

## PART II. SEAE AS A LEARNING PROJECT

Through the SEAE Project, A.I.D. has made a major, sustained effort to learn about small enterprises. The results of that effort have been of first class importance. In 1978 A.I.D. knew little about the small enterprises and how to assist them. In 1988 it knows a great deal, and in the interim, SEAE has been its main vehicle for learning.

At the start of the project, A.I.D. was a relative novice in the field of small enterprise development. During the previous few years donors had only begun to pay attention to small enterprises, and A.I.D. was at that time probably somewhat behind international organizations such as the International Labor Office and World Bank. Bibliographies for the Project Paper and for early SEAE work show relatively few entries, virtually all of them from outside A.I.D.

During the time that the SEAE Project has been active, A.I.D. has pursued only a few other activities devoted to learning about small enterprises. Many of those were linked in some way to SEAE. These included the Off-Farm Employment Project, which led into the MSU component of SEAE, the Small Business Capacity Development Project, which led from PISCES into ARIES, and the production of a number of papers, such as Peter Kilby's "Searching for Benefits," which was linked in terms of both the people involved and the projects studied. The Kilby paper was funded by FVA/PVC, which was pursuing similar themes, albeit on a smaller scale. A more recent project, the Enterprise and Employment Policy Analysis project, drew in large part on SEAE findings. It would be appropriate to view SEAE as a core, and these other activities as extensions to that core. The same could be said for mission-supported projects on small enterprise, of which there were many during the decade. SEAE was involved in a large number of these. More importantly, it was the vehicle for most institutional learning from these projects. Through SEAE individual project experience was brought back to Washington, compared to other experiences and analyzed for lessons learned. Projects not linked to SEAE or to A.I.D. two central nodes of expertise on small enterprise, S&T/RD/EED and FVA/PVC, were more likely to be "lost" to A.I.D.'s institutional memory.

At present, A.I.D. possesses an extensive body of written work on small enterprises; it has a large number of projects designed with SEAE findings in mind; and it has a large cadre of staff people, in several regional and central bureaus, consultants and other associates with a foundation in small scale enterprise development. This cadre of people may not agree on specifics, but they communicate from a common set of experiences and a common intellectual framework, largely derived from SEAE. This

was reflected in the New Directions workshop held in December 1986, and in the events surrounding the microenterprise legislation of 1987 and meetings of its advisory committee. A.I.D. has even taken on a leadership position among donors on the issue, as seen in its joint sponsorship of the 1988 donor conference on microenterprise.

People considering A.I.D.'s work on small enterprise often ask themselves: if we have been studying small enterprise for so many years, why do we always debate the same unresolved issues? In short, have any real lessons been learned? This question reflects frustration that the research has not led to specific prescriptions, but to information that leaves a range of possibilities open.

Before going any further, it is important to emphasize that SEAE has provided two very clear and important findings. These appear so obvious today that it is easy to forget that they were not generally accepted when SEAE began.

- The small enterprise sector is a major contributor in most developing countries to national output, income and employment. Moreover, most industries in this sector are economically efficient and produce products for which demand promises to continue to be strong. This finding is the product of MSU's research, first under the Off-Farm Employment project and later under SEAE. It is limited to manufacturing, and some argument persists on economic efficiency questions. However, by and large, this message has been accepted.

- Small enterprises can be and are being assisted effectively by organizations that work closely with clients, provided programs are well-designed and well-managed. This is the main finding of PISCES. Although it leaves much to be added in terms of defining effective assistance, good project design, and improved management, it reveals that projects aimed at very small enterprises are within the realm of possibility.

Taken together, these two findings affirm that small enterprise assistance is an area in which A.I.D. and other development organizations can and should work.

SEAE's findings on some of the more detailed issues relating to which businesses to assist and how best to assist them are less clear cut, though still very important. In reviewing these lessons, one should remember that SEAE dealt with a very complex constellation of topics, in an area where science, being social science, is not exact. One would not expect the same kind of precision to come from a study of business development as one would expect in, say, health. Moreover, in this field, the move

from experience into prescription is mediated in each case by the values and goals of those planning an activity, values and goals that are not subject to alteration by research. One should not expect the research on such a complex topic to converge on one set of points. Rather, one should expect definitive answers in some areas, and in others, a body of more general knowledge that can support and inform decision making.

SEAE Project Paradigms

Some of the most valuable SEAE lessons have come in the form of paradigms, models of particularly successful (or unsuccessful) methods of assistance. These paradigms provide images of what can be achieved under the best (or less than best) circumstances. In a field where there are few clear right or wrong answers, paradigms are all the more influential. They act as focal points and motivating agents for action and investigation.

The most influential paradigm has probably been what was described above as the BKK model, which involves a highly streamlined method of delivering very small loans to large numbers of the poor, and which achieves success by cutting administrative costs to the minimum, charging full cost interest rates and motivating borrowers to repay loans. This model first entered into the SEAE picture in concrete form through DAI's evaluation of BKK. It was picked up by PISCES, embodied in the two PISCES II projects in Latin America, and its influence is visible in the project design section of MSU's state-of-the-art paper, which praises streamlined credit-only projects. It continues to be applied in a range of cases, from the Grameen Bank in Bangladesh (a similar project, not A.I.D.-funded) to ADEMI in the Dominican Republic.

In a variant from the BKK project that has become almost a separate paradigm, solidarity groups are formed to guarantee one anothers' loans. These groups may enable participants to take collective action and to learn from each other, in addition to suppling a vehicle for credit delivery. The solidarity group concept owes a great deal to PISCES, which tested, refined and publicized it. The influence of the BKK model is strongly apparent in the 1987 microenterprise legislation that directed A.I.D. to provide credit to small enterprises in amounts averaging less than $300 per loan. It is hard to imagine such legislation being enacted without specific examples of projects that have worked.

The strength of this paradigm has made it one of the main arenas of continuing debate among those in small enterprise development. It is particularly compelling because it melds the two often-conflicting goals of serving the smallest businesses and of covering service delivery costs. A significant minority of those

in the field of small enterprise development appear to believe that it is THE way to assist small enterprises. Critics of the paradigm suggest that although it is a valid model, it is not the only valid one. They point out that because it requires very special qualities of its clients and intermediary organizations, it is far from universally applicable; many believe it cannot work outside Indonesia. The position of the advocates of the BKK model is strengthened because they can point to hard data in the form of high repayment rates and financial self-sufficiency, on the success of a number of projects that applied it. Other types of programs, have not scored as high on strictly financial criteria. Proponents must rely on social or economic indicators that are much more difficult to observe.

A second paradigm comes from projects serving marginal populations whose businesses are extremely precarious, and whose needs include basic social services and social "empowerment," in addition to business support. The two main examples of this paradigm are African, the NCCK project in PISCES II and the PfP project in Upper Volta, which DAI evaluated. There are a number of other examples as well, particularly from PISCES I.

