Experiments in Small- and Microenterprise Development

A.I.D. Science and Technology in Development Series

Agency for International Development

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CONTENTS

Foreword

Microenterprise development and the informal sector are both concepts that are important to international donor agencies and developing country leaders. Despite their significance, as short as 10 years ago, these concepts did not have broad currency among most development practitioners. Unlike programs in health, agriculture, and housing, small- and microenterprise programs are comparatively new on the scene.

This does not mean that these programs do not have antecedents. Indeed, the earliest efforts in promoting small enterprise predate the beginning of the Agency for International Development in 1961. It took the groundbreaking research of the International Labor Organization to question many earlier ideas and to stimulate new thinking and approaches to this topic.

A.I.D. has been a leader in the promotion of small- and microenterprise promotion since the mid-1970s. This book documents the combination of research and field application that has allowed significant gains in a short period of time. This history also points to the important role that the social sciences have had in understanding the social and economic conditions that define people's lives in developing countries. Only by clearly understanding local institutions, relationships between people and their organizations, and the economic development process, can development practitioners come up with broad-based and sustainable programs that will help create economic opportunities for all people in developing countries, including the poorest of the poor.

As successes in small- and microenterprise promotion have become better known, the ideas and concepts behind those programs have spread, not only within A.I.D., but also to other international donor agencies and host country institutions. The World Conference on Microenterprise Development, held in Washington, DC, in 1988 and cosponsored by A.I.D., saw the largest gathering to date of practitioners discussing their work, sharing results, and gaining new insights.

It is in this spirit of collaboration and sharing of experiences that this book was written. In telling A.I.D.'s story, our goal is to give credit to the efforts of other donors and development organizations in small- and microenterprise development. A.I.D.'s work has taken place within a backdrop of international efforts focusing on the poor and stimulating the growth of employment and local economies of developing countries—efforts that can only expand in the coming decade.

Galen Hull's research uncovered many parts of this story that otherwise might have been lost in the archives of the Agency. He was assisted by others in this endeavor who are acknowledged in the preface.

Nyle C. Brady
Senior Assistant Administrator
for Science and Technology
U.S. Agency for International Development

Preface

The symbol of Pisces is two fish swimming. Swimming upstream was, in a metaphorical sense, the challenge of the PISCES project. PISCES, funded by A.I.D.'s Science and Technology Bureau in the late 1970s, aimed at helping small-scale entrepreneurs swim upstream against overwhelming obstacles. Indeed, the project itself swam upstream in an Agency setting in which large-scale problems were still generally assumed to require large-scale solutions. The PISCES project explored ways to stimulate productive and commercial activities in the informal sector of the economies of developing countries that involved very small amounts of credit and technical assistance to microenterprises.

PISCES was a 6-year pilot project with only modest resources that was to have an impact on A.I.D. programming far beyond anyone's expectations. Its successor project, ARIES, and other mission-funded projects began to suggest a new approach to develpment assistance. By the 1990s, small- and microenterprise development have become an important dimension of the Agency's agenda.

This monograph began with a phone call from Michael Farbman of S&T, asking whether I would be interested in writing about the Agency's efforts to promote small- and microenterprise development. I was pleased to accept the offer. Subsequently I spent 6 months digging into S&T archives and talking with the staff within the Bureau. Everyone was most accommodating. Drafts of the manuscript were reviewed by several people within the Agency: Bill Miner, Eric Chetwynd, Michael Farbman, Bob Young, Ross Bigelow, Beth Rhyne, and Indira Biswas. Outside reviewers included Jeff Ashe, Carl Liedholm, Tom Timberg, and Peter Kilby.

Finally, Alan Lessik is owed a special note of appreciation. It was he who helped to restructure and slim down the first draft of this document to far more manageable proportions, coordinated the editing of the manuscript for publication, shepherded the necessary paperwork through A.I.D., and rode herd on the reviewers to assure their timely performance. I thank Alan and the rest of this supporting cast for their contributions, but wish to record, in the end, my acceptance of ultimate responsibility for the contents of this manuscript.

Galen Spencer Hull

1

A New Paradigm Emerges

Introduction

"Personal Loans May Revolutionize Foreign Aid" was the editorial headline in *The Los Angeles Herald.*

A *Salt Lake Tribune* editorial spoke of "an innovative concept for improving the cost effectiveness of foreign aid. It has appeal for free enterprise advocates as well as budget balancers and international assistance partisans."

The *Orange County Register* noted that making small loans to help the poorest people develop independence and self-sufficiency had succeeded remarkably in some cases. "It hasn't made any poor countries wealthy overnight, but it has helped some poor people develop both skills and hope."

The Cleveland *Plain Dealer* remarked that all too often the impact of U.S. foreign aid falls far short of intended goals. Despite some reservations, the *Plain Dealer* felt that microenterprise development had such potential that it deserved a fair hearing.

This sampling of editorials was generated in response to deliberations by the U.S. Congress in December 1987 over the inclusion of a microenterprise initiative in America's foreign assistance program. Microenterprise language was included in the continuing resolution on foreign assistance, which directed the Agency for International Development (A.I.D.) to earmark funds for credit and other forms of assistance to microenterprises in developing countries.

Although the term "microenterprise" has only recently come into vogue, the economic activities of the poor have been discussed in various terms for many years. The attention focused on the "informal sector"—in which microenterprises operate in developing countries—grows out of a concern to promote productive employment and to generate income among the world's poor.

This volume looks at efforts on the part of A.I.D./Washington, USAID overseas missions, universities and nongovernmental organizations to assist small- and microenterprises. The overriding concern within the Agency has been to confront unemployment, initially within urban areas, and eventually rural areas as well, and to sponsor programs and policies that promote broad-based, sustainable economic development. While the Agency's most concentrated effort in microenterprise development began with the PISCES project in 1978, the groundwork was laid years before. In the A.I.D. context, these programs represented a significant departure from the large-scale capital development and large integrated area development projects that were popular at the time.

The Old Industrial Order Gives Way

We are now living in an era of industrial reorganization, in both industrial and developing countries alike. This process appears to be global and it affects market economies as well as centrally planned economies, in the First, Second, and Third Worlds. We are witnessing a decline of the reverence for large organizations and a new fascination with smaller organizations. Large corporations are experimenting with decentralization of management authority and worker participation. Socialist countries are looking for ways to build incentives into moribund state-dominated economies. One source of economic growth in this time of uncertainty has come to be small business, once considered the vestige of an earlier stage of economic development. In an entrepreneurial revival, small firms are being championed by some as an important element in the process of sustainable economic development and employment generation.

In the United States during the 1950s, conventional wisdom predicted the end of the entrepreneur and the ascendancy of the bureaucratic system. Most young Americans seemed to aspire to work for somebody else, to be technicians and managers in large corporations. However, by the 1970s, a new entrepreneurial spirit was on the rise, and by the late 1970s there was the beginning of an entrepreneurial boom in the United States, featuring a trend toward self-employment.

David Birch of MIT has written about the role of small business in the new economic structure. Based on his research during the 1970s, Birch discovered that a large proportion of the new jobs being created in the United States were not by Fortune 500 firms, but by small businesses with fewer than 20 employees. By the late 1970s, companies with fewer than 100 employees accounted for 80 percent of new jobs, most of them concentrated in the service sector. He pointed out that, in fact, in 1983 the largest corporations had experienced a net loss of over 300,000 jobs, while the rest of the economy had created 3 million jobs.

Small Business in Third World Development

Not only are these trends toward a more entrepreneurial economy observable in industrial societies, they can also be seen in developing countries despite their very different context. In the early 1960s, at the beginning of the period of political independence for many African countries, there were high hopes that developing countries would experience rapid growth. Many leaders of developing countries in Africa, Latin America, and Asia opted for approaches to development that emphasized the role of the government as the engine of growth. They launched ambitious programs of industrial development featuring large-scale, state-owned enterprises. The prevailing approach consisted of identifying constraints to development in a given geographic region and then designing large, multifaceted, multimillion dollar projects aimed at resolving those constraints. Large industrial development projects were based on the attempt to substitute locally made products for imported goods. Some called this—not so facetiously—"oasis development."

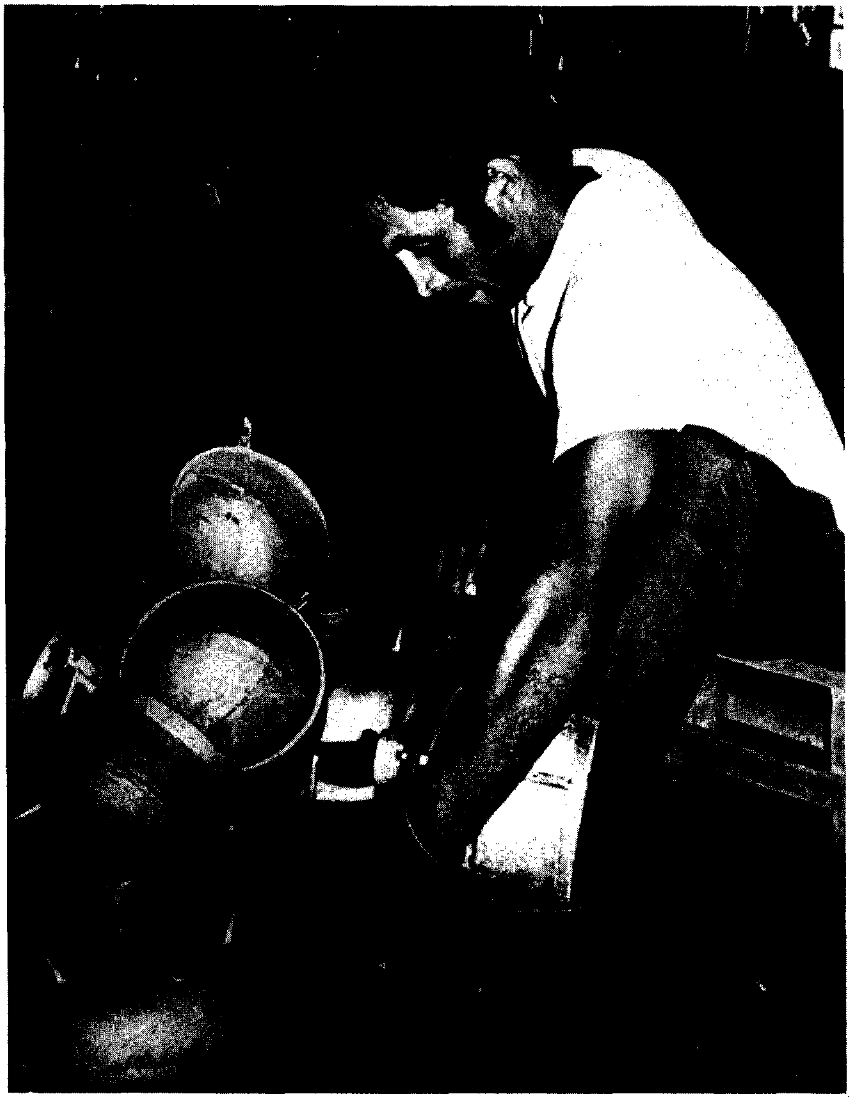
The developing world has in time become strewn with white elephants of this sort that have drained public resources but have not served as engines for growth. Begun at a time when large-scale problems were thought to require large-scale solutions and when primary commodities were enjoying a boom in international markets, many Third World producer-countries borrowed heavily to finance prestige development projects. Many fell deeply into debt to foreign creditors and have yet to recover.

After several decades of funding massive projects, it has become clear that most developing economies are not taking off as initially anticipated. Some countries are now poorer in terms of per-capita income than they were 30 years ago. Overall social and economic growth has not been encouraging, despite significant progress in some areas such as life expectancy, literacy, primary school enrollment, educated workers, and health care. Many countries have experienced a decline in the availability of food, depletion of mineral resources, and deterioration of their environment. Growing numbers of unemployed pose critical social and political problems. Former President Julius Nyerere of Tanzania remarked recently that it was clear that most of the economic strategies adopted in Africa had led to a morass from which it seems there is no escape.

In search of alternative development strategies, many developing countries have undertaken consideration of their own indigenous enterprises. However, at first glance it was difficult in some cases to locate them. Often their economies were dominated by a combination of state-owned enterprises and foreign interests. A 1984 issue of *Jeune Afrique Economique* surveyed the 700 leading industrial firms in francophone African countries. It concluded that in the majority of enterprises the state was the principal owner. The private sector was generally dominated by foreign interests. For example, in Cameroon—a country considered to be relatively well off—there was only one company within the top 10 that was owned privately by nationals. The same story could be repeated for other parts of Africa, Latin America, and Asia.

Yet in any of these developing countries, there exist tens of thousands of small businesses with fewer than 50 employees—controlled neither by the state nor by foreign interests—that together account for more than half the industrial, service, and commercial employment and a large portion of total production. While most countries have no official definition of small-scale or microenterprise, these activities typically include sole proprietorships, family businesses, partnerships with a few workers, cottage industries, and artisans. In the rural areas, they provide inputs and processing services to agriculture and nonfood needs of the population. In urban areas, they produce and sell consumer goods and inputs for manufacturers. By the 1980s those agencies, practitioners, and government leaders involved in economic

Small hand tools typify microenterprises. Above, a jewelry maker at work in Costa Rica. Agency for International Development photo.



A worker puts finishing touches on aluminum pots before they are packed for delivery. This man and two others are employed in a small foundry business in Sao Luis, Brazil, which was begun with the help of a loan. Agency for International Development photo.

development activities had begun to acknowledge the untapped potential that these enterprises represented.

Emergence of a New Approach to Development

Since its inception, A.I.D. has been recognized widely as a supporter of research in agricultural and biological sciences. However, basic social science research has also played an important role in A.I.D. programming. Social science research is often necessary to understand the basic components of the economy of a country and how a particular group of people organizes themselves to provide for the necessities of life. Using the approaches of anthropology, sociology, economics, political science, and even psychology, social scientists have added significantly to our knowledge in these areas.

The social sciences have been particularly important in helping us to understand the critical human and institutional dimensions of development in developing countries. Assumptions can be tested and from the data that are gained, models can be made. Social scientists work with models in order to test their ideas about how societies, institutions, or economies may work and react to changes. From these models development practitioners can identify intervention points and design programs to help change existing conditions in a country or region.

Models are ultimately based on data and certain overall guiding principles. Taken together, these form a paradigm—a way of looking at things with some degree of theoretical consistency. While social scientists often are not comfortable talking about paradigms, their work can frequently be interpreted in the light of these broad viewpoints.

While the "informal sector" remained something of an undifferentiated mass to most development economists and planners, there were scholars who were writing about the importance of small industry development as early as the 1960s and arguing for public policies to promote them. Only a few recognized the existence of the myriad economic activities going on outside the formal industrial economy. But even they acknowledged that little was known about how much, if anything, this sector contributed to the economy. They linked the role of small industry to the problem of employment creation. These scholars began to develop a model of employment that used small-scale enterprises as a starting point for economic growth strategies.

Microenterprises provide goods, such as these cooking stoves in Indonesia, that serve low-income consumers. World Bank photo by Ray Witlin.

A small business adviser observes the work of a leather worker in the Philippines. Agency for International Development photo by Dolores Weiss.

A Thai basket maker in his workshop. Agency for International Development photo.

Those models were then expanded by others who looked at nonindustrial occupations with low barriers to entry. The models helped to pave the way for field research on what was then called the "informal sector."

Through extensive research efforts, the promotion of small- and microenterprises was found to have several advantages over investment in larger ones. They are labor intensive and use relatively simple techniques of production, corresponding to the abundance of labor and scarcity of capital in most developing countries. They are considered generally more efficient in the use of capital and in mobilizing savings and other resources that would otherwise not be tapped. They serve as useful suppliers to larger industries and can satisfy neglected demands more efficiently than larger ones. They often act as seedbeds of entrepreneurial talent and a testing ground for new products. And they are more likely to enhance community stability than are large ones, whose interests reach across regional and national borders.

The research studies also identified a number of important constraints facing small- and microenterprises. They had little access to resources, credit, training, or technical assistance. Government policies and regulations often worked against their survival and growth. Other policies increased their costs, artificially decreased their competitiveness in the economy, and inhibited their ability to operate freely and openly.

Today the term "microenterprise" has gained currency in the language of development. It belongs to a new era in development assistance. There is an increasing awareness that development must take place with the involvement of the smallest units in the economy in conjunction with reform of the basic policies that define a country's economic environment. There is a worldwide trend toward the growth of small business in economic development, both in the industrial and developing countries. This new perspective or paradigm of development recognizes the important role that small enterprises play in economic growth and employment generation.

The development of this paradigm within A.I.D. started almost 20 years ago, although its roots can be traced even further back to some of the earliest foreign aid programs. The following chapters tell the story of A.I.D.'s involvement and leadership in this still-emerging field.

2

The Search for a Conceptual Framework

Early Small-Scale Enterprise Development Assistance Efforts

U.S. Government support for small-scale industry in developing countries preceded the establishment of a formal assistance agency. One of the earliest efforts was in the Philippines beginning in 1906. This project was carried out through the secondary school system's industrial education curriculum and involved the use of local raw materials to produce crafts. After World War II, the Philippine government mounted a program of handicraft promotion. The United States and the United Nations sent technical advisers to assist in developing cottage industries for the export market. In Latin America, official United States assistance in small-scale industry predated the Marshall Plan for the post-World War II rehabilitation of Europe. Private sector development support was channeled through the Institute for Inter-American Development and was absorbed into the predecessor agencies of the Agency for International Development.

In 1961 the basic policy framework for U.S. development assistance was set forth in the Foreign Assistance Act, which created the Agency for International Development. The basic objective was stated as helping selected countries become self-reliant. Each USAID mission was left to determine whether assistance would promote such self-reliance. The end result of the development assistance process was seen as the smooth functioning of the private sector. Tools for assisting private enterprises were to include extended risk guaranties covering commercial and political risks.

Essentially these programs served to protect investment of U.S. firms in developing countries.

A broad range of tools was proposed to promote self-help measures. For example, technical assistance was to be extended in the establishment of credit and savings institutions, reforming land tenure, and mobilizing idle resources through work schemes and community efforts.

During the period of emphasis on rapid industrialization in the 1960s, A.I.D. provided a variety of assistance for industrial development, focused mainly in urban areas. Technical advisers were assigned to government ministries and agencies. American universities collaborated with host country institutions to provide training, extension, and promotional efforts. Some missions provided advisers to financial institutions servicing private enterprise.

In general, the industries targeted for U.S. development assistance in developing countries were relatively large in comparison with other local enterprises. Technical advisers posted to government institutions rarely, if ever, catered to the smallest scale firms. U.S. advisers were for the most part drawn from larger corporations. While the expertise they brought with them was often specialized in technical fields, few were versed in the skills needed for nurturing start-up operations in host countries. In sum, there was a bias toward larger scale, capital-intensive, urban industries during the 1960s and a general lack of appreciation for the potential of small-scale enterprises.

Nonetheless, there were a number of projects during the 1960s that attempted to deal with small-scale industry. Two of these—the Nigerian Small Industry Development Project and the Rural Industrialization Technical Assistance Program in Brazil—are examples of projects that A.I.D. sponsored in that period.

Nigerian Small Industry Development Project

In 1962 USAID/Nigeria initiated a small industry development project in cooperation with the Small Industry Division of the Nigerian Federal Ministry of Industry. It was designed to assist entrepreneurs to start, expand, or improve their businesses through modern industrial development centers, using modern Western-based technologies and technical and management assistance. Five major small industry fields were chosen for concentration: woodworking, metalworking, auto repair, textiles, and leatherworking. Formal courses lasted no more than 1 or 2 weeks, since the typical entrepreneur could not afford to stay away from the business much longer. In addition, entrepreneurs received technical assistance from an adviser who visited their businesses to demonstrate new production techniques and provide management advice on specific problems.

