Support for Microenterprises

Lessons for Sub-Saharan Africa

Maryke Dessing
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Support for Microenterprises
Lessons for Sub-Saharan Africa

Maryke Dessing

The World Bank
Washington, D.C.
Maryke Dessing is a researcher at the Harvard Institute for International Development at Harvard University.
Microenterprises play an important role in Sub-Saharan Africa; they account for a sizeable part of the economy, in providing employment and means of livelihood for much of the nonagricultural population. Concerns about reversing the economic decline call for new and creative ways for making best use of this resource for building a strong economic base and achieving social integration. However, it is difficult to devise effective strategies for developing microenterprises because of their small size, dispersed location, and informality.

Two main strategies are conceivable for supporting microenterprises: they can be loosely characterized as a top-down/indirect approach and a bottom-up/direct approach. The first strategy, the top-down approach, seeks to improve the business environment by operating on macroeconomic variables such as prices, government regulations and policies, and by building up the physical infrastructure. Microenterprises have specific needs in this respect which should be taken into consideration more fully. The second strategy, the bottom-up approach, aims at supporting microenterprises directly by mobilizing indigenous resources and with the active participation of beneficiaries. The real challenge is to strike a proper balance between these two approaches which complement and enhance each other.

This paper is the result of a survey of the literature and extensive discussions with practitioners and its primary focus is the direct approach in support to microenterprises. One model that has proven extremely successful combines the so-called minimalist and process approaches, and involves gradually broadening the scope of the assistance program on the basis of self-assessment of needs by participants in order to remove one bottleneck at a time. The effectiveness of this model is enhanced where there exists a tradition of family business and cottage industry.

Perhaps the simplest objective to pursue is access to credit, particularly in more commercial and industrial environments and for established entrepreneurs, but success in this area can nonetheless be exceedingly difficult to achieve. The main lesson from experimentation in this field is that the poor are bankable and can be served relatively inexpensively, provided nontraditional lending methods are utilized such as group-lending where clients join in groups and assume responsibility for selection and credit repayment. Important components of financial assistance programs are savings mobilization, and the linking of formal financial agencies with informal financial institutions which offer quick and flexible unsecured lending to serve a multitude of purposes.

Technical assistance and support services can be provided to help first-time entrepreneurs set up their own business, to assist microenterprises in their daily business, or to help them graduate to a larger size. The latter type of intervention is the most common. However, its scope is limited by the fact that most microenterprises will never graduate, largely because horizontal diversification is an important risk-spreading strategy. The main challenge is to provide relevant technical assistance and support services.
identification of assistance needs by participants helps enhance the relevance of the services provided, and reduces the cost of such projects.

Entrepreneurship and self-employment development programs aim at translating a business idea into a viable venture. The tendency of existing programs is to focus on the creation of small modern businesses, on the basis of the somewhat arbitrary distinction between self-employment and entrepreneurship. Also, they tend to focus on individual enterprises and their vertical expansion, rather than on the business community upon which these enterprises depend. Thriving business communities are, and have historically been, a major factor in enabling some enterprises to successfully reach the next scale of operation or to venture in new trades. The discussion on entrepreneurship and self-employment development restricts itself to conceptual aspects of such programs and does not delve into technical questions of training materials and courses.

The task of reaching microenterprises requires small, flexible, and responsive organizations, with sufficient autonomy to make ad hoc decisions, yet with adequate coordination at the national level. Therefore, a main device for reaching microenterprises is to institute a two-tier arrangement with specialized resource institutions. Different types of organizations can be used imaginatively as intermediaries in such a scheme, on the basis of their respective characteristics and the (multiple) purposes they serve. Such organizations include PVOs, NGOs, cooperatives, banks, business associations, churches, and women’s groups. In this respect, cooperation with NGOs could be greatly facilitated through longer term commitments by donors, clearly defined appraisal criteria, and early reconciliation of the social objectives of NGOs and of the assistance program’s requirements for economic efficiency.

Capacity building of the intermediary should be incorporated as an explicit objective of microenterprise support programs and be budgeted for. The objective is to establish viable support institutions, in order to enhance the effectiveness of tier arrangements and the quality of the services provided. Shifting the focus of assistance from beneficiaries to support institutions can be a very effective way of reaching the most marginal groups, particularly for large international donor agencies such as the World Bank.
ACKNOWLEDGEMENT


This paper also benefited from the insights of the participants to the World Conference on Support for Microenterprises (Washington, D.C., 6-9th June 1988) and to the Regional Workshop on Entrepreneurship Development in Africa (Africa Technical Department, The World Bank, Washington, D.C., Nov. 29-Dec. 2 1988), and from research conducted at the Massachusetts Institute of Technology, at Harvard University, and at the Graduate Institute of International Studies under a grant from the Swiss National Science Foundation.
PREFACE

The main objective of this paper is to review past experience in support to the overall business and economic environment for microenterprise development: credit, technical assistance and support services, entrepreneurship and self-employment development, and the strengthening of financial and technical assistance intermediaries. The paper is primarily based on an extensive review of the relevant academic literature and professional as well as official reports. An important conclusion is that there is no universally applicable approach to microenterprise development. Hence, a broad conceptual framework is provided that can help in formulating development programs that are tailored to local circumstances. It is suggested that microenterprises can be assisted directly; indirectly by improving the policy and regulatory environment; or alternatively by strengthening the capacity of intermediaries. These three approaches are not mutually exclusive but complement each other. The interested reader will find many further references on specific programs.

This paper was commissioned by the Africa Technical Department, as part of its initial attempt to come to grips with a very complex area, where the World Bank is a relative newcomer. Nevertheless, it is felt that it could contribute to the debate of a wider readership which has hitherto been more active in this field -- African governments, international development agencies, NGOs, university researchers, private sector firms and others working on Africa all of whom have come to realize the considerable potential of microenterprises for helping Sub-Saharan Africa overcome its crisis. This paper complements the work on the informal sector recently undertaken by the Bank during the preparation of its recent Report "Subsaharan Africa: From Crisis to Sustainable Growth - A Long-Term Perspective Study." Whereas that report looked at enterprise level questions from the broader perspective of the overall economy, the present paper is much more focused on the microenterprise sector alone. It is both timely and important to gain better understanding of the growth dynamic of the microenterprise sector in order to harness this resource more effectively.