The value of this paradigm lies first in its adherence to the social goals that stand behind so many PVO programs. Many PVOs first began to assist small enterprises as one more way to help their clients. For them social aims take priority over business aims. The second key point about this paradigm, related to the first, is its finding that clients with only the most rudimentary businesses, many of them intermittent activities, cannot be assisted by BKK-type projects. They need other social services, assistance in learning business techniques, and an understanding organization to support them when family needs overwhelm business objectives (e.g. when they cannot repay loans, after spending their money on a medical or family emergency).

This paradigm is less clearly a model of success than it is a focal point for discussion. Its ability to generate controversy was discussed above in reference to DAI's evaluation of PfP's Upper Volta project. It was also at the heart of a philosophical disagreement between the two main PISCES II contractors, ACCION and D-GAP, with D-GAP supporting the NCCK model, while ACCION supported the BKK model. Critics of the paradigm note that even programs working with the poorest clients can improve management efficiency and can achieve a good measure of cost-effectiveness. They further suggest that credit components of broader programs should always attempt to achieve financial self-sufficiency. The MSU research is relevant to the debate over this paradigm, as MSU found that the very smallest industries particularly sole proprietorships and businesses headed by women, were also the least economically efficient of all small industries. Thus, MSU's work confirms the claims of PVOs that assistance to that sector should be motivated by concerns other than the strictly

financial and economic. By logical extension, PVOs would argue, this means that success often must be measured by non-financial, non-economic standards, at least to a significant extent. An unresolved issue is whether the problems encountered by PfP and NCCK clients resulted from their absolute poverty or from cultural traits unique to Africa. If the latter is true, its suggests a different assistance strategy than if the former is true.

A third paradigm is that of the "umbrella" project, which provides assistance in program development and management to intermediary organizations, such as local PVOs. PISCES I reviewed one such project, PISCES II recommended that A.I.D. support other such efforts, and ARIES is, in many senses, an umbrella project writ large, particularly as regards U.S. PVOs. Finally, a follow-on project in Kenya, the Rural Enterprise Project, is an umbrella project that evolved directly from PISCES work with NCCK. The umbrella project paradigm, in contrast to the previous two, generates relatively little controversy. It simply responds to the findings, generated mainly by PISCES, that so many implementing organizations lacked managerial competence. An umbrella project can be a cost-effective way to improve the quality of PVO programs, provided that the umbrella project can reach sufficient numbers of organizations.

A final paradigm, only in its infancy, is represented by the Central Java Enterprise Development Project, whose design owes much to MSU's work on subsector analysis. ARIES has also been involved in a subsector-based project, on forestry and wood-production in Ecuador. This potential paradigm poses a contrast to the more traditional forms of assistance, which feature credit or credit plus non-specialized technical assistance. The activities of the subsector-based projects include a variety of specialized forms of technical assistance, that may range from input supply to marketing to technology development. These activities are linked by a focus on a particular set of producers rather than a particular set of services. At present the potential for using a subsector-based approach to small enterprises has been identified, in the MSU research and in these two projects, but it has not yet been well explored, and the project model itself has not been refined.

The remaining lessons of SEAE, discussed on the next few pages, relate to specific issues, that are a part of the continuing debate in this sector, beginning with the relative value of credit versus technical assistance. As will be apparent, the paradigms just discussed influence the understanding of such issues. Part of the power of the paradigms is their ability to concentrate debate on many dimensions through concrete examples.

## Target Selection and Project Objectives

The questions of project objectives, beneficiary group selection and assistance methodologies are always inextricably linked. The combinations of objectives and target groups differ from instance to instance. This is one reason that prescriptions in the small enterprise field are not definitive, and hence is a constant source of frustration and, often, conflict among development professionals. The SEAE project has never presumed to dictate either objective or beneficiary group choices. However, much of its work is useful in bridging from objective to group and from group to assistance strategy.

The MSU components provided information about the economic performance of various types of small enterprises, which can be used to target assistance. They showed that much smaller enterprises than had been generally thought were economically efficient, essentially all size groups above sole proprietors. They also showed that the less traditional, more technical enterprises performed better, in general. They showed that one-person firms and female-owned firms tended to be less economically viable. MSU's information would help those whose objective in assistance is to foster economic growth. The findings would lead one to select efficient firms with good product demand.

PISCES, in contrast, had a much stronger element of poverty alleviation among its objectives, and thus worked with the very smallest enterprises, including many the MSU research found inefficient. The contribution of PISCES is to demonstrate successful strategies for reaching this poorer population of business owners, as shown in the two paradigms just described. The NCCK model has been applied to the poorest populations while the BKK model, it has been argued, is appropriate for a slightly better-established stratum.

Next steps would be to help identify target groups that are both efficient and needy (scoring well on both economic and social goals); to explore the usefulness of BKK-type projects for more marginal populations; and to examine appropriate assistance strategies for the slightly larger manufacturers that the MSU work found efficient.

## Credit and Technical Assistance

The relative usefulness of credit and technical assistance has been one of the central debates within the SEAE project. The debate continues today, as shown, for example, by its prominent place in the 1986 New Directions workshop proceedings. The lack of resolution of this issue is probably one of the main sources

of frustration among professionals in this field.

More precisely, the question is not credit versus technical assistance, but rather technical assistance itself: whether it works; what type of assistance is needed; and how best to provide it. It is juxtaposed with credit largely because most of the projects SEAE has studied have been credit projects, credit itself is generally recognized as being valuable, and credit is relatively easy to deliver well. Technical assistance is often seen in the debate as an additional service, but not the heart of the matter.

SEAE has contributed to this debate in two main ways. First, it has served as an important forum through which the issue has been framed. PISCES and DAI focussed on credit programs, not on programs centered on technical assistance, and this has tended to relegate technical assistance to also-ran status. A variety of possible technical-assistance-only programs, described in PISCES I, have been left aside. SEAE has contributed to the adversarial, either/or quality of the debate, as symbolized by the contrast between its two opposing paradigms, BKK and NCCK. Second, through PISCES and DAI, SEAE has fueled the debate with large amounts of information on the types of technical assistance being provided. This information, especially from PISCES I, has been subject only to limited evaluation and interpretation.

The PISCES and DAI work, as well as several key studies and events outside SEAE, has cast serious doubt on the usefulness of traditional types of technical assistance. Classroom training and individual extension focusing on general management and accounting has been largely discredited. Demand for services is low; costs are high; and impact is barely discernible, if at all. This negative lesson is quite important, and SEAE should be given significant credit for helping to develop it.

SEAE components have also made more positive contributions, though these have yet to be followed-up. First, the PISCES reports, particularly PISCES II, suggest low-cost mechanisms for delivery of management-related technical assistance, such as integration of management concepts into routine discussions between borrowers and loan officers, and borrower group discussions that allow beneficiaries to set the technical assistance agenda and to share information among themselves.

PISCES II tossed out these suggestions. ARIES, however, did not pick them up, either in the Strategic Overview Paper or in the design of training materials or cases. The suggestions illustrate, at a minimum, that additional work could well yield additional knowledge about how to provide technical assistance more effectively and cheaply.

