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**Apex Study of the  
Small Enterprise  
Development  
Program of  
Catholic  
Relief Services  
Senegal**

*GEMINI Technical Report No. 36*

**GEMINI**

**GROWTH and EQUITY through MICROENTERPRISE INVESTMENTS and INSTITUTIONS  
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**Apex Study of the Small Enterprise  
Development Program  
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Senegal**

**by**

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## TABLE OF CONTENTS

	<u>Page</u>
<b>ACRONYMS</b>	v
<b>EXECUTIVE SUMMARY</b>	vii
<b>SECTION ONE</b>	
<b>CRS/SMALL ENTERPRISE DEVELOPMENT PROGRAM</b>	1
<b>DESCRIPTION</b>	1
<b>PROGRAM ACCOMPLISHMENTS, STRENGTHS, AND WEAKNESSES TO DATE</b>	2
<b>Strengths</b>	2
<b>Weaknesses</b>	2
<b>SECTION TWO</b>	
<b>PROGRAM EXPANSION: APEX ORGANIZATIONS</b>	5
<b>AN APEX ORGANIZATION AS EXPANSION STRATEGY</b>	5
<b>EXPANSION THROUGH EXISTING APEX ORGANIZATIONS</b>	6
<b>The InterEntente de Groupements Associés au Sénégal</b>	6
<b>Union des Chambres de Métiers</b>	8
<b>Federation of Nongovernmental Organizations of Senegal</b>	8
<b>EXPANSION THROUGH CREATING AN APEX ORGANIZATION</b>	9
<b>SECTION THREE</b>	
<b>CONCLUSIONS AND RECOMMENDATIONS</b>	11
<b>SECTION FOUR</b>	
<b>OPERATIONAL MODEL</b>	13
<b>OBJECTIVES</b>	13
<b>ORGANIZATIONAL STRATEGY AND ADMINISTRATION</b>	13
<b>MODEL FOR PROVIDING SERVICES TO MEMBER ORGANIZATIONS</b>	14

<b>Institutional Strengthening</b>	<b>15</b>
<b>Financial Management</b>	<b>16</b>
<b>Financial Assistance</b>	<b>17</b>
<b>STRATEGIES FOR EXPANSION</b>	<b>18</b>
<b>Location</b>	<b>18</b>
<b>Selection of Partners</b>	<b>18</b>
<b>Promotion of Village Banks</b>	<b>19</b>
<b>Management Information Systems</b>	<b>19</b>
<b>Saturation of Geographical Areas</b>	<b>20</b>
<b>ANALYSIS OF FINANCIAL SUSTAINABILITY</b>	<b>21</b>

**LIST OF FIGURES AND TABLES**

<b><u>Figures</u></b>		<b><u>Page</u></b>
<b>1</b>	<b>Organizational Structure</b>	<b>13</b>
<b>2</b>	<b>Summary of Services to be Provided</b>	<b>15</b>

<b><u>Table</u></b>		
<b>1</b>	<b>CRS/SED-SN Program Outreach</b>	<b>21</b>

**ACRONYMS**

<b>CMD</b>	-	<b>Chambre de Métiers de Diourbel</b>
<b>CONGAT</b>	-	<b>Conseil des Organisations Non Gouvernementales d'Appui au Développement</b>
<b>CRS/SED-SN</b>	-	<b>Catholic Relief Services Small Enterprise Development program in Senegal (also (RS/SEd)</b>
<b>EGABI</b>	-	<b>Entente des Groupements Associés de Birkilane</b>
<b>FONGS</b>	-	<b>Federation des Organisations Non Gouvernementales du Sénégal</b>
<b>MIS</b>	-	<b>Management Information System</b>
<b>NGO</b>	-	<b>nongovernmental organization</b>
<b>ONCAD</b>	-	<b>National Office for Cooperation and Development Assistance</b>
<b>PACT</b>	-	<b>Private Agencies Collaborating Together</b>
<b>UCM</b>	-	<b>Union de Chambres de Métiers</b>

## EXECUTIVE SUMMARY

The purpose of this study is to analyze the possibility of creating an apex institution that would serve as a vehicle for expanding the Small Enterprise Development program of Catholic Relief Services in Senegal (CRS/SED-SN, referred to in the text as CRS/SED).<sup>1</sup> This study draws on the experience of the Asociación Grupos Solidarios de Colombia (Association of Solidarity Groups of Colombia) in creating apex organizations, which was documented in the apex study of the same name.<sup>2</sup>

The study is divided into four main sections. The first section presents a brief description of the SED program, the village bank methodology it employs, and the organizations that implement it. It also describes the main program accomplishments, strengths, and weaknesses to date.

The second section analyzes the advantages and disadvantages of expanding through apex organizations that already exist. This section also outlines the different issues involved in creating an apex institution to support the expansion of village banking programs in Senegal.

The third section presents the main conclusions of the study, and the fourth proposes an apex organization model for the CRS/SED program in Senegal. The model covers specific components such as the organizational and administrative structure, management information systems (MISs), services to be provided, staffing needs, and financial sustainability. It also proposes expansion strategies based on the abilities of partner institutions to implement the program, the methodology to be used, support systems available to the program, and geographic saturation.

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<sup>1</sup> An apex organization is one that coordinates several other organizations and provides services to its members. The term is used commonly in the small enterprise development field.

<sup>2</sup> Alfonso, Arelis Gomez with Nan Borton and Carlos Castello. "Apex Study of the Asociación de Grupos Solidarios de Colombia." GEMINI Working Paper No. 28, April 1992.

## **SECTION ONE**

### **CRS/ SMALL ENTERPRISE DEVELOPMENT PROGRAM**

#### **DESCRIPTION**

The Catholic Relief Services/Senegal Small Enterprise Development Pilot Program in Senegal (CRS/SED-SN, referred to henceforth as CRS/SED) began operating in September of 1990. The main objective of the program is to build the capacity of participating organizations in providing small enterprise development services to their members. The participating organizations — the Entente des Groupements Associés de Birkilane (EGABI) and the Chambre de Métiers de Diourbel (CMD) — receive technical assistance in improving their managerial capacity and financial support in implementing the program.

The pillars of the program are a village bank project for providing self-help loans to small farmers and a revolving fund for artisans that operates through solidarity groups. The village bank methodology promotes community-managed credit and savings associations established to improve members' access to credit, build a community self-help group, and help members accumulate savings. Village banks, with memberships of 50 to 100 women, provide small working capital loans starting from \$50 and ranging to \$300, in direct proportion to their borrowers' savings. Each bank's members elect a committee to manage banking operations. The solidarity groups methodology calls for four to six microentrepreneurs to collectively guarantee the credit provided through the group mechanism. The group as a whole is responsible for the debt of each individual member.