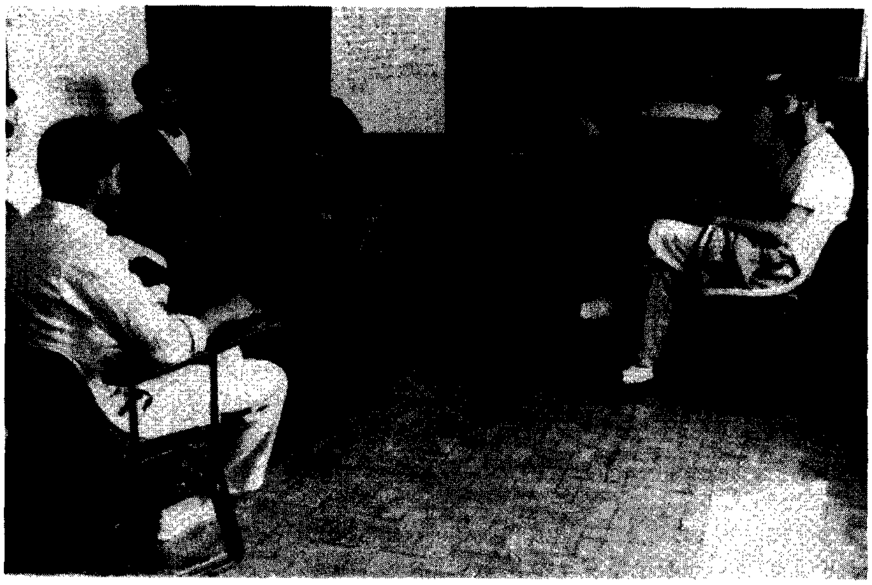
While some changes occurred due to this project, progress was slow. Only 2,800 Nigerians received training; technical assistance went to 174 firms. The average loan size was $7,280. Those few who did participate in the program were the proprietors of the largest small businesses. The model of promoting industrial development centers, while popular throughout the decade, eventually had to be dropped. The costs were too great and the results relatively too modest to serve as a catalyst for business growth.

However, another effective approach for serving small-scale enterprises did emerge—the traveling on-site technical assistance function. The provision of on-site assistance to entrepreneurs when and where needed became a model for activities in Africa for years to come. In comparison with the training center, this activity, which used volunteers or low-paid, committed staff to provide the assistance, was low cost and better coordinated with the needs of the business, and therefore more helpful to the entrepreneur.

Rural Industrialization Technical Assistance Program

RITA in northeast Brazil was one of the most widely acclaimed A.I.D.-funded projects involving U.S. university collaboration with host country universities. Launched in 1964 to promote small-scale enterprise, the basic premise of the program was that areas with ample resources could be identified and small enterprises could be developed with technical assistance from U.S. academic advisers. Data on possible enterprise opportunities were gathered and with this information detailed business plans were developed. Management training courses were then conducted for managers, and technical advice was provided during construction and plant startup. Technical advice was also given in marketing and finance.

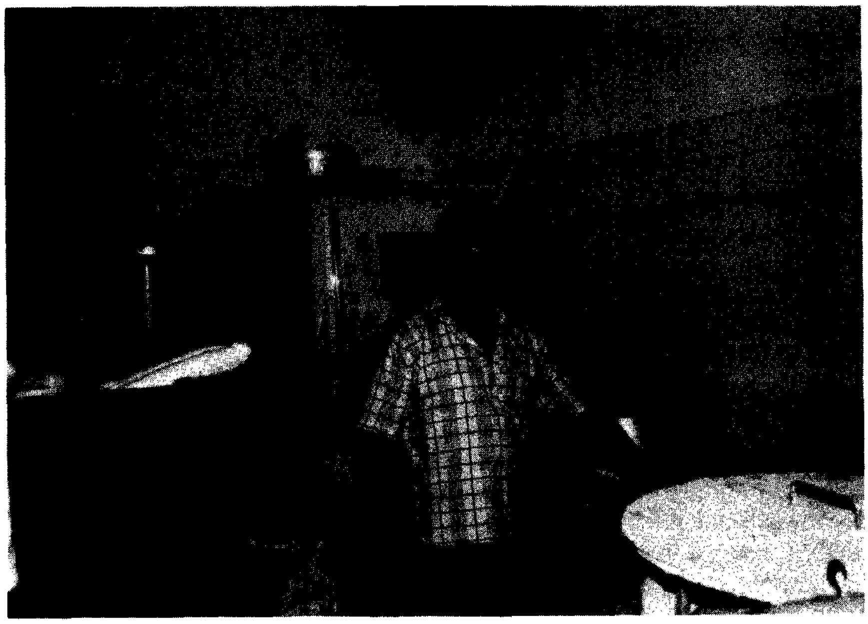
The enterprises reached in the Brazil project were rather sizable and not very labor intensive. At the time the project funders and directors had little



A solidarity group meeting in Sao Paulo, Brazil. ACCION, 1988.

interest in labor intensive enterprises, so most of those assisted were fairly capital intensive. The investment per job created ranged from $1,550 for a shoe factory to over $16,000 for a corn processing plant. RITA was credited with having provided a model for the national small-scale technical assistance organization, although as in Nigeria, the businesses reached were usually not the smallest.

While there were other technical assistance projects that targeted small-scale enterprise during the 1960s, the bulk of A.I.D.'s assistance to this sector was designed to expand capital markets by establishing guarantee funds, and rediscounting and direct lending facilities. Such assistance was aimed at firms that might be described as small by U.S. standards but were usually quite large by local standards. A.I.D. also began to foster the establishment and growth of development banks and other intermediate credit institutions. It was A.I.D. policy to provide loans to institutions—whether government-owned or private—that lent to private sector borrowers. It must be noted,



In a Brazilian bakery. ACCION, Brazil, 1986. Photo by Gabriela Romanow.

however, that the target of such programs was U.S. companies and medium-to-larger scale enterprises in the developing world.

The Role of the Social Sciences in Examining Issues

During this period social science research was focused primarily on formal political institutions and economic sectors. However, there were a few scholars who began to study small industry development as early as the 1960s, arguing for public policies to promote them. For example, in 1965 Eugene Staley and Richard Morse described "small factory industry" in newly industrializing countries and urged development-minded governments to take note of it. They linked the role of small industry to the problem of employment creation. "The fundamental remedy for the employment problem in labor-surplus countries," they wrote, "is the whole process of development, creating thousands of new activities both for construction of needed facilities and for meeting the expanding demands of a rising standard of living." Staley and Morse maintained that the vigorous growth of small industries could help in the attainment of social and political goals as well as economic development.

Through its World Employment Programme, the International Labor Organization (ILO) began to investigate the actual scope of employment in developing countries. Started in the 1960s, this research gave the first glimpses to economists and other development practitioners of the potential importance of the small-scale enterprise sector. It was through a study of employment in Kenya that the term "informal sector" made its official debut.

The Kenya study (International Labor Organization 1972) described an economy characterized by inequalities in the distribution of wealth and income among Africans along the lines of formal and informal rather than traditional and modern sectors. The terms "formal" and "informal" were used to describe "a duality that avoids the bias against the low-income sector inherent in the traditional/modern dichotomy. Both sectors are modern; both are the consequence of the urbanization that has taken place in Kenya over the last 50 years."

The formal sector was characterized as consisting of larger enterprises, including both private and state-owned. These enterprises generally followed government labor laws and other regulations. They were normally capital-intensive and located in urban areas. They enjoyed a favorable relationship with the government and could obtain such direct benefits as access to credit, foreign exchange concessions, and work permits for foreign technicians. They also benefited indirectly from the restriction of competition through tariffs, quotas, and trade licensing.

The informal sector, by contrast, was composed of small-scale family-owned businesses, which employed only a few people aside from immediate family members. They had little or no access to resources, except through intermediaries and informal credit systems. They were often ignored or harassed by the authorities. Enterprises and individuals within it operated largely without the system of government benefits described above. The risks and uncertainty of earning a livelihood in this low-income sector were judged to be considerable.

However, the Kenya study sought to demonstrate the positive contribution that these microenterprises were making to the generation of employment:

> The popular view of informal sector activities is that they are primarily those of petty traders, street hawkers, shoe-shine boys. . . . The evidence is that the bulk of employment in the informal sector, far from being only marginally productive, is economically efficient and profit-making.

The ILO Kenya study was complemented by equally extensive studies of the Philippines, Indonesia, Thailand, and Senegal. Each of these studies pointed to the large contribution the informal or small-scale enterprise sector made to the economy. This effort was not unnoticed at A.I.D. The ILO would be seen as providing basic information and a model to an agency looking for its own way to attack poverty in developing nations. Through its own experiences in its missions and with the stimulation of outside research efforts, A.I.D. began to focus on the problem of underemployment and methods for combating it.

Employment Becomes the Conceptual Framework

By the 1970s, development agencies began to direct their efforts toward the urban areas. In piecing together the broad dimensions of the problems in these areas, efforts were focused on dealing with the increasing population growth and the continuing rural-urban migration in developing countries. The Agency for International Development was searching for a new model during this time.

In May 1969, an Urban Development Office was included in the structure of the new Technical Assistance Bureau. This office convened a workshop on urban development in Columbia, Maryland, in 1972, which brought together experts working on urban development. It was attended by representatives from field missions and A.I.D./Washington officials. Several papers prepared for the conference were to have a seminal impact on the Agency's thinking.

John Friedmann and Flora Sullivan helped to chart the course in an examination of urban development. They observed in a paper prepared for the conference (Friedmann and Sullivan 1972) that the employment question in developing countries was receiving scant attention from development economists and policymakers. By the early 1970s it had already become clear that the strategy of raising the gross national product through import-substitution was incapable of dealing with the problem of a rapidly expanding labor force. Friedmann and Sullivan noted two major factors accounting for this: the relentless movement of people to cities and the fact that manufacturing industry could not open up sufficient new opportunities for employment to accommodate them.

Friedmann and Sullivan developed a heuristic model of urban employment as a starting point for empirical analyses and policy implications. This model sets the stage for what would eventually be called small- and microenterprise. They divided the urban economy into three major employment sectors according to their form of organization: individual, family, and corporate enterprises.

Individual enterprise includes two subsectors: the unemployed and self-employed workers who make up the "street economy" of a city. The unemployed consist of recent migrants to the city, first-time job seekers, laid-off workers, and white collar unemployed. Self-employed workers include handicraft workers, street traders, service workers, and casual construction workers.

The family enterprise sector consists of workers in small trade and service establishments and industrial workshops with fewer than 10 employees. It is distinguished from the first employment sector in that it involves a higher degree of organization, employs both wage and unpaid family workers, has a fixed abode, and operates with a larger amount of capital per worker. Friedmann and Sullivan estimated that the small-scale family enterprise might employ between 35 and 45 percent of the urban labor force—a key sector of the urban economy.

The corporate sector is qualitatively very different from the first two categories. Its workers are members of bureaucratic organizations, and they operate with capital equipment that is seven to eight times the value of that in the family enterprise sector. The capacity of the corporate sector for absorbing employment is quite limited, however, accounting for only 10 to 30 percent of the urban labor force.

Friedmann and Sullivan focused on the family enterprise sector in their policy recommendations. They argued that employment in the sector should be made more productive and its capacity for absorbing a larger proportion of the labor force increased. Furthermore, they maintained that the family enterprise sector should be protected against excessive competition from the corporate sector by implementing a policy of industrial dualism that restricts corporate sector manufacturing to capital goods and export commodities.

Meanwhile, elsewhere in A.I.D. there was intellectual spadework being done that would help pave the way for acceptance of the concept of an emphasis on employment. John Eriksson in the Economic Analysis Division of the Bureau for Program and Policy Coordination argued for an emphasis on employment as early as 1971. In his review of the literature Eriksson showed that employment was becoming recognized as a major development problem. He noted that the International Labor Organization had pioneered in the field of employment research. The ILO World Employment Program was prompted by an awareness that underemployment had become chronic and intractable in nearly every developing country. The Development Centre of the Organization for Economic Cooperation and Development had also sponsored case studies on industrialization and trade that demonstrated severe effects on employment growth. The World Bank and the Organization of American States were also becoming increasingly concerned with the unemployment problem.

In light of the glaring failure in most developing countries in the previous decade to sustain economic growth that could keep pace with the growing labor force, Eriksson suggested that employment creation had emerged as the major development challenge of the 1970s. Traditional forms of rural unemployment, part-time and seasonal, had long been recognized as a common feature of underdevelopment. But the prevailing belief had been that the underutilization of labor would gradually disappear with economic growth. This assumption was challenged as numerous countries began registering unemployment rates of 10 to 20 percent of the labor force. And these levels of unemployment were recorded in spite of economic growth in some of the fastest growing countries such as Jamaica and Morocco. In sum, this unemployment reflected a waste of human resources as well as a potential for social and political unrest.

Eriksson anticipated the small-scale enterprise development approach that emerged by the late 1970s when he argued in favor of a role for small-scale agriculture and industry in any employment-oriented strategy. He argued that small-scale units are actually more efficient in their use of scarce resources than are large enterprises. But in order for the employment and efficiency advantages of small-scale enterprises to be realized, they must be provided with access to such resources as credit, technical assistance, and marketing services. One advantage of programs of support to low income unemployed and underemployed entrepreneurs and laborers would be that they are likely to spend most of their increased incomes on labor-intensive, domestically produced consumer goods, and thus expand the demand for labor. Furthermore, they would increase the equality of income distribution as compared with current policies that tended to provide higher incomes for a smaller group of persons, many of whom were already wealthy. Eriksson advocated an increase in donor-funded research in developing countries on the adaptation of existing programs of development to new and more productive labor-using technologies for small-scale enterprise.

"The sine qua non condition for progress," wrote Eriksson, "is that developing countries recognize the employment problem and take it seriously." External aid would not be effective in the final analysis, he argued, unless it was in support of appropriate policies adopted by the countries themselves. While the thrust of Eriksson's argument was not immediately reflected in A.I.D. programming, it did in fact anticipate the design incorporated into the PISCES project and beyond with its emphasis on employment.

Based on research conducted by scholars such as Eriksson and Friedmann and Sullivan, a policy strategy on urban development was drawn up in the Office of Urban Development. From these origins began the Agency's efforts to establish a program to promote small enterprise development.

There was a recognition that development opportunities were to be found in urban areas and that they should be viewed as an integral part of national development to improve income distribution. It was noted that a major facet of the urbanization process was the integration into the modern sector of the rural poor who have migrated to the city. It was argued that the urban poor would be a more accessible target group for specific policies and programs than the rural poor. Furthermore, new employment was seen as a principal product of the city. The dimensions and nature of urban unemployment were thought to be ascertainable. Hence, the close proximity of a tangible problem and potential solutions was considered an asset to be exploited.

In December 1973, Congress amended the Foreign Assistance Act, requiring A.I.D. to direct its programs toward the poor majority in developing countries. This directive, termed the "New Directions," made it entirely appropriate to attempt to design programs aimed at the informal sector. Whether this was to include urban as well as rural areas was soon thrown into doubt. The following April, program guidance to field missions explaining the New Directions defined the "poor majority" as including the rural poor but explicitly excluding the urban poor. A few months later, in 1974, the Office of Rural Development was established within the Technical Assistance Bureau. For those who had labored so hard to get the urban sector recognized as a legitimate program, this came as something of a blow. Nevertheless, there were some newly elected members of Congress and others who continued to push for the inclusion of the urban poor within the mandate.

In light of the early interpretations of the New Directions legislation, the incipient urban development program of the mid-1970s found itself forced to search anew for an organizing conceptual framework. The one that would emerge as central was employment. In January 1975, the Office of Urban Development was asked to lead in the formulation of a policy on the urban poor. By the end of that year several papers within the Agency had addressed the issue. Congressional hearings focused on interpretations of the New Directions mandate. Legislation was introduced to specifically provide for "programs of urban development, with particular emphasis on small, labor-intensive enterprises, marketing systems for small producers, and financial institutions . . ." The phrase "urban poor" was explicitly added to include market towns in rural regions.

The Office of Urban Development maintained that the poor majority in developing countries included poor people regardless of where they were located on the national landscape. It noted a dynamic ebb and flow of the poor between urban and rural areas. It also observed that other donor agencies were beginning to pay more attention to this sector. The World Bank, for example, was suggesting that the informal small-scale enterprise sector of the urban labor market offered the only real potential for large-scale absorption of the urban and rural unemployed and underemployed (World Bank 1978).

The outline of a program of assistance to small-scale enterprise continued to emerge from the A.I.D. policy and strategy papers about the urban poor. Illustrative activities for the Agency to undertake included those that linked rural and urban areas as well as those within large cities. Effective rural development programs, it was argued, should include expansion of activities in secondary market towns such as credit systems for both farm and urban production, post-harvest marketing systems, and expansion of off-farm cooperatives. City projects, it was suggested, should focus on employment and productivity. The greatest hope for improving incomes and opportunities for the urban poor was seen in the growth of employment and productivity in the traditional informal sector of manufacturing and related services.

The DEWIT Study

A.I.D.'s Office of Urban Development continued its search for concepts and approaches to action programs aimed at expanding employment and income opportunities for the urban poor. This search was informed by a study of the informal small-scale enterprise sector in the urban economy conducted by a team of consultants from the firm of DEWIT (Developing World Industry and Technology) in 1976.

The DEWIT study provided a kind of road map for the PISCES project, which was still 2 years away. The study was devoted to an appraisal of the key problems and major difficulties encountered in the informal sector and the identification of potentially useful activities that could be undertaken by development agencies in the field. Areas for further research and experimentation also were noted. The orientation in the analyses and proposals was toward small, labor-intensive enterprises, marketing systems for small producers, and financial and other institutions that enable the urban poor to participate in the economic and social development of their country.

The DEWIT study adopted the Friedmann and Sullivan model of the urban labor market, but noted it did not capture the dynamics of the life situation of the urban poor. Nor did the model give an understanding of the development of the poor as their life circumstances change. The DEWIT team sought to do this by conducting field research in the urban poor neighborhoods of Lima, Peru, and Bogota, Colombia.

The following picture of the informal sector in Lima emerged: The informal sector in Lima accounted for 50 to 85 percent of the employable population. Capital per worker averaged $50 or less. A large percentage of the value added in goods and services consumed by the sector was also produced within the sector. Much of the enterprise activity was either unregistered or clandestine.

The study then suggested that policies and programs could be formulated that could increase the productive assets of the sector, raise the productivity of the people in the sector, and open up or develop new market opportunities or linkages for them. It was concluded that the potential for establishing new community enterprises for the production of local necessities and the absorption of the unemployed was great. Support for informal sector enterprises was seen as being applicable to both the fostering of new enterprises and the provision of assistance to already established small-scale enterprises. The new foreign assistance legislation was alluded to in urging efforts to incorporate the poor into the decisionmaking and control process at the grassroots. This was contrasted to the prevailing top-down approach typical of most development assistance programs targeting the urban poor.

1976 Policy Determination

Another policy determination on urbanization was issued by A.I.D. in May 1976, as a result of language added to the Foreign Assistance Act by the 94th Congress. Section 106 was changed to include:

> Programs of urban development, with particular emphasis on small, labor intensive enterprises, marketing systems for small producers, and financial and other institutions which enable the urban poor to participate in the economic and social development of their country.

The policy determination stated that the primary focus of A.I.D. programs and projects would continue to be on rural areas and on the rural poor. Included were those among the poor majority who live and work in villages, market towns, and small cities that are centers of rural regions. However, new activities designed to benefit the urban poor were to consist of research and development and pilot demonstration projects. First in order of priority were problems and prospects for employment generation, especially in the informal sector of big cities. The emphasis was to be on projects that demonstrate successful methods and approaches to helping the poor majority. Projects that would promote the active participation of the urban poor in planning as well as implementation were to be encouraged. This was the directive that would underlie the PISCES program.