Similarly, the MSU component of SEAE has made suggestions about

how to improve technical assistance. In the project section of the state-of-the-art paper, Liedholm and Mead discuss findings from several cost-benefit analyses of non-financial assistance programs. They point out characteristics of the few such programs with positive returns. These characteristics constitute a possible model worthy of further study. Liedholm and Mead argue that successful technical assistance programs achieve high impact at low cost by providing a single "missing ingredient" rather than a host of integrated services. In most cases they reviewed, this missing ingredient was not related to managerial competence, but to industry-specific needs in inputs, production or marketing. Thus, the negative lesson of SEAE is confirmed, but a positive path is also suggested. The Central Java Enterprise Development paradigm is applicable here.

To conclude, in part because of controversies set up and played out during SEAE, the microenterprise assistance community has arrayed itself on two sides of what appears to be an either/or choice, for or against the provision of technical assistance, especially in conjunction with credit. The supporters of technical assistance are in a weak position, because of the high cost and low apparent impact of most known examples. Yet, technical assistance continues to be provided and funded, particularly by PVOs. In the interests of moving this debate forward, rather than having the two sides continue to charge against one another, much more attention should be paid to learning how to provide technical assistance more effectively. The suggestions made in PISCES II and in Liedholm and Mead provide starting points.

## Types of Resource Institutions

Another important area of SEAE work has been the assessment of various types of organizations that provide assistance to small enterprises, and analysis of the relative strengths and weaknesses of each. At the start of SEAE, the field was broad. Organizations sponsoring PISCES I projects included a wide variety of indigenous PVOs, international PVOs, governmental and parastatal organizations, financial institutions and business associations. The DAI evaluations included one international PVO, two government-owned financial institutions (of quite different types) and one central bank discount facility. During the life of the project, particularly during PISCES II, the range of institutions narrowed, so that the focus began to fall primarily on PVOs, and secondarily on financial institutions. Other types of organizations were largely omitted. Ostensibly, the focus was broadened again in ARIES, partly as a result of the influence of the SBCD project, to include six types of institutions: international PVOs, indigenous PVOs, cooperatives, banks, government agencies and business associations. These six are compared and contrasted in the Strategic Overview Paper.

However, ARIES continues to direct the great majority of its technical assistance and training toward PVO programs, with a minority of its support going to financial institutions. In short, starting from a broad base, SEAE has concentrated its learning experience on one type of organization. It has learned far less about other kinds.

In choosing PVOs, SEAE was in part making a judgment about their relative advantages. It was also making a judgment about A.I.D.'s. PVOs were found best at serving the smallest and poorest enterprises that were the target of SEAE. At the same time, A.I.D. appears to have some comparative advantage in working with PVOs. Other donors are more inclined or even required to work with governmental organizations, while A.I.D. has not only the inclination but also the experience and the mechanisms for working with PVOs. SEAE's focus on PVOs, implicit though it often is, has helped A.I.D. develop its predisposition into real expertise. A.I.D. now knows what strengths PVOs have in assisting small enterprises, and what their needs for assistance are. This expertise is now being fruitfully applied for the benefit of many PVOs through the ARIES component.

SEAE's work with financial institutions has also been fruitful, though more is needed. Financial institutions are more difficult to deal with, because their objectives are not as congruent with A.I.D.'s as are PVO objectives. Nevertheless, as the PISCES II report points out, financial institutions must play a central part in efforts to scale up the delivery of credit assistance to reach a large number of clients. PVO coverage generally remains fairly limited. In understanding the potential for scaling up through financial institutions, the BKK paradigm is very helpful. Most of the programs SEAE has studied that use financial institutions have provided credit only or credit with only a small amount of technical assistance. Unfortunately, opportunities to work with financial institutions to set up large credit programs are limited by the existence of banks that wish to do so and A.I.D. missions that wish to support them. This means that despite an intent to work with banks, ARIES does so infrequently.

A possible area for further examination, which SEAE has barely tapped, are other types of institutions, especially business associations, cooperatives, and PVOs that offer forms of assistance other than credit.

## Cost Effectiveness, Efficiency, and Financial Self-Sufficiency

From the start, all of the components of SEAE maintained a businesslike perspective on small enterprises. This was inherent in the goal of the project itself, which was to affect economic indicators, such as employment, output and income, using small

enterprises as vehicles. Nowhere is this more evident than in the evaluation perspective DAI took, first in assessing the financial viability of the businesses and then in measuring their economic impact. It is also reflected in MSU's concern with economic efficiency and PISCES' concern with low-cost service delivery.

The financial and economic perspective, always an aspect of A.I.D.'s point of view, turned out to be a perspective that many actual project implementing organizations lacked. This became clear in DAI's evaluation of the PfP project in Upper Volta, as well as in the PISCES I project descriptions, the exception being programs run by financial institutions. PVOs, both international and indigenous, were motivated by social objectives, and in many instances, so were government agencies. Even the PISCES contractors, ACCION, D-GAP and PfP, had not previously embraced cost-effectiveness and financial self-sufficiency as program goals, though for different reasons. In the case of D-GAP and PfP, this had to do with a difference in ultimate goals. D-GAP, in particular, was primarily interested in social and political change, evaluating any given program by its ability to bring such change about. ACCION had simply not considered it possible to achieve the two goals. As a result of A.I.D.'s and DAI's perspectives, and the thinking of some of the lead individuals in PISCES, cost-effectiveness and financial self-sufficiency soon became hallmarks of SEAE. Through PISCES and the evaluation component, SEAE showed that these objectives could be achieved, under favorable circumstances. This was a powerful idea. The PVO community resisted it because of their social orientation to development. Finally, they conceded that at a minimum, their programs should improve cost-effectiveness of service delivery, and that financial self-sufficiency in the provision of credit was an appropriate objective to work towards. They nevertheless maintained that for many organizations and for the poorest target groups, it was not achievable.

ARIES has taken on cost-effectiveness and financial self-sufficiency of intermediary organizations as primary concerns. Much of its training in credit management is aimed at helping organizations set and achieve these objectives.

The SEAE project deserves a great deal of credit for convincing small enterprise assistance designers and implementors to place cost-effectiveness and financial self-sufficiency among their objectives. These concepts, when internalized within organizations, have probably already done a great deal to improve the quality of project management in many places.

Management of Resource Institutions

Very early in the SEAE Project it became clear that the lack of strong management capability by locally-based assistance organizations was a crucial bottleneck in efforts to promote small enterprises. The institutions that were actually implementing small enterprise projects were often quite weak organizationally. Organizations that functioned relatively well as providers of traditional social services often broke down when they attempted to assist enterprises. The business element, particularly when it involved financial assistance, introduced a new set of technical requirements, and the handling of loan funds introduced a variety of internal stresses.

As SEAE progressed, institutional management capability became an increasingly important project concern, blossoming into the main theme of the ARIES project. During the course of the decade, the SEAE project has made a major contribution, consisting of: 1) identifying the common failings of small enterprise assistance organizations, 2) identifying the characteristics of successful organizations, and 3) developing strategies for improving organizational management.