EGABI receives CRS/SED funds to provide collective loans to the village banks. The credit line is expanded in direct proportion to the banks' collective savings at the end of a four-month cycle. Banks are expected to graduate from the external loans after three years (nine cycles). CMD receives CRS/SED funds to provide group loans to artisans.

EGABI is a village association of farmers created in 1986. The association operates through a pyramidal structure of 13 subcommittees (corresponding to 13 villages) integrated into 3 committees (corresponding to 3 communities). These committees form the EGABI, which is itself part of a nine-village-association network called the InterEntente des Groupements Associés au Sénégal. EGABI carries out agricultural and related activities — cattle fattening, cereal banking, gardening — and offers classes in literacy, petty trade, savings, and credit. Currently the organization includes 730 farmers, of whom 408 are women.

CMD is a network of 10 artisan associations promoted by the government. The network has 930 members and offers credit, training, and management services to small artisans involved in production, commerce, and service activities. CMD is one of 10 chambres around the country promoted by the government and the only such organization that has implemented a credit program with local funds. It is affiliated with the Union des Chambres de Métiers (UCM).

## **PROGRAM ACCOMPLISHMENTS, STRENGTHS, AND WEAKNESSES TO DATE**

### **Strengths**

The program manager has proven instrumental in effectively managing the program, adapting the village bank methodology to local conditions, and building a very good relationship between CRS and the participating (nongovernmental) organizations (NGOs).

The SED program is working successfully, although on a small scale. EGABI has 14 village banks operating with 600 members; 54 percent are women. CMD has provided loans to artisans who have no access to formal sources of credit.

Participating organizations and beneficiaries expressed high satisfactions with the program during the interviews. Indicators of this satisfaction are repayment rates of 100 percent in both external and internal accounts. Program results have attracted other villagers; for example, EGABI has grown from 800 members in 13 villages at the beginning of the project (September 1990) to 2,000 members in 30 villages.

Commitment of the participating organizations to the program is high, as reflected in their active involvement in program follow-up and their interest in expanding the program to a broader membership.

### **Weaknesses**

#### **At CRS Level**

Communications and program monitoring have been difficult because project sites are far from CRS offices in Dakar (four hours) and telephone systems are deficient. The fact that CRS/SED is understaffed worsens the situation. Only two people are in charge of management, technical assistance, and monitoring of the program.

There is a need for staff with strong financial backgrounds to assist partner organizations in designing self-sufficiency strategies and creating mechanisms for sound portfolio management.

CRS/SED is still having problems with adapting the program to local conditions given local NGOs' lack of experience in this kind of credit scheme.

The CRS/SED staff does not have enough exposure to the experiences of similar programs in other countries. Senegal's lack of successful credit programs slows the learning process in this area, as does the limited availability of written materials. Most literature on microenterprise lending comes in English or Spanish and is rarely translated into French.

Although it has accomplished much in the areas of monitoring and management of information, CRS/SED has not sufficiently developed indicators to measure changes in NGOs' productivity or to evaluate the program impact on the beneficiaries.

### **At the Participating NGO Level**

Although the managerial capabilities of the partner organizations have improved as a result of CRS's assistance, the capacity for program expansion is still limited by the organizations' lack of managerial and technical skills in tracking interest rates, defining self-sufficiency levels, and establishing credit delivery and collection methods. The SED principles of efficiency and effectiveness are new among Senegalese organizations. Most have poor financial management, extension methods, and monitoring mechanisms. At the end of Phase I of the program, the participating organizations are just beginning to learn about relationships among interest rates, inflation, loan terms, decapitalization, and portfolio rotation.

In the case of EGABI, a 99 percent illiteracy rate among the membership poses severe limitations on the program administration at both levels, EGABI's and the village banks'. Despite CRS's assistance, management practices at EGABI still remain very basic, though hiring a clerk has improved reporting.

The self-sufficiency capabilities of the implementing agencies, which currently depend on outside resources for program and administrative support, are limited. CMD depends heavily on government funds for operations. The already scarce financial resources available to the organization are used mostly for administrative purposes. Similarly, EGABI does not have any significant source of resources other than member contributions and limited funding from the InterEntente.

### **At the Field Level**

The village banks are facing problems with the management of the internal account, and in fact, the president of one of the banks has been accused of corruption. Even though the committee leaders are strong, they lack the skills required to manage savings and loan programs.

In the case of CMD, group loans are not working as expected. As originally conceived, solidarity groups would guarantee artisans access to loans without requiring hard collateral. In reality, however, artisans prefer to provide the necessary collateral and take out individual loans for similar or even larger amounts through a separate CMD credit fund.

The program goal of increasing the participation of artisans in the CMD has not been accomplished. The artisans are represented in the CMD by the president and 10 commissions that oversee different administrative and technical aspects. The commission members have not rotated for the past 10 years. The general election aimed at the renewal of the three commissions directly involved with the implementation of this program (animation, training, and finance) was unsuccessful, and 95 percent of the former members were reelected. The idea of changing the members of the commissions met with strong resistance from the artisans, the major argument being that they did not want to replace those who had committed themselves to the CMD for so many years. Given the results of the election, the planned training for the commissions did not take place.

## **SECTION TWO**

### **PROGRAM EXPANSION: APEX ORGANIZATIONS**

#### **AN APEX ORGANIZATION AS EXPANSION STRATEGY**

As the pilot phase of the program reaches an end, CRS/SED Senegal is seeking strategies to expand the village bank program to reach a larger number of beneficiaries. The main idea is the creation of an apex organization as the vehicle that would assist partner organizations in scaling up their operations.<sup>1</sup> This expansion strategy is expected to result in the strengthening of a number of institutions as the way to ensure that sustained development efforts through the SED will reduce poverty over the long term. CRS has also sought the possibility of adapting the experience of the Asociacion Grupos Solidarios of Colombia, an apex organization that has successfully used a savings and loan cooperative as a financial mechanism for mobilizing domestic resources.<sup>2</sup>

The promotion of an apex organization as a model of expansion is seen by CRS and other donors as having significant advantages over the current one in which donors operate individually with counterparts and therefore do not pool their efforts into an overall program of wide scope and impact.

Current CRS/SED partners are undergoing a gradual process of consolidation that is yielding administratively sounder organizations. Yet much more remains to be done, particularly in the area of personnel training, before the partners are capable of handling increased lending to the target groups. The program's expansion will require the contributions of several partners. In this context CRS support would be greatly facilitated by the creation of an apex institution that would act as a link between CRS and the implementing agencies.