An early opportunity came for the Office of Urban Development to respond to this latest directive. In early 1977, the Office entered into an agreement with Simon Fass of the Hubert Humphrey School of Public Affairs of the University of Minnesota to produce a case study of household income and expenditures of families in the low-income St. Martin area of Port-au-Prince, Haiti. Fass had conducted a survey there in 1976, and he was asked to analyze his findings and present them to A.I.D. for its programming purposes. The result was a voluminous report (Fass 1980) that served to influence the Office of Urban Development's program planning in the area of employment and productivity for the urban poor.

The most striking features of the community that Fass described were the high rates of economic activity and the apparent simplicity of the enterprise needs. Most were engaged in household or other "informal" types of enterprise at a level so low that they would hardly show up in a count of business establishments. Fass's data showed that many of the enterprises remained small and precarious because of a lack of working capital and other resources rather than a lack of entrepreneurial skills. In discussing the study and in comparing it with others around the world, it became clear to A.I.D. staff that there could be real benefits in assisting "micro" businesses at that level.

Rural Development Focus

Another crucial factor was at play in shaping the Agency's small enterprise effort. This was the program of research on employment in the African rural sector at Michigan State University.

As early as 1970 the Department of Agricultural Economics at Michigan State University was working under an A.I.D. contract with the Consortium for the Study of Nigerian Rural Development on problems of employment in Africa. Carl Eicher had explored the causes of unemployment and had concluded that the agricultural sector rather than urban areas should provide the key to expanding employment opportunities. The results of the limited research on Africa's unemployment problems led Eicher and his associates to believe that a significant source of employment generation lay in the rural areas, at least for the next 20 years. They set about examining employment generation in agriculture, without specific regard to nonfarm employment.

Their 1970 paper was a manifesto urging a basic rethinking of the problem of employment. Eicher and his associates took to task the assumptions of planners during the 1950s and 1960s who were preoccupied with high growth rates and tended to select projects based solely on internal rates of return. This ad hoc project-by-project approach to investment decisions, they argued, was not sufficient to deal with employment problems. They felt the need to confront problems of income distribution and uneven development, as well as unemployment. They challenged the assumption of disguised unemployment in agriculture, which had led African countries to launch grandiose industrialization drives.

Eicher and associates saw the key to employment generation in African agriculture in the 1970s as being in the selective use of indirect measures such as improved and better coordinated internal policies—economic, agricultural, and social—as well as policies of external donors. The latter were urged to reexamine their assumptions about the major constraints to African development. First of these was the notion that capital is the main limiting factor in agricultural development. A "lump" of capital cannot solve problems of poor planning and management. While other sectors—trading, industry, and services—offered some scope for labor absorption, Eicher and associates maintained that the dominance of agriculture in most African economies meant that this sector held the key to employment generation. They suggested a research agenda that would include issues related to both agricultural and nonagricultural employment in rural areas.

In 1971 the African Rural Employment Research Network was initiated at Michigan State University by a group of researchers interested in comparative analyses of the problems of rural development. The program was jointly designed by Michigan State faculty and scholars in African universities and funded by A.I.D. One of the dimensions of the research program was the rural nonfarm sector. Carl Liedholm, of MSU's Department of Economics, was the major force in this effort. The first study that the group produced focused on Nigeria (Liedholm 1973).

Nigeria. Drawing on the limited data available and on an ILO study of Western Nigeria, Liedholm observed that there was extensive and

This page and next—West African market scenes. In many developing countries, the informal sector provides most of the employment and opportunities for commerce. Note the market vendors in these scenes. Photos by Michael Farbman.

diversified activity in the nonfarm sector. Often farmers are also engaged in nonfarm activities, depending on seasonal variations. In the rural areas of Africa the number engaged in industrial activities was thought to exceed those engaged in trading, differentiated to a high degree by gender. The average size of both rural and urban artisan industries was only 2.6 workers, including the proprietors. The Nigeria study concluded that although the rural nonfarm sector is an important source of income and employment in rural areas of Africa, little systematic research had been undertaken on the subject. The Nigeria study, as well as the earlier ILO studies, provided little data on the efficiency of the small-scale business sector. Without this information, one was still left in the bind of trying to determine if the sector was viable and should be promoted, or if it should be relegated, as some argued, to the inconsequential activities of the poor. These issues would be addressed by a major research project and survey by MSU in Sierra Leone.

Sierra Leone. In 1974 Michigan State University conducted a survey of small-scale industries in Sierra Leone, in cooperation with Njala University College (Liedholm and Chuta 1976). The first phase of the study, which began in March 1974, was a census of Sierra Leone's small-scale industry sector. This phase of the survey provided the first estimates of the size and extent of this sector. The survey required that students go out to farms and small settlements throughout selected areas of the country to visit households and determine if there were small-scale business activities present. While this may appear to be a straightfoward proposition, it was made more difficult by the fact that most nonfarm businesses do not advertise, do not have signs, and otherwise may be difficult to distinguish from other activities conducted by farmers.

Because the Sierra Leone study was a seminal effort, it is worth noting how terms were defined. The word "industry" was used to refer to those enterprises that specifically engage in the production and repair of "manufactured goods." Excluded from the survey, then, were such sectors as mining, building and house construction, trading, and services other than repairing. Nonetheless, the activities included in the survey generated the largest amount of nonfarm employment. The term "small scale" was defined using the ILO definition—an enterprise with fewer than 50 employees. Such a definition served to distinguish the larger, foreign-owned firms from the smaller indigenous ones.

The results of the first phase of the survey revealed that small-scale industry in rural Sierra Leone had been substantially underestimated by previous government surveys. The government had estimated that only 52,000 individuals were employed in this sector; the survey discovered 50,000 industrial establishments employing over 92,000 individuals, increasing government estimates by 75 percent. More startling was the survey finding that 95 percent of all industrial establishments were located in rural areas, employing 86 percent of the workers in the industrial sector. The average size of the firms was quite low—1.8 workers.

The second phase of the research focused on the collection of economic data from a sample of industrial establishments identified in the first survey. Due to the lack of recordkeeping and the seasonal variations in income, surveyors interviewed businesses every 2 weeks for 1 year, from July 1974 to June 1975. This intensive method of collection produced more information on the profitability and economic contributions of small-scale enterprises than any previous study. Three types of data were collected during this phase: assets (buildings, tools and equipment); biweekly changes in business outputs, sales, labor used, and material inputs; and detailed information on entrepreneurship and apprenticeship.

The wealth of information from this study is still being used today by the MSU group in their analysis of small-scale enterprise in Africa. The original study volume painted a detailed picture of the small, off-farm enterprise. The most important industries were found in baking, textiles and wearing apparel, wood carving and carpentry, blacksmithing and goldsmithing, and repair services. Altogether, small-scale industries were estimated to contribute 2.9 percent to the gross domestic product of Sierra Leone compared with 3.9 percent for large-scale industries. In total, small-scale industries contributed 43 percent of the entire industrial sector value added.

The study came at a time when the Sierra Leone government's growing interest in small-scale industry paralleled its increasing disenchantment with the import substitution industrial strategy it had pursued since independence. It had done little to promote small-scale industrial firms during that time. Thus the conclusions to the report were quite important. Based on the data collected, the report stated that small-scale industries can contribute to meeting both employment and output objectives of Sierra Leone. Since these firms tend to rely on labor more intensively than larger firms, they are excellent means for meeting the employment needs of the country's growing population. In addition, when all factors are valued at their appropriate opportunity cost, they generate an "economic" profit, thus indicating their value to the country's economy.

The Sierra Leone methodology was an important step forward for research on small-scale industries. The project was successful in developing a means to identify, categorize, and estimate financial and economic efficiencies of small-scale firms. This methodology contributed enormously to understanding of the sector. The Sierra Leone study became the model for the Off-Farm Employment Project and a greatly enlarged series of studies that would eventually discover that many of these findings would be duplicated in countries around the world.

Private and Voluntary Organizations

If the ILO, DEWIT, Fass, and Michigan State studies helped to establish the intellectual groundwork for A.I.D.'s microenterprise program, U.S.-based private and voluntary organizations (PVOs) with experience in technical assistance were essential in helping to make it operational. In the mid-1970s there were only a handful of PVOs with any interest in small enterprise development. Two of these were ACCION International, headquartered in Cambridge, Massachusetts, and Partnership for Productivity, located in the Washington, DC, area.

ACCION International and UNO in Brazil. ACCION was founded in 1961 with the broad goals of reducing poverty and hunger throughout Latin America and the Caribbean. Since the early 1970s, ACCION has focused its efforts on projects that emphasize income creation and increased employment among the poor. This emphasis began with its successful involvement with the Northeast Union of Assistance to Small Businesses (UNO) in Recife, Brazil, in 1972. UNO came to be considered by many to be a model of how to provide credit to small businesses and launched ACCION in an entirely new direction.

UNO traces its beginnings to the support of the director of ACCION's Rio de Janeiro affiliate, Recife businesspeople, and local banks. Chartered as a Brazilian private and voluntary organization, UNO provided credit to small businesses previously denied access to banks. ACCION's main objective was to contribute to increased employment, production, and income among the poor by assisting businesses that used labor-intensive technologies and did not benefit from government subsidies.

In the beginning UNO was provided with credit resources by two private banks and later the development bank of the state of Pernambuco. During the first period of its operations, UNO experienced little growth. From 1972 until 1981 UNO made a total of 2,552 loans—two-thirds in Recife and one-third in the interior. The average loan size was $2,000 until 1978. Repayment rates on the loans averaged 95 percent, showing that small businesses are perhaps better credit risks than larger firms in conventional loan programs.

The cost of UNO loans was high, averaging $1,700 for every $2,000 loan. This was justified by the high return that the businesses generated in terms of economic output and employment. Despite these high costs, in comparison with other development programs of the time, UNO acquired a reputation for its low-cost approach to informal sector businesses, relying on low overhead, cheap student workers, and meager facilities and equipment. UNO justified its work by pointing to the employment and income its loans provided to entrepreneurs who, it said, were on the brink of urban unemployment. This approach would be widely duplicated by ACCION and other nongovernmental organizations.

Partnership for Productivity—Kenya and Burkina Faso. Partnership for Productivity (PfP) was founded in the United States as a PVO by a Quaker businessman. PfP's objective was to provide business management assistance to people in the developing world. While the UNO project was primarily known for its credit program, PfP came to be known for its business advisory services.

PfP's first effort was in western Kenya, where an American adviser began to lay the groundwork for a project in 1970. PfP advisers began to teach commerce and business administration courses at a local Quaker college. They sponsored 1-week courses in accounting for would-be entrepreneurs and also began a loan agency. The rural market loan scheme made revolving loan funds available to market committees for lending to clients who lacked collateral.

In 1974 and later in 1976, USAID/Kenya provided PfP with a grant to provide assistance in expanding its rural enterprise extension services. The purpose of the project was to demonstrate an effective, efficient, and

Signing for a first loan. ACCION, Colombia, 1987. Photo by Gabriela Romanow.

Shoe repair in Honduras. ACCION, 1986. Photo by Gabriela Romanow.

Selling fruit in Bogota, Colombia. ACCION, 1984.

Making rattan furniture. ACCION, Ecuador, 1985. Photo by Jeff Ashe.

Seamstress in a home-based microenterprise. ACCION, Costa Rica. Photo by Gabriela Romanow.

Metalworking is an important microenterprise in both rural and urban areas throughout the world. ACCION, Costa Rica, 1986. Photo by Gabriela Romanow.

replicable rural enterprise extension service that would increase the managerial capability of small-scale entrepreneurs. The project fell short of the target of 1,800 clients trained. One of the unresolved issues was the relationship of the extension service to credit. Repayment rates were poor and the fund eventually dried up. This left the PfP operation as essentially a business advisory service with the revolving loan fund scheme no longer operating, which was unsatisfactory to the clients.

PfP attempted to remedy this flaw in the design of another project, also funded under a grant from A.I.D., in Burkina Faso, then called Upper Volta. Grant funds were received in 1978 for an experimental pilot project to assist in the development of rural enterprise in the sparsely populated eastern region of the country. The project sought to provide a balance between credit from a revolving loan fund and technical assistance to would-be entrepreneurs. During the 2-year period, there were 120 loans granted to both individuals and groups.

The repayment rate was just over 90 percent, much higher than the repayment rates of farmer credit loans in the region. An experimental fund was used for the development of a farm managed by a village cooperative. The pilot phase of the project was judged to be successful, at least in terms of initiating a process combining credit and technical assistance in a very remote area. The Burkina Faso project came to be considered by PfP as a model for future program development, although as will be seen, it was to become the subject of considerable debate within the U.S. development community.

Lessons Learned

The beginnings of A.I.D. support for small- and microenterprise development are to be found in the first instance in the basic U.S. foreign policy principle of promoting self-help in developing countries. They are discernible in the search for a conceptual framework that came to have employment as its central focus. They reflect the strong currents of research and analysis sponsored by A.I.D. and other institutions. The 1973 New Directions legislation, with its emphasis on the poor majority, helped to focus attention on basic needs. Research that was drawn on for its design had been conducted on both the rural nonfarm sector and the urban informal sector. Finally, the role of U.S.-based private and voluntary organi-

A grain miller in Burkina Faso, typical of PfP program clients. Agency for International Development photo.

Above is a Burkina Faso merchant who is a PfP success story. By taking a much smaller markup than other bicycle parts retailers, he has built a booming business in the Fada market—so much so that he has expanded into another location across the market, linked to it by a battery-powered phone. He has built up a large inventory so parts are available, and other retailers have been forced to drop their prices. Agency for International Development photo.

zations as intermediaries and local nongovernmental organizations as the implementors was significant.

A.I.D.'s early efforts to investigate the importance of small enterprise in developing economies helped to inform development policy issues by challenging traditional assumptions. The major models of development up to that time had been based on export-led growth models that relied on the formal sector to absorb labor in the wage economy. Those models assumed that the informal sector was not very productive and would eventually disappear. During the late 1960s and early 1970s, much new information that challenged this assumption was gathered from research efforts and demonstration programs, including the following:

- Development models emphasizing small-scale, informal sector enterprises seemed to capture some of the dynamics missing in traditional models of employment and economic growth in the developing countries.

- Small-scale enterprises were important components of both rural, non-farm and urban economies generating significant employment and value added.

- Small-scale enterprises offered possibilities for growth in developing nations that previously had been underestimated or ignored by development practitioners.

- Capital-intensive approaches to developing industries were more costly, not very productive, and difficult to sustain.

- Technical assistance from American-based private and voluntary organizations could help local nongovernmental organizations, which in turn could help small entrepreneurs.

Questions Left Unanswered

In many ways, the new knowledge about small-scale enterprises only increased the number of questions that development practitioners had about the sector. Was the information gathered by MSU generally true for all developing countries, or only a few?

In addition, it remained to be seen whether any program of development could find ways to successfully assist this sector in any broad manner. What were the factors inhibiting the growth of these activities? Would development agencies be capable of devising means to help alleviate them? How receptive to this new agenda would host government officials be? What kinds of intermediaries exist in developing countries that can reach small-scale entrepreneurs?

The initial groundwork within A.I.D. had been laid to pursue these questions. The Small Enterprise Approaches to Employment project, of which the PISCES Project was the most visible part, would attempt to provide some answers.

3

PISCES

The flagship of A.I.D. efforts to mount programs in small- and microenterprise development was the Program for Investment in the Small Capital Enterprise Sector, the PISCES program. A component of the Small Enterprise Approaches to Employment (SEAE) project, PISCES was based on a "firm belief throughout the international development community that the promotion of small business is an effective way of generating new employment and income opportunities for the poorest population sectors in developing countries." Those who sought to create new opportunities in the small-scale enterprise sector were faced with the realization that there was not much information about the sector available. The Project Paper noted that "it was easier to catalogue what we do not know about small-scale enterprises—especially their net income and employment generating capability, their impact on income distributions and their utility as a contributor to the development process—than it is to identify explicitly their unqualified advantages."

The SEAE project aimed at addressing this lack of information and trying to determine whether some modes of assistance to the sector worked better than others. The long-term objective of the project was to develop and demonstrate a methodology and an approach that could be used in the design of small-scale enterprise projects.

The PISCES component of SEAE was designed to explore whether it was possible for A.I.D. to deliver small amounts of financial assistance to small-scale enterprise clients. The Project Paper was preceded by a concept paper written by Michael Farbman and John Dickey. PISCES was to consist of two phases, the first of these, descriptive research on the characteristics of small- and microenterprises in developing countries and of the assistance methodologies already being used to address their needs. Phase II would take the characteristics identified as associated with successful assistance projects during the first phase and apply them to new or restructured programs in order to field test methodologies to improve income and employment generation. Phase I consisted of case studies of 23 assistance program in 16 countries. Phase II was comprised of four pilot projects in Egypt, the Dominican Republic, Kenya, and Costa Rica.

The focus of PISCES, as stated in the Project Paper, was to:

> . . . increase employment and income producing opportunities for the urban poor, and thereby secure their fuller participation in the benefits and responsibilities of national development.

The PISCES project was contracted to ACCION International with subcontracts to Partnership for Productivity (PfP) and Development Group for Alternative Policies (D-GAP), all private and voluntary organizations. Even those who looked kindly upon modest expenditures of funds on pilot projects tended to think of the PISCES experiment as not very likely to have an impact. The entire two-phase PISCES program would cost $750,000 during its 6-year lifetime. How could one be expected to take such a project seriously, when a typical area development of the time cost anywhere from $10 to $25 million?

While the institutional framework in which the PISCES project functioned during 6 years changed from the Office of Urban Development to the Office of Rural and Institutional Development, the A.I.D. project officer, Michael Farbman, remained the same throughout. The Project Manager at ACCION International, Jeffrey Ashe, also was on board for the duration of the project. The original urban focus of the project was eventually complemented by activities in the rural sector. Nevertheless, the target group remained essentially the same: the small-scale informal enterprise. In fact, the combination of urban and rural activities made the project more interesting, allowing for some measures of comparison.

PISCES I: Reconnaissance

The first phase of the PISCES project was to generate information about the various ways and means by which public and private organizations were already successfully providing assistance to very small enterprises. From these case materials a synthesis was to be extracted that could serve as a replicable model for A.I.D. and other donor organizations in development assistance programs. The second phase was constructed to identify four potential demonstration sites and to use the model to design these preliminary projects. The role of the first phase was to set the stage for action in the second phase, based upon its findings.

The first phase of PISCES was expected to bring about two results. The first was case descriptions of each assistance program examined. These were to include a synthesis of the cases studied in the form of guidelines for a PISCES project approach. The second result would be proposals for the establishment of the four demonstration projects.

There were two purposes with respect to the second phase. The first was that in order to be able to establish whether A.I.D. could in fact assist small-scale enterprises, it was necessary to assess the actual experience of organizations that had tried to do it. The second purpose, implied in all the objectives, was that A.I.D. and other donor organizations should initiate assistance efforts as part of their mandate to reach the urban poor. Within the A.I.D. context, this meant persuading other bureaus and USAID missions of the usefulness of this approach. This was the marketing function of the project.

ACCION, PfP, and D-GAP met in Washington for a workshop in early February 1979, the effective starting date for the project. The three contractors then proceeded with a common set of guidelines to identify candidate assistance programs in Asia (PfP), Africa (D-GAP), and Latin America (ACCION). In-depth examinations were carried out, yielding 23 case studies. See table 1.