As happens so often in development projects, this area of contribution was not specifically foreseen in the original project documents. The SEAE Project Paper expressed the intent to discover "how to" assist small enterprises, implicitly expecting the project to find specific assistance formulas that seemed to work. Instead, from the start, PISCES I found that organizational competence overwhelmed the presence or absence of specific project elements in determining success. This identified need matched A.I.D.'s own need to work through resource institutions rather than directly with beneficiaries. The DAI component also contributed, particularly in the evaluation of the PfP Upper Volta project, as an example of poor management, contrasted with the superlative management structure of BKK. DAI's evaluation manual devoted significant attention to assessing managerial abilities. PISCES II, in working over several years with selected projects, began to produce expertise in management techniques. For example, D-GAP advised NCCK on collection and use of management information crucial for running a credit fund, and became involved in issues of centralization versus decentralization, staff motivation and staff training. Finally, the organizing concept of the ARIES Strategic Overview Paper is institutional capacity, beginning with strategic planning and continuing with financial management, staff management and external communications. These elements form the basis for the development of training materials, and the underpinnings of ARIES technical assistance assignments. Thus, the expertise developed throughout SEAE components is now being applied in the teaching activities of the project.

Throughout the SEAE project there has been a tension between two approaches to improving management. The first approach could be called the technical approach. It is tied specifically to small enterprise assistance, and is seen most clearly in the body of knowledge that has been developed on how to run credit projects. This knowledge covers such specific topics as choosing borrowers, setting loan terms, keeping track of loan status, and obtaining good repayment rates. Taken to an extreme, this approach can become quite prescriptive, leading to a list of right and wrong ways to run projects. This extreme is embodied in the use to which the BKK model is often put. The other approach, embodied in the ARIES Strategic Overview Paper, runs the risk of being too general. Its methods could be applied to virtually any organization providing virtually any type of assistance. Clearly there is some happy medium between the two, that brings specific technical knowledge to bear within the general framework of the elements of organizational good health. Within the area of credit management, SEAE has developed a body of technical knowledge that can be used in this way. Far less has been done on other forms of assistance.

## Methodologies

In each phase of SEAE activity, contractors have applied a methodology to the task of learning about small enterprises. In some cases, including PISCES I and the MSU housing and employment component, these methods, while well-applied and innovative in some respects, were not dramatically new. In several activities, however, the development of research methodologies was an important contribution in itself. These study approaches, developed or refined by SEAE contractors, are now available for use by the broader development community.

The DAI evaluation component was, of course, specifically devoted to producing a methodology for evaluating the social and economic impact of small enterprise programs. This resulted in the evaluation manual. As stated in the previous part, the manual's basic approach is not new. Rather, its contribution lies in two areas. First, it articulates the method in a form that non-specialists can understand and apply. Second, it helps solve practical problems. The ideal methodology for evaluating economic impact would require control groups, random samples, objectively verifiable indicators, time, and money to apply. The DAI manual recognizes that most evaluators work under severe time and money constraints, and it suggests ways to perform less rigorous, but still valid, studies. This is particularly important because so many administrators of small enterprise assistance programs are not evaluators or economists, and most are more comfortable with organizational performance and social indicators than with measuring financial and economic success.

The second main methodological contribution came from the MSU research component. MSU's methodological contribution to small enterprise research is generally recognized as what researchers call the Phase II studies. These involved twice-weekly collection of data from a small sample of enterprises over the course of months or a year, in order to obtain accurate information on the inputs, activities, outputs and sales of each enterprise. These data are suitable for assessing economic efficiency, among other things. While important, the development of this methodology cannot be attributed to SEAE, as it took place under the earlier Off-Farm Employment Projects. It was applied, but not significantly revised, during SEAE.

The SEAE portion of MSU's work was largely responsible for the development and articulation of a subsector-based approach to small enterprise research. As stated above, subsector analysis focuses on the vertical production and marketing structures for a single product or group of closely related products, e.g. metal products, rattan handicrafts, etc. Through interviews with participants in the process, the researcher examines alternative channels that link various suppliers, producers and marketers. The relative efficiency, competitive status and growth potential of the various channels are compared. The research methodology is an application of methods already used in agricultural economics and industrial organization economics. MSU, however, applied it for the first time to the study of small enterprises, where it is proving to be a fruitful means of identifying key constraints. It is a relatively rapid means of appraising a situation and of identifying problems ranging from policy to input supply to marketing.

PISCES II also made a methodological contribution, though this is not generally recognized. PISCES II employed an unusual way of carrying out its demonstration projects. The PISCES contractors acted both as sources of technical assistance and as research-oriented observers. As technical assistance providers, they became intimately involved in issues of project design, implementation and organizational management, probably much more so than they would have been had they perceived their role as researchers only. This was very important for developing PISCES' perspective on and expertise in the management of resource institutions, and hence, it was important in leading toward ARIES. As researchers, the contractors were committed to maintaining a relative hands-off approach to the projects, so that for the most part the projects developed according to the will and capability of the implementing bodies. The contractors did not run PISCES projects. This restrained level of involvement was important in revealing the capacity of the local organizations. Also, as centrally-funded researchers covering several different projects, the PISCES contractors developed lessons from the experience which were more thoroughly thought

out that those a single pilot project would have produced. The contrasts between projects and between contractors probably helped produce a more complex analysis. Finally, PISCES observed the projects over the course of several years, a luxury rarely available to technical assistance providers. This produced feedback on the effects of technical assistance and on important organizational decisions, feedback that is ordinarily difficult to obtain.

PISCES II has been criticized for its methodological messiness, which prevented clear inferences from being drawn. However, it is my opinion that this very messiness produced more of the nitty-gritty knowledge that PISCES II was intended to produce, and led constructively into the ARIES approach. It is worth considering use of its method in other situations.

ARIES itself is making a unique methodological contribution in the application of the case teaching approach to small enterprise assistance, specifically to increasing the competence of resource institutions. The case study method is well-suited to teaching non-academics and to enhancing decision making ability among managerial staff. Most other efforts to train small enterprise assistance organizations have focused on traditional methods, suitable for imparting specific technical knowledge, but not conducive to problem-solving. This case methodology falls more into the category of teaching than of learning, and will be discussed further in Part III.

## PART III. SEAE AS A TEACHING PROJECT

In SEAE, A.I.D. has scored an outstanding success in communicating its findings and educating those in its field. The SEAE Project Paper conceived of the project primarily as a knowledge generation project, though in keeping with S&T's mandate, adequate attention was given to dissemination. This reflected the fact that A.I.D. knew little about small enterprise at that time. In the early stages, the findings of SEAE components, particularly PISCES, were distributed to a wide audience, and became very well known. As more and more was learned through the project, teaching became an increasingly important mission. Under ARIES, the balance has shifted, so that its weight leans mainly towards teaching and to the related function of providing technical assistance, and strategies for communicating the messages have become increasingly creative. As this section describes, the SEAE project is a model of good teaching that deserves replication in other fields.