As increasingly recognized by most donor agencies, the creation of an umbrella organization can serve the needs of several implementing agencies and provide other donors with a vehicle to more efficiently allocate scarce development resources. In this sense an apex organization has significant advantages in raising both national and international resources. Most donor agencies interested in supporting microenterprise programs prefer to provide large grants through an apex organization rather than small and limited financing to each program.

The SED village bank program is too new and most NGOs too inexperienced to involve themselves in an expansion venture while they are still struggling with understanding the methodology and strengthening their own programs. High arrears rates and administration costs as well as low absorption capacity of the revolving fund are prevalent characteristics among most credit programs in Senegal. Any scaling up in operations will require a large institutional strengthening component. The apex organization could play an instrumental role in strengthening the managerial capabilities of the implementing organizations and in introducing new methodologies.

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<sup>1</sup> Scaling up is another term used widely in the field of small enterprise development, and means expansion.

<sup>2</sup> See "Apex Study of the Asociacion Grupos Solidarios of Colombia."

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An apex organization could take advantage of the opportunities for economies of scale that a group of institutions with common programs could offer. SED expansion efforts in Senegal will require major investments in strengthening the managerial capacity of the implementing organizations. CRS could minimize the cost involved in the provision of technical assistance, staff training, fund raising and supervision, and other services which, as experience has shown, are essential to institutional strengthening and scaling-up operations.

The creation of an apex organization would enable CRS to institutionalize SED program efforts in Senegal. The apex would also play a role in giving unity, continuity, and direction to the CRS/SED efforts in the country and serve as an excellent vehicle for methodology implementation, program expansion, and channeling of financial resources. It would become a forum for exchange of information and experiences among the participating organizations.

Scaling-up efforts require high levels of financial assistance. An apex could play a key role as financial intermediary that could not be played by NGOs individually. It could channel external financial resources and, most importantly, tap local resources, in particular the village banks' savings. The mobilization of domestic resources is particularly important as NGOs' access to external financial resources is becoming very difficult.

The experience of apex organizations in Senegal, such as the InterEntente, the Federation des Organisations Non Gouvernementales du Sénégal (FONGS), and the Conseil des Organisations Non Gouvernementales D'Appui au Développement (CONGAT), has demonstrated that a group of many institutions joined by a common development philosophy has a stronger political influence than institutions working separately. Apex members are able to influence local politicians and apply regional pressures that lead to changes at the national level.

A growing number of Senegalese NGOs have become interested in small and microenterprise development, and current partners are interested in expanding their SED programs.

## **EXPANSION THROUGH EXISTING APEX ORGANIZATIONS**

### **The InterEntente de Groupements Associés au Sénégal**

CRS/SED has considered the possibility of using an existing apex organization for the expansion phase of the program because several are already operating in the country. Among them, CRS favors grassroots initiatives such as the InterEntente de Groupements Associés au Sénégal. The InterEntente consists of nine ententes or village savings and loan cooperatives, among them EGABI, one of the two current SED partners. Programs of the InterEntente include literacy, cattle raising, cereal bank development, health, environmental protection, management training, and credit. The Ford Foundation, Agro Action, Bread for the World, and Diakonisches help finance the program.

The expansion of the SED program through the InterEntente offer several interesting possibilities. However, further analysis indicates that too many limiting factors are involved.

## **Outreach and Issues of Participation**

As a federation of nine ententes with nationwide scope (over 150 villages) and a membership of around 4,000 farmers (60 percent are women), the InterEntente offers a vast expansion and outreach potential to the SED program. The InterEntente and the ententes that integrate the network are grassroots initiatives which are perceived by CRS and other donor agencies as potential vehicles for responding to rural development problems, among them access to credit. By working through the InterEntente, CRS seeks to ensure that the beneficiaries not only benefit from but also control the financial and technical resources available to them.

Because farmers form the governing structure of the InterEntente, it appears representative. However, regional representation is skewed. First, the board members are primarily members of the Entente de Kompentoun, the oldest and largest Entente, as are the president and the executive director. Second, there are no clear policies regarding the distribution of resources among the membership; the board decides who should benefit and when. Third, as a result of the above, there is a strong perception among the ententes that the InterEntente is corrupt and inclined to favor the Entente de Kompentoun in program implementation and fund allocation. There is also the perception that the InterEntente is not interested in the growth of the ententes because they would become more autonomous.

## **Managerial Capability**

The InterEntente has been collaborating with CRS for several years through the different ententes with positive results and has over the years developed some experience in managing credit programs. Yet the InterEntente's management capabilities are limited, as are its experiences with credit programs. A charity-oriented approach to managing the credit program has resulted in a continued decapitalization of the credit fund. There is no organizational structure, and management relies on the work of board members and volunteers, the majority of whom are very strong leaders but have little financial or administrative background. For example, a seed distribution program with the Ford Foundation failed completely, reportedly due to poor management. Most donors recognized, however, that the program did give the InterEntente needed additional management experience.

A second major problem in the InterEntente management is a lack of transparency. The ententes do not know how resources are allocated, nor do they know how or where their own savings are distributed. An indicator of this is the claim of EGABI managers that they do not have knowledge of what the total balance of their savings with InterEntente is. All this has resulted in a loss of confidence from the ententes toward the management of the InterEntente.

## **Common Philosophy**

The InterEntente and its members use an integrated approach that has resulted in a multiplicity of programs and little or no specialization. The current credit program lacks methodological structure. Furthermore, the commitment of the InterEntente and its alignment with the SED principles of efficiency and effectiveness are not clear. In fact, indications are that the organization sees the program and CRS merely as a potential source of funding, without a clear understanding of its objectives.

In addition to the InterEntente, there are other apex organizations currently operating in Senegal, among them UCM and FONGS. As in the case of the InterEntente, the expansion of the SED program through these organizations is not recommended.

## **Union des Chambres de Métiers**

The UCM is a network of 10 artisan associations created in 1981 in an attempt by the government of Senegal to make artisans responsible for their own development. Its main role is to represent the general interest of its members before public institutions. It is also responsible for carrying out all government initiatives in the promotion of the artisanal sector, especially in providing assistance in vocational training, credit, and management. Program expansion through the UCM offers several advantages from an operational and legal standpoint.

Like the InterEntente, UCM has collaborated with CRS in the past. Presently, the Chambre de Métiers de Diourbel is one of the two current implementing organizations for the SED program. UCM comprises 10 chambres de métiers with a membership of over 5,000 artisans. As such, it offers CRS/SED a wide outreach potential.

The UCM has a well-developed organizational structure that consists of task commissions. The organization has developed support systems including one for the management of information. In recent years UCM has hired some qualified technicians. Administrative costs are mainly covered by the government, minimizing CRS support overhead and making more support available for technical assistance in program implementation.