For each of the 23 programs, the contractors sent teams to evaluate and catalogue the types of programs and activities being undertaken. The organizations carrying out these programs were diverse. They included government agencies, nongovernmental development organizations, U.S.-based private and voluntary organizations, church groups, unions, and banks. The programs that they offered were equally diverse, indicating the

Table 1. PISCES I Case Studies

Country	*Project*
	Africa
Cameroon	Centre d'Education a la Promotion Collective (CEPEC)
Cameroon	Institut Panafricain pour le Developpement (IPD)
Gambia	Indigenous Business Advisory Service (IBAS)
Kenya	The Urban Community Improvement Programme of the National Christian Council of Kenya (NCCK)
Kenya	The Village Polytechnic Program (VP)
Kenya	Institute for Cultural Affairs Kawangare Community Upgrading Project (ICA)
Tanzania	Small Industries Development Organization (SIDO)
Upper Volta	Artisan Training and Credit Program of the Centre National de Perfectionnement des Artisans Ruraux (CNPAR)
	Asia
India	The Working Women's Forum
India	National Association of Educated Self-Employed Youth (NAESEY)
India	Bangalur Layout
India	Calcutta "Y" Self-Employment Center
Philippines	Metro Manila Barangay Industries Development Program (MMBIDPO)
Philippines	Manila Community Services, Inc. (MCSI)
Philippines	Self-Employment Assistance Program (SEAP)
Philippines	Carmona Social Development Center
Philippines	Philippine Commercial and Industrial Bank(PCIB)
	Latin America
Colombia	Federacion Nacional de Cruzada Social (FNCS)
Colombia	Cooperativa Multiactiva de Desarrollo Social (CIDES)
Ecuador	Banco del Pacifico
Ecuador	Instituto Ecuatoriano de Desarrollo Social (INEDES)
El Salvador	Programa Integral de Desarrollo Comunal (PRIDECO)
El Salvador	Federaction de Cajas de Credito (FEDECCREDITO)
Honduras	Asesores para el Desarrollo (ASEPADE)

broad range of potential activities in the sector. This diversity created problems in easily classifying the case studies and proposing appropriate followup demonstration programs.

In early 1980, the three contractors prepared draft case study reports on each of the 23 programs. ACCION prepared a preliminary version of a synthesis report that constituted the replicable PISCES approach. A workshop, attended by representatives from PVOs and A.I.D. staff, was held at the Brookings Institution on April 29, 1980, to discuss the contents of the case studies. Although this conference constituted the official completion of Phase I, ACCION and A.I.D. staff continued working on a final report, which was published the following year under the title, *The PISCES Studies: Assisting the Smallest Economic Activities of the Urban Poor* (Farbman 1981). Twelve hundred copies of *The Pisces Studies* were printed

The term "microenterprise" was used throughout the PISCES I final report. A distinction was made between very small microenterprises (generally assisted through group mechanisms) and small microbusinesses (assistance directly to the individual business owner).

The first part of *The PISCES Studies* documented the existing conditions for microentrepreneurs. These included:

- *A hostile policy environment.* Street vendors are frequently banned from choice downtown locations. Licensing and registration requirements are invariably time consuming, complex, and expensive. Bribes must often be paid to keep informal businesses functioning. Development banks facilitate low-cost raw materials and machinery for larger enterprises, while microenterprises have to settle for second-quality goods and equipment at inflated prices.

- *Lack of institutional credit.* There is virtually no access to credit institutions for the microentrepreneur. Banks tend to feel that lending to microenterprises is too risky and carries too much administrative cost. Rigid collateral requirements and excessive "transaction costs" effectively bar the informal sector. Because women business owners are often less educated and have less experience with banks, lending requirements work especially against them.

- *High interest rates charged by moneylenders.* Microentrepreneurs who cannot provide financing themselves or borrow from family members often are obliged to use moneylenders who charge interest rates ranging from 10 to 20 percent a month to 20 percent a day. Payback periods are too short—often even a day or week—to permit longer term investments in equipment or shop improvements.

- *Limited access to raw material and supplies.* In many countries microenterprises have limited access to first-quality raw materials. Where they are available, unit prices for small quantities are much higher. Lack of space to store them may lead to interruption in production.

- *Marketing limitations.* Microenterprises operate within a local market. Whenever there is a shrinking local demand, that market also declines. Even when the market is stable or expanding, there are other problems such as high transportation costs, poor prices paid by intermediaries, and slow payment once goods are delivered. Business owners frequently lack information on available markets or fail to consider that a particular market might be saturated.

In discussing the impact of the assistance provided in the projects surveyed, the PISCES I report noted that:

> The difference in earning a dollar a day to meet the needs of an average family of 5-8, and $2 a day is dramatic: children may be sent to school, the sick can see a doctor, housing can be upgraded, and it becomes possible to save for future investment in the business.

In regard to actual assistance programs studied in Phase I, the final report presented several general findings. *The Pisces Studies* found that assistance programs were operating in many parts of the world. There were indications that it was possible to assist small-scale enterprise through a variety of approaches.

The characteristics of the assistance programs varied greatly, depending on the types of intended beneficiaries: whether urban dweller or recent rural migrant, size of enterprise, and objectives of the program (group or individual oriented).

Effective programs were developed with close attention to design, staffing, availability of credit, provision of bookkeeping and management skills, and other factors. These programs required an environment that satisfied certain preconditions, including supportive government policies, a healthy local economy, and a tradition of cooperation among beneficiaries. Finally, there were both positive economic and social benefits derived from these programs of assistance. Enterprise development was described as an integral and important component of the process of community upgrading in the community-based projects.

The most important outcome of PISCES I was its impact on the second phase of the project and future small enterprise development projects. Several themes came to dominate these subsequent programs. In her 1988 study, Elisabeth Rhyne identified the themes that had emerged by the end of the first phase of PISCES.

- *Credit and low-cost mechanisms for delivery. The Pisces Studies* clearly viewed credit delivery as the cornerstone of small enterprise assistance methods. The question that emerged was whether credit alone was sufficient or whether technical assistance was also necessary. Projects that included other services such as technical training and marketing assistance, but did not have credit as the centerpiece, were given short shrift.

- *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. The concept of the solidarity group, as a means for extending credit and providing technical assistance to the smallest microentrepreneurs, entered the vocabulary for the first time. This concept would be further expanded in the followup case studies and eventually became the hallmark of ACCION's own activities.

- *The development of two basic paradigms for assistance:* (1) the credit-only program, which reaches a large number of existing enterprises in a potentially self-sustaining way, but provides few or no adjunct services; and (2) the socially oriented program, aimed at the very poorest people, which helps start new enterprises and provides a range of business and social services. Both of these paradigms were incorporated into PISCES II and were seen as not opposing each other, but applicable in different situations.

- *An emphasis on quality of management* by implementing organizations, which was crucial in determining project success. (This came to be the major theme of the ARIES project, the followup project to PISCES.)

- *The importance of private and voluntary organizations,* especially local ones, as the main implementing agencies. By bypassing government agencies and using PVOs and financial institutions, the projects were able to avoid the problems of corruption and excessive bureaucracy and were able to reach their target groups more easily.

All in all, as Rhyne noted, *The Pisces Studies* served to narrow the options A.I.D. would pursue for assisting microenterprises to a few acceptable options, this despite the diversity originally encountered in the field. Given the constraints of resources, time, and interest in particular models, this narrowing down process was a necessary step for future action.

PISCES II: In Search of a Replicable Model

In 1981 the second phase of the PISCES project began. It consisted of four demonstration projects chosen in collaboration with USAID missions, with the purpose of applying the lessons learned from PISCES I. Two of the projects chosen were in the Latin America/Caribbean region (Dominican Republic and Costa Rica), one was in Africa (Kenya), and one was in the Near East (Egypt).

There were marked differences in the approaches taken by each of the contracting organizations. ACCION, for example, took an active part in project design and implementation of projects in the Latin America/Caribbean region in an attempt to ensure that the lessons of PISCES I were applied. In keeping with its emphasis on the participation of the poor, D-GAP adopted a more observational approach. They offered limited technical assistance and refrained from setting requirements for their project in Kenya to follow.

The following are descriptions of three of the demonstration projects. (A fourth project, The Coptic Evangelical Organization for Social Services (CEOSS) in Egypt, did not have enough time elapse between its inception and the end of PISCES II to allow for significant observation.)

Dominican Development Foundation. A private and voluntary organization founded in 1965, the Dominican Development Foundation (DDF) worked extensively in microenterprise and solidarity group projects in rural areas. In 1980 DDF became involved in an urban project. The USAID mission

SMALL BUSINESS ON A SANTO DOMINGO STREET CORNER

Rocking chairs were the family's first business. Using a crude wooden bench saw and a locally-made turning lathe, the father cuts the lumber and turns it; he assembles and varnishes the chairs, and places them outdoors for display.

Seamstress. The daughter sews basinet covers and takes in special orders for seamstress work.

Charcoal seller. This passing carbonero is also an independent, self-employed businessman. He buys charcoal from the rural producers in the central market and sells it by the piece or package from door to door.

Making basinets. Using aluminum tubing and cotton mesh, the family produces infant basinets. These are marketed on the premises.

Making wall panels. On a contract basis, the younger son of the family makes custom wall panels. He uses the power tools when his father is not making rocking chairs.

Members of this family operate three small businesses from a home workshop. They make wooden rocking chairs, aluminum basinets and modular wall panels. They sell wholesale and retail, displaying their goods on the street corner for passersby and taking special orders from regular customers. The family is typical of the small businesses (micro-empresarios) that have received credit from the Dominican Development Foundation.

Photos by Steve Vetter

A valuable by-product of this work is the Association for the Development of Microenterprises (ADEMI), a new organization established in Santo Domingo toward the end of the DDF experiment. ADEMI took the lessons learned from the DDF experience concerning the need for efficiency, monitoring, strict loan repayments, and rapid turnaround on loan delivery and formed a new organization based on these principles. It has grown since into a successful nationwide microenterprise development program.

Banco Popular y de Desarrollo Communal—Costa Rica. The Popular Community Development Bank was established in Costa Rica in 1969, with a mandate to provide access to capital for workers. It is capitalized through a 1 percent levy on their salaries that is placed in a savings account. Prior to the USAID-funded project to Banco Popular, loans had been granted to small industries but had never gone to microenterprises in the informal sector, which was the PISCES target group. Following a feasibility study, the Aid to Urban Enterprises through a Solidarity Guarantee project was developed. USAID/Costa Rica granted $65,000 to finance a revolving loan fund. The project began extending credit in October 1982. Within a year loans averaging $247 had been granted to 83 solidarity groups with 447 members, repayable in weekly installments within a year. An interest rate of 21.5 percent on a declining balance was charged. No outside technical assistance was provided.

National Council of Churches of Kenya Small Business Schemes. The National Council of Churches of Kenya (NCCK) is a constituent organization with both ecclesiastical and developmental goals that represents about 40 distinct member churches and private religious associations. In 1969 the Urban Community Improvement Program was begun and has since become one of NCCK's most important programs. Its goal is to improve the quality of life of the very poor in the urban squatter communities. As part of that program NCCK started the Small Business Scheme in 1975, designed to provide management and financial assistance to small-scale enterprises in these areas. A small revolving loan fund was provided to individual and group enterprises. Then in 1980 A.I.D. provided NCCK with $275,000, which enabled it to hire new technical extension agents and extend the project to cover towns beyond Nairobi. The revolving loan fund was also expanded to a total of $110,000. Average loan size was initially projected at $277 for individuals and $160 for group members, but typical loans were well below these figures and considerably less than borrowers requested. Some 253 individual and 14 group loans were made during a 2 1/2 year period.

Informal enterprises can be set up where the customers are. Above, a NCCK loan recipient and his shoe repair business. Agency for International Development photo.

Of these projects, the two in the Latin America/Caribbean region fit the credit-only program and solidarity group model identified in PISCES I. The NCCK project fits the PISCES I model of a business program serving the very poor in the context of a broader community service program.

Influential Project Evaluations

At the same time that the PISCES II demonstration projects were moving ahead, a second component of the SEAE project was advancing. A series of evaluations were being completed by Development Alternatives, Inc. (DAI) that would ultimately alter the outcomes of the PISCES II results and would continue to have ramifications even today.

In 1982 and 1983, DAI evaluated the impact of four credit and technical assistance projects that varied widely in terms of delivery mechanism, services, size of target enterprises, and other characteristics. Two of the evaluations had a far-reaching effect on the shape of program efforts. These were evaluations of the Badan Kredit Kecamatan (BKK) in Indonesia and the Partnership for Productivity program in Burkina Faso.

Badan Kredit Kecamatan—Indonesia. Unlike most developing countries, Indonesia has a wide range of credit programs designed to aid petty traders and small-scale entrepreneurs. The Badan Kredit Kecamatan (BKK), a special program of a government-owned financial institution, was launched in 1970 to provide small, short-term loans primarily to poor rural families for off-farm productive purposes. The bank's motto is, fast, cheap, and productive credit. From 1972 to 1982 the BKK program provided 2.7 million loans (generally under $50 each) and totaling over $65 million. By 1982 it was operating in 486 of Central Java's 492 subdistricts.

The key components of the BKK program, according to DAI evaluators Susan Goldmark and Jay Rosengard, are as follows:

- Reliance on character references from local officials for loan eligibility, rather than on the availability of collateral or lengthy staff analyses of an applicant's project feasibility;

- Reduction of risk by making small initial loans, and then gradually raising that client's credit ceiling as the repayment record warrants;

- Use of repeat loans as the borrower's primary incentive for full and timely repayment;

- Interest rates high enough to cover operating expenses and to allow for reinvestment in future loans;

- Highly streamlined and therefore inexpensive loan administration systems;

- Financial self-sufficiency attained by low administrative costs and full-cost interest rates;

- Blending local autonomy with overall program quality control by stressing a highly decentralized organizational structure, with villages as the focus of operations.

The evaluators concluded from their impact evaluation that the BKK program is one of the few publicly funded and administered credit programs in the world that makes money from providing loans to small enterprises.

The BKK blends the speed and convenience of traditional moneylenders with the operating philosophy and profit margin of a commercial bank.

The profile of the BKK client portfolio that emerged from the surveys:

- The average BKK loan size is about $50.
- Average borrowers quadruple their loan size in real terms within 4 years and receive over 13 loans.
- Petty trading is the primary economic activity for over half of the borrowers, and farming the secondary activity for over half.
- Sixty percent of borrowers are women; the average age of borrowers is 40. Most of the borrowers are in their prime earning period between 25 and 49 years.
- About half of BKK borrowers own land, averaging 0.8 hectare.
- Over 60 percent of rural clients and about 45 percent of urban borrowers either have received no schooling or have not completed primary school.
- Most borrowers live in the same village where their BKK office is located.

The DAI evaluators judged the BKK model to be a highly cost-effective, well-managed way to reach the smallest groups and to have significant economic development impact. The quality of the BKK portfolio was judged to be excellent. At the time of the evaluation in June 1982, only 6 percent of outstanding loans were delinquent, if all those more than 6 months overdue were excluded.

This evaluation had an appreciable ripple effect within A.I.D. and U.S. private and voluntary organizations. It raised hopes among some that a financially viable program serving the very poor was indeed possible.

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

The DAI evaluation of the PfP project had a rather different impact on the U.S. private and voluntary organizations involved in small enterprise assistance than did the BKK evaluation. It helped shape a debate on what the goals of small enterprise assistance programs ought to be. Elizabeth Rhyne (1988a) characterized this debate as a conflict between business and financial considerations on the one hand, and social and humanitarian concerns on the other. The DAI evaluation of the Upper Volta PfP 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. In addition, PfP felt that DAI did not take into account the "degree of difficulty" of the project. At the same time, PfP quietly acknowledged that project management needed strengthening.

The strong reaction of PfP to the DAI evaluation was aired at a series of workshops with A.I.D. and other PVOs. Although contentious at the time, the workshops helped prompt 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 to the creation of an informal group of PVOs, eventually known as the SEEP (Small Enterprise Education and Promotion) Network, which has met frequently since 1983 to explore such questions. Although a summary of the outcome of this debate is necessarily oversimplified, it is fair to say that it led to the adoption by many 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.

Lessons Learned From PISCES II

In her final report on the PISCES program, Carol Adoum identified several areas of contribution to the field, each with its strengths and weaknesses.

Group and Individual Lending Mechanisms. The technique that most clearly evolved in the course of PISCES was that of using solidarity groups as mechanisms for lending and control. Variations on this technique were used in each of the four pilot projects. There was some question as to the appropriateness of the level of technical assistance. It was generally concluded that credit and group dynamics were most important at the startup stage of business development and that management assistance was most useful when the business began to expand.

This issue was related to the ability of the intermediary organization to provide costly items such as training and technical assistance. Within A.I.D. there was an increasing emphasis placed on institutional self-sufficiency. There was a demand from 1982 onward that implementing organizations funded by A.I.D. be more businesslike in their operations. Those that traditionally had social and community development-based activities as their focus were unaccustomed to meeting rigorous financial accountability standards. They would not have considered making repossession of assets part of their strategy for reducing default rates, for example.

No consensus emerged regarding whether self-sufficiency or profit was possible in the attempt to assist small- and microenterprises. The major conclusion drawn from this aspect of PISCES was that the benefits of assisting the sector might not be immediately financially profitable to the intermediary organization. The long-term benefits were greater in terms of future clientele, community visibility, and other noneconomic factors.

Credit. Perhaps the most carefully analyzed and tested dimension of the PISCES projects was credit assistance, especially credit delivered by PVOs. The method used by project staff in PISCES II was to incorporate credit approaches recommended by the PISCES I analyses into the pilot projects and to monitor them along the way. The average loan size remained close to target although there was a tendency for the loan size to be increased to qualify slightly larger entrepreneurs. This tendency necessitated setting caps on loan amount and enterprise size and asset value. The general consensus on interest rates was that they should be set at at least commercial market rates, and ideally high enough to allow the intermediary organization to attain self-sufficiency. The willingness and ability of clients to pay commercial rates was not seen as an obstacle in these microlending programs.

The PISCES II experience demonstrated that an organization attempting to do both group lending and individual lending was likely to be less efficient than the organization that concentrated on one type. Comparison of the Cost Rica project—which lent only to groups—with the Dominican Development Foundation and the National Council of Churches of Kenya—which lent to both—suggested that the resources going to individual lending did not bring the benefits of lending to groups. Where field staff were scarce, the self-monitoring supplied by the groups was found to be very valuable in securing loan repayments and providing technical support.

One issue that was not adequately addressed in the research methodology was loan default rates. All of the PISCES II projects suffered at one time or another from high rates of nonrepayment. Most of the descriptions regarding loan defaults had to do with the reasons they occurred, such as economic conditions in the country or lack of second loans to motivate repayment of initial loans.

Training. This aspect of PISCES pilot projects was the least adequately dealt with in terms of research and testing of techniques. Jeffrey Ashe (1985) attributed this to reaction to traditional projects prior to PISCES that focused on management training and technical assistance while ignoring the credit needs of the clients, usually without success. The main finding was that the most valuable and cost-effective training technique was to employ peer exchange instead of formal management courses or adviser-client technical assistance.

Dissemination of Information. One of the most successful aspects of the PISCES experiment was the dedication of both contractors and A.I.D. staff to getting the findings of the program out to potential users. Most of the dissemination efforts evolved out of the project since they were not built into the design per se. Adoum suggested that one measure of the success of PISCES was its inclusion in the official A.I.D. acronym pamphlet, one of only three projects so listed.

Rarely are A.I.D. project reports given such wide distribution as were those produced by PISCES. It is common for no more than five copies of a research report to be made, assuring that the project remains unknown beyond a small circle within the Agency. Over 1,200 copies of the PISCES reports, however, have gone to a wide range of users, including donor agencies, private and voluntary organizations, and practitioners all over the world. They continue to be in demand today.

Another form of information dissemination used by the PISCES contractor and A.I.D. staff was workshops and forums. There have been far more than the usual number of these events, frequently held in regional sites and involving representatives of local groups. ACCION had many of the PISCES publications translated into Spanish, even though this was not an expense covered in the PISCES contract.

Knowledge Base of Small- and Microenterprises

PISCES affirmed how little is known about the informal sector and how difficult the problems facing small- and microenterprises are. Nonetheless, the lack of methodological rigor in the design of the program was a source of dissatisfaction to both A.I.D. managers and contractors. This was due in part to the fact that the researchers were at the same time advocates of small enterprise development and providers of assistance. Certainly the absence of a more rigorous research design limited the possibility of arriving at clearly stated conclusions. In defense of the contractors, it can be argued that the value of the results of the PISCES program goes well beyond the $750,000 that was invested in it over a 6-year period.