The original statement of goals for SEAE addressed actual changes in economic indicators, not just knowledge generation. But real changes could not take place unless the findings of the project were transmitted successfully. Thus, teaching, very broadly defined, was and is the vehicle for the achievement of the SEAE project's objectives. Accordingly, this project evaluation examines the teaching aspects of SEAE under a definition that includes all the activities that communicate findings or educate participants. All of these aim to link knowledge production with actual application.

SEAE carried out the standard types of teaching activities quite effectively, including the production and distribution of papers and the development of training materials. However, the project went beyond traditional teaching/dissemination activities for several reasons. First, its intended audiences were diverse, and not primarily academic. They included A.I.D. missions, U.S. PVOs, local implementing organizations, donor groups and others. Each audience has different interests and is best reached through different media. Second, the type of knowledge generated by the project, with some important exceptions, was not "information" or "facts", but a complex set of experiences or at best a series of propositions. Third, each activity of SEAE was intended to have an impact in the individual countries in which work was done, as well as contributing to the development community's general understanding of small enterprises. In traditional field research, the investigator often tries to avoid influencing research subjects, or tries to do so only in a highly controlled manner. In SEAE, the field work was itself a major vehicle for teaching.

These factors meant that teaching could not be seen by project managers as a secondary function of SEAE. They also meant that teaching could not be a simple, straight line movement from research to recipient, but had to be interactive. Given the goals of SEAE, teaching can be considered any activity that enables enterprise assistance efforts to improve. The SEAE project engaged in the following types of activities which contained elements of teaching: in-country work, including technical assistance; production of papers; conferences and seminars; training sessions; and the development of training materials. After a discussion of the audiences for SEAE findings, each of these activities is discussed in turn.

Audiences

The potential audience for SEAE work includes any members of the international development community who are involved with small enterprise promotion. These are: A.I.D. (both central bureaus and missions), American PVOs, international donor organizations, academics and professionals in the small business field, developing country governments, indigenous PVOs, and indigenous academic research institutes. Each of these audiences needs different aspects of the SEAE findings and each is best reached through different means. The finding of this evaluation is that the results of the SEAE project have been very effectively disseminated to the prime audiences, A.I.D. and U.S. PVOs, as well as to other U.S.-based organizations. Dissemination to developing country institutions, though equally important, has lagged behind.

The A.I.D. audience uses SEAE project results first to help determine agency policy toward small enterprise, and second to help design specific projects. Most of the SEAE products (including the major papers and conferences, and the buy-in supported field assignments) have been suitable to assist in these tasks. They have been presented in a form accessible to the A.I.D. audience and have reached a large portion of the relevant A.I.D. staff.

American PVOs also use SEAE findings in the design of policy and projects. In addition, as implementing organizations, they need assistance and training in organizational management, and this must reach their field staff, as well as policy staff. ARIES has served these needs admirably, as evidenced by the February 1988 workshop on credit management, attended by a large group of PVO field staff.

Dissemination to academics and other professionals takes place through distribution of papers, conferences and especially through external events, such as journal publications and presentations. To a large degree, success here has come from the

interest of the contractors and cooperators, particularly MSU and ACCION, in informing their colleagues of their work.

An area that deserves greater attention is communication with international donor organizations. Donors such as the World Bank, ILO, the Dutch and German aid agencies and others have been exploring microenterprise assistance at the same time as A.I.D. has through SEAE. However, the approaches taken by these organizations have been quite different from the SEAE approach. Penetration of SEAE findings into these organizations' plans could have significant spread effects in programs and projects they fund. Moreover, A.I.D.'s work could be informed and improved by exchange of ideas with these other donors. With the important exception of the 1988 international conference on microenterprise, SEAE results have reached other donors largely through journal publications, the distribution of major papers to key individuals and informal personal contacts. As would be expected, dialogue with the World Bank and to a lesser degree the ILO has been well maintained. Fewer contacts with other donors are in evidence, however. In the future, communication with a broader group should be maintained, and in a more systematic fashion. The relationships begun during the international conference should be very useful in that process.

The area where improvement is most needed is communication with developing country organizations: governments, local PVOs, academic institutions and the like. These are the organizations with direct, long term responsibility for the development of small and microenterprises, whether or not they are partners in A.I.D. projects. The SEAE project has interacted with many of these organizations individually through its field work, as detailed above, and this has been the major vehicle for reaching out to other countries. It has also attempted to involve people from local organizations in its seminars and workshops and to distribute key papers to them. The most striking successes in this area were the three regional conferences on PISCES I, which included many such participants. Also notable were the efforts of Paul Strassmann, whose work was very much oriented outside A.I.D., and disseminated through publications, sometimes in the local language, speaking engagements and an extensive network of personal contacts.

SEAE efforts have not neglected such groups; but higher priority and a more concentrated effort should have been made, given the size and importance of this audience. For example, the MSU and PISCES papers were distributed to lists of people known to be interested in small enterprises, but only a small proportion (roughly a quarter) of these were from developing countries. In the future, systematic efforts should be made to increase that proportion, and maintain an up-to-date mailing list of overseas individuals with interests in small enterprise. More regionally-based seminars, conferences and training sessions should be held,

and these should, whenever possible, be open to organizations other than those A.I.D. projects work with directly in order to maximize the spread of learning.

## In-Country Work and Technical Assistance

Each SEAE component was and is based on field assignments which produce the raw material for generating new knowledge. In the MSU research these were sector, sub-sector and housing-related studies, in PISCES I and DAI they were project case studies, in PISCES II, demonstration projects, and in ARIES they have been technical assistance assignments. In each case, the knowledge generated was directly transmitted to those for whom it was immediately applicable and was at the same time brought back to be consolidated with other field work to produce generalizations. The use of in-country work to serve this dual purpose is one of the characteristics that makes SEAE a model of good teaching.

It might at first be supposed that the fruits of direct transmission were minor, relative to those resulting from the consolidation and distribution of the findings. However, when one considers the number of separate countries, institutions, and projects that SEAE touched, and the catalytic role its intervention often played, it is clear that direct transmission is of major importance. Not counting the brief case studies of PISCES I (which were too brief to lead to much direct learning), SEAE contractors have worked in about 25 countries. The MSU housing studies in Peru and Sri Lanka, microenterprise studies in Egypt and Zambia, and to a lesser extent studies in other countries, each left behind data that filled a major gap in knowledge about small enterprise sectors, and left it in the hands of local research institutions, such as universities, whose key personnel had become familiar with the survey methodologies and with the data. In several instances, the information has been further analyzed and used in policy and project design.

The four demonstration projects of PISCES II in Kenya, Costa Rica, the Dominican Republic and Egypt, involved the transfer of lessons from PISCES I and the expertise of the contractors to the implementing organizations. In the case of NCCK, the organization improved its program and administration as a result of the PISCES involvement and this is one reason its loan program has continued and expanded. Moreover, the links between PISCES and the in-country institutions (including A.I.D.'s Kenya mission) have continued and led to a greatly expanded microenterprise project, the Rural Enterprise Program. This flowering of a PISCES I case study into a major A.I.D.-funded project ($13 million over 12 years, reaching more than 25 local organizations) is one of the best examples of the direct transmission of SEAE findings in the field. In the Dominican Republic the flow of information went from PISCES into the local

NGO community, leading other NGOs (notably ADEMI) to replicate the original DDF project.