From a legal standpoint, SED program operations depend on working through the UCM, due to its classification as a network owned by artisans. According to current Senegalese laws, only membership organizations are entitled to operate credit programs and mobilize savings on a regular basis.

A main drawback, notwithstanding the positive aspects, is that public institutions are still very influential in the CMD. The staff is composed mainly of current or past government appointees. Most positions within the administrative and the institutional structures are political, awarded with complete disregard for skills or capabilities. In fact, the governor of the region is the president of the commission. Furthermore, because of the government presence in the administration of the union, it would be very difficult for CRS to restructure the governing body to make it more operational and less political. In fact, as explained previously, CRS has already tried and failed to do so with the Chambre de Métiers de Diourbel.

UCM is perceived as a funding agency, and the sense of belonging of the members is very low. Again, because of its ties to the government, the union is seen by the chambres and their memberships as very politicized, bureaucratic, and corrupted. The organization does not have much freedom in designing its programs, which have to be approved by the government, the sole provider of funds. This restriction constitutes a potential threat to the SED; changes in the UCM governing structure or even in the government of Senegal could phase out the program.

## **Federation of Nongovernmental Organizations of Senegal**

FONGS is an apex organization composed of nongovernmental organizations that operate rural programs. As a potential vehicle for SED expansion, it offers nationwide coverage, strong grassroots leadership, well-developed organizational structure, and experience in managing credit programs. In fact, FONGS became a stockholder of the only remaining bank working with the small farmer, to ensure that agricultural credit would remain an important component of this bank's portfolio.

The federation has attracted international funding from the Ford Foundation and is currently negotiating assistance from Private Agencies Collaborating Together (PACT). The latter is an organization heavily involved in promoting and supporting apex organizations worldwide.

Notwithstanding its accomplishments to date, FONGS's experience in managing credit is limited mainly to agriculture-related activities. The program's performance has been very poor, as evidenced by default rates of over 30 percent of the loan portfolio during the past years. In addition, lack of transparent rules in fund allocation has resulted in lack of trust by the membership of the federation's management. Interest in any particular program is mainly fund-driven; FONGS's willingness to participate in SED is based more on financial opportunity than on conviction.

### **Expansion Through Creating an Apex Organization**

Given the constraints present in existing apex organizations, the creation of its own apex should be contemplated as an alternative for the expansion of the SED program in Senegal. In fact, lessons learned by CRS with the AGS in Colombia point to this as the most advisable alternative for a program as highly specialized as the SED. The creation of its own apex would give more focus to CRS/SED's efforts and allow the implementing agencies to offer specialized services. This alternative, however, entails several legal constraints, related to the apex organization's capability to operate a credit program and to mobilize savings.

The possibilities for establishing a cooperative financial facility to support the operations and credit activities of the SED program in Senegal are limited. The cooperative movement, composed of 2,500 cooperatives (1980), is discredited. Cooperatives are seen as poorly managed organizations, inequitable in their distribution of resources and highly corrupted. ONCAD (National Office for Cooperation and Development Assistance), the government body that regulates and supervises cooperative activities, is seen as bureaucratic and corrupt as well.

In an attempt to address the problems surrounding the cooperative movement, the government of Senegal established the Cellule D'Appui aux Opérations Bancaires Mutualistes. The cellule, created under the Ministry of Finance, is the government body in charge of proposing new legislation to regulate the activities of cooperatives and savings and loan programs. Any attempts to expand the SED program by creating a new organization should take into consideration the implications of changes in the regulations under the cellule proposal.

The legislation on the operations of nongovernmental organizations remains unclear as well. NGOs occupy a precarious position, particularly in the implementation of savings and credit programs. The government of Senegal has not yet decided on the role of the NGOs in these two areas. USAID has helped to initiate dialogue among the governmental and nongovernmental institutions concerned. However, for the time being, NGO credit programs that collect savings must comply with the banking law's 15.5 percent interest rate ceiling on loans. Programs that do not collect savings can currently charge up to 25.5 percent under the usury law as long as the credit operation is not repeated — that is, no more than one loan is made to the same borrower; otherwise it becomes a regular activity and as such should be regulated by the banking law. An additional constraint is that, at least in theory, only NGOs owned and run by beneficiaries are legally allowed to provide loans and collect interest. Because of the confusing regulations, many NGOs are not legally registered. Whatever legal entity the apex organization assumes, it will require special permission or agreement with the government to operate a credit and savings program, due to the uncertainties in what an organization can and cannot do.

At the implementation level, a set of constraints derives from the very negative history of credit programs in Senegal. Inefficient and corrupt government credit programs, the repeated cancellation of farm debt by the government (in 1971, 1973, 1978, and 1980), and its tolerance of loan default by the cooperatives has had a lasting impact on the mentality of the Senegalese borrower in general. For instance, repayment of agricultural debt has not been practiced or even expected. The Senegalese farmer is convinced that repayment is at most optional.

In addition, development programs are perceived as corrupt, political, or both. There is a lack of trust of any development scheme. Beneficiaries do not trust the NGOs and cooperatives, NGOs and cooperatives do not trust unions and other apex organizations, and unions do not trust the government. On the positive side, however, there is much trust in the work of CRS, which is perceived as grassroots oriented, transparent, and closely monitored. To the Senegalese, these characteristics imply less room for resource diversion, favoritism, and corruption.

## **SECTION THREE**

### **CONCLUSIONS AND RECOMMENDATIONS**

An apex organization could be a very good vehicle for expanding the SED program. It would enable CRS to continue supporting SED efforts in Senegal without working with many organizations simultaneously. It would also facilitate and attract the participation of other donor agencies. Given that financial resources for program expansion are limited, the apex would also allow CRS to take advantage of the economies of scale derived from working with a collective. It would provide a forum for exchange and dissemination of information. It would give small enterprise development programs in Senegal greater visibility and political clout.

The success of a new apex in Senegal is likely because of the strong interest of NGOs in participating in the SED program and that of current partners in expanding. There is a long history of group formation in the country, which could facilitate program implementation. The existence of apex organizations such as the InterEntente, UCM, CONGAT, and FONGS indicates the importance that Senegalese organizations place on working together as a united front. The fact that NGOs experience common problems makes even more rational the use of an apex organization as a vehicle for problem solving.

The results of the CRS/SED program have been positive. The village bank methodology, proposed by CRS as the credit mechanism for the expansion phase, has proven to be effective in reaching the poor in large numbers, at a low cost, and with high repayment rates. The methodology has also been effective in facilitating the implementation of credit and savings schemes through organizations with low levels of management capabilities.