Not all of the issues identified in the PISCES I workshop were well addressed in PISCES II. This was notable in the area of marketing assistance, one of the most frequently cited concerns in the surveys and the PISCES I workshop. The lack of attention to nonfinancial assistance may have resulted from a discovery over the course of the project that marketing assistance was not of crucial importance during the early, pre-entrepreneurial stages of development, which included most PISCES clients.

Institution-Building

In contrast to many A.I.D.-funded projects at the time, the PISCES program was notable for its use of private indigenous organizations to implement assistance to entrepreneurs. For most of them, the provision of credit and technical assistance to small entrepreneurs and microentrepreneurs was a relatively new activity. Each organization implemented its project in a different fashion. The cultural and operational style proved to be an important determinant of how the organization attempted to reach the intended client. The PISCES program was a major influence on ACCION. Jeffrey Ashe reported that by using PISCES findings from the Dominican Republic and Costa Rica, ACCION was able to assist thousands of microenterprises in Latin America. The organizations that housed the demonstration projects served as a laboratory for institutional change.

The Legacy of PISCES

The legacy of PISCES is to be seen in its effect on other small-scale enterprise efforts. The PISCES project made a much more concerted effort to disseminate the information gathered from the field research than is normally the case with A.I.D. projects. Through this dissemination a new model for assistance was rapidly spread and accepted, not only in A.I.D. but in other international donor agencies, nongovernmental organizations, and PVOs as well. That virtually all donor agencies now have programs to assist businesses in this sector is in some part directly attributable to the impact of the PISCES program.

According to this new model, small enterprises could be assisted by institutions with programs that gave them the opportunity to become self-sufficient. This model targeted the smallest of businesses and demonstrated that, given the chance, they could repay loans and benefit from technical assistance to improve their operations. Finally, the model gave a clear mechanism for development to occur through the combined efforts of very small firms.

Not everything the PISCES project did lived up to its original expectations. There was no clear indication that the project established low-cost outreach, delivery, and monitoring techniques so as to maintain the widest possible coverage with limited assistance resources, as was intended in the project design.

The PISCES program clearly illustrated that private and voluntary organizations have their limitations in reaching large numbers of microentrepreneurs. Nevertheless, they would merit further attention from donor agencies because of their links with entrepreneurial clients and their commitment to attempting microlending where commercial banks feared to tread. They seemed to have a genuine concern for helping their PISCES clients to attain a greater measure of self-respect, and perhaps eventual self-sufficiency.

The conclusion of *The PISCES II Experience* gave the Agency directions for future areas of program development. The most important area for future assistance was to help institutionalize the capacity to reach the informal sector. This meant that A.I.D. should help local organizations that were to work with microentrepreneurs to strengthen their own procedures and management. By doing so, it would allow these organizations to scale-up projects to include greater numbers of people and to lower program costs. These suggestions for future work were actively taken up in the followup project, ARIES, discussed in chapter 5. However, before looking at ARIES, the next chapter details research efforts that were occurring on a parallel track to PISCES/ARIES.

4

The Research and Policy Agenda

The early research done by the International Labor Organization and Michigan State University pointed to the importance of the small-scale enterprise sector in developing economies and hinted that this would be an important sector for economic growth and development. However, in the mid-1970s, not enough data were in yet to know if these conclusions were valid beyond the few countries that were studied. What was needed was a practical approach to field research that could provide basic data on the small-scale enterprise sector and ultimately help to guide the development of programs and policies. This research was to be carried out for A.I.D. by Michigan State University and, later on, by the Harvard Institute for International Development.

Michigan State University Research

Michigan State University already had begun research into the role of small-scale enterprises in the early 1970s. In 1977 the Agency signed a cooperative agreement with MSU to continue their research in a project called the Off-Farm Employment Project. This agreement permitted MSU to continue the type of intensive field work and data collection that it had undertaken in Sierra Leone and apply it to other countries. More importantly, the agreement called for MSU to provide detailed analysis of the data they were collecting in order to help guide the development of programs and to develop policies that might best help the sector.

During this period, MSU conducted a number of additional field studies. In addition to finishing their work in Sierra Leone, they started new surveys in Bangladesh, Jamaica, Honduras, Haiti (abbreviated survey work), Egypt, and Thailand. As in Sierra Leone, these surveys counted and classified all small industries in selected rural areas and towns. The number of actual enterprises enumerated during these surveys was quite high, ranging from 2,120 in Honduras to 57,184 in Bangladesh. All told, over 108,000 firms were interviewed. These data were then used to estimate total numbers of small-scale enterprises in the country. The second phase of the survey work involved bimonthly visits for 1 year to a sample of the small-scale enterprises that were identified in the first survey.

Although at the time most of these surveys were not yet completed, in 1979 MSU published Carl Liedholm and Enyinna Chuta's *Rural Non-Farm Employment: A Review of the State of the Art*. This paper was seminal because of the attention it focused on small-scale enterprises. It noted that existing evidence showed that from 30 percent to 50 percent of the rural labor force in most developing countries was involved in some form of rural nonfarm activity. It noted that, surprisingly, employment in rural manufacturing often exceeded that of urban manufacturing firms.

However, without the benefit of the data from the surveys to support their initial findings, the authors were somewhat circumspect in their conclusions and raised more questions than they could answer at the time. The most important of these included:

- Are rural nonfarm activities on the increase or declining in numbers and importance?

- Does the demand for rural products and services increase, decrease, or remain the same as rural incomes increase?

- What linkages exist between rurally produced goods and agriculture?

- Are rural enterprises more labor intensive and thus able to absorb the large growth in population?

- How do rural nonfarm enterprises compare to larger firms in terms of efficiency?

- What stand should governments take toward small-scale industry and how should policies be oriented in their regard?

These questions would be answered through the surveys conducted in the countries previously listed, as well as through MSU's continued work in the SEAE project. In 1982, under the SEAE project, MSU agreed to shift the focus from basic research to that of analysis, including implications for policy and project design. MSU's previous limitation to rural enterprises was dropped under the new cooperative agreement, so as to include urban enterprises as well.

The new agreement provided MSU some new opportunities to conduct additional applied research in A.I.D. countries. In Egypt, MSU collaborated with two local universities in analyzing surveys of small enterprises in two governorates. Papers were also done on subsectors such as garments, dairy products, and tailoring. In Indonesia a member of the MSU research team was supported for 18 months as a small enterprise adviser to USAID/Indonesia, responsible for design and pre-implementation of the Central Java Enterprise Development Project, which focused on subsectors such as shrimp and handicrafts. MSU carried out a survey of small industry in Zambia in conjunction with the University of Zambia. In the Philippines a MSU consultant advised the USAID mission on its strategy toward small enterprise, and on implementation of a new small enterprise project. Finally, in Bangladesh, a study was conducted on subcontracting practices as a vehicle for assisting small enterprises.

The analysis phase of MSU's work was quite different from their original surveying and research. By 1982 the majority of the survey work was completed. The time had come to analyze the results, not only in individual countries, but to see if there were any conclusions to be gained across the board. This time period was perhaps the most fruitful in propelling the concept of the importance of small- and microenterprise forward. Whereas in the 1979 report, Liedholm and Chuta did not have much data on which to base their bold conclusions as to the importance of small-scale enterprises, the evidence from the now-completed surveys was much more conclusive.

Although a number of interesting studies appeared during these years, by far the most important and influential was published in 1987. *Small Scale Industries in Developing Countries: Empirical Evidence and Policy implications* by Carl Liedholm and Donald Mead demonstrated the advances made in understanding small-scale enterprises and their importance in development. This report marks an important turning point in the debate over small-scale enterprise development. It overcame the limitations of previous studies by utilizing primary data collected by its teams specifically oriented at small-scale enterprises, rather than relying on secondary government statistics or less precise numbers. In addition, it provided answers to most of the questions raised by the 1979 Liedholm and Chuta paper. The most important of these questions concerned the magnitude of small-scale enterprise activity, the growth prospects of these firms, especially as they were related to demand, and finally, the efficiency of these industries as compared to larger firms.

The first major conclusion was the observation that in most developing countries the majority of industrial firms are located in rural areas with fewer than 20,000 inhabitants. In the majority of countries studied, over 60 percent of total manufacturing is located in rural areas, with the high being 86 percent in Sierra Leone. The overwhelming majority of these firms are very small, employing fewer than five persons. In many countries, significant numbers of the small enterprises are woman owned. Proprietors and family workers form the largest component of the small industry labor force.

Small-scale industries make significant contributions to the gross domestic product of the countries. These industries contribute from 2.9 to 8.2 percent of the gross domestic product. When one looks solely at the manufacturing contributions to the GDP, small-scale industries contribute from 26 to 64 percent (see table 2).

A second important area relates to the demand for products and services of small-scale industries. For many years a number of researchers felt that these types of enterprises produce inferior goods and that as incomes increased in a region people would stop buying these goods and buy others. In economic jargon, this tendency is called negative income elasticity—where demand is inversely related to income. Liedholm and Mead challenged this view and produced important evidence that the reverse is true—that there were positive income elasticities of demand—that is, as local incomes increased, demand for locally produced goods also increased. Perhaps even more interesting was that in Sierra Leone and Bangladesh, the income elasticities of demand for goods produced by small-scale enterprises were calculated to be twice as high as those for large enterprises. Taken together, these findings point to the continued markets for the products of small-scale enterprises and great potential for future growth.

Table 2. Contribution of Small-Scale Manufacturing to Gross Domestic Product

Country	Small-Scale Manufacturing as Percentage of Total Manufacturing GDP	Small-Scale Manufacturing as Percentage of Total
Bangladesh (1977-78)	50	4.6
Burundi (1980)	64	8.2
Ghana (1970)	26	2.9
Pakistan (1979-80)	30	4.6
Sierra Leone (1975)	43	2.9
Indonesia (1974-75)	26	NA
Jamaica (1978)	22	3.5

Source: Liedholm and Mead 1987.

The final contribution of the Liedholm and Mead MSU study concerned the efficiency of small-scale enterprises. Many critics had argued that even if they were numerous and demand existed for their products, this did not necessarily make them efficient users of human and capital resources. From an economic point of view, if they were not efficient, then they should not be promoted as a means for economic development over other more efficient industries. As the authors pointed out, measuring efficiency is no easy task. There are a number of ways of calculating efficiency—with labor or capital productivity the most common. In both of these cases, small-scale enterprises are often shown to be efficient, although there is much variation.

Liedholm and Mead argued that the best way to gauge efficiency is with comprehensive efficiency measures that produce social benefit-cost ratios, where a result above 1.0 indicates that the industry is providing greater benefits than costs. In a comparison of benefit-cost ratios for a number of industry groups in Sierra Leone, Honduras, and Jamaica, they found that except for one case, small-scale enterprises had ratios over 1, and except for

A market scene that is illustrative of the informal economy. ACCION, Bolivia, 1987. Photo by Martin Connell.

two cases, had significantly higher ratios than large firms in the same industry group. When measured at world prices, large industries in Sierra Leone were found to have a benefit-cost ratio of .49, meaning that they had a negative effect on the economy compared with the positive effect that small-scale industries had with a 1.73 ratio.

An important result of the Liedholm and Mead paper was that the level of dialogue on small-scale enterprise development was raised. While critics such as I.M.D. Little at the World Bank contested the findings that showed that small-scale enterprises were more efficient than larger enterprises, most of the other data presented have remained generally unchallenged.

Liedholm and Mead concluded with a discussion of what governments and donor agencies can do to further enhance the role of small producers. Although they discussed how to structure programs and projects to assist small-scale enterprises, a greater role was ascribed to the general policy environment. Rather than focus on programs that can only help a limited number of firms, changes in the economic, regulatory, tax, and legal systems will help all small business in a country.

In many countries policies are biased against smaller firms and toward larger firms. Even when such bias may appear to be neutral because bias toward one firm size or another is not explicit, negative effects may occur. For example, when governments impose interest rate ceilings or credit controls that keep interest rates artificially low, the result is that banks will respond by rationing scarce funds to their large-scale clients and cutting out small producers from credit. Such credit policies have tended to discriminate in favor of larger firms.

The role of policy changes, a topic barely discussed in the PISCES studies, thus began to emerge in the mid-1980s as perhaps the best way to help level the playing field and promote efforts to help small- and microenterprises.

The effect of the MSU studies on policy are hard to ascertain. However, Liedholm is aware of an example in which the MSU studies had important indirect effects on the policy environment. This occurred in Bangladesh. Before Liedholm and his associates started work in Bangladesh, the government and MSU's counterpart—the Bangladesh Institute of Development Studies—were set against any significant small-scale development activities in the rural regions of the country. However, after completing their report in conjunction with the Institute, the MSU team felt that the Institute and some members of the government became interested in the rural, small-scale enterprise sector.

At the same time, Muhammad Yunus, an economics professor at the University of Chittagong, approached the Ford Foundation with a request to fund an unusual new organization—a rural people's bank that would give out tiny loans, under $300 for providing working capital for productive activities. This bank—called Grameen Bank—was to give the landless and the poorest peasants in rural Bangladesh their first and only chance at credit. The Foundation, which had been enthusiastic about the MSU findings and was also looking for potential projects that could utilize the new data, jumped at the chance to fund this type of project.

After a trial phase, the government put its support behind the Grameen Bank. Today it is a world-renowned institution with over 10,000 branches around Bangladesh serving hundreds of thousands of the poor. Although a number of factors have led to its success, the MSU studies helped change the policy tone in the country at a time when the Grameen Bank appeared to be the right answer.

Employment and Enterprise Policy Analysis Project

Within A.I.D., the principal way the Agency focuses on a new subject area is by developing a project. Thus we have seen the overlapping yet complementary implementations of the Off-Farm Employment Project, PISCES, and other parts of the SEAE project, especially the MSU research component. In 1984 the new focus on policy created a project called the Employment and Enterprise Policy Analysis project (EEPA). The purpose of EEPA is to conduct original research on policies to achieve efficient, employment-creating industrialization in which small and medium enterprises can actively participate. EEPA is being carried out by a consortium of the Harvard Institute for International Development (the prime contractor), Development Alternatives, Inc., and Michigan State University. By combining efforts with MSU, Harvard has been able to complement its previous research on enterprise growth in Asia—Korea, Taiwan, Thailand, and the Philippines—with MSU's expertise developed largely in Africa.

Research conducted by both Harvard and MSU has pointed out the policy biases that can constrain the growth of small-scale and microenterprises.

They found that biases in trade, agriculture, and financial policies affect these enterprises greatly. Tax policies and labor laws generally affect them the least because most of these firms operate outside the legal and tax systems. While there is a wide range of opinion on the importance of small-scale industries, experience with changing policies to lessen these biases has been difficult to gain. Policies favor larger businesses because these businesses have economic and political clout. Even though smaller firms may be more efficient in many cases, policy is not based on efficiency alone.

The EEPA project has arrived at some tentative findings to add to the discussion of the value of small-scale enterprise in development and how firms grow. The "graduation rate" of microenterprises into small, medium, and large firms suggests that only a very small proportion of larger businesses have their origins among the microenterprises. The percentage of graduates may be a function of a country's policy environment. In a study of small-scale enterprise in the Philippines, EEPA researchers noted what they called the missing middle, a dearth of medium-sized enterprises. It was found that there were some significant barriers that did not allow businesses to easily grow past a certain size. The main reason for this was that smaller firms often escape paying many taxes and registration fees and do not have to meet labor laws and business health and safety standards. However, once a firm grows in size to where it can no longer escape detection or is required by law to meet certain standards, the cost of paying for all of these requirements can often run over 100 percent of profits.

Another interesting finding of the EEPA Project was in the importance of large firms in providing subcontracting for smaller firms. In Asia this is a customary practice that links small firms to large. MSU found this to be less prevalent in much of Africa. Small businesses in Asia were also found to have started when employees of large firms left their jobs to start their own businesses. Thus large firms may in many cases be entrepreneurial breeding grounds for new small firms. Finally, the Asian studies identified an important role for traders. (Previous work by MSU did not look into the roles and relationships that traders have with producers.) In Taiwan, in particular, small-scale trading firms are important in finding both domestic and export markets for the goods of small and large producers.

Regulatory Environment and Informality

A final area of policy research that received much attention in the 1980s was that of the regulatory environment in developing countries. Although research had taken place previously, the importance of regulation took on renewed interest with the publication of *El Otro Sendero: La Revolucion Informal (The Other Path: The Informal Revolution)* by Hernando de Soto and colleagues at the Instituto Libertad y Democracia (Lima, Peru), which appeared in Spanish in 1986 and in English in 1988. In its first month *El Otro Sendero* broke all bestseller records in Peru. De Soto and colleagues redefined the informal sector as that sector outside the country's regulatory system, whereas the ILO saw it as generally equated with smallness of scale, low barriers to entry, and low technology and capital requirements.

The thesis explored in El Otro Sendero is that historically a market economy never existed in Peru and that only now, thanks to the informal sector, is one beginning to develop. It is a thesis that is beginning to gain currency in other countries of Latin America and the Third World. While de Soto and his colleagues are by no means the first to focus on the informal sector, they have done much to popularize and redefine the term.

El Otro Sendero documented the waves of migration into the urban areas of Peru and the difficulties these migrants have faced in fashioning an existence. When legality is the privilege of those with economic power, the only alternative for the masses is illegality. This is the origin of the informal economy. For the poor who live in the informal economy, there are implications for virtually every aspect of life, from housing and transportation to commerce. Much of the growth in Lima has taken place in the informal sector.

Using data from 1979, de Soto and his associates estimated that nearly half of Peru's population is engaged primarily in informal activities, while many more who work in the formal sector also participate to some extent in the informal sector. One-fourth of the total gross domestic product was produced in the informal sector in 1979 and 32 percent in 1984. Sixty percent of the GDP generated in commercial activities is informal. Of the 331 market structures in the city of Lima, 274 have been built by the informals. Ninety-five percent of the public transport system belongs to them.

The main cause of informality is the complicated set of barriers erected by the regulatory system in Peru, according to the researchers. To illustrate these barriers, a team of researchers conducted an experiment. They attempted to establish a fictional small garment factory. It took them 289 days, working full time within a myriad of regulations to gain the necessary legal permissions for their "factory." They spent $1,230 in the effort, which represented over 30 times the prevailing monthly minimum wage. In comparison, they found that it took only seven hours to open up the same type of factory in Miami. In another experiment, it took 43 days to open up a small retail shop.

These are some of the types of barriers that are faced daily by businesses in Peru and, perhaps, in other parts of the developing world. Operating outside the regulatory system does not mean, however, that firms in the informal sector do not contribute toward taxes. De Soto found that the informal sector actually may be paying more in taxes—especially local taxes—than the formal sector. Unregistered informal firms do not pay corporate income taxes. However, the informals pay sales taxes when they buy from wholesalers or larger firms. Registered firms are exempted from paying sales taxes and generally pay only low levels of corporate taxes. The end result is that informals often pay a higher percentage of their profits in taxes.

Summary

The state of knowledge of small-scale and microenterprises grew significantly from the combined efforts of MSU, Harvard, and researchers such as de Soto and colleagues at the Instituto Libertad y Democracia in Peru. Not only were additional data on small-scale enterprise gained, but more importantly, the data allowed for detailed analyses to take place that could demonstrate the importance of sustaining small-enterprise growth within developing economies.

From these efforts a dual emphasis on both programs and policies was gained. Policy change offers the hope of greater structural change within an economy and greater ability to affect all businesses at once. However, it has been seen that such change does not come easily. It is therefore important to continue programs that will directly benefit the entrepreneurs themselves, through credit, training, and technical assistance.