ARIES, of course, is strongly devoted to direct knowledge transfer, through its technical assistance activities, which provide professional expertise to local institutions. Whether the assignments involve sector surveys, organizational strengthening or program evaluations, in each case local institutions gain knowledge due to project activities. The fact that much of ARIES' work is not strongly linked to local organizations means that the main transfer in many cases is to the A.I.D. mission. Finally, the DAI evaluation component also had some direct effect, at least in Upper Volta and Peru, where local organizations used the evaluations to improve their programs.

If all these activities are considered together, it is clear that the project reached a large portion of its potential audience through field work alone. If there is any problem in the range of direct coverage, it is overextension. Although SEAE has touched a large number of countries, most have only been involved once, and through one component. This dilutes its in-country impact. ARIES managers have been particularly concerned about this. Unfortunately, budgets have not permitted ARIES contractors to revisit organizations they have assisted to assess subsequent performance, and therefore, the direct effects of ARIES work are largely undocumented, though they are believed to be significant. ARIES is planning a study to learn about this.

Another issue, briefly mentioned earlier, involves the content of the technical assistance assignments ARIES carries out. ARIES assignments cover such a wide variety of topics that it is difficult for project managers to maintain coherence of theme. Topics have ranged, for example, from a study of informal credit markets, to preparation of a PVO co-financing project, to a wood products marketing study. The variety results from the fact that, much more than earlier SEAE components, ARIES has a demand-driven, service orientation. It offers a broadly-defined range of services to missions, and depends on buy-ins. It has already been noted that the task orders often support the mission project development process, and are often somewhat removed from the stated project objective of improving the capacity of resource institutions. In short, while the field work of all the other SEAE components kept close to a core that was determined by SEAE project managers and cooperators/contractors, the field work in ARIES is determined by mission requests within broad bounds. This contrasts with PISCES and the MSU work, whose field work was limited to a relatively narrowly defined question.

Is this trait of ARIES desirable? It is this evaluator's opinion that while the service orientation of ARIES makes a dispersion of topics appropriate, a somewhat narrower focus would be better.

Three potential benefits could come from more focus. First, if the field work stayed closer to organizational capacity-building, the contractors could use technical assistance assignments to apply a common approach, such as that articulated in the Strategic Overview Paper, to make technical assistance more clearly a teaching activity. As it stands now, many of the consultants on technical assistance assignments are selected because of the applicability of their personal expertise to the topic requested, rather than because they can apply the ARIES approach. Second, a tighter range would assist project managers in learning from the field work, the part of the process that brings results of assignments back to headquarters, consolidates them with results of other assignments, and derives new propositions. RRNA attempts to do this, but the pieces of work it has tend to be too scattered to lead to common inferences. Third, the stated aim of resource institution capacity-building, which is a critical step in the SEAE teaching process, deserves to receive more attention. Finally, marketing to potential A.I.D. clients could be enhanced by a clearer set of priorities from the project.

These points are the very items that make ARIES different from a central IQC, and make SEAE a model of learning and teaching that is superior to more standard technical assistance projects. In SEAE, S&T/RD has excelled at providing services to missions while maintaining and developing a central core of ideas. Their methods of doing this should be emulated by other A.I.D. bureaus with similar types of objectives, such as PRE, whose technical assistance projects have resulted in few consolidated lessons. These considerations should be very important to the S&T Bureau, in light of its mandate to provide technical leadership within A.I.D.

## Training and the Development of Training Materials

Of all the SEAE components only ARIES includes formal training activities. Most of these are directed at the American and local organizations that run small enterprise projects, though a few are aimed at entrepreneurs. They consist of 1) training materials for traditional classroom presentation which focus on organizational and project management; 2) cases for provoking discussion about strategic planning and decision making for implementing organizations; and 3) training sessions for implementing organizations. These activities are now underway.

ARIES' use of the case method represents a significant innovation, one that has potential for application to a broader range of development areas, and is already being used in some. Several characteristics of the case method suit it particularly well for an audience from PVOs and other implementing organizations. First, the ARIES cases are designed to deal with

the process of organizational change and particularly with key decisions within the process. This goes to the heart of the lack of strategic planning capability that has been identified as a major failing of organizations running small enterprise programs, and of developing country institutions more generally. These are issues particularly difficult to deal with effectively through traditional lecture or text-based formats. Second, the case method provokes active participation, and even emotional involvement, rather than rote learning. This is particularly suitable for holding the interest of groups of non-students, and for helping lessons to be internalized. (On the other hand, there will always be some, especially in countries where rote learning is the norm, who feel uncomfortable with the absence of clear answers in case discussions.) Third, as HIID's Charles Mann points out, the case method is especially appropriate for a subject area in which "much knowledge about the field has never been written down in books and articles, but is contained in the minds and experiences of the practitioners,"[2] that is, the participants in the case discussion. As he points out, the discussions often provoke valuable insights for participants that are not fully anticipated by instructors. In that sense, case sessions use cross-fertilization of participants to generate additional knowledge about their subjects.

One of the major questions in the use of the case method is how to disseminate it so that it reaches the largest potential audience. The cases alone are not sufficient, because the written case is only the starting point for discussion. The real value comes in case discussions, and leading good discussions requires skill. Without a trained case teacher, a case session is likely to fall flat. Therefore, any plan to use the case method as a means to spread learning must specify who will teach the cases and to whom. ARIES has planned some training for case teachers. However, this is not explicitly part of the component budget, but must be done on demand through buy-ins. At the end of the project, a large part of the need for further outreach to train case leaders will probably still be unmet.

Meanwhile, the main vehicle for dissemination will be the cases themselves, which will be made available in a package with the Strategic Overview Paper. Given this situation, it is important for comprehensive teaching notes to be written for every case, so that they can be used without specially trained leaders. Moreover, if, as HIID claims, the process of case research yields new knowledge about organizational development, some of these insights should be written up for readers who do not participate in case discussions. Cases are often written to conceal some of the central issues, or at least not to state them directly. The class discussion must uncover them. This makes cases relatively

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[2] Letter, June 3, 1988.

poor at conveying information when they are simply read. Teaching notes that discuss some of the central findings in more depth could address both the need to help potential case teachers, and to make the cases more useful as written papers.

If the dissemination issue can be handled successfully, A.I.D. should consider using cases in a variety of other training situations, wherever organizational and project planning is at issue, and to audiences including PVOs and host government personnel. It has already begun to do so for its own staff, where dissemination is relatively easy.

In regard to the traditional training sessions and materials carried out by ARIES, it is this evaluator's judgment that training sessions and materials aimed at the organizations that implement small enterprise projects are sorely needed, and that the ARIES choice of subject matter and general approach to production and delivery appears sensible. It is likely that only a small portion of the potential beneficiaries from the training sessions will have been reached by the end of ARIES; therefore, such activities should be continued.