Using an existing apex organization could accelerate the process of the program implementation because the organizational structures are already in place. Moreover, the outreach potential of these organizations is vast, as is their capacity for group formation. However, working through existing apex organizations is not advisable for several reasons. At present they all face serious image problems; their members perceive them as corrupted or politicized. They do not have the experience or managerial capacity required for scaling up program operations.

Poor management practices are the rule rather than the exception, and modern concepts of efficiency are not well known or even accepted in development programs. Misconceptions about interest rates and loan terms have led most organizations to adopt a paternalistic approach in assisting the poor. Although most have operated credit programs for many years, results have been quite disappointing overall. A prevalent government policy of pardoning the farmers' debt has created a misperception among farmers that repayment is optional.

Multiplicity of programs adversely affects specialization and program outreach. Most prevalent credit schemes lack any structure or methodological pattern. Therefore, CRS should not consider program expansion through an apex organization such as the InterEntente nor expansion through other existing apex organizations in Senegal.

Creating an apex would bring a high degree of specialization because all objectives, services, activities, and resources would be aimed exclusively at SED expansion. A new apex would facilitate commitment from NGOs, which trust CRS programs. Therefore, the image problems that plague existing apex organizations would not affect the SED program.

The expansion goals of the SED program, nevertheless, are limited by the low absorption capacity of most development organizations in Senegal. In addition to the management problems that these organizations face, they either do not have a credit technology that is appropriate for microlending (cooperatives), or they have one that it is far too expensive (NGOs). Most development organizations are small and unlikely to realize economies of scale.

Even with extensive support in institutional capacity building, institutions might take several years to develop an absorption capacity sufficient to handle a large credit fund. In addition, NGOs have the drawback that they cannot conduct normal savings business with the public.

The main limitation of creating an apex organization, however, is the legal constraints. The legislation on the operation of savings and loan programs for NGOs is unclear. The cooperative sector is discredited, and the government is in the process of approving new legislation that will define the role of credit and savings programs. Until then, the creation of the apex organization in Senegal, given the numerous constraints involved, should wait at least until the new legislation on cooperatives, credit, and savings programs is approved.

Meanwhile, CRS should further develop its own capacity to successfully implement a scaling-up phase of the program. A first step in this direction would be to centralize the operations of the SED program with the creation of a center. This centralization would provide the program concentration that is necessary to scale up its operations. At the same time, the center would provide a mode of operations, a precursor to the creation of an apex organization. The successful experience of CRS Thailand in developing such a center could provide some useful examples for implementation. A proposed operational model for the center is described in the next section.

## SECTION FOUR

### OPERATIONAL MODEL

#### OBJECTIVES

The general objective of the center is to foster the expansion of the SED program in Senegal. Specific objectives are to strengthen the capabilities of participating NGOs to manage growing operations and to provide the necessary financial support for the credit funds of these organizations. As the organizations grow in strength, the role of the center will become that of financial intermediary for SED programs.

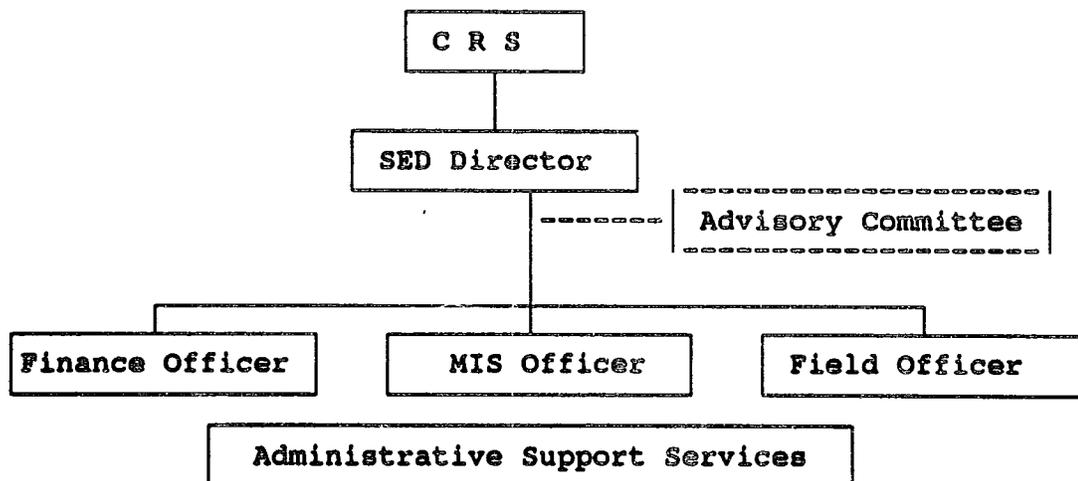
The center would be responsible for the program execution of the credit component, the coordination of the technical assistance and training to be provided to the NGOs, and the selection of the implementing organizations.

#### ORGANIZATIONAL STRATEGY AND ADMINISTRATION

The administration of the center must be based on the same SED principles it promotes among the member NGOs: cost-effectiveness and self-sufficiency. The staff should be kept to the minimum required for effectiveness and should be composed of highly qualified people at all levels. Experience has shown that the strengths of the services of an apex organization lie in the qualification of the staff providing those services. A well-qualified staff is crucial in accelerating the learning process of both the center and the partners to improve program performance. The proposed organizational structure of the center, as shown in Figure 1, is service oriented: management, finance, information systems, methodology, and follow-up.

FIGURE 1

#### ORGANIZATIONAL STRUCTURE



The **SED Program Director** would be in charge of the program management. The director could also provide technical assistance to the NGOs in managerial aspects of the program. He or she would also act as the liaison with the CRS central office in Dakar.

The **Advisory Committee**, made up of representatives of the partner NGOs, donor agencies, and program beneficiaries, would provide recommendations on the various program issues and policies. The committee would also act as a vehicle through which program beneficiaries would voice their concerns. As long as the program is managed directly by CRS, the committee would have no decision-making power; however, it could be transformed into a government body if the SED center becomes a legal apex organization.

The **Finance Officer** would be in charge of developing financial (self-sufficiency) strategies for both the center and the NGOs, including cost-recovery, credit delivery and collection methods. He or she would also promote the systematization of key accounting and portfolio management tasks in the participating NGOs.

The **MIS Officer** would develop data collection, monitoring, and evaluation for computerized systems.

The **Field Officer** would be in charge of providing technical assistance in methodology and monitoring program development. He or she would act as the link between the NGOs and the center.

The **Administrative Assistant** would provide secretarial as well as administrative support to the center.

The staff should cover the crucial areas in scaling-up operations: finance, administration, methodology, and monitoring and evaluation. Strengthening of these areas must take place simultaneously, as they are complementary and interdependent.