5

A Focus on Resource Institutions

After PISCES, the focus shifted from assisting microentrepreneurs directly to assisting resource institutions. The final word from the PISCES project was that A.I.D. should focus its efforts on helping development organizations establish the capacity for effectively carrying out small-scale enterprise assistance programs. PISCES had shown that small enterprises could be assisted and that there were a significant number of organizations already working in the field. However, these organizations needed management and technical assistance to allow them to more effectively assist their clientele.

This institution-building process is a necessary part of the development process. A.I.D. and other international donor agencies do not attempt to work directly with microentrepreneurs, farmers, or other ultimate beneficiaries of its aid programs. The agencies realize that to attempt to do so would be an inefficient use of resources and expertise. Therefore, A.I.D. provides aid through governments and the private sector, often local nongovernmental organizations. Working this way ensures the support of local institutions that understand the problems, can work toward generating local solutions to these problems, and most importantly, will remain as a valuable resource long after donor support is ended.

Resource institutions that provide services such as training, credit, and technical assistance to small- and microenterprises are a varied lot. They include international private and voluntary agencies (PVOs), locally based nongovernmental organizations (NGOs), cooperatives, government agencies, banks, and business associations. Each of these has different goals, sources of funding, clientele, and ways of operating. Despite these differences, they all have needs to be more effective in carrying out their programs, in responding to their beneficiaries, and in improving their management capabilities.

This chapter looks at how these resource institutions work and have contributed toward small- and microenterprise development. The first section discusses the follow-on project to PISCES—Assistance to Resource Institutions for Enterprise Support (ARIES). Next, several examples of projects from the field are presented to demonstrate current approaches to assisting resource institutions. Gains in the state of knowledge of resource institution development as seen through two landmark conferences are the subject of the third section. In conclusion, the efforts of U.S.-based PVOs are highlighted.

ARIES

In 1985, principally in response to the needs of local enterprise promotion institutions, A.I.D. decided to develop a program to follow PISCES. Called ARIES, Assistance to Resource Institutions for Enterprise Support, this project was designed to strengthen the capabilities of support organizations in developing countries to implement small- and microenterprise projects. ARIES was to build on the accumulated experience of PISCES in working with intermediary organizations that provide services to small- and microenterprises. Project funding consists of a core fund of nearly $3 million and $3.8 million in mission buy-ins. The ARIES contract runs through 1990.

ARIES represents a multifaceted attempt to improve the capacities of institutions—mainly U.S.-based PVOs and local NGOs—to deliver assistance to small enterprises. ARIES combines research on institutional needs with the provision of training and technical assistance to those institutions. One reason for the focus on U.S. PVOs was the supplementary funding provided to the project by A.I.D.'s Bureau for Food for Peace and Voluntary Assistance. ARIES was contracted to Robert R. Nathan Associates, with subcontracts to Control Data Corporation, Harvard Institute for International Development, and Appropriate Technology International.

The Harvard Institute for International Development directs the applied research component of ARIES. Its research focuses on issues surrounding intermediary support. These issues include self-sufficiency, economic impact, and the ability to provide technical assistance, credit, and other forms of assistance to small- and microenterprises. The research aims at determining which organizations are best able to deliver which types of services. It also attempts to ascertain the kinds of institution-building activities a USAID mission might want to support when a chosen organization needs assistance to upgrade its performance. The research component feeds into and complements the other components of the ARIES project. Activities completed under this component include a strategic overview paper that reviewed the literature on small- and microenterprises and the issues affecting them, the development of teaching case studies for use in training staff of resource institutions, and the development of a computer "knowledge-base." Each of these products is described in the following section.

Strategic Overview Paper

The strategic overview paper (Grindle et al. 1987) identified major problems for analysis and set the agenda for the work to be carried out in ARIES. The research agenda was both diagnostic and prescriptive. Data came from analyses conducted by technical assistance personnel and information gathered from missions and intermediary organizations themselves. Using the PISCES program as a point of departure, the strategic overview paper provided models of how institutions and their programs could become more efficient, effective, and sustainable.

The starting point for the strategic overview paper is a description of the beneficiaries of the resource institutions. It asks the questions: Who are the entrepreneurs? Where are they located? What are their needs? The religious and ethnic dimensions of enterprise are explored, as are age and gender. The informal financial systems in which microenterprises operate are described, as are the resource institutions that assist the small-scale entrepreneur. This interdisciplinary anthropological/sociological approach complements the economic focus of the Michigan State research.

The theme of the strategic overview paper is that better management leads to better projects. Despite the variety of institutions, the study identified four basic recurrent problem areas for most organizations: strategic, technical, administrative, and communication. These four areas became the focus of training and technical assistance efforts for resource institutions.

In a marked departure from the PISCES reports, which tended to use one model as the most appropriate for small enterprise assistance, the study suggests a multitude of approaches, emphasizing that there is not just one way to assist small entrepreneurs, nor is there one institutional type best suited for the job. Diversity is the key to helping the diverse beneficiaries.

The paper has been a definitive document for directing A.I.D. activities in helping small-scale and microenterprise development. The recurrent problem format was used for three important tools to emerge out of ARIES: training packages, teaching case studies, and the AskARIES knowledge base. In an unusual outcome for an A.I.D.-funded activity, these last two tools were judged to be of sufficient public interest that they were published by a commercial press for sale to development practitioners and researchers.

Training Packages

During the first year of ARIES, Control Data Corporation produced a training materials evaluation report. To convert this report into a field-oriented guide, the recurrent problems focus of the strategic overview paper was used, and materials were selected and categorized on the basis of relevance to intermediary support institutions. In those areas where there were not sufficient or appropriate training materials already developed, ARIES created its own. Training packages were developed in financial management, human resource management, strategic management, and entrepreneur training. Each of these courses was tested in the field, generally under the auspices of local USAID missions.

Case Study Method

The case study method uses a classroom presentation of a real-life situation faced by a resource institution, including the information that the organization had at the time. The student is asked how he or she would go about solving the problem. While there are no right answers, after discussing the case in class, the teacher ends the discussion by describing the decisions that were made and what actually happened. (See below for a shortened sample case.)

In keeping with Harvard's commitment to the case study method, ARIES sought to fill a dearth of case literature on small-enterprise development in developing countries with new case studies for analysis and decisionmaking.

The cases are related to the recurrent problems identified in the strategic overview paper.

The cases developed have stimulated much discussion, both in the classroom and outside. Due to interest in the case study method, Harvard has given two workshops on how to write and teach case studies. Now several PVOs have developed their own business case studies based on their own experiences to teach their staff and share their experiences with others. Completed cases include a number of organizations and projects discussed in this volume. There are case studies of ACCION/UNO in Brazil, ADEMI and DDF in the Dominican Republic, and the Grameen Bank in Bangladesh. A total of 21 case studies have been completed and most have been translated into English, Spanish, and French, and some into other languages.

Case Study

Indonesian Rattan Basket Exporting:
Business Goals Vs. Development Goals

Wawwam was awakened by rain falling in his face through his leaky roof in the small village of Suruh. But he was happy at the prospect of collecting payment for the 11 baskets he and his wife had made during the week for the basket export company. A tidy sum of 22,500 Rupiah (US$14) would help him repair the roof. As a farmer of cassava and irrigated rice, he would welcome the extra income from basket weaving.

Wawwam had gone from his village to the Indonesian Rattan Basket Exporting Company in Ungaran, 10 kilometers away, on the previous Wednesday and collected 18 kilograms of raw material—all that his bicycle could carry. He was returning today, Saturday, 10 days later, to collect his money. He planned to go on to get some new roofing material while he was in town. The company had held a training program for Suruh producers to teach them how to make rattan baskets last year.

Wawwam had not known anything about basket production before that, nor did his wife.

The training had lasted for 2 weeks, and because all the training was practical hands-on activity, improvement in technique came quickly. In only 80 hours of instruction at the company in Ungaran, Wawwam was able to gain a valuable skill. Wawwam had never imagined he would be making baskets, but farming does not take all of his time and the extra off-farm income helps a lot.

A.I.D./Jakarta Promotes Small Business Development

David Beyers, the A.I.D. Enterprise Specialist based in Jakarta, had only 5 days to make an important go/no-go decision about additional funding for an A.I.D. employment generation project in Central Java. He had heard wonderful reports from the American contractor running the project about its promotion of small business activities. But Jim Cellers, the small enterprise contractor specialist based in Central Java, had also told David that he questioned whether project employment goals were really being achieved. A week before, he had visited the Indonesian Rattan Basket Exporting Company, which the project helps, and he suggested to David that he stop in to see if he thought that firm was having the kind of development impact that was desired by A.I.D./Jakarta. The budget was in the final stage of preparation, and the level of funding for the Central Java Enterprise Development Project (CJEDP) hung in the balance.

Indonesian Rattan Basket Exporting Company

The Indonesian Rattan Basket Exporting Company (IRBE), which began operations in 1980 and fell into bankruptcy, reopened in 1985 on a limited scale. An activity funded by A.I.D. and run under an agreement with Development Alternatives, Inc., CJEDP is trying to help businesses develop in Central Java for the express reason of employment generation. Small business is viewed by A.I.D. as an engine for rural jobs and a foundation for a strong economy over the longer term.

In late 1985, CJEDP took interest in the production potential of IRBE and began to contact foreign basket buyers on their behalf. Market explorations by CJEDP staff landed an order for one 20-foot container to

Australia in November 1985. IRBE was re-energized. Slowly buyers were contacted and orders began to come in. By mid-1986 the company's sales averaged 4 to 5 1/2 million Rupiah (US$2,500-3,500) per month. By early 1987 they had grown to over 27 million Rupiah (US$17,000) per month. Three major buyers from Connecticut, Australia, and Hawaii (for the U.S. West Coast market) had brought IRBE to financial viability. Prospects for continued expansion were good.

With CJEDP's help, the company had trained and was working with 70 village workers with some four beneficiaries per worker. In addition, there were 20 on-site employees by early 1987. Annual outside funding was $31,000—all from CJEDP—for technical assistance, transportation, communications, marketing, and personnel.

In 1987 one of the major buyers asked the company to increase its order to two containers of baskets per month. The buyer also offered to help it with worldwide marketing assistance and quality control advice in exchange for exclusive rights to certain specific basket designs. This seemed at first to be a seller's dream come true. Here was a great opportunity for expansion. However, the company manager worried that there were downsides: production capacity using the village industry approach was limited, quality would have to be improved, and other established customers might have to be dropped to fill the big buyer's order. Clearly there were risks involved.

Despite the risks, IRBE management decided it needed to change gears and increase its productive capacity five fold. To do this would require an assembly line operation, they believed, rather than the cottage industry approach with its "bicycle brigade." The company explored purchasing rattan fiber splitting machinery to increase output per worker. The company believed that by using improved technology and an assembly line, the quintupling of production could be achieved without an increase in the number of workers. Village producers could move to town and continue their basketmaking, but since they were farmers it seemed unlikely that they would choose this option. With short-term, inexpensive training available, new in-town workers could replace them. Would the recently employed village workers, like Wawwam, continue on?

David Faces a Decision

Despite the business success of IRBE, David had to decide whether A.I.D.'s employment goals were served by CJEDP as reflected in its work with the company. He also needed to determine what the long-term prospects would be for the firm after outside assistance came to an end. He looked over his notes and began to consider what he would put in his report.

[From *Seeking Solutions: Framework and Cases for Small Enterprise Development Programs*, edited by Charles K. Mann, Merilee S. Grindle, and Parker Shipton. West Hartford, CT: Kumarian Press, 1989.]

AskARIES

AskARIES is an analytical bibliographic database on microenterprise development. AskARIES is based on the power of the personal computer, appropriate software, and a rich knowledge source—field managers. AskARIES is designed as a knowledge-base system rather than as a database that simply lists sources of information. It can be asked to provide information on specific recurrent problems that a typical resource institution might face. Instead of just providing a summary of an article or paper, AskARIES can provide specific answers to specific questions, along with the necessary bibliographic data to retrieve further information. For example, AskARIES can be queried about what has been written on credit management in Latin America or in women's development projects in South Asia. By June 1989 there were 900 annotated entries drawn from a total bibliography of 1,900.

Learning From the Field

The approach used by A.I.D. to promote small- and microenterprise development has consistently utilized academic and applied research, centrally funded projects and studies, and finally, mission funded activities. Although this combination often means an overlap in efforts, more importantly, it provides a means for testing the effectiveness of certain types of approaches that can best deal with local conditions. Much of the learning that takes places occurs in conferences and through dissemination of reports, visits to the field, and visits to Washington.

More than ten years have now passed since the beginning of the PISCES project. There has been a significant increase in small- and microenterprise development in A.I.D. field programs over that time. A.I.D. missions, which have the primary responsibility for developing and implementing projects, have opted for a primary emphasis on the provision of credit with a lesser role given to training. Most programs have a focus on business development and growth, while some have a community development and poverty alleviation goal. In all cases however, programs are being carried out by a U.S.-based or local resource institution and not actually by the A.I.D. mission itself.

Umbrella Organizations

An issue that was raised early in the PISCES project was how to deal effectively with the vast numbers of entrepreneurs that exist in any given country. Any A.I.D. mission would be overwhelmed if it attempted to deal with all of the organizations with the potential to work in this sector. A solution to this problem has emerged from the field. Missions commonly provide grant and loan funds through a "second-story" or "umbrella" organization, which in turn can provide credit, technical assistance, management assistance, and training to organizations that work directly with entrepreneurs.

Umbrella organizations have been an important means of spreading resources to greater numbers of entrepreneurs as well as serving as a catalyst for local NGOs. By providing management training and consulting to these organizations, the umbrella helps them become more effective in the long term. Thus, not only are the entrepreneurs being helped, but important institutions are being strengthened that will continue to serve their clientele.

Three examples of how these organizations have functioned, in Kenya, the Philippines, and Honduras are described in the following sections.

Technical Assistance: REP Project in Kenya

The Rural Enterprise Program (REP), which was set up as an umbrella project by USAID/Kenya, is one of the most widely recognized institutions promoting small- and microenterprise development in Kenya. The intermediary organization—WEREP—is registered as a Kenyan nongovernmental organization, and A.I.D. has approved funding through 1994. It works with over 40 local NGOs providing training, technical assistance, and credit resources outside Nairobi and Mombasa. The goal of the project is to increase rural production, employment, and income.

WEREP acts as an administrative and financial intermediary between A.I.D. and local NGOs. It provides training, technical assistance, and credit funds to NGOs working in small enterprise development. Although credit is an important component of the project, technical assistance to NGOs is at the heart of the REP agenda. The REP staff also provide workshops for NGO personnel on project planning and development, financial management, marketing, and project evaluation. The demand for REP services has been high among businesses and NGOs throughout the country. Increasingly, NGOs are giving greater priority to enterprise development than in the past. There has been great diversity in the projects, from women's and youth production units to trading schemes among nomadic pastoralists.

Credit is an element within most subprojects and is sometimes administered through commercial banks. Prior to credit approval, carefully designed training and product market research is provided. REP attempts to work out relationships that avoid direct handling and administration of loans by NGOs because of the high overhead costs and other problems related to handling money.

The evaluation of the REP project conducted in June 1987 concluded that it had "laid the groundwork for institutional development of small- and microenterprise development in Kenya for years to come" (Bigelow et al. 1987). Links have been established with NGOs, government agencies, donors, commercial banks, and private firms.

As of June 1987, REP had directly reached 4,500 entrepreneurs, roughly half of them women, through 14 subprojects. Over $1 million in loan funds had been dispensed through NGOs to borrowers ranging from the National Council of Churches in Kenya to small, informal groups in rural areas. Twelve of the 14 subprojects had established credit programs. The NGOs had provided loans to 76 groups and 707 individuals, with an average loan size of $1,277. Collateral was generally not required, and loans were intended to provide working capital. Interest rates charged by the intermediaries averaged nearly 14 percent, the ceiling set by the Kenyan government.

REP Managing Director Fred O'Regan has emphasized the responsive approach to assisting NGOs (Bigelow et al. 1987):

> We try to respond to what NGOs are doing. We do not aggressively design projects. We do not go out and pinpoint needs. Rather, we have felt that to respond and complement what NGOs were doing, and to help them along, and to upgrade their own inherent strength, was the correct approach. So the key feature in the Rural Enterprise Program is the investment in institution building.

Co-Financing: USAID/Manila's Approach to Microenterprise

The Philippines Co-Financing Project works more directly with individual NGOs than the REP Project but also uses an umbrella organization to carry out a large portion of the project. When subprojects are created and funded by the PVO office, they are turned over to the appropriate technical offices within the mission to be managed. By 1987 the second phase of the Philippines Co-Financing portfolio consisted of 46 grants, most of them to local NGOs and a few U.S. PVOs such as Catholic Relief Services, CARE, and Save the Children. Project funding for the second phase amounted to $18 million.

The largest single recipient was the Philippine Business for Social Progress, with five separate grants. One of these allowed the Philippine Business for Social Progress to develop its capabilities to serve as an umbrella center for 48 locally based PVOs. The Philippine Business for Social Progress provides technical and financial assistance to the PVOs, which in turn are pledged to reach 100 direct beneficiaries.

Other grants under Co-Financing II have gone to local development organizations. One was to the Kapwa Upliftment Foundation in Davao, the largest city on the island of Mindanao. The purpose of the grant is to improve the earning power of the poor in five zones, working through neighborhood associations. Training in management and project planning, as well as credit and cash management, is provided to low-income participants. In General Santos City, also on Mindanao, the Notre Dame Education Association received a grant to help its business resource center provide consultant services to existing small enterprises as well as advice and credit to start up firms. The center also maintains a computerized database of local firms, publishes a newsletter, and conducts business management seminars. The Tulay sa Pag-Unlad, Inc. Small Enterprise Development Project in Metro-Manila received a grant to create 360 jobs with a maximum of $1,000 capital invested per full-time job created. Other project components include providing credit of from $20 to $500 to 62 microenterprises. The project also provides consultant services to project participants.

USAID/Manila reported a fiscal year 1988 obligation of just over $5 million for Co-Financing II. Three of the subprojects were exclusively microenterprise, all of them were urban-based, two-thirds were small-scale manufacturing, and 80 percent of them had fewer than five employees. All subprojects provided a package program of credit, technical assistance, and training for beneficiaries. Approximately 80 percent of project beneficiaries were below the poverty line, which in the Philippines is $1,500 per year for a family of six. Fully 80 percent of the loans have been for less than $300, and all of them have been for less than $1,000. The mission is planning a third Co-Financing project for $15 million aimed at increasing the capacity of PVOs to plan and execute development activities. Part of the project will again assist microenterprise development.

Networking: USAID/Honduras and ANDI/PYME

This umbrella project is similar in many ways to the ones in Kenya and the Philippines. In this case, the A.I.D. mission in Honduras gave a grant to the National Association of Industrialists (ANDI, their Spanish acronym) to run a small and medium enterprise program called PYME—Pequena y Mediana Empresa. This choice by ANDI was controversial at first because the organization members were the country's largest industrialists, and it had no experience in running programs especially for small businesses. Despite these initial concerns, the ANDI/PYME program became quite successful in promoting and expanding opportunities for some 20 NGOs working in the field.

ANDI/PYME offered training, technical assistance, and management grants to its NGO members. Another A.I.D. umbrella organization provided credit for loan funds. Specific technical assistance and management training elements were developed to deal with the issues facing each particular group. Financial management, computer utilization, market promotion, and staff training were the most important areas of assistance.

In addition to these functions, ANDI/PYME took several additional steps that were not anticipated. As the local NGOs became more comfortable with ANDI/PYME, they began to realize the increased influence and strength that they had by working together. The NGOs and ANDI/PYME formed a network of small business development organizations. The network started a newsletter, which was also published once a month as a supplement to one of the national newspapers. The government of Honduras approached the network to ask them to participate in several forums to represent small- and microenterprises. Discussions of longer term projects included setting up a computerized data bank of loan information.