Papers

The writing and distribution of papers is the most standard form of dissemination for research projects. The SEAE project has excelled here. Four documents in particular, the PISCES I (Farbman) and PISCES II volumes (Ashe), the evaluation manual (Goldmark and Rosengard, 1985), and the state of the art paper by Liedholm and Mead have received extensive distribution and have become well-known to professionals, both within A.I.D. and outside it. A fifth, the revised ARIES Strategic Overview Paper (Grindle, et al.), is scheduled to receive similar treatment after it is produced. The success of the distribution efforts is evidenced by the frequency with which the works are cited in other papers, and it would probably be confirmed by interviews with professionals.[3] Well over fifty other papers and journal publications have been produced under the project (see Bibliography). They have been more selectively distributed, but are nonetheless important.

The success in distributing the major papers is due in part to their superior packaging. All are bound rather than stapled, one is typeset and three are illustrated. These simple steps set them apart from the avalanche of papers that pass across the desks of most practitioners, and help make them appear more interesting, and hence more likely to be read. The quality and

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[3] The only critiques of these works as vehicles for dissemination have been that they are too long for practitioners.

broad usefulness of the papers merits such packaging and distribution. Funding for the initial production and reproduction of these papers was provided under the project only for the MSU paper. Efforts to arrange and finance production of the others led to delays in distribution. In the cases of the DAI manual and the PISCES reports, about a year elapsed between the time the contractors completed their work and the time A.I.D. released the reports in their finished form. For the evaluation manual this delay reduced the effectiveness of the document: DAI had gone on to other things and could only provide limited publicity and support. The PISCES documents survived the delay partly because of the strong interest by ACCION in helping to get its message out.

The MSU paper went through a better process. Responsibility for production was given to the cooperator, as was partial funding. The paper was tied to a specific event, the December 1986 New Directions conference, which provided both an action-forcing deadline and an immediate audience.

There is room for improvement in the distribution network for papers such as SEAE produced. While they have been thoroughly distributed within A.I.D. and to U.S. organizations, particularly universities, relatively few have been sent to organizations in developing countries. Although such organizations are harder to reach, they are at least as important to reach.

Another aspect of the written dissemination of SEAE findings is the AskARIES knowledgebase, developed by HIID. This computerized compilation of references on small enterprise is structured to make it easy for researchers or practitioners to investigate the topics of their interest. As the name suggests, it is like asking an expert for advice on how to find answers. It shares with teaching cases (also prepared by HIID) an attempt to bring the user more actively into the learning activity.

A final note is that the success of PISCES in becoming so well known was probably enhanced by the choice of a name that is an easy-to-remember, evocative word, just as military and space operations are named. This name contributes to a sense that the project is unique and important. Ease of recognition and recall probably help in marketing. The choice of the name ARIES, which links the newer component to its predecessor, is also appropriate.

## Conferences and Seminars

The SEAE project also scores well on dissemination through live presentations. Three methods have been used to good effect: major inter-organizational conferences on small enterprises, smaller project-related seminars or working sessions on specific

issues, and presentations by SEAE contractors in other fora. PISCES, in particular, was discussed in four large gatherings, one each in Asia, Africa, Latin America and the U.S. By all accounts, these were essential in making PISCES work well-known, particularly to practitioners outside A.I.D. The broader SEAE findings have also figured highly in two major conferences, the 1986 New Directions conference, primarily for A.I.D. staff, and the 1988 International Conference on Microenterprise, attended by a wide audience from international organizations. Neither of these were project financed, but were linked to SEAE because Michael Farbman, Ross Bigelow and others on the A.I.D. staff who have managed SEAE also managed these conferences for A.I.D. Again, these events are well-regarded.

ARIES has made greatest use of the shorter day seminars, holding seminars on microenterprise assistance for Africa, information technology and financial sector innovations. As noted elsewhere (Rhyne), MSU had been scheduled to carry out similar seminars, but chose instead to fulfill the same function through outside presentations. While outside presentations are valuable for broader dissemination, they are no substitute for internal seminars at which selected professionals examine a specific set of findings, thus testing the findings and providing important feedback.

Outside presentations by SEAE contractors of SEAE-related material are far too numerous to list. Paul Strassmann and Carl Liedholm of MSU and Jeffrey Ashe of ACCION have been particularly active in this area.

In sum, the SEAE project has used a full range of events as opportunities for dissemination, and has reached a diverse audience. In future project design, it should be kept in mind that a complete dissemination strategy would include all three types of events, as each reaches a different audience and serves a different function.

## PART IV. FUTURE DIRECTIONS AND RECOMMENDATIONS

This section discusses recommendations for future actions to be taken by A.I.D., and particularly by S&T/RD/EED, in the field of small and microenterprise development, using the now-familiar headings, learning and teaching. This is done with special cognizance of the 1987 microenterprise legislation, which directs A.I.D. to increase the amount of assistance it provides to the smallest enterprises, and of the 1988 Growth and Equity through Microenterprise Investments and Institutions (GEMINI) Project, which is expected to take up where SEAE leaves off. In general, the shift in balance from mainly learning to mainly teaching that has occurred in SEAE should continue: future projects should contain major service and outreach components. The last part of this section contains a few recommendations about the broader applicability of the SEAE model, that is how A.I.D. should structure similar projects in other fields.

### Future Directions in Learning

This section discusses learning about three subjects: small enterprises themselves, credit delivery, and technical assistance.

The research on the nature and role of small enterprises, carried out by MSU, provides a solid basis for continuing to assist small enterprises, as well as clues on which enterprises to assist. At this point, future research should go beyond the parameters MSU examined. In individual countries there will continue to be demand for sector surveys of small enterprise and for subsector studies of particularly important enterprise groups. These demands will represent legitimate needs in the policy and project planning processes of specific countries. Through SEAE, A.I.D. has invested in human capacity and methodologies for carrying out sector and subsector studies, and has developed data for international comparison. These should be brought to bear on new inquiries. The subsector-based approach to analysis of small enterprise should be especially encouraged, as has been discussed at length in the detailed evaluation of the MSU work under SEAE (Rhyne).

A gap remains in the state of knowledge about what happens to enterprises over time. This is an important subject both for economic research and for policy and project design. Better knowledge is crucial for showing that interventions can be effective. The limited ability of the development profession to show how changes or inputs affect enterprises is largely responsible for the somewhat defensive posture that advocates of microenterprise development are often forced to take. It is

particularly important to know what happens when needs are supplied or constraints removed. In the case of credit, for example, few studies, either within the SEAE framework or outside it, have examined the effect on enterprises of receiving loans. Impact evaluations, such as those under the DAI evaluation component, sometimes attempt to measure changes in businesses, but even the best devote most of the attention and resources to specific project performance, rather than to learning about the small enterprises themselves. A systematic look at small enterprise behavior over time would require longitudinal data, which is expensive to collect and requires repeated surveys. Despite the expense, at least some research is needed whose sole focus is the behavior of enterprises over time and their responses to changes and specific inputs. Another gap in data is represented by non-manufacturing enterprises, who are, in fact, the bulk of project beneficiaries. Little is known about their relative efficiency or their relationships to other industries.