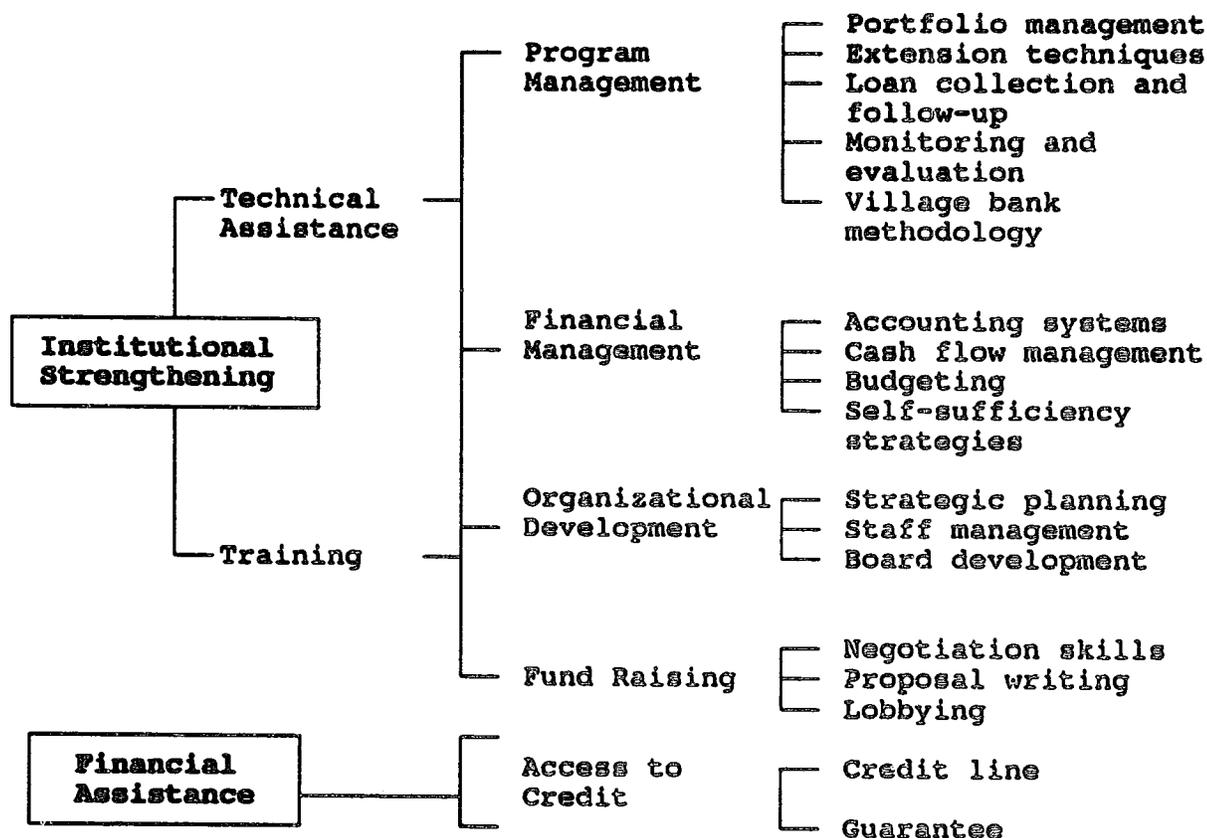
It should be noted that at the commencement of operations all the staff (including the director) might be performing field work. Given budget limitations, the Field Officer and the MIS Officer could be recruited from the Peace Corps or agencies such as International Voluntary Services and the Japan Voluntary Agency. This practice would enable the center to have as much staff as program operations required.

## **MODEL FOR PROVIDING SERVICES TO MEMBER ORGANIZATIONS**

The proposed model for providing services to the member organizations (Figure 2) envisions two main components: institutional strengthening and financial assistance. Both components would be oriented to assist the implementing organizations in carrying out the program; they would not directly target the village banks. The model assumes that by strengthening the organizations in providing their services, the target groups would also be strengthened.

FIGURE 2

## SUMMARY OF SERVICES TO BE PROVIDED

**Institutional Strengthening**

The expansion phase of the SED program would require a model that contained a strong institutional strengthening component. Scaling-up objectives could not be achieved without solid administrative structures in the implementing NGOs. This component would address the following current problems among Senegalese NGOs: poor administrative practices; lack of self-sufficiency strategies; charity-oriented approach to service the poor; poor performance history of the credit programs; and lack of a structured methodology for providing credit and related services.

The main tools of the institutional strengthening component are technical assistance on a one-to-one basis and group training to participating institutions. Both would concentrate on very specific topics and would be provided by the center's staff or in coordination with suitable qualified public or private agencies and private consultants. Training sessions should be attended by program directors and field staff. The center would play a role in collecting and developing support materials such as manuals, training modules, and films to be used by the participating NGOs.

Technical assistance and training could be subsidized, at least until the implementing NGOs reach self-sufficiency levels. Nevertheless, NGOs should be required to pay an appropriate share of the costs (a 25 percent minimum) to ensure that they have a genuine interest in receiving the assistance being offered to them. Program areas to be covered include the following:

## **Program Management**

The center would provide training and technical assistance to NGOs' management and field staff in the areas of portfolio management, loan delivery and collection, and monitoring and evaluation. Within these areas, field staff training in credit analysis and follow-up are key in achieving a sound portfolio. In addition, NGOs should be trained on cost-recovery methods and effective extension models for delivering technical assistance to Village Banks.

Because the village bank methodology is new in Senegal and still in the process of adaptation, the center also needs to provide training and technical assistance on methodological aspects of the program. These would include ways to adapt the village banking program to local needs and target beneficiaries, particularly in aspects such as loan amounts, loan ceilings, terms, and frequency of repayments. The current village banking manual was designed to serve the urban poor; any rural scheme should be subject to continuous monitoring and adaptations. The center should also be innovative in devising ways to improve attendance of community bank meetings and in training field staff in transferring skills to the village bank committees (so that the latter could train their members — training of trainers), developing leadership, and managing internal accounts.

The SED program should consider measuring group graduation according to other indicators in addition to savings rate. Management levels of the internal accounts, management capabilities of the committee, group cohesion, dropout rates, default rates, and other indicators could measure the ability of the group to operate on its own. The savings rate only indicates that the group has sufficient resources in the credit fund to operate by itself; it does not indicate the capacity of the group to manage that fund or the cohesion that would enable the group to stay together when the promoting NGO is gone.

The center would provide technical assistance and training to implementing NGOs in developing data collection, monitoring, and evaluation mechanisms. The center would also play a role in teaching the NGOs the use of program statistics as key tools in management, decision making, and leveraging financial resources from donors. The computerization of the data management systems would be instrumental in increasing productivity and in improving the management and monitoring of the program expansion. Critical tasks in accounting, portfolio management, impact evaluations, and internal control require the use of computers.