The ANDI/PYME networking had several other concrete results. The first came when several national banks approached ANDI/PYME to develop a small-scale enterprise loan program that would work through the banks. By utilizing the NGOs as references and sometimes as guarantors of loans, new sources of bank financing were opened up to small businesses in Honduras for the first time. Another cooperative venture involved the large industrialists in ANDI working alongside the NGOs to procure lumber that was being auctioned off from government lands. Without this cooperation, small enterprises would not have been able to gain access to this supply of increasingly scarce hardwood.

Finally, in recognition of their newfound strength in numbers and in their collective expertise, the members of the network developed a 10-year strategic plan for the development of small enterprise in Honduras.

Conferences on Microenterprise Development

An important means for communication among resources institutions, A.I.D., researchers and other donor agencies has been through meetings and a number of conferences. This practice started with the early PISCES conferences that publicized their results. Two important conferences held in the 1980s were the Williamsburg Workshop and the World Conference on Microenterprise Development. These conferences allowed small enterprise experts and practitioners to discuss issues of importance at the same time that the conferences acted as a means of publicizing the approaches that were being developed to assist small enterprise.

A.I.D. Williamsburg Workshop

In December 1986, A.I.D.'s Employment and Enterprise Development Division of the Bureau for Science and Technology and the Center for Development Information and Evaluation of the Bureau for Program and Policy Coordination together hosted a workshop in Williamsburg, Virginia. Participants came from regional bureaus and missions, as well as from universities, private and voluntary organizations, and consulting firms; collectively they represented many hundreds of years of small- and microenterprise experience. The purpose of the 2-day workshop was to develop a microenterprise development strategy for A.I.D. Despite uncertainty about their ability to develop such a strategy, by the end of the workshop a consensus was generated on its outlines.

The workshop opened with a presentation of five questions to be discussed in smaller groups during the two days. After meeting in small groups the participants returned to the plenary session to make recommendations. A summary of the questions and recommendations follows.

What kind and size of small-scale enterprise should AID support?

On economic and development grounds, the conferees recommended that A.I.D. should assist intermediaries to promote enterprises at the downscale end (1-20 employees), including manufacturing, retail, and service firms. The kind and size of enterprises supported by A.I.D. should depend on country-specific analyses. If income enhancement is the goal, for example, service and commercial firms might be targeted. If employment generation is the aim, slightly larger small-scale firms in manufacturing might be a better focus. There was, however, agreement that women-owned enterprises were more likely to be served if microenterprises were the target.

What kinds of small-scale enterprise credit programs work? Should A.I.D. stop all forms of subsidized credit?

The participants corroborated the results of PISCES research concerning characteristics of successful microenterprise credit programs. These include small loans, simple application procedures, character-based or group-guarantee mechanisms and decentralized loan offices. The participants spoke with one voice in advising A.I.D. not to subsidize credit. They agreed that credit programs should charge the market rate for interest, which would include covering the costs of operating the program.

What kind of small-scale enterprise technical assistance works? Under what conditions might it be subsidized?

This question generated considerable debate. Some argued that credit was the critical missing ingredient in getting businesses going. This perspective was summed up with the comment, "Business people know what they are doing; just give them the resources." Others argued that additional credit would be wasted if the clients lacked management and financial skills. Workshop participants recommended that A.I.D. integrate technical assistance into well-designed projects that attempt to recover costs over reasonable periods of time.

What institutions should A.I.D. work through to achieve enterprise development objectives? How can A.I.D. and intermediary institutions best achieve cost-effective small enterprise programs?

A consensus was reached that any number of institutions could help to meet small-scale enterprise objectives: PVOs, NGOs, business associations, development institutes, universities, banks, and government institutions. In general, most participants felt that PVOs and NGOs had distinct advantages over governments. Further, they agreed that financial self-sufficiency should be a goal of credit programs. Subsidies may be necessary for training and technical assistance programs.

How can A.I.D. policy dialogue benefit small enterprise development?

The goal for policy dialogue was to level the playing field for small businesses to be able to compete with larger firms, recognizing that significant policy distortions exist that negatively affect small business development. It was also recognized that small business does not have a large voice in the political agenda to make its needs known.

The World Conference on Microenterprises

The World Conference on Microenterprises was held from June 6 to 9, 1988, at the Pan-American Health Organization in Washington, DC. The event was sponsored by the Committee of Donor Agencies for Small Enterprise Development, established in 1979 and consisting of some 20 multilateral and bilateral agencies. A.I.D. hosted the conference together with the World Bank and the Inter-American Development Bank. There were 250 people in attendance, 77 of them from developing countries. They came from government agencies, commercial and regional banks, international and national NGOs, and development corporations as well as research institutions. There were 28 papers prepared for the conference that examined the nature of the microenterprise sector and the issues in its development.

Rep. Benjamin Gilman of New York, a member of the House Committee on Foreign Affairs and the Select Committee on Hunger, was the concluding speaker at the opening session. Rep. Gilman has been an ardent champion of microenterprise legislation and provided an upbeat forecast for its future. He told the participants:

> I believe one of development's best kept secrets will soon be public knowledge. Namely, that investing in poor people is good business. Not only are the poor bankable, they may be one of the most productive and safest investments today.

This conference was a watershed for those interested in the future development of microenterprise and the prospects for donor assistance. Many of the best-known practitioners of microenterprise were on hand to compare notes and air their points of view. Jacob Levitsky, the conference coordinator, has summarized the issues examined by the presenters and conference participants (Levitsky 1989). Here are some of the themes that were discussed.

Definition of Microenterprise. Participants tended to agree that there could be no single definition of microenterprise. For the purpose of determining eligibility for development assistance, definitions would have to vary from country to country. Participants did, however, tend to agree that the target group was comprised of very small units, typically a one-person or family operation that might or might not be part of the informal sector, depending on the country. Some felt also that a microenterprise should be considered such only if it was run by the poor, however it was defined in a given country, and for whom assistance represented an act of poverty alleviation.

Government Policies. There was no consensus as to what government policies might be recommended to promote microenterprise. The general feeling was that the role of government should be to avoid imposing regulations and bureaucratic red tape that hindered the development of microenterprise. While access to credit and markets is needed, this should occur by leveling the playing field, not by new subsidies. In no respect could it be said that the sector depended on assistance from the government. On the contrary, most government policies such as subsidized interest rates and overvalued exchange rates tend to favor larger enterprises.

There was also debate as to whether the government should subsidize and protect microenterprises. Those who viewed microenterprise development primarily as an approach to social mobilization and poverty alleviation rather than as a contribution to economic growth tended to support government assistance. The government of India, for example, reserves the manufacture of certain products for the small- and microenterprise sector. Others pointed out the economic imbalances this creates and the dampening effect that it has on the growth of businesses from small to medium. Several participants seemed to think that registration of microenterprises was not really necessary, while others felt that legal requirements should be simplified in order to encourage them to operate in the formal sector.

Involvement of Banks. Participants universally acknowledged the indifference and unwillingness of most formal banks to become involved in providing credit to microenterprises. However, it was felt that if a way could be found, it would be desirable in the interest of volume and sustainability to involve commercial banks. One good management method of achieving this would be for the government to impose portfolio quotas or mandated targets for the banks to lend a minimum percentage of loans to microenterprises, as the government of India has done. Hernando de Soto of the Instituto Libertad y Democracia in Peru argued that when informal sector enterprises are legalized in some form and have titles to property on which they can obtain mortgages to be used as collateral, some commercial bank lending to microenterprises can take place.

Other speakers thought that ways should be found to establish links between the informal sector and formal financial institutions. Henry Jackelen, a microenterprise consultant, suggested that such linkages could be developed through specialized intermediaries that would handle all the selection, appraisal, and monitoring and bring microentrepreneurs to the commercial banks. These intermediaries would charge a fee for these services as a percentage of loans granted. Jackelen noted that both Grameen Bank and UNO in Brazil started out as intermediaries of this type. This service helps to resolve the problem of the high transactional costs of the bank by undertaking much of the administrative work.

Savings. The conference did not address the question of mobilization of savings in any detail. However, some participants expressed the strong conviction that linking savings mobilization and credit delivery was desirable from many points of view. It is through savings that resources are built up for the expansion of the volume of credit and for sustaining a lending program. Through savings, microenterprises are encouraged to build capital reserves toward growth or as a buffer against loss of income. Linking saving and credit could stimulate participation of borrowers in the management of a loan program and ensure high repayment rates.

Maria Nowak, an official of the Caisse Centrale de Cooperation Economique in France, mentioned a large-scale savings movement in Zimbabwe composed mostly of women, as well as credit unions in Ghana and Cameroon. But she pointed out that these organizations had been more successful in mobilizing savings for consumption than meeting the credit needs of microbusinesses.

Minimalist versus Integrated Approach. The term "minimalist" has been used to describe programs that provide only credit and few other forms of assistance such as training and technical advice to small-scale borrowers. Some Latin American participants in particular took issue with this approach, arguing that credit alone without training is of limited value. This is the point of view of the Carvajal Foundation in Colombia. However, Malcolm Harper, a leading proponent of small business training and technical assistance, suggested that credit had a much more important impact than training. Comparative evidence, he said, seems to indicate that the programs that reach the largest numbers of small borrowers have diversified least away from credit into noncredit activities.

Some participants held strongly to the importance of nonfinancial aid. Matthew Gamser of the Intermediate Technology Development Group in England noted in his presentation that some institutions such as the Technology Consultancy Center in Ghana have been successful in generating numerous production innovations. Gamser favored the establishment of small enterprise technology support units within financial institutions and development agencies.

U.S.-based Private and Voluntary Organizations

A special category of resource institutions is the U.S.-based PVOs. A.I.D. has long recognized the contribution made by PVOs to development programs and set up the Office of Private and Voluntary Cooperation within the Bureau for Food for Peace and Voluntary Assistance to be the focal point for PVO relations. By 1988 there were some 214 private and voluntary organizations registered with A.I.D. A 1984 study reported that 91 PVOs were involved with small-scale enterprise development programs.

In the mid-1980s, there was a new wave of PVOs that began to get involved in income-generating programs. Many of them up to that time had been principally relief agencies that were now beginning to take a larger view of development. In many instances, A.I.D. encouraged them in this regard by providing matching and partnership grants. By 1987 the Office of Private and Voluntary Cooperation reported that its project portfolio of grants to PVOs for small enterprise and community development amounted to just under $5 million. At least 15 grants went to PVOs for projects including microenterprise development, income generation, small business development, and appropriate technology.

Small Enterprise Education and Promotion Network

After the controversy concerning the relative importance of economic vs. social objectives in small-scale enterprise projects stemming from the DAI evaluation of the PfP project in Upper Volta in 1983,[1] a group of U.S.-based PVOs began meeting informally to discuss problems in the evaluation of small enterprise projects. Two years later, with the preparatory work completed, the members joined together in a formal association. Under the auspices of PACT (Private Agencies Collaborating Together), an umbrella organization in New York, the Small Enterprise Education and Promotion (SEEP) Network was established. SEEP is now composed of 28 U.S. PVOs

[1]See chapter 3 for a discussion of the DAI evaluation under the heading "Partnership for Productivity—Upper Volta."

who implement or support small- and microenterprise activities in developing countries. The goals of SEEP are to support a systematic educational program, produce and disseminate products applicable to a variety of field settings, and serve as a communication network.

The first project undertaken by members of SEEP was the development of an evaluation manual for PVO small-scale enterprise projects. Funding was provided through a grant from A.I.D. and staff time from member organizations. It was published in June 1987 with a printing of 1,000 copies. SEEP's activities have since expanded beyond the initial focus on evaluation. In January 1988 SEEP sponsored a workshop on credit program management with the ARIES project for about 100 participants in Washington. A field manual that came out of this workshop was translated into Spanish and a companion guide was developed.

In 1988 SEEP began collecting data on small enterprise credit projects from among its members. Eight of the then 28 members responded by June of that year. They reported a total of 56 projects reaching over 116,000 borrowers in 24 countries. Loan sizes ranged from $2.80 to $6,000; the average was $465. Of 19 projects providing a breakdown, half reported that 75 to 100 percent of their loans were under $300. The agencies provided very little data on administrative costs and cost recovery. The one agency that reported in depth on these items indicated that 78 percent of administrative costs were financed through the income generated by the operation of 23 loan funds. Repayment rates for the projects ranged from 30 to 100 percent, while the average was 96 percent. For 34 projects reporting, 4 years was the average length of time the loan funds had been in operation. Half of the funds had existed for 3 years or less. Seven PVOs listed 22 countries where they expected to develop 13 new projects and increase the size of 9 ongoing programs. The value of these funds was projected to be $1.5 million.

As a result of the SEEP Network's steering committee deliberations in mid-1988, the group decided to take a more active role in providing leadership within the PVO community. SEEP activities in 1989 included studies of nonfinancial assistance (technical and training assistance), institution building within the membership and among partner agencies, a study of policy impact, and expanding SEEP publication efforts beyond the initial evaluation guide.

6

The Future of Small- and Microenterprise Development

Congressional Action

In a FY 1988 Continuing Resolution, Congress proposed that A.I.D. make available not less than $50 million during the year for microenterprise development programs. By mid-1988, microenterprise was making a bid to be taken seriously as an innovative approach to development. Numerous bills had previously been drafted and considered, all designed to move resources to poor people in developing countries. Here is a look at the cast that has had a hand in bringing the issue out of the shadows offstage and onto the center stage of public policy debate.

Within the U.S. Congress the focal point of interest in promoting legislation for poverty alleviation has been the House Select Committee on Hunger. Since its inception in 1984, the Committee has examined ways to alleviate hunger and malnutrition in the Third World. The Committee has supported such activities as food assistance, child survival programs, health care interventions, and famine relief in sub-Saharan Africa. Soon after the Committee set up shop under its original chairman, Mickey Leland, it began to explore modalities for providing credit to poor people.

In May 1985, Committee members heard testimony from proponents of new ideas on the subject. Jeffrey Ashe, then senior associate director of ACCION International, proposed the establishment of an international poverty bank. Ashe based his proposal on the nearly 25 years of experience that ACCION had in helping local organizations start microlending projects. At the time ACCION was assisting 14 projects lending to a total of 8,000 microentrepreneurs. Ashe suggested that the poverty bank could be set up through windows in existing donor institutions that would encourage local financial institutions, such as the Grameen Bank in Bangladesh, to create special microlending units. These institutions would then be encouraged to make loans available to the projects of local nongovernmental organizations.

With these suggestions in mind, the Committee, together with the House Banking Subcommittee on International Development Institutions and Finance, held a hearing in February 1986 on the role of multilateral institutions in financing microenterprises. A few months later the Committee issued a study titled "Banking for the Poor: Alleviating Poverty Through Credit Assistance to the Poorest Micro-Entrepreneurs in Developing Countries."

Then, in October 1986, the Committee sponsored a forum on credit featuring Dr. Muhammad Yunus of the Grameen Bank, in conjunction with A.I.D., the Inter-American Development Bank, the African Development Foundation, and the Pan-American Development Foundation. In March 1987, a hearing was held on the role of nongovernmental organizations as intermediaries in providing credit and on A.I.D.'s microenterprise efforts. In the course of these hearings the Committee was persuaded that the provision of small amounts of credit to microenterprises could significantly raise the living standards of the poor.

Any discussion of the microenterprise legislation that came out of the 100th Congress should include a reference to the public interest groups that worked with members of Congress to get bills through the legislative process. Two groups merit particular attention. One of these is Bread for the World, an established coalition of progressive church groups. The other is RESULTS, a more recently formed grassroots citizens lobby that works toward creating the political will to end hunger.

Bread for the World worked with Rep. Benjamin Gilman of New York in fashioning a bill (H.R. 1032) titled The Comprehensive Microenterprise Credit Promotion Act, which he and seven cosponsors introduced into the House in February 1987. The bill specified that a portion of local currency proceeds from the sale of Food for Peace (Title I, PL 480) commodities be used by intermediaries to provide credit to microenterprises. The 1985 farm bill had provided that at least 10 percent of the annual value of Title I commodities be sold for local currencies and made available for private sector lending. The Gilman bill made 65 percent of that allocation specifically available for microenterprise lending. The bill also proposed that women be the major recipients of the credit and that local nongovernmental organizations be the primary intermediaries. The bill directed that U.S. representatives to the various multilateral development banks such as the International Development Association and the Inter-American Development Bank advocate setting up microlending programs in those institutions.

RESULTS, for its part, began working with Rep. Edward Feighan of Ohio on a similar bill. Linked to the Hunger Project, RESULTS' interest in microenterprise was initially stimulated by its work with the International Fund for Agricultural Development (IFAD). IFAD had given RESULTS a copy of a videotape on the Grameen Bank in Bangladesh, which was made available to 60 RESULTS groups in 34 states. The Feighan bill (H.R. 910), also introduced in February 1987 with 33 cosponsors, took the Grameen Bank as its model because it was seen as a successful mechanism for transmitting resources to the very poorest people in a participatory manner.

The Feighan bill envisioned microenterprises consisting mainly of one or two persons, and a maximum of four. Loans were to be made to the poorest 20 percent of the population, with special emphasis on women. To target the poor, loans were to be held to a maximum of $300, with initial loans not to exceed $150. By March, H.R. 910 had picked up over 100 sponsors, and because of a campaign by RESULTS, dozens of newspaper editorials had been printed in support of the measure.

In April the House Foreign Affairs Committee merged the Gilman and Feighan bills into an amendment to the Foreign Assistance Act, Providing Credit for the Poor in Developing Countries. Testimony was provided by many development professionals, including those in A.I.D. who had been promoting very small loan programs for some time. While support for some type of program for microenterprise development was clearly gaining momentum, some Committee members opposed placing limits on the loan size and number of employees. Definitions of loan and enterprise size were still under contention. The Feighan-Gilman compromise legislation provided that 80 percent of the Title I funding be reserved for microenterprises with up to 7 employees, while 20 percent could be directed to small enter-

Microenterprises provide employment for women. Above, a small woodworking shop in Nepal. Agency for International Development photo by Dolores Weiss.

Market vendors in the Philippines. Women generally comprise the majority of market vendors and require small loans to purchase stock.

prises with fewer than 10 employees. RESULTS, however, felt that the original intent of the Feighan bill had been diluted.

Meanwhile, on the Senate side RESULTS worked with Sen. Dennis DeConcini to produce a bill similar to the Foreign Affairs amendment, except that it restored the requirement that loans be made only to poor people. The DeConcini amendment, titled The Microenterprise Loans for the Poor Act (S. 998), was introduced in April with five cosponsors. By June, a third of the Senate had signed on as cosponsors, spanning the political spectrum from conservative to liberal.

Representatives of private and voluntary organizations began meeting to discuss the legislation and explore ways to get involved in the process. Some PVOs had reservations about certain aspects of the proposed legislation, due to the $300 limit on the size of loans and the lack of additional development monies to be added to the A.I.D. budget to carry out the program. In general, the PVOs endorsed the initiative, since poverty alleviation is widely supported by their constituents. Eventually, 13 PVOs circulated a letter to all of the Senators asking that they support the DeConcini amendment.

In August 1987 the House Foreign Affairs Committee further revised the loan cap before the bill was brought to the floor of the House. In the Senate Foreign Relations Committee, debate over the loan size continued.

Impact on A.I.D. Programs

During the period of the Congressional hearings on the FY 1988 Foreign Assistance Authorization in late 1987, and the related hearings of the Select Committee on Hunger, charges were raised that A.I.D. was not doing enough to assist this sector. These accusations were compounded by the fact that A.I.D. did not have data on actual and anticipated levels of support for microenterprises. Those in Congress and the public interest groups advocating the new legislation tended to view A.I.D. as a centralized agency capable of changing directions with the stroke of the Administrator's pen. This view overlooked the fact that decisionmaking in A.I.D. has become decentralized; USAID missions have the authority to respond to local needs and develop their own country-based strategies.