In addition to learning about small enterprises, the SEAE project has investigated means of assisting them: credit, technical assistance and the organizations that supply them. Knowledge about credit delivery is relatively well advanced, thanks in part to PISCES and ARIES. At this stage, most of the tasks are on the teaching side, to ensure that lessons learned about credit delivery are applied in projects. The main learning needs are these. First, A.I.D. should continue assessing the performance of credit projects, with a view to understanding the characteristics of good ones, and the standards (e.g. in cost effectiveness) that they can be expected to achieve under various conditions. This is an ongoing function. Second, A.I.D. should examine ways to scale up credit projects to financial institutions in order to reach more borrowers. This requires more analysis of the potential for using financial institutions. Surprisingly little work has been done here, as most of the attention of SEAE has been devoted to learning about PVOs. PISCES, DAI and ARIES have dealt with specific financial institution projects, particularly in connection with the BKK project paradigm. It is time for a more systematic look.

Much more learning remains to be done in the area of technical assistance delivery. The initial investigations of technical assistance projects have been discouraging, and point away from traditional technical assistance, which usually consisted of management and bookkeeping training for business owners. Nevertheless, SEAE has identified some potential bright spots, and these should be pursued. They include the PISCES suggestion about participatory approaches to delivery, the suggestion by MSU and others about a "missing ingredient" approach, and the potential for using subsector analysis as a means of identifying potential points of intervention. These require systematic investigation. It is also time to return to PISCES I and begin to explore some of the assistance methods that PISCES I covered

which were subsequently set aside in SEAE. These include marketing and production assistance, and technical training.

The project orientation of these questions, and the current state of knowledge (i.e., we know something about them, but in an anecdotal form) suggest that demonstration projects along the lines of PISCES II would be highly suitable ways of exploring improved technical assistance methods.

## Future Directions in Teaching

It is on teaching and outreach that the next generation of S&T work, such as GEMINI, should concentrate. One main task of GEMINI must be to carry the lessons of SEAE throughout A.I.D. as the agency expands its microenterprise portfolio in response to the 1987 legislation. This requires a combination of training of A.I.D. staff and technical assistance to mission project development efforts. S&T should continue to make technical assistance available along the lines of ARIES. It should also investigate ways of present SEAE lessons in regular staff training sessions, including training for private sector officers, agriculture officers and program economists.

As this report is written, an unanswered question is how well the lessons of SEAE have been incorporated into A.I.D.'s total portfolio of microenterprise assistance. It is known that the worldwide portfolio includes a large number of microenterprise projects, but little is known about their quality. Do they follow the basic SEAE lessons, regarding such things as cost-effectiveness, cost recovery of credit, target groups, type of technical assistance, and support for implementing organizations? A stocktaking exercise underway in late 1988 should begin to answer such questions, and will help define the magnitude and nature of the internal education process needed.

One specific step that has already begun to be requested is guidance to project officers on the design of microenterprise projects. SEAE has shown that there is not one "right" way to design a microenterprise project, but that both project design and A.I.D.'s role must vary considerably depending on local conditions and ultimate objectives. Thus, guidance in the sense of a set of rules would be inappropriate. Rather, guidance in the spirit of SEAE would help project officers through the process of design, and it would aim to help project officers design projects with better chances of succeeding. Topics to be covered would include how to assess the needs of local microenterprises, how to select and support implementing organizations, how to think about cost effectiveness, as well as what does and does not work in credit and technical assistance. It would also provide a guide to the extensive SEAE and related literature and sources of assistance.

The second prong of the next generation of outreach efforts should focus on the implementing organizations for microenterprise projects, or as they are called in ARIES, resource institutions. The sheer number of organizations and personnel to be reached is quite large. The need is greatest among indigenous PVOs, which are both the most numerous and in general the least equipped. ARIES has laid the groundwork for reaching these organizations in its training materials, cases, the AskARIES knowledgebase, technical assistance and custom design of training sessions. All of these activities should continue, as the need for them will remain strong after ARIES is completed. Because of the nature of the ARIES mechanism, it has tended to provide its direct technical assistance as a one-time, short term task, generally at the policy and project design stage, or in evaluation. Future efforts should attempt to: 1) become involved with organizations over a more extended period of time, such as through periodic visits by the same technical assistance group, and 2) become involved during implementation, when most of the nitty gritty organizational management questions arise, rather than only in the beginning, when all is abstract. This type of involvement would enable a stronger contribution by the technical assistance and training teams to institutional capacity-building. The difficulty lies in finding the mechanism through which such assistance could be provided. It may be that ongoing support would have to be written into project papers, something difficult for S&T to plan for in advance.

Finally, in order to reach a broader array of organizations than those which receive direct A.I.D. support, traditional dissemination efforts, including distributing publications and conducting seminars and conferences, should move outside the United States. Contacts for distribution of publications should be systematically sought and maintained in developing countries, and conferences and seminars should be held as often as possible in developing countries. Of particular potential benefit is the continuation of the case program begun under ARIES, with a strong dissemination and trainer training program behind it.

## Recommendations for Central A.I.D. Projects

The SEAE Project should serve as a model for A.I.D. whenever the objective is to learn about a relatively new area and to communicate that learning to development organizations, including A.I.D. itself. The elements of SEAE that are most important to replicate are, first, its continuity of effort over an extended period of time, which has allowed lessons to be generated, tested and released; and second, its integration of training, technical assistance and other outreach activities with the learning and research process. When both learning and teaching are incorporated into one overall effort, both can be enhanced. The

best way to integrate these is to give any contractor with responsibility to supply technical assistance the additional responsibility of pursuing specific investigations that are related to the technical assistance assignments. Alternatively, any contractor with primary responsibility to do research should be required to carry it out in conjunction with specific mission needs. The point is to build an element of self-discipline and broader perspective into the tasks assigned to contractors, so that they will maximize the value of their field work. If this approach is followed, it requires that core funds be made available and that buy-ins not be the sole managerial indicator of project success.

In addition, SEAE's success depended on the ability of A.I.D. to keep the momentum in-house, through S&T/RD/EED, including the ability to amend the project after preliminary results came in, and to change contractors so that the type of contractor would be appropriate to the current task.

Further recommendations include the following:

- Fund major publications through projects, giving the contractor or cooperator responsibility and incentives for production and distribution. Tie publications to conferences as both means to ensure timely completion and initial marketing devices.

- In designing plans for conferences and seminars, consider three types of activities, which are not mutually exclusive, and which all belong in a comprehensive dissemination program: small seminars to provide exchange of ideas among professionals, major conferences to present relatively complete results to a broad audience, and external presentations by project staff to introduce the results to even wider groups.

- Expand the use of cases as a training method both for A.I.D. personnel and for host country institutions, whenever the aim is to strengthen organizational planning and decision making capacity, regardless of subject area.

- Select evocative names for major agencywide projects to promote dissemination of project outputs.

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