## **Financial Management**

Financial self-sufficiency is intimately tied to the interest policy and the productivity of the programs. The center needs to devise strategies for self-sufficiency, interest rates, and cost-recovery systems from interest income flows. Participating NGOs need to improve their knowledge of SED basic principles:

- Efficiency and effectiveness (minimum costs with maximum impact);
- Nonsubsidized interest rates;
- Self-sufficiency;
- Short-term loans;
- Frequent installments;

- Easy transaction procedures;
- Innovative collateral; and
- Quick disbursement.

NGOs also need further training in cash-flow management: calculation of interest rates (different methods); effects of these calculations on income; differences in nominal versus effective interest rates; effect of loan terms (and portfolio rotation) on program self-sufficiency; effects of inflation on the revolving fund (decapitalization); and effects of short- versus long-term loans on the portfolio, among others. Formal accounting practices and budgeting must be established as well.

### **Organizational Development**

The center should provide assistance in short- and long-term planning, including the definition of goals, establishment of qualitative and quantitative indicators of achievement, and budgeting. The center would provide assistance in the areas of organizational structures, board development, and staff selection, management, and evaluation.

Training would include an educational process with NGOs' board members and staff to develop a philosophical consensus regarding the scaling up of operations. This consensus would cover all the implications of operational and financial self-sufficiency, including interest rate policies and the role of training and business assistance. The institutions must understand their roles as development agencies. The traditional welfare mentality has to change, and implementing organizations should be run with an entrepreneurial approach.

### **Fund Raising**

The center would guide institutions in the development of fund raising plans, proposal writing, negotiation of lines of credit from formal sector financial institutions, and lobbying with government agencies as well as national and international donors. Assistance would include techniques to obtain materials, equipment, services, and other in-kind gifts.

### **Financial Assistance**

The medium-term goal of the center is to become a financial intermediary for the implementing organizations. This financial intermediary role is essential for the NGOs' achievement of the scaling-up goals as well as for the center's achievement of its own financial self-sufficiency. The center would play a role in ensuring that the implementing NGOs do not rely only on the availability of inexpensive lines of credit but develop a role as agents of domestic capital mobilization. Program objectives would include channeling resources from national and international donor agencies, facilitating the programs' access to formal financial sector credit, devising strategies aimed at mobilizing and managing the program beneficiaries' savings to increase the implementing institutions' loan portfolios or leverage third-party loans.

The financial component of the program one-year would start with the creation of a line of credit that would provide short-term (one-year) loans to participating NGOs. Loan qualification criteria for

fund allocation must be clearly defined based on the absorption capacity of the implementing organization. In order to ensure the fund's sustainability, the interest rate charged on loans would reflect the inflation rate, administrative costs, and a reserve for default loans.

Funds would be provided at an interest rate equal to the prevalent inflation rate plus 4 percent annually for administrative costs and a reserve. The NGOs would use these funds to extend short-term (four month) credit to the village banks at 2 percent monthly or 24 percent annually. The center should require counterpart financial resources from the implementing organization as an indication of genuine interest in the program, as way to ensure more resources for the operation of their revolving funds, and finally as a way to increase the program's outreach.

The loan term for the NGOs would be up to 12 months with payments of interest every four months (accordingly to the village banks' loan cycles) and one payment of capital at the end of the term. In this way the center would allow for the capitalization of the NGOs. The credit line would be revised by the center at the end of each term for renewal.

Although CRS subsidizes the operations of the center, the interest collected would be used to capitalize the credit fund. Similar conditions would apply to the interests earnings of the participating NGOs.

## **STRATEGIES FOR EXPANSION**

### **Location**

The center's offices and operations could be located directly in the target area. A central location would substantially improve communications and monitoring, two of the major problems now affecting the program. By increasing the monitoring capacity, the potential for expansion is also increased. An alternative to the establishment of the center at the program site could be establishing the center with its management in Dakar and placing full- or part-time program officers on site. These officers would be in charge of program implementation as well as follow-up and should be hired from among the locals.

### **Selection of Partners**

CRS should put special emphasis on the selection of partners as a key factor in the expansion of the program. In the past CRS has favored grassroots initiatives, which have strong leadership but poor management capacity. The scaling-up of operations, however, would require a more entrepreneurial approach in choosing implementing partners. Strong organizational management capabilities improve the likelihood for reaching large numbers.

It is advisable to limit the number of partners to those with the highest potential in management, outreach, and effectiveness and to avoid a multiplicity of partners that are involved in dissimilar pursuits or are restricted in scope. The cost-effectiveness of the center depends on streamlining, especially considering the limited financial resources available to the program. Thus, well-defined eligibility criteria for the selection of partners are crucial.

The eligibility criteria must enable the center to identify organizations with the characteristics described below:

- **Strong commitment to self-sufficiency:** willingness to use private sector tools in their management styles and decision making;
- **Strong commitment to growth:** willingness to make the necessary adjustments for rapid increases in productivity;
- **Strong commitment to specialization:** willingness to make the SED the main program;
- **An administrative structure with the capacity to operate a credit program such as SED with the potential for expansion;**
- **Experience in credit and savings programs;**
- **Sources of funds other than CRS:** ability to avoid dependence on organizations that are fund driven and not necessarily committed to the program; and
- **Strong interest in the program, demonstrated by the willingness to invest counterpart resources.**

### **Promotion of Village Banks**

Methodologically, program expansion could be facilitated through village banking. This methodology has proven to be very effective in organizations that lack managerial capability, a problem that affects most Senegalese NGOs. The village bank mechanism enables small organizations to reach large numbers of beneficiaries rapidly, at low cost, and with remarkably good repayment rates (95 to 100 percent). Program management responsibilities are shared with the bank committees, which are very involved in loan processing, administration, and follow-up. This reduces both the administrative costs and, importantly, the risks for the implementing organization. Moreover, the fact that each bank could manage up to 50 members increases the capacity of the implementing organization of reaching large numbers rapidly. Given that most credit programs in Senegal face serious problems with repayment rates and have limited institutional capacity to reach large numbers of people efficiently, the village banks offer a good alternative methodology for the provision of credit.

Nevertheless, village banks have several limitations worth noting. Since the loan amounts are very small (usually about \$50), they are most suitable for beneficiaries whose capital requirements are very small. Accordingly, potential beneficiaries whose capital needs and length of loan requirements exceed the standards for village banks do not participate. The very small entrepreneur generally reached by the village bank tends to have a limited capacity to generate employment in the short term; small entrepreneurs do, nevertheless, as individuals, convert from underemployed to fully employed.