In an attempt to be responsive to the proposed legislation, A.I.D. began the process of information gathering. In March 1987, A.I.D./Washington sent out cables to the missions requesting that they report on their microenterprise programs. They were asked to provide information available on loans of $300 or less and the extent of women as beneficiaries. Missions were asked to consider firms with 10 or fewer employees as microenterprises and those with 11 to 25 employees as small enterprises. In the same cable, missions were encouraged to comment on targeting aspects of the Continuing Resolution report language and were asked to comment on the size definition.

The most prevalent recommendation from the missions was that loans not be limited to $300 or less. Only one mission concurred with the $300 loan cap. Most of the respondents reported average loan sizes ranging from $500 to $4,000, with a typical average around $1,750. With regard to the definition of enterprise size, only seven missions responded. Six of them reported using 10 employees or fewer as the rule of thumb. One reported using five or fewer. Several missions commented that the practice of targeting lending to the poorest 20 percent of the population is inherently risky, counterproductive, or of questionable practical benefit. It was against this backdrop that A.I.D. representatives sought to convey to the Congress the likely difficulties that would be incurred in the attempt to implement the proposed legislation.

Microenterprise Earmark Enacted

On December 4, 1987, the Senate Committee on Appropriations reported to the full Senate a continuing resolution for the 1988 fiscal year with provisions for foreign assistance. The resolution was passed by both houses and signed into law. One part of the resolution stated that "not less than $50,000,000 shall be made available for programs of credit and other assistance for microenterprises in developing countries."

The bill directed A.I.D. to devote $50 million in fiscal year 1988 and $75 million in FY 1989 for the provision of credit and other assistance to microenterprises. Congress did not allocate new funds to carry out this program. Rather, it earmarked the money to come from existing funds appropriated by the act for the provision of credit and other assistance for microenterprises in developing countries. A conference report issued by Congress further explained the intent of the earmarking. The A.I.D.

administrator was to make assistance available to indigenous nongovernmental organizations, U.S.-based private and voluntary organizations, and other financial intermediaries to enable them to provide loans and assistance to microenterprises. Although not the law, the report urged A.I.D. to target 80 percent of the loans in the program to the enterprises owned by the poorest 50 percent of the population in A.I.D.-assisted countries. Special attention was to be given to businesses owned by women and to businesses owned by the poorest 20 percent in a country. Another feature of the report was the recommendation that the loan size not exceed $300, "unless there are indications that this loan size limit should be exceeded to accomplish the objectives of the program."

The conference report called on the A.I.D. administrator to appoint an advisory committee composed of individuals from nongovernmental organizations who had experience in the implementation of such programs to assist in establishing guidelines for financial intermediaries, including cooperatives and groups.

Advisory Committee on Microenterprise

In response to the conference report, A.I.D. established an Advisory Committee on Microenterprise Development, consisting of 17 members under the chairpersonship of John Rigby of the New Transcentury Foundation. The first meeting of the committee on March 28, 1988, in Washington, DC, was attended by 13 of the 17 members as well as members of the public. Also present were A.I.D. Administrator Alan Woods, Assistant Administrator Richard E. Bissell (Bureau for Program and Policy Coordination), and Senior Assistant Administrator for Science and Technology Nyle C. Brady, each of whom made introductory remarks. For the meeting A.I.D. drafted microenterprise guidelines for review by the Committee. The Committee members generally agreed that the microenterprise program ought to be directed toward the "smallest scale, lowest income" entrepreneurs. Other discussions centered on how A.I.D. could reach the target group while allowing flexibility in programming from one country to another. Following these deliberations, A.I.D. produced Policy Determination No. 17, Microenterprise Development Program Guidelines, in October 1988. These guidelines were sent out in cable form to the missions.

The microenterprise sector was defined as including the whole spectrum of labor-intensive productive activities, ranging from rural-based agribusinesses and handcraft production to urban-based trading, service, and manufacturing enterprises. The committee offered as a working definition of microenterprise those with fewer than 10 employees. It agreed, however, that missions might have to use a locally appropriate definition.

The guidelines proposed that the loan size should not exceed $300, unless there were indications that larger sized loans were needed to accomplish the objectives of the program. Interest rates charged on loans to microenterprises should be at or near the prevailing commercial rates. The committee recommended that A.I.D. maximize the use of private sector institutions such as commercial banks, credit unions, cooperatives, PVOs, and NGOs as intermediaries. A strong preference should be given to wholly privately owned and controlled private institutions that work directly within the community of the beneficiaries of credit and technical assistance.

A.I.D.'s Microenterprise Stocktaking

The A.I.D. Microenterprise Stocktaking study was carried out in response to concerns voiced by the Advisory Committee on Microenterprise Development about existing programs within A.I.D. and as a result of the difficulties encountered in providing sufficient and accurate data to Congress. The study, which lasted nearly a full year, involved trips to 10 countries and a comprehensive review of previous evaluations, consisting of 2 parts. The first, conducted internally, involved compilation of statistics on the extent of the Agency's microenterprise program. The second, conducted by a team of consultants from Development Alternatives, Inc. and Robert R. Nathan Associates, was an extensive review of a sample of 42 projects to identify the patterns of successful interventions—what works, under what conditions, and why?

One of the first responses to the new legislation was a cable sent in March 1988 to all USAID missions by Alan Woods, the newly appointed A.I.D. administrator. Missions were asked to review their estimates for microenterprise expenditures for FY 1988 and provide projections for FY 1989. The missions were directed to consider the additional Congressional recommendations, such as loan size limits and special considerations for women-owned businesses. Responses to this cable provided much of the information used in the statistical analysis of the current and projected agency portfolio.

The statistical analysis revealed the complexity of estimating the extent of the microenterprise program. Microenterprise assistance was not always treated as a separate project category and as such it was difficult to identify precise levels of expenditures on an annual basis. Nonetheless, on the basis of this information, A.I.D. concluded that it was indeed meeting the monetary requirements of the microenterprise resolution. In a report to the Advisory Committee, Alan Woods stated that in accordance with the guidelines established in PD-17 the fiscal year 1988 $50 million requirement had been met. In April 1989 Woods reported that A.I.D. had surpassed the $75 million earmarked for microenterprises in fiscal year 1989 by $10 million. The stocktaking report estimated that at the time there were at least 87 active field projects that would spend $290 million during their total project life. This figure included projects that focus solely on microenterprises, but it also included other private sector initiatives and projects that have a microenterprise subcomponent.

The second part of the stocktaking concluded that microenterprise development programs *can* result in significant benefits for assisted firms. There is, however, considerable room to improve our understanding of the magnitude and sustainability of direct beneficiary impact. We do not know how significant the benefits are, the extent to which these benefits are sustained, if they represent net gains to the economy, or the way in which impact varies among different approaches and assistance strategies. Although the information available is inadequate to judge the economic returns to investments in microenterprise programs relative to alternative uses of scarce foreign assistance resources, the indicators that do exist point to very high returns to microenterprise development.

Approaches to Small- and Microenterprise Development

An important conceptual outcome of the stocktaking was the conclusion that A.I.D. generally approaches microenterprise development in three different ways for three different kinds of beneficiaries. These approaches, shown in figure 1, allow for the heterogeneity that exists in the world and the need to meet the different development needs of different people.

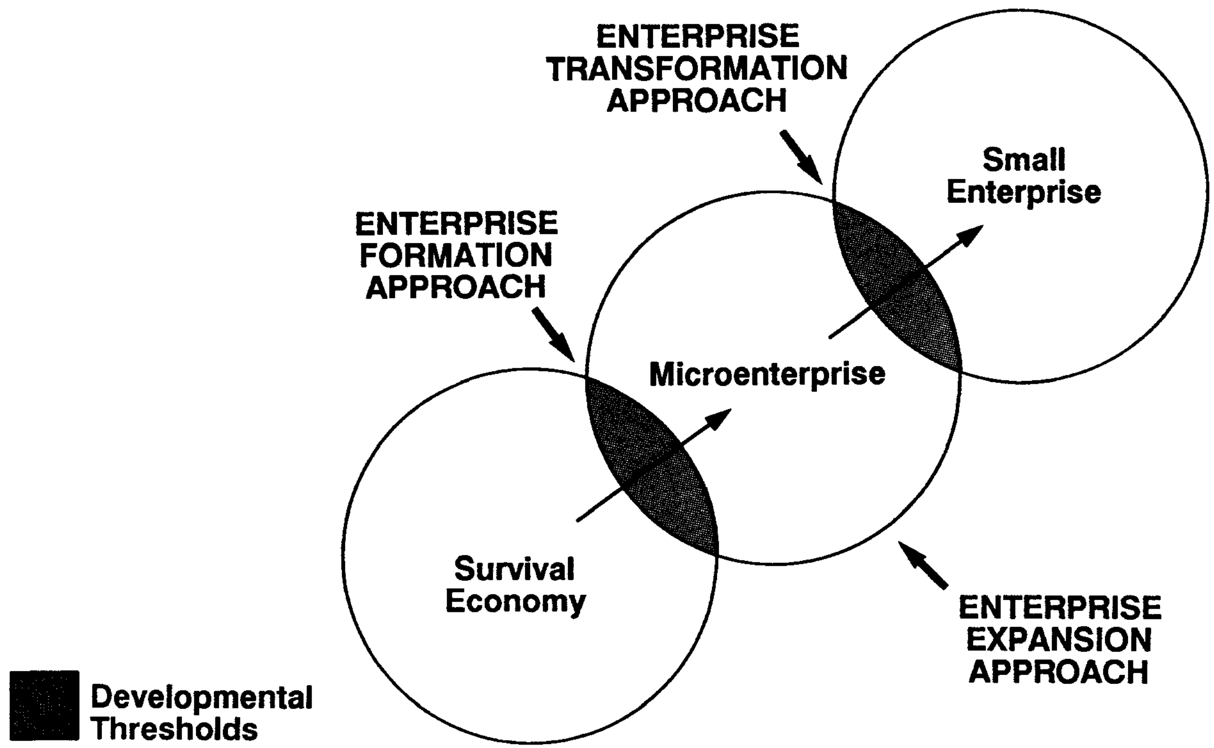


Figure 1. Approaches to Microenterprise Development. Source: Agency for International Development, "A.I.D. Microenterprise Stock-Taking: Synthesis Report," 1989.

The survival economy is the home of many of the world's poorest. They are assisted by the *enterprise formation approach*, which through technical assistance and credit assists them in starting and running microenterprises and small cooperatives.

The next group includes actual ongoing microenterprises. They are assisted in the growth of their output by the *enterprise expansion approach*, which generally provides working capital, credit, and only small amounts of training. While this approach does not necessarily help them to grow in numbers of new employees, it increases the productivity and output of the firm.

The final group consists of small-scale enterprises with more than 10 employees. The *enterprise transformation approach* helps microenterprises to grow into small-scale enterprises. This approach relies on a combination of larger amounts of credit, training, and technical assistance. The approach one takes to enterprise development thus depends on the intended beneficiaries and the economy of the particular country.

Programs that aim to improve the performance of microenterprises through the provision of short-term credit without attempting to transform these firms into more complex businesses have a better record of achievement than do more ambitious programs. The most successful programs resemble commercial financial institutions—they provide small working capital loans with efficient screening, rapid disbursement, and a reasonable assurance of the availability of progressively larger loans upon successful repayment of previous debt. Interest rates are high and reflect the real cost of lending. Limited amounts of training and technical assistance are sometimes provided, but with the primary purpose of educating the clients to become good borrowers. Without exception, the organizations implementing these programs set out to establish financially self-sustaining credit systems. These programs and the institutions involved have discovered a service (small, short-term loans), a market, and an appropriate technology for delivering the service in an efficient way.

The study concluded, however, that the services provided by A.I.D.'s most successful programs (minimalist credit) are sufficient to generate benefits for *some* microenterprises, in *some* areas, at *some* stages in their life cycle. But the needs of the vast majority of microenterprises cannot be satisfied merely by providing small working capital loans. The question about the way to reach the enterprises whose needs cannot be satisfied by the minimalist strategy remains unanswered.

Direct assistance programs—credit, training, and technical assistance—aimed at integrating economically inactive and marginal groups have achieved their goals, but at a relatively high cost per beneficiary and on a limited scale. Direct assistance alone has not proved to be an effective or efficient means of inducing the developmental transformation of microenterprises. This is particularly disturbing given the potential productivity, income, and employment benefits of the business development approach. Those firms not reached by the expansion programs may have the greatest potential for reaching the poorest of the poor through job creation and by generating the greatest dynamic developmental impact through the transformation of marginal enterprises into sustainable businesses. There are a number of recently completed and ongoing projects and programs explicitly directed toward testing innovative strategies for promoting business development. These include minimalist credit, training and technical assistance with and without credit, and industry and subsector-specific interventions incorporating both direct and indirect assistance. Preliminary results from these experiments are promising.

GEMINI

GEMINI—Growth and Equity Through Microenterprise Investments and Institutions—is a third generation of microenterprise development projects funded by A.I.D.'s Bureau for Science and Technology. It is designed to support A.I.D.'s microenterprise development program in general, and to explore questions raised by the stocktaking exercise and continue with A.I.D.'s research agenda. GEMINI, which began in September 1989 and will last for five years, will explore new approaches to the delivery of technical assistance in enterprise formation, expansion, and transformation.

The GEMINI project is designed to provide leadership in microenterprise development to organizations working in this field throughout the world. GEMINI will offer technical assistance, training, economic research, and information to A.I.D. missions, and organizations involved with microenterprise development—implementing organizations, resource institutions, host governments, A.I.D., and other donors. The project will carry out applied research on the microenterprise sector, as well as on microenterprise assistance methodologies. With a dual emphasis on service and research, GEMINI will respond to USAID mission requests for assistance related to microenterprise development. At the same time, GEMINI will actively seeking partners from within A.I.D. and the PVO communities to participate in the design and implementation of the project's action research program. Through its integrated service and research activities, the project aims to have a catalytic effect on a broad spectrum of efforts to promote microenterprise growth in the context of overall economic development.

GEMINI will seek to advance the field of microenterprise development through pursuit of the following themes:

- *Growth and Dynamics of Microenterprise.* GEMINI will focus on the changes in microenterprises and the microenterprise sector over time. It will investigate the birth, expansion, and death of microenterprises—at the level of individual firms, at an industry-specific level, and in the aggregate—to help determine where assistance to microenterprises should be focused. Research will examine the circumstances leading to microenterprise growth, as well as the legal and regulatory impediments that can constitute constraints to growth.

- *The Economic and Social Impacts of Assistance to Microenterprise.* Microenterprise assistance efforts are intended to make businesses grow or become more efficient, in order to increase income and employment for the people associated with them. Yet our knowledge of the effectiveness of donor-funded interventions is sparse. GEMINI will develop a plan for improving impact knowledge throughout A.I.D.-supported programs, to assess the effects of microenterprise assistance on specific target sectors as well as specific groups of beneficiaries.

- *Subsector-Based Analysis and Assistance.* Subsector analysis focuses on the vertical production and marketing structures of a single product or group of related products. As such, it is a problem-identification approach that holds great promise for identifying key constraints and formulating interventions to relieve them. GEMINI will work to familiarize those in the microenterprise field with the techniques of subsector analysis and the identification of effective subsector-based interventions, and will promote the demonstration and testing of projects that implement a subsector approach.

- *Improvement in Delivery of Non-Financial Assistance.* Despite the continued provision of non-financial assistance to entrepreneurs in projects throughout the world, there have been few systematic attempts to determine how to provide such assistance effectively and efficiently. GEMINI will examine improvements in standard types of technical assistance and will also identify and examine new types of non-financial assistance (e.g. in production techniques, input supply, or marketing).

- *Institutional Alternatives.* GEMINI will seek to work with a wide variety of implementing organizations, to increase their potential to assist the microenterprise sector. In addition to PVOs, this will include credit unions and other financial institutions, cooperatives, business associations, and government institutions. GEMINI will carry out a special examination of the potential of assistance to for-profit businesses to help the microenterprises they are involved with.

- *Institutional Strengthening.* Institutional weakness is often the cause of poor performance among microenterprise programs. GEMINI will build on the work of the Assistance to Resource Institutions for Enterprise Support project (ARIES) to help implementing organizations enhance their organizational soundness and improve their management of microenterprise programs. It will also examine the expansion potential of some of the best organizations.

- *Women and Microenterprise Growth and Assistance.* In view of the important economic contributions women make through microenterprise activity, GEMINI will identify research questions and methodologies most likely to yield information relevant to expanding opportunities for women in microenterprise. GEMINI will also develop methodologies for better assessing the extent to which women benefit directly from microenterprise assistance programs.

GEMINI will organize its activities into the following interrelated components.

Economic Research and Sector Studies. Through this component GEMINI will respond to mission requests for sector and subsector-based assessments and strategies; carry out field research (involving host country institutions where possible); and examine the effects of existing legal, regulatory, and policy frameworks on the costs of doing business and on microenterprise growth potential. Research under this component will focus on the nature of microenterprises and their role in the economic life of particular countries; evaluation of the impact on specific target sectors; and subsector analyses to compare efficiency, competitive status, and growth potential of different production and marketing channels.

Project Design and Assessment. Through this component, GEMINI will assist missions in examining, testing, and promoting innovations in delivery of assistance to microenterprises; help with the design and/or revision of microenterprise programs and projects; carry out gender-disaggregated evaluations of the impact of microenterprise assistance; and develop improved methodologies of financial and non-financial assistance. Research under this component will explore the potential of subsector-based assistance; identify opportunities for improving non-financial assistance to entrepreneurs; and identify and assess the full range of institutional alternatives for providing assistance to microenterprises.

Organizational Development. This component will seek to increase the reach and effectiveness of assistance programs by developing the strength of institutions and organizations providing assistance to microenterprises. Using materials developed by ARIES, as well as teaching case and training materials to be developed through GEMINI activities, the project will seek to enhance the capacity of implementing PVOs, NGOs, and others to assist microenterprises. Through this component GEMINI can provide expert services in the area of organizational management, including custom-designed training for staff in implementing organizations.

Development Alternatives, Inc., is the prime contractor for GEMINI and will provide overall project management as well as primary responsibility for project design and assessment activities. Michigan State University, with its long history of experience in survey research on micro- and small enterprises, will lead the economic research component. ACCION International, Opportunity International, Technoserve, World Education, (all PVOs) and Management Systems International (a private consulting firm) will participate in the action research programs and play a major role in the area of institutional development.

To augment the resources of the core contract group and meet specialized needs that may arise, the GEMINI consortium is affiliated with six additional organizations: Appropriate Technology International; Experience Inc.; The World Council of Credit Unions; the Intermediate Technology Development Group; Ohio State University; and Weidemann Associates, Inc.

A New Approach to Development: The Future

During the past 20 years we have witnessed a remarkable variety of experiments and research into small-scale and microenterprise development around the world. Some of them have been initiated in the name of business promotion and others in the name of poverty alleviation. A handful have succeeded in reaching hundreds of thousands of people through innovative schemes for lending and providing other assistance to these enterprises. Others have a had a more modest, local impact, while many of the earliest efforts have to be counted as failures for the most part.

It seems likely that the trend toward promoting the sustainability of these small businesses will continue in the near future. Indeed, a new approach to development has taken root, though its growth and survival is not fully assured. With expanded research and experimentation we may be able to improve upon approaches to the development of the economic activities of small- and microenterprises.

Many questions have been raised in the course of this experimentation. The efforts of A.I.D. have contributed greatly to our understanding and our ability to conceptualize. There are still far fewer answers than questions, though we now know much more than we did 20 years ago when we began to ask the question, What, if anything, do small-scale enterprises add to the economies of developing countries?

In those years we have seen the term "microenterprise" become well established in the lexicon of development worldwide. With our increased understanding of the functioning and needs of these small businesses and the needs of the women and men who run them, assistance has been more forthcoming and has become better targeted. And perhaps most importantly, small- and microenterprise development is now seen as a key component of a balanced program that promotes broad-based economic growth in developing countries. In this way, these efforts will assure that even the poorest are able to move beyond mere survival to take an active role in increasing the economic and social welfare of their families, and the communities and countries in which they live.

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Index