Hans Wyss
Director
Africa Technical Department
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<td>ACPC</td>
<td>Agricultural Credit Policy Council (Philippines).</td>
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<tr>
<td>ADEMI</td>
<td>Association for the Development of Micro-Enterprises (Santo Domingo, DR).</td>
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<td>ADMIC</td>
<td>Dynamic Assistance to Micro-enterprises (Monterrey, Mexico).</td>
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<tr>
<td>APP</td>
<td>Association for Productivity (Burkina Faso).</td>
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<tr>
<td>APRACA (-NCC)</td>
<td>Asian and Pacific Regional Agricultural Credit Association (NCC).</td>
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<td>ARIES</td>
<td>Assistance to Resource Institutions for Enterprise Support.</td>
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<td>ASEPADE</td>
<td>Consultants for Development (Asesores para el Desarrollo) (Honduras).</td>
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<td>BAAC</td>
<td>Bank of Agriculture and Agricultural Cooperatives (Thailand).</td>
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<td>BI</td>
<td>Bank Indonesia.</td>
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<td>BKK</td>
<td>Badan Kredit Kecamatan (Central Java).</td>
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<td>CEOSS</td>
<td>Coptic Evangelical Organization for Social Services (Minia, Egypt).</td>
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<td>CERNEA</td>
<td>Centre d'Etude et de Recherche pour une Nouvelle Economie Appliquée (Paris).</td>
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<td>CNPAR</td>
<td>Centre National de Perfectionnement des Artisans Ruraux (Upper Volta).</td>
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<td>CYSEC</td>
<td>Calcutta &quot;Y&quot; (Youth) Self-Employment Center (India).</td>
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<td>DB</td>
<td>Development Bank.</td>
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<td>DDF (FDD)</td>
<td>Dominican Development Foundation.</td>
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<tr>
<td>DESAP</td>
<td>Program for the Development of Small Businesses (Columbia).</td>
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<td>EDII</td>
<td>Entrepreneurship Development, Institute of India.</td>
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EDP: Entrepreneurship Development Program.
FDR: Rural Development Fund of the Industrial Bank of Peru.
FUCODES: Fundacion Costarricense de Desarrollo (Costa Rica).
GBL: Grameen Bank Ltd. (Bangladesh).
GO: Government Organization.
HIID: Harvard Institute for International Development.
IDH: Institute for Honduran Development.
IFI: Informal Financial Institution.
ILO: International Labor Organization.
KIE: Kenya Industrial Estates.
LDC: Less Developed Country.
MCSI: Manila Community Services, Inc. (Philippines).
ME: Micro-Enterprise.
MIDP: Micro-Industries Development Program (Manila, Philippines).
MIT: Massachusetts Institute of Technology.
NAESEY: National Association of Educated Self-Employed Youth (India).
NGO: Non-Governmental Organization.
PCIB: Philippines Commercial and Industrial Bank.
PFP/BF: Partnership for Productivity/Burkina Faso.
PISCES: Program for Investment in the Small Capital Enterprise Sector.
PRIDECO/FEDECREDO (P/F): Program for Integrated Community Development/Federation of Credit Agencies (El Salvador).

PVO: Private Voluntary Organization.

RoSCA: Rotating Savings and Credit Association.

RSA: Rotating Savings Association.

SCA: Savings and Credit Association.

SEAP: Self-Employment Assistance Program (Philippines).

SELP: Self-Employment Program (Manila, Philippines).

SEWA: Self-Employed Women's Association (Ahmedabad, India).

SHO: Self-Help Organization.

SME: Small and Medium Enterprises.

UFSI: University Field Staff International Inc.


UNO: Northeast Union of Assistance to Small Organizations (Recife, Brazil).


WWF: Working Women's Forum (Madras, India).

YBS: Yayasan Bina Swadaya (Indonesia).
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I. INTRODUCTION

The primary purpose of this study is to identify a number of key issues related to support for microenterprises, provide a conceptual framework for the design of support programs, and delineate research questions for field study. This paper draws on the accumulated experience of other donor agencies, since the World Bank is a relative newcomer in this field, and synthesizes conclusions from several in-depth studies. It is intended mainly as an introduction to the literature and as a quick reference for the design of projects; the interested reader will find many further references to specific programs and approaches that have been tried with various degrees of success. The paper raises more questions than it answers, mostly because the wide variety of experiences and projects cannot be covered in a short paper and because projects must be tailored to local circumstances in order to make best use of existing resources: there are no easy answers and no universally applicable model.

A second purpose of this study is to focus on the relevance of microenterprise lessons for Sub-Saharan Africa. The international donor community including the World Bank sees support for microenterprises as part of a possible solution for the deepening economic crisis in Africa. However, there is a paucity of documentation on the subject with respect to the African experience. Because Sub-Saharan Africa is less industrialized than other continents, intervention strategies that have been successful in countries with a long-standing tradition of cottage-industry and family business may not succeed in Sub-Saharan Africa; parallel interventions and/or the design of new support strategies that are appropriately African might be necessary.

Microenterprises are defined as employing no more than 5-10 workers, including the owner and family. They engage in noncorporate income generation and use less than US$10,000 equivalent of total capital; starting capital is often less than US$100 and rarely exceeds US$1,000.¹

This definition includes what some authors call self-employment (one-person businesses), which they distinguish from microenterprises. However, this somewhat arbitrary distinction is based on a judgement about what type of skills and behavioral responses constitute entrepreneurship and which firms are likely to expand (vertically). From the point of view of employment and income generation, such a distinction has little relevance, particularly since small firms are most likely to adopt a risk-spreading strategy of horizontal diversification. Also, a main reason for supporting microenterprises is poverty alleviation and the strengthening of the Keynesian multiplier effect; thus, one-person ventures should not be excluded from the analysis of MEs. It should be noted, however, that proliferation of small business units is not necessarily a sign of economic health. On

the one hand, it can be due to the opening-up of new business opportunities because of a
thriving economic climate (evolutionary growth). On the other hand, it can be a survival
strategy to cope with a deepening economic crisis, rising unemployment, and worsening
poverty (involutionary growth).²

Following the release of its policy paper entitled "Employment and Development of
Small Enterprises," (February 1978), the World Bank stepped up operations to support small
firms in response to the disappointing performance record of large firms and public
enterprises, particularly in Sub-Saharan Africa. The purpose was to draw on the tremen-
dous latent resources that exist in the small enterprise sector. From 1983 to 1988, 42.3% of
all Bank lending to the private sector, or US$11 billion, was channeled into small and
medium enterprises (SMEs). At the same time, efforts were made to include microen-
terprise (ME) components in loans for Latin America and Africa.

So far the results of this small enterprise initiative have been generally less than
satisfactory. Although the overall impact of small enterprise development programs is hard
to assess, evidence suggests that they have failed to bring about the anticipated alleviation
of poverty, growth of employment, spread of entrepreneurship, decentralization of industrial
growth poles, and integration of the economy. Basically these programs tended to reach
the larger SMEs and to continue to depend on external financing (non-sustainability of
programs) due to a lack of domestic resource mobilization, particularly by financial inter-
mediaries³.

One reason for the disappointing record in lending for small enterprise development
is the difficulty a large institution such as the World Bank has in reaching the smallest
businesses (microenterprises), that is, to engage in retail lending. More fundamentally
programs have been poorly tailored to local conditions and, at least in the earlier projects,
have failed to pay sufficient attention to the policy and regulatory environment. The crucial
element for successful assistance is matching the program with the site. This implies
institutional flexibility, creative thinking, and participation by the beneficiaries; the blueprint
("cookie-cutter") approach is bound to fail. In this respect much rethinking is taking place
in the Bank and, as a result, experimentation is currently underway, particularly in Sub-
Saharan Africa, which accounts for most of the projects targeted to small enterprises.

This study is part of this process of reevaluation, and proceeds as follows. First,
chapter II of Part I discusses two main strategies for supporting microenterprises: a top-

²These concepts were first used by C. Geertz, Peddlers and Princes: Social Change
and Economic Modernization in Two Indonesian Towns (Chicago: Chicago University

³For a detailed review of World Bank lending to small enterprises, see Jacob Levitsky,
(Washington, D.C.: The World Bank, 1986); and Leila Webster, "World Bank Lending for
down/indirect approach and a bottom-up/direct approach. This chapter includes some stylized facts about the socio-economic environment in Sub-Saharan Africa since these factors greatly condition the success of a strategy and the design of a project. Chapter III covers in greater detail indirect assistance projects aimed at improving the business environment, taking into consideration the specific needs of microenterprises. These kinds of policy and administrative measures, however, should be complementary to direct assistance projects to microenterprises, which are discussed in the remainder of the paper.

The core of the paper, Part II, is devoted to projects in direct assistance to microenterprises. This type of assistance is crucial to effectively mobilize domestic resources and to build a strong domestic economic base. Chapter IV describes some models and approaches, and chapters V through VII cover specific areas of assistance: access to credit, support services and technical assistance, and entrepreneurship and self-employment development.

Finally, Chapter VIII discusses a hybrid approach between direct and indirect assistance programs. This approach targets resource institutions that act as intermediaries between microenterprises and other agents/institutions in the economy; they link the micro and macro levels. The Conclusion summarizes some key findings and implications for assistance programs in Sub-Saharan Africa.
PART I

II. CHOICE OF A STRATEGY

Support for microenterprises is widely endorsed. Differences, however, emerge when answering the questions of what is to be achieved by supporting microenterprises and how to assist these enterprises. At the conceptual level, the answer to these two questions defines an intervention strategy, of which basically there are two: top-down strategy and bottom-up strategy, which are closely associated with indirect and direct assistance programs respectively. These are briefly described in the first section. The second section presents some stylized facts about the socioeconomic environment in Sub-Saharan Africa which condition the success of development/assistance programs.

A. The Options: Top-Down and Bottom-Up Assistance Strategies

Basically both options are feasible - and can be mutually complementary - for assisting microenterprises, with each option reflecting a different view of the process of development ("trickle-down" versus "trickle-up"), the role of the government in the development process, and the ability of firms to respond to incentives; several dimensions are involved. The choice between these two strategies is also influenced by the long-standing controversy over the contribution to economic growth of communities of small businesses versus large enterprises.

The top-down approach primarily utilizes indirect assistance programs aiming at creating a favorable environment for private enterprises consistent with a laissez faire doctrine of government and on the grounds that some of the best micro work can be undone by macro policy distortions. Indirect assistance therefore concentrates on macro level variables such as prices, infrastructure, regulations, government policies, and the legal framework. It relies on peoples' creativity and initiative in taking advantage of new opportunities and responding to incentives. The focus is on the business environment and the creation of viable institutions -- partly what structural adjustment programs are attempting to achieve. Because of the way it may filter through the economy and because of secondary effects, the impact of a top-down assistance strategy can at times have an unpredictable impact and may even produce opposite outcomes from those anticipated. (These issues are discussed at length in Chapter III).
Maximizing the efficiency of top-down/indirect intervention requires careful monitoring, fine-tuning of policies, and coordination of efforts with other organizations at both the macro and micro levels. This might strain the managerial capacity of governments and may increase their dependency upon external technical assistance. Some observers therefore argue that the efficiency and adequacy of indirect assistance programs could be increased by involving local (grassroots) organizations in the design and implementation of projects -- as is done in a "bottom-up" process.

A corollary of this indirect strategy is the use of a so-called seeding process, which sets up growth poles in the form of large enterprises in key sectors of the economy in hopes that the benefits of development "trickle down." However, this seeding process does not work when vertical linkages are weak or when the economy is not well integrated, as is the case in Sub-Saharan Africa. Also, these growth poles often are basically "transplants" of foreign origin and thus may face great difficulties in being accepted.

The bottom-up strategy, primarily aims at supporting microenterprises directly, on the premise that the process of development is akin to building a pyramid, and therefore depends on laying down a solid foundation before proceeding to the next level -- otherwise one is building a "shaky tower." Also, this strategy is based on the recognition that businesses of various sizes are organically linked in intricate ways, such as through subcontracting. They constitute business communities and neighborhood production systems. Historically, firms that succeeded in reaching the next scale of operation arose from already thriving communities. Thus, communities of small businesses, not individual enterprises, constituted the growth poles of the economy.

The bottom-up approach also assumes that the necessary structural adjustments can only be brought about with the people's active involvement. Government policies are seen as a reflection, the sum, of what is happening at the grassroots or at worst, they are somewhat arbitrarily imposed. Therefore, providing people with greater access to resources and information should enable them to bring about changes at the micro level and, it is hoped, at the macro level in the long run. Greater participation in the development process (empowerment) is central to this strategy. The main challenge for a resource institution is to become responsive to people's needs and to tailor intervention accordingly. The

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institution also must establish a good and balanced relationship with the beneficiaries to mobilize their support and existing resources. Often this requires making the agency more beneficiary-responsive, that is, making the agency more accessible to the people, learning from the people, and incorporating some of their social institutions into the mechanism of the agency.

Since lack of tolerance or support from the elite often undermines programs, equally important for the success of the bottom-up strategy are the vested interests at stake, including those of traditional hierarchies. These are often underestimated.\(^6\)

Direct assistance programs, however, can be and unfortunately often are very much "top-down" in their conception and implementation, that is without ownership of the program by the beneficiaries.

Behind these two assistance strategies lurks the long-standing controversy over small versus large businesses. The debate initially focused on their respective potential for generating reinvestable profits and for creating employment. Larger well-established units are more likely to expand and therefore to create new jobs than small units, but at a higher cost per job. This cost however decreases when indirect job creation is taken into consideration. Still, it may be more cost-effective to set up more one-person businesses in spite of their high failure rate (about 50% of new ventures fail within five years). Job creation effects however appear to depend more on types of activities assisted than on a firm’s size per se.\(^7\) Finally, microenterprises can be highly efficient even though most are unlikely to expand and are not primarily seeking to maximize profit but simply to generate income (self-employment creation).\(^8\)

The trade-off in promoting small businesses, however, is not so much between profits and employment, but rather between private returns and social costs, or between short-term and long-term growth prospects. Small enterprises generally offer lower wages, fewer fringe benefits, and worse working conditions for the same type of work as larger enterprises. They also attempt to save on overhead costs by minimizing expenses for anti-pollution and safety devices, lighting, and sanitation, for example. Overcompetition, lack of

\(^6\)Tendler found that the six successful programs she reviewed had benefited from closeness to power and from the charisma of the leaders of the implementing organizations. Judith Tendler, "Whatever Happened to Poverty Alleviation?" in Microenterprises in Developing Countries, ed. Jacob Levitsky (London: Intermediate Technology Publications, 1989), p. 39.


\(^8\)Katherine E. Stearns, Assisting Informal-Sector Microenterprises in Developing Countries, Cornell International Agricultural Economics Study, no. 85-16 (Ithaca: Cornell University, Department of Agricultural Economics, Aug. 1985), pp. 5 and 40-41.
access to public facilities and to suitable work sites, as well as a hostile policy environment contribute to the sub-optimal conditions under which small enterprises operate. The associated human cost and negative impact on the environment (which can be staggering) need to be addressed in order not to jeopardize long-term prospects. On the other hand, promoting self-employment is often the most effective means for integrating marginal elements into society and for alleviating poverty, thus reducing the social costs associated with the persistence of large pockets of poverty and of sub-marginal elements.

B. Socio-Economic Environment in Sub-Saharan Africa

The success of an assistance program is greatly conditioned by local circumstances. Some stylized facts are presented here, although broad generalization about such a vast and diverse area as Sub-Saharan Africa is necessarily controversial. The general impression is that it is much less integrated into the world market economy than other continents. Most Sub-Saharan countries are currently shifting from phase I to phase II of industrialization: household manufacturing, which was dominant in phase I, is being displaced in phase II by rapidly increasing small enterprises.

The social systems vary greatly across geographic areas and ethnic/tribal groups; fundamentally, some are matrilineal and others are patrilineal or hybrid. These differences are reflected in diverse power structures, institutions, value systems, and behavioral attitudes -- that is in social mobility, competition for success, and scope for individual achievement and initiative. These in turn condition the source and dynamics of socioeconomic change. For instance, in egalitarian societies, the requirement to share the proceeds from business may preclude the accumulation of profits that could be reinvested, or may make a low-profile strategy of horizontal diversification socially more acceptable than expansion of a firm’s size.

Sub-Saharan Africa is characterized by segmentation of markets and a division of labor based on community allegiance. It is not uncommon that an ethnic group controls a specific trade, commodity, or trading route (territoriality). Therefore, any choice about the sectoral or geographical impact of a project is ultimately a choice of supporting a particular population group. This is likely to exacerbate further the already sensitive issue of the

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10For a more complete discussion, see Dennis Anderson, Small Industry in Developing Countries: Some Issues, World Bank Staff Working Papers, no. 518 (Washington, D.C.: The World Bank, 1982).
ethnic composition of public and resource agencies, which often determines whether beneficiaries cooperate with them to gain assistance.\textsuperscript{11}

In addition, certain activities in Sub-Saharan Africa are gender specific. For instance, \textit{subsistence agriculture}, trade, and food processing are usually reserved for women, in addition to their time- and labor-intensive domestic chores. In rural areas in particular, women are the economic pillars of traditional African societies, carrying out up to 70\% of all the work, often the most strenuous tasks. However, these tasks are commonly taken over by men when the work becomes mechanized or financially more profitable. Women therefore tend to be concentrated in the smallest and least profitable trades (mostly informal). Separation of income in some African societies means that wives may not even share in their husband's wealth -- both trickle-down and trickle-across (within household) effects are typically lacking.

Yet, women as mothers are the key to upgrading the pool of human capital and thus to long-term development. Also, since they are ultimately responsible for the survival of the family, they are the key to poverty alleviation, spending a greater proportion of their income on family consumption and investment than men do.\textsuperscript{12}

Economic fragmentation in Sub-Saharan Africa is further exacerbated by the presence of important -- and economically prosperous -- resident expatriate minorities who generally run larger businesses. The largest units are mostly foreign-owned or are parastatals, however. These are very much "Western" with respect to the social organization of work and depend heavily on foreign markets for outputs and/or inputs. It is therefore difficult for these enterprises to integrate into the local economy. Consequently, there is a \textit{lack of vertical linkages} and of intermediate businesses (20 to 50 workers), reflected in the gap between the larger "modern" firms and the traditional, mostly informal, enterprises.

In the African context, the informal sector constitutes the bulk of the economy and is the backbone of the non-agricultural sector in terms of providing livelihood and basic goods and services. The informal sector undeniably represents a vast pool of productive skills and organizational resources: It plays an important role in recycling materials and in mobilizing resources otherwise left unused, such as raw materials, personal savings, and family labor. These resources, however, are difficult or impossible to tap through a more rigid (standardized) organizational structure and production process. Consequently, the

\begin{footnotesize}
\begin{enumerate}
   \item For an interesting discussion of ethnicity, see Grindle, "Capacity Building," 1987, pp. 14-23.
\end{enumerate}
\end{footnotesize}
small business and domestic spheres are usually integrated with respect to resource allocation and labor input (extended fungibility of family businesses).\textsuperscript{13}

Patterns of skill acquisition vary greatly across Sub-Saharan Africa, both because of historical circumstances and because of differences in traditional mechanisms for acquisition of skills. For instance, in West Africa, skill acquisition through apprenticeship or within the family is well established. This is not the case in East Africa, where Africanization proceeded from a base of semi-skilled workers who had learned to produce few specialized items from working in Asian or European shops but had not mastered the entire art of craftsmanship.\textsuperscript{14} Overall the shortage of middle-level skills prevents more efficient use of resources.\textsuperscript{15}

In turn, external circumstances and patterns of skill acquisition greatly affect the profile of entrepreneurship. Thus, with appropriate opportunities, the prospects for Sub-Saharan Africa may change, as the case of the Akamba people in Kenya illustrates. They set up a lucrative wood carving industry that now serves a worldwide market, although the Akamba were said to be less entrepreneurial than their neighbors the Kikuyu.\textsuperscript{16}

This great socio-economic diversity, often within the same nation, poses a challenge to the design of support programs. A case can thus be made for a more decentralized administration of programs, more direct assistance to communities of small businesses, and greater participation by beneficiaries (see Part II). Governments, however, are often wary of such initiatives because many African states are artificially created nation-states vulnerable to the persistence of traditional hierarchies: decentralization might reinforce these parallel power structures.


\textsuperscript{15}Page, Small Enterprise Development, 1984, p. 7.

\textsuperscript{16}Walter Elkan, "Entrepreneurs and Entrepreneurship in Africa" (Brunel: University of West London, June 1987), p. 21. (Mimeo.)
III. IMPROVING THE BUSINESS ENVIRONMENT: THE MACRO LEVEL

An important and vast area of intervention, at state level, aims at improving the business environment by creating appropriate incentives, building up physical and administrative infrastructure, and reforming government regulations and policies. Much of this broad range of measures benefits the private sector in general. Table 3-1 provides a succinct list of private sector development objectives and the policy changes necessary for achieving them. The World Bank has done much in this area of policy reform. However, economic policy reform programs tend to focus on the impact on larger firms, mainly because of lack of information concerning microenterprises and their specific needs; these should to be taken into consideration more fully (see further). Also, to optimize results, a program aimed at improving the business environment should, at the minimum, be coordinated with efforts of other agencies/projects supporting microenterprises directly.

A. Trade and Price Policies

Microenterprise performance is clearly affected by the macrofinancial policy environment and producer incentives, many of which are undergoing profound changes in the context of stabilization and adjustment programs which seek, among others, to foster private domestic industries. Yet, at least in the short run, microenterprises appear to suffer much hardship in the process of adjustment. Both supply and demand side effects have an ambiguous impact on microenterprises who produce mainly nontradable goods and services -- that may be complements to, or substitutes for, traded goods -- but nonetheless may depend on imported inputs and spare parts. In addition, microenterprises occupy an ambivalent position vis-à-vis larger firms, in so far as some compete with "modern" businesses while others are complementary.

The supply side effects of adjustment programs that involve promotion of exports, devaluation of the currency, reduction of subsidies, and streamlining of the public sector, may benefit some microenterprises and adversely affect others. For example, a devaluation

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### TABLE 3-1

**MAIN COMPONENTS OF POLICY CHANGES FOR PRIVATE SECTOR DEVELOPMENT**

<table>
<thead>
<tr>
<th>OBJECTIVE</th>
<th>MEASURES</th>
</tr>
</thead>
</table>
| Improve the legal and regulatory environment for the private sector | - Reform labor laws to remove distortions and excessive costs of job creation  
- Reform land ownership laws to facilitate titling  
- Streamline tax codes and make them more transparent  
- Reform the investment code to reduce barriers and discriminations against private investors  
- Centralize approval procedures in "one stop shops"  
- Streamline licensing procedures  |
| Restructure the public sector to increase the scope for the private sector | - Privatization  
- Sub-contracting, leasing, to increase participation of private firms in public works  
- Curb public monopolies and discriminations in favor of state enterprises  |
| Develop internal financial markets | - Encourage the creation of new banks  
- Terminate capital market segmentation and promote multipurpose banking  
- Mobilize new sources of savings by developing new instruments and promoting retail banking  
- Foster the development of the capital market, through tax and other incentives and by revising legislation  
- Reform regulations for agricultural credit to enhance its flexibility and efficiency  |
| Strengthen public institutions which interact with the private sector and improve the dialogue | - Promote specialized agencies such as a ministry of commerce and national investment councils  
- Foster private sector promotional institutions (chambers of commerce, trade associations)  
- Provide technical assistance to private institutions which liaise with public agencies  |
| Promote private investment | - Export and tax incentives  
- Improve the access to foreign exchange  
- Foster export and investment promotional agencies  
- Assist private firms in preparing investment projects and locate credit  
- Reduce/assume risks  |
| Increase the contribution of small and microenterprises | - Broaden access to credit, information, markets, and technical assistance  
- Reform regulations which discriminate against smaller enterprises  
- Regularize the legal status and property rights of informal enterprises  
- Legalize informal foreign exchange dealings  
- Promote nonagricultural activities in rural areas  
- Assist institutions and government agencies which interact with small enterprises  |

(Adapted from a table put together by Mary Shirley, The World Bank, Washington, D.C., 1987)
may lead to shortages of imported inputs and squeeze the profit margins for firms that produce nontraded goods, to the extent that the exchange rate change causes a decline in the price of nontraded goods relative to traded goods. On the other hand, microenterprises that produce traded goods, or nontraded goods that are substitutes for traded goods, will profit to the extent that the increase in the costs of imported inputs is more than compensated by devaluation induced higher price of their outputs. This effect will of course be magnified to the extent that some microenterprises have satisfactory subcontracting arrangements (are complementary to) larger firms that benefit from the improved producer incentives that are the premise of structural adjustment programs. In Sub-Saharan Africa this complementarity effect is weak since subcontracting is rare.

However, price policies intended to affect production patterns also affect demand patterns by changing the distribution of income, in addition to the impact that domestic absorption reduction by stabilization programs has on demand patterns. For instance, an increase in agricultural prices, which increases the income of farmers but erodes that of the urban working classes and of rural non-agricultural households, might restrict sales markets for microenterprises — or it might channel workers’ consumption towards the cheap goods and services microenterprises produce while increasing the demand of farmers for these products. At the same time, small rural enterprises may not be able to meet demand for new farm inputs (tools and fertilizers) because of their lack of technological innovation capability. The final impact on MEs greatly depends on intersectoral linkages and relative price elasticities (supply side), on how changing the distribution of income affects demand patterns (demand side), and it may differ in the short and longer run. This is a complex area which requires further inquiry.

In other words, stabilization and adjustment programs should inter alia take specific account of their likely effects on the microenterprise sector. In the absence of strong preexisting domestic production capabilities, particularly in manufacturing, microenterprises are unlikely to be able to respond to price incentives alone and to weather external and policy shocks. This is the more so given the technological fragility of such firms. Their specific requirements need to be taken more fully into consideration through, inter alia, direct assistance projects to help them break into new activities (these are discussed in Part II) and through appropriate regulatory and administrative reforms.

B. Regulations and Administrative Procedures

Government reforms in this area are of particular relevance to microenterprises. Precisely because of their limited managerial capacity, microenterprises would greatly benefit from a streamlining of procedures and regulations and from the setting of clear

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eligibility criteria (for licenses, credit, and assistance), rather than a discretionary case-by-case procedure. The latter tends to create delay and may contribute to petty corruption. With respect to microenterprises, neglected issues include:

- access to markets and information
- legalization of their status
- regularization of their property rights
- streamlining of procedures for taxation and licensing
- legalization of informal foreign exchange dealings
- removal of regulations that discriminate against small enterprises

For example, a two-year study conducted in Lima, Peru, found that informal enterprises pay more taxes than formal businesses, for a number of reasons. The inflation tax affects them more since they must maintain larger cash balances relative to turnover, due to their limited access to financial services. Informal enterprises also have to pay a street tax (to the police) and a gasoline tax. In addition, they may spend as much as 50% of their gross income in various payouts.  

Removing explicit and directly discriminatory elements such as subsidies, barriers to entry, and other constraints is relatively straightforward. However, much discrimination is indirect or invisible. De facto discrimination can be attributed to the lack of leverage of microenterprises in fighting through bureaucratic red tape, harassment, and corruption. For instance, in Lima it may take 20 years to obtain title to squatted land, and it may take the equivalent of a year of work to obtain a business licence. This has far-reaching consequences for land and community development as residents are understandably reluctant to invest in land, business, and housing without secure and transferable ownership. In Lima, the value of properties built on securely titled land was found to be as much as nine times higher than the value of units built on squatted land.

However, formalization of a business does not end the nightmare. For instance, the average small, formal entrepreneur in Lima spends 44 hours per month coping with government red tape. Thus, a real dilemma arises between whether to remain extra-legal or move toward formalization. Many microentrepreneurs prefer to remain informal, for many reasons. They will diversify horizontally instead into other activities, finding it more profitable to keep a low profile and remain small. Collection of sales taxes from the informal sector might be more lax, and MEs may benefit from higher effective tariff protec-

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21Stearns, Assisting Informal-Sector Microenterprises, 1985, p. 11.
tion due to their more modest contribution to value added. More important, they continue to benefit from traditional community support in times of crisis.\textsuperscript{22} Too often, businesses are smothered as they attempt to formalize and graduate to the next scale of operation, because they no longer benefit from these support networks while facing greater complexity in their operation.

The key is the removal of the constraints and managerial burdens that regulations and authorities unnecessarily impose on microbusinesses.\textsuperscript{23}

\textsuperscript{22}Peter Kilby, "Breaking the Entrepreneurial Bottleneck in the Late-Developing Countries: Is There a Useful Role for Government?" paper presented at a colloquium at the Woodrow Wilson International Center for Scholars, 15 March 1988, pp. 20-21.

\textsuperscript{23}The Lima study led to a large-scale initiative at legalizing the informal sector which seems to have been successful.
IV. THE DESIGN OF PROJECTS FOR DIRECT ASSISTANCE TO MICROENTERPRISES

A clear set of objectives and priorities is necessary to select target groups, areas of intervention, and delivery systems, which is the object of project design. In this process, presumed relationships or hasty extrapolations cannot be relied upon. In particular, in still little-monetized economies with distinct structural constraints, such as Sub-Saharan countries, conventional wisdom needs critical reappraisal. This, of course, is the purpose of careful feasibility studies.

A. Objectives of Direct Assistance Projects

Projects that target microenterprises or use MEs as delivery mechanisms are currently popular among donors. A major stated objective is growth, but growth of what? The term is used interchangeably to mean increase of GNP, expansion of existing firms (graduation) as distinct from creation of new firms (horizontal diversification), enhanced profits, employment creation, or a general improvement of people's welfare. These objectives, not being equivalent, require different types of intervention. Subordinate objectives include the promotion of entrepreneurship -- though it is still an open question as to what is meant with this concept -- industrial dispersion, mobilization of resources otherwise left unutilized, technological adaptation, and strengthening of linkages.

It is not clear however whether the promotion of microenterprises is the appropriate way for achieving these objectives. For one thing, MEs are highly diverse in type, size, and efficiency, not to mention variations due to local particularities.

For instance, with respect to employment, there is much debate whether smaller firms are indeed less capital intensive per se, or whether the greater capital intensity of larger firms is due to subsidized credit. Moreover, labor intensity varies more across industries and across countries for the same industry, than by size of firms (within industries in the same country). Accordingly, assistance to support demand for labor-intensive goods might be more effective in increasing employment than direct assistance to microenterprises themselves.24

Perhaps most important arguments for supporting microenterprises are the promotion of empowerment and balanced growth to forestall the widening of gaps that prevent the emergence of a strong and well integrated domestic economy. Such a domestic base is necessary for sustained long-term growth, to withstand external shocks, and to avoid severe structural bottlenecks that result from the lack of strong horizontal and vertical linkages. In fact, microenterprises in particular provide crucial links between traditional and modern production systems, between agriculture and industry, between rural and urban areas, and between production and consumption patterns. These objectives of empowerment and balanced growth are compatible with a horizontal diversification of microenterprises and community-based programs.

Support of microenterprises might also be the most effective means for reaching the poorest households -- especially those headed by women. Support of MEs would thus help achieve social integration and equity (income redistribution) through income generating activities rather than through welfare programs, which tend to perpetuate economic dependency. In this respect, traders are often the most effective channel for reaching marginal populations and integrating them into the broader economy.

B. Target Groups

Some analysts question the very rationale for targeting microenterprises separately, on the grounds that MEs’ needs are not generically different from those of larger firms. However, larger units have more political clout and therefore tend to syphon away available resources unless assistance is specifically earmarked for smaller enterprise units. In fact, many argue in favor of separately targeting specific sublevels of microenterprises in order to meet their differing needs. The PISCES studies, for instance, distinguish between microenterprises of level I, II, and III as follows:

- LEVEL I: Subsistence level, marginal undertakings. Community programs are best suited to reach them.

- LEVEL II: Microenterprise level. More established but not very stable businesses, with limited potential for growth, some basic skills, some invested capital. They are best reached by organizing them into groups eligible for assistance.

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25For more details, see Maria Novak, De la pluriactivité à l’industrialisation rurale, Notes et Etudes, no. 11 (Paris: Caisse Centrale De Coopération Economique, juillet 1988).

26Stearns, Assisting Informal-Sector Microenterprises, 1985, p. 16.

LEVEL III: Micro and small enterprise level. Relatively stable ventures, with 5-10 employees, some potential for growth (graduation to a higher level), and basic skills. Individual programs with some group activities are most appropriate.

Another relevant distinction is between first-generation and second-generation enterprises. First-generation enterprises are still embedded in traditional production systems, whereas second-generation enterprises have left this "traditional niche" and have more comprehensive needs. The latter no longer benefit from traditional community support systems and therefore can no longer share business risks. They face the challenge of assimilating new production methods and management techniques, and of surviving in markets they are not familiar with (new products, other competitors, new trading partners). Accordingly they often fail in the process of graduating into the "modern" sector because, among other reasons, donors may not have properly targeted them or failed to support them adequately once they had entered new trades under the sponsorship of an assistance program.28

One may question the rationale for excluding traders from assistance projects, as is often done in World Bank programs, although traders may be reached indirectly through rural development programs. Arguably, traders have easier access to credit than manufacturers because of their fast turnover. However, contrary to this presumption, small manufacturers often have a very short production cycle and moreover can use their equipment as collateral.

The diversion of entrepreneurship from manufacturing into so-called "rent-seeking" or "unproductive" activities such as commerce may be deplored, yet these activities are undeniably an important source of income for much of the population. Some observers consider, however, that most traders, however, just cover their costs. In addition, by granting medium-term credit to their customers (farmers), they in effect provide "term transformation" of credit. If the objective is to channel entrepreneurship into manufacturing, manufacturing should be made at least as "attractive" as commerce. However, this cannot be achieved without a reliable and efficient distribution system and without increasing rural incomes to stimulate demand for the goods and services microenterprises produce. Lack of access to markets and limited purchasing power of clients greatly constrain the development of MEs.

Special needs of certain target groups, such as women, are used to justify separate components in assistance programs.29 Some of the specific problems women face derive


29Target groups harder to assist, and typically requiring more comprehensive packages, include new enterprises, businesses in rural areas or run by minorities/disabled/refugees. Manufacturing is also more difficult to support because it often involves a complex produc-
from the cultural environment, extensive child care and domestic responsibilities, lack of assets (collateral), and low educational and literacy level. The danger is to further exacerbate their marginalization by trapping them in separate projects that effectively prevent their linking up with mainstream economic life. They are thus prevented from becoming involved in the more profitable trades and from acquiring new skills.\(^{30}\)

The alternative to separate components for women entrepreneurs is to engage more female staff in assistance programs. This is true particularly for extension workers, since for cultural reasons women in some traditional societies find it easier to work with other women. In addition, such programs should include prior intervention for decreasing women's domestic work loads, in order to free up the additional time women badly need to be able to participate in projects and acquire new skills.\(^{31}\) According to practitioners, training and extension services should be provided on site and at hours that do not conflict with women's familial responsibilities. Additionally, it should be ensured that women effectively increase and then keep control of their incomes for investment in their business and in the welfare of the family.

C. Choice of a Model

Models for assistance programs have been classified according to criteria such as program components, objectives, target groups, or administrative structure.

One model that has proven extremely successful in reaching and supporting microenterprises is the combination of the minimalist and the process (incremental) approach, in particular minimalist credit based on nontraditional lending principles. The minimalist approach consists of adopting a narrow and modest focus, such as on credit only. The process approach consists of gradually broadening the scope of a program to remove one bottleneck at a time, according to the priorities identified by participants. This approach fosters and relies on people's support and dedication and, therefore, is particularly appropriate when confidence building and/or sustaining new community institutions is crucial for the success of the program.

This is the conclusion Stearns reaches on the basis of a comparative evaluation of 15 microenterprise projects (summarized in the Appendix). The first four projects show

\(^{30}\)For instance, when goods and supplies are scarce, priority is very often given to those with most political clout, meaning men and men dominated clubs; clubs play an important role for securing supplies and markets for microentrepreneurs.

\(^{31}\)Two of the most time-consuming domestic tasks are fetching water and collecting firewood for cooking.
impressive results in terms of employment creation, increased incomes, financial self-sufficiency, and number of beneficiaries reached.\textsuperscript{32} Tendler also found that six projects judged successful in terms of number of beneficiaries reached or strength and efficiency of the implementing organization, had used the combined minimalist and incremental approach.\textsuperscript{33} The experience of PISCES and the ILO, among others, confirms this finding.\textsuperscript{34}

The alternative to the process approach is a \textit{blueprint approach}: the project is designed by the sponsoring agency on the basis of an evaluation study. This approach might be recommended when a major obstacle is lack of technical skills at the grassroots and those skills could be provided by the resource agency.\textsuperscript{35} The current tendency, however, is to move away from the blueprint approach, in particular from comprehensive nationwide programs, in favor of simpler sectoral or regional projects.\textsuperscript{36}

These success stories with the minimalist/process approach come, however, from continents that are further ahead in their industrialization than Sub-Saharan Africa. This is partly because such an approach presupposes a clientele familiar with credit and interest rates, which has access to markets, and with a tradition in cottage industry.\textsuperscript{37} Accordingly, some analysts feel that the minimalist/process approach does not suit the African context and argue instead in favor of an \textit{integrated approach}, typically in the form of comprehensive community projects. The latter involves high program costs, although such costs

\begin{flushright}
\textsuperscript{32}Stearns, \textit{Assisting Informal-Sector Microenterprises}, 1985.
\textsuperscript{33}These projects are The Grameen Bank of Bangladesh, The Self-Employed Women's Association (SEWA) of Ahmedabad, The Working Women Forum (WWF) of Madras, The Annapurna Caterers of Bombay, the women's dairying project of the Dairy Development Federation of the Indian state of Andhra Pradesh (APDDCFL), and the Environmental Quality International (EQI) working in conjunction with the association of Zabaleen garbage collectors in Cairo (Egypt), see Tendler, "Whatever Happened to Poverty Alleviation?," 1989, pp. 26-56.
\textsuperscript{36}ILO, \textit{Promotion of Small Enterprises}, 1986, p. 58.
\end{flushright}
represent a social investment in creating a more dynamic economic environment and as such are not proper indicators of a project's efficiency.\textsuperscript{38}

An overlapping project classification distinguishes among resource transfer, psychosocial, and community development approaches.\textsuperscript{39} Each reflects different assumptions about the source and types of constraints that small enterprises face. Most current projects, however, involve some mix of the three. This typology characterizes projects by their chosen point of impact, not by their breadth of intervention such as is the case for the distinction between minimalist and integrated projects:

- **RESOURCE TRANSFER APPROACH**: Assumes that what constrains microenterprises are bottlenecks in the distribution system and in the transfer of resources such as skills. But it tends to neglect institutional factors that may hamper responses to new opportunities.

- **PSYCHO-SOCIAL APPROACH**: Assumes that for entrepreneurs to be successful, they must first acquire the prerequisite behavioral attitudes through education and proper motivation. It emphasizes the tapping of people's creativity, and is designed mainly to integrate more marginal/segregated elements into society and to help them create their own employment, thus becoming more independent.

- **COMMUNITY DEVELOPMENT APPROACH**: Emphasizes the role of community support systems and ethos, for integrating and affirming individual and group interests, and for mobilizing material and institutional resources. The latter two models seek to work with existing institutions and, therefore, may neglect the possibility of creating new institutions at lower cost.

A study prepared by the Harvard Institute for International Development (HIID) within the framework of ARIES uses a hybrid classification scheme and distinguishes among six models, each characterized by a different mix and sequence of components such as credit, training, and technical assistance. The models also vary in the types of businesses they target (Level I, II, III and above; established or start-up businesses); in the skills and labor intensity needed from the staff; in the degree of commitment required of the beneficiaries; and in costs of projects. These characteristics are summarized in Table 4-1.\textsuperscript{40} The study's main findings are briefly presented below:


\textsuperscript{39}For more details, see Hunt, Evaluation of Small Enterprise Programs, 1983, pp. 30-33.

\textsuperscript{40}Grindle, "Capacity Building," 1987, pp. 57-68.
- MODEL I: The classic **individual financial assistance** project which provides earmarked or subsidized credit to businesses that can either offer loan collateral or that have a well-established track record (preferably level III and above). Thus, it minimizes labor-intensive tasks and the need for specialized staff. Strict repayment monitoring, escalating loan size based on repayment of previous loans, and a savings component increase the effectiveness of this model. Its main weakness is that it has limited ability to assist clients in loan use and management. Banks and large government programs often utilize this model. A good example is Banco del Pacifico in Ecuador.

- MODEL II: Similar to model I except that it provides an integrated **package of financial and technical assistance** to individual entrepreneurs. It may involve **social promotion** (community development), in which case beneficiaries participate in group activities. Cooperatives and business associations often use similar models. This model is appropriate for all levels of enterprises including new businesses. A recurrent problem is the appropriateness of the services offered. A good example is ADEPE in Costa Rica.

- MODEL III: More ambitious as it seeks to assist individual entrepreneurs in gaining access to formal credit: **credit is used to attract clients** to the resource institution, which then provides a **sequence of credit, technical assistance, and individual training**. It is most appropriate for established businesses of levels II and above and is relatively expensive because of the need to subsidize technical assistance and training. This model requires a relatively large staff, and the services offered must be of high quality to prevent drop-outs from the program. Once the loan has been extended the resource institution has no leverage over clients to participate in further training and technical assistance. A good example is the UNO program in Brazil.

- MODEL IV: Targets individual entrepreneurs as well but emphasizes **training**, which is **used as a screening device** in a sequence of training, technical assistance, and credit. It is relatively expensive, requires a large staff dedicated to teaching business skills, and a high level of participation by beneficiaries. This model is best suited for businesses of level III and above. A good example is the DESAP program in Cali, Colombia.

- MODEL V: Targets small groups of very low-income entrepreneurs (maximum 10 members). The group guarantees and enforces loan repayment by its members who assist each other in resolving business problems: it is a **solidarity group model**. Community development goals, self-help, and organization are stressed. This model combines group-oriented social promotion, credit, and extension services. It is best suited for reaching the smallest entrepreneurs (levels I and II) and requires substantial commitment and time from group members. Working with groups reduces the amount of time required from staff members who need community development and social promotion skills more than strictly business-related skills. Although this model is shown as being rather costly in Table 4-1, it is usually referred to as a successful and cost-effective way of lending to the smallest businesses, including those just starting up. The latter are considered the most risky ventures, and therefore are
TABLE 4-1
CHARACTERISTICS OF SIX MICROENTERPRISE ASSISTANCE MODELS

<table>
<thead>
<tr>
<th>MODEL</th>
<th>COST*</th>
<th>BENEFICIARY LEVEL</th>
<th>STAFF SKILL</th>
<th>LABOR INTENSITY</th>
<th>NEW OR ESTABLISHED BUSINESS</th>
<th>BENEFICIARY COMMITMENT</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Low</td>
<td>I, II, III</td>
<td>Simple business</td>
<td>Low</td>
<td>Established</td>
<td>Low</td>
</tr>
<tr>
<td>II</td>
<td>Moderate</td>
<td>I, II, III</td>
<td>Simple business and Moderate community development</td>
<td>Moderate</td>
<td>New or Established</td>
<td>Low</td>
</tr>
<tr>
<td>III</td>
<td>Moderate to high</td>
<td>II, III</td>
<td>Business</td>
<td>High</td>
<td>Established</td>
<td>Moderate</td>
</tr>
<tr>
<td>IV</td>
<td>High</td>
<td>III and above</td>
<td>Business</td>
<td>High</td>
<td>Established</td>
<td>High</td>
</tr>
<tr>
<td>V</td>
<td>Moderate to high</td>
<td>I, II</td>
<td>Community development</td>
<td>Moderate</td>
<td>New or established</td>
<td>High</td>
</tr>
<tr>
<td>VI</td>
<td>High</td>
<td>I</td>
<td>Specialized</td>
<td>Moderate</td>
<td>New</td>
<td>High</td>
</tr>
</tbody>
</table>

*Includes the costs of all components, not of credit only.

(From Charles K. Mann, Merilee S. Grindle, and Parker M. Shipton, Seeking Solutions: Framework and Cases for Small Enterprise Development (West Hartford, Conn.: Kumarian Press, 1989).)

deemed hard to reach with non-social programs. A good example is the Grameen Bank in Bangladesh. This model is widely promoted by Accion International and Women's World Banking.

- MODEL VI: Concentrates on providing practical skills for low-income individuals through training. Employment, not business promotion, is emphasized. Costs are high although they can be defrayed to some extent by selling the goods and services produced by the trainees. This model is best pursued on a large scale because of the heavy investments required in buildings, equipment and machines, and staff training. Some programs employ local businessmen to teach courses. Examples are the Calcutta "Y" Self-Employment Center and CEOSS in Egypt.

Specific components of these intervention models are discussed more fully in the next chapters. A list of programs/projects that use these models is given in the Appendix, as are references for further information on the projects.
V. ACCESS TO CREDIT

Lack of access to credit is the shortcoming most frequently cited by microentrepreneurs, perhaps because it is most readily identifiable. According to other observers, however, the most severe constraint is material shortages. On the premise that credit is indeed the main constraint, some argue in favor of "fast credit" programs that provide only credit -- and quickly -- through simple loan application procedures. Fast credit or minimalist credit is best pursued with established enterprises that operate in a well developed environment that already provides adequate training, technology, information, support services, and markets. Fast credit also works with firms that operate in the traditional sphere (first-generation businesses). Otherwise, access to other types of assistance must be sought.

The success of credit programs in reaching microenterprises appears to depend crucially on the terms of lending, resource mobilization (savings component), and the linking up with existing informal financial institutions (IFIs).

A. Terms of Lending

Terms of lending and procedures determine the level of enterprises that can be reached. Innovative methods have proven successful in reaching the smallest enterprises. The repayment records of successful programs have surpassed those of larger firms that receive financial assistance according to traditional, conservative lending principles. In fact, the lesson from various experiments in this field is that the poor are bankable: they are creditworthy and can be served inexpensively. Ironically, an inexpensive methodology is still lacking for reaching small firms of levels III and above which have most potential for growth. With regard to costs, the HIID study (refer back to Table 4-1) indicates moderate

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43 Stearns, Assisting Informal-Sector Microenterprises, 1985, p. 45.
to high costs for group-based nontraditional programs (model V), in contradistinction to what Stearns claims. The former study, however, includes the costs of training and technical assistance components, whereas the latter considers only the credit component.

The main features of this nontraditional lending method are summarized in Table 5-1 and are contrasted with traditional lending procedures. This table is based on the appraisal of 15 programs briefly described in the Appendix. In the traditional lending method, the program is responsible for client selection. This can be achieved in several ways: by requesting collateral or a well established track record (model I of the HIID study); by assessing clients' creditworthiness through on-site visits (model III); or by requesting prior training, which is used as a screening device (model IV). In the nontraditional lending method, clients themselves are responsible for the selection process through self-selection (model V). Potential clients join in small groups of 5 to 10, usually with relatives or neighbors, and collectively guarantee repayment of the loan. It is granted on an individual and rotational basis, provided the previous loan has been repaid. Clients, therefore, have a strong incentive not to form groups with individuals known to be unreliable and dishonest and to ensure prompt loan repayment (peers best know who is creditworthy).

Self-selection appears not only to guarantee high repayment rates (90%-95% and above) but also to cut down on administrative costs, keeps formalities to a minimum, and permits much faster loan disbursement (four to seven days instead of one to two months). Cost of failure is further reduced by granting loans incrementally, starting with very small amounts, sometimes less than US$100. In this respect, it appears to be important to adjust the size of the loans (at least initially) to amounts clients are used to handling, and to make sure they understand the principle of interest rates and the potential threat of deepening indebtedness. Administrative costs and outstanding arrears of selected microenterprise credit schemes are presented in Table 5-2.

Credit programs should charge nonsubsidized interest rates. The danger of cheap credit is that it may undermine informal financial institutions, which play a key role particularly in the development of rural areas, possibly leaving the community without any financial institution should the project fail. Further, commercial interest rates also strongly

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### TABLE 5-1

**CHARACTERISTICS OF TRADITIONAL AND NON-TRADITIONAL CREDIT PROGRAMS FOR MICROENTERPRISE PROMOTION**

<table>
<thead>
<tr>
<th></th>
<th>TRADITIONAL</th>
<th>NON-TRADITIONAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Objectives</strong></td>
<td>Create and strengthen employment; increase incomes</td>
<td>Create and strengthen employment; increase incomes</td>
</tr>
<tr>
<td><strong>Business size</strong></td>
<td>Larger</td>
<td>Smaller</td>
</tr>
<tr>
<td><strong>Emphasis</strong></td>
<td>Education</td>
<td>Credit</td>
</tr>
<tr>
<td><strong>Loan size</strong></td>
<td>US$800-3,000</td>
<td>US$100 initially and increasing to $1,000</td>
</tr>
<tr>
<td><strong>Use of loans</strong></td>
<td>Fixed assets and working capital</td>
<td>Working capital</td>
</tr>
<tr>
<td><strong>Payback periods</strong></td>
<td>6 months to 2 years</td>
<td>2 weeks to 4 months</td>
</tr>
<tr>
<td><strong>Interest rates</strong></td>
<td>Subsidized</td>
<td>Commercial or higher</td>
</tr>
<tr>
<td><strong>Time lapse from initial program contact to loan disbursement</strong></td>
<td>1 to 2 months</td>
<td>4 to 7 days</td>
</tr>
<tr>
<td><strong>Learning experiences in use of credit in one year</strong></td>
<td>1</td>
<td>4 to 6</td>
</tr>
<tr>
<td><strong>New clients served in one year</strong></td>
<td>250 with education</td>
<td>400 with education</td>
</tr>
<tr>
<td></td>
<td>150 with credit</td>
<td>600 with credit</td>
</tr>
<tr>
<td><strong>Loans disbursed in one year</strong></td>
<td>150</td>
<td>2,000</td>
</tr>
<tr>
<td><strong>Jobs created in one year</strong></td>
<td>450</td>
<td>900</td>
</tr>
<tr>
<td><strong>Financial self-sufficiency</strong></td>
<td>Impossible</td>
<td>Possible, 1 to 2 years</td>
</tr>
<tr>
<td><strong>Promotion and selection</strong></td>
<td>Program is responsible</td>
<td>Clients are responsible</td>
</tr>
<tr>
<td><strong>“Graduation” to commercial banks</strong></td>
<td>Little incentive because of subsidized interest rates and long payback periods</td>
<td>Positive incentive because of high interest rates and short payback periods</td>
</tr>
</tbody>
</table>

**Note:** Unpublished table prepared by Stephen H. Gross (adapted and translated from Spanish).

(From Katherine E. Stearns, *Assisting Informal-Sector Microenterprises in Developing Countries*, Cornell International Agricultural Economics Study, No. 85-16 (Ithaca: Cornell University, Department of Agricultural Economics, August 1985), p. 44.)
# TABLE 5-2

## ADMINISTRATIVE COSTS OF SMALL ENTERPRISE CREDIT SCHEMES

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A. CREDIT ONLY</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Krishi 1/</td>
<td>Bangladesh</td>
<td>government-owned</td>
<td>5.00</td>
<td>126.00</td>
<td>4.0</td>
<td>10.5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>commercial bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agrani 1/</td>
<td>Bangladesh</td>
<td>idem</td>
<td>5.27</td>
<td>101.00</td>
<td>5.2</td>
<td>4.3</td>
</tr>
<tr>
<td>BKK 2/</td>
<td>Indonesia</td>
<td>government</td>
<td>2.57</td>
<td>44.43</td>
<td>5.3</td>
<td>6.0</td>
</tr>
<tr>
<td>Janata 1/</td>
<td>Bangladesh</td>
<td>government-owned</td>
<td>6.60</td>
<td>125.00</td>
<td>5.3</td>
<td>14.5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>commercial bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rupali 1/</td>
<td>Bangladesh</td>
<td>idem</td>
<td>7.33</td>
<td>119.00</td>
<td>6.2</td>
<td>6.2</td>
</tr>
<tr>
<td>FDR Peru 5/</td>
<td>Peru</td>
<td>development bank</td>
<td>531.00</td>
<td>5961.00</td>
<td>9.0</td>
<td>8.0</td>
</tr>
<tr>
<td>Banco de Pacifico</td>
<td>Ecuador</td>
<td>commercial bank</td>
<td>140.00</td>
<td>1100.00</td>
<td>13.0</td>
<td>7.0</td>
</tr>
<tr>
<td>DB Mauritius</td>
<td>Mauritius</td