### **Management Information Systems (MISs)**

The center's administration requires effective support systems in the areas of financing, program monitoring, and evaluation, including computerized control systems in accounting, internal control, portfolio management, impact evaluation, and staff performance. Such systems are essential in

increasing productivity and reducing operational costs as well as in providing effective services to the implementing organizations.

In the areas of program monitoring and evaluation, the center needs to develop further a set of indicators oriented to monitor program performance. Among those indicators it is important to consider the following:

- Program efficiency: self-sufficiency rate, loan portfolio, delinquency rate, cost per community bank, cost per beneficiary, cost per dollar lent; and
- Program effectiveness: number of banks, number of beneficiaries, dropout rate, average bank size, savings rate, number of loans, number of internal loans, amount disbursed (internal and external accounts).

NGOs' monthly reporting on the performance of these indicators is crucial to the center's ability to measure the program evolution and to introduce the necessary adjustments in the services provided to make them responsive to the program needs. Indicators to evaluate program impact on an annual basis also need to be developed. They could include quantitative and qualitative indicators such as changes in income, leadership, and family well-being.

Collecting data is time consuming and distracts the promoters from other duties. Hence the responsibility for data collection should be transferred to the village banks. During the first loan cycle the groups should go through sessions where they learn to collect and present data in a given format. Because the village bank methodology assigns most of the loan management to the banks, it would be a matter of adding four or five impact indicators to data they already collect. The village bank committees would be responsible for making sure that every member presents this information on time.

During the first cycle the promoters would train the members in filling out the forms. After the cycle ends, the data collection remains the duty of the beneficiaries and is requisite for credit renewal for the following cycle. Although there are problems regarding the reliability of the self-monitoring strategy, it will reduce costs, rationalize follow-up, improve information on which credit renewal is based, strengthen group cohesion, and serve as a pedagogical tool for the beneficiary, besides generating the necessary baseline data for evaluation purposes.

### **Saturation of Geographical Areas**

Given the limited financial resources available for program expansion and the severe difficulties with communications and monitoring, saturation of geographical areas is the recommended strategy for expansion. Thus, program expansion should concentrate on specific regions instead of attempting nationwide coverage. The idea is to base expansion on the number of people reached, not on the number of villages covered. Once the target area is saturated, the program would expand into other geographic areas. This strategy would greatly facilitate program management, implementation, and monitoring, but more importantly it would reach a larger number of beneficiaries at a lower cost over a shorter period of time.

## ANALYSIS OF FINANCIAL SUSTAINABILITY

The total budget of the program is estimated at \$550,000, of which \$500,000 would be used as seed capital for the credit fund (three-year period), and \$50,000 for the center's operations including a provision for the institutional strengthening component.

Projections for the credit program's outreach and interest earnings for a three-year period are presented in Table 1. The general assumptions for the calculations are the following:

- (a) The center is able to increase the number of participating NGOs to five (current figure is two).
- (b) Each NGO is able to create 5 village banks with an average of 50 members each.
- (c) The average loan per member starts at \$60 for the first cycle and increases 30 percent per cycle.
- (d) The interest rate is 12 percent and equals the sum of the inflation rate (8 percent) and a provision for administrative costs (4 percent).
- (e) The center's loan terms to the NGOs require quarterly interest payments and annual principal payments.
- (f) The NGOs' loan term is four months, with quarterly interest and capital payments.
- (g) The center capitalizes in full the interest earnings.
- (h) Operational expenses amount to \$50,000.

TABLE 1

### CRS/SED-SN PROGRAM OUTREACH (\$)

Year	NGOs (a)	Groups per NGO (b)	Avg. Members (b)	Total Members	Total Groups	Total Members	Avg. Loan per Member (c)	Total Disbursed (d)	Annual Interest	Loan Funds Available at End of Year (f)
Year 1	5	5	50	250	25	1,250	101	126,750	15,210	515,210
Year 2	5	10	50	500	50	2,500	136	340,958	40,915	556,125
Year 3	5	12	50	600	60	3,000	187	562,375	67,485	623,610

The program outreach during the first years of operation is limited by the center's capacity to provide the necessary training and technical assistance and the NGOs' capacity to absorb funds. Therefore, the number of implementing organizations should be determined by these two factors. The process of transferring the credit technology (village banking) to the NGOs being time and resource

consuming, the center would not be able to add more than five organizations to the program. Further, these organizations would not be able to manage a large number of village banks because it might take them years to develop an absorption capacity sufficient to handle a large credit fund.

The proposed (minimum) interest rate of 12 percent annually is currently below the market rate of 16.5 percent, the usury rate of 24.5 percent, FONGS's rate of 13.5 percent, and the UCM rate of 24 percent annually. However, if loan terms are kept short, this rate would maintain the value of the center's credit fund and enable capitalization of the NGOs (because the spread would be 12 percent). It is expected that as the organizations grow stronger the interest rate charged by the center should reach market or near market levels. Under the above assumptions, the center should become operationally self-sufficient by the end of the third year.

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- \*35. "A Pre-Project Identification Document Analysis of the Lesotho Agricultural Enterprise Initiatives Project." Mike Bess, Don Henry, Donald Mead, and Eugene Miller. GEMINI Technical Report No. 35. April 1992. \$20.00.
36. "Apex Study of the Small Enterprise Development Program of Catholic Relief Services, Senegal." Arelis Gomez Alfonso. GEMINI Technical Report No. 35. May 1992. \$3.00.
37. "Apex Study of the Small Enterprise Development Program of Catholic Relief Services, Thailand." Arelis Gomez Alfonso. GEMINI Technical Report No. 36. May 1992. \$3.20.

#### **Technical Notes:**

#### **Financial Assistance to Microenterprise Section:**

- \*1. Series Notebook: Tools for Microenterprise Programs (a three-ring binder, 1 1/2 inches in diameter, for organizing technical notes and training materials) and "Methods for Managing Delinquency" by Katherine Stearns. \$7.50. Also available in Spanish.
- \*2. "Interest Rates and Self-Sufficiency." Katherine Stearns. \$6.50. Available in English and Spanish.

**Nonfinancial Assistance to Microenterprise Section:**

\*1. "A Field Manual for Subsector Practitioners." Steven S. Haggblade and Matthew Gamsler. \$4.65. Also available in French.

**Special Publications:**

\*1. "Training Resources for Small Enterprise Development." Small Enterprise Education and Promotion Network. Special Publication No. 1. 1990. \$9.00

\*2. *Financial Management of Micro-Credit Programs: A Guidebook for NGOs.* Robert Peck Christen. ACCION International. Special Publication No. 2. 1990. \$19.00

\*3. *The ADEMI Approach to Microenterprise Credit.* A. Christopher Lewin. Special Publication No. 3. 1991. \$15.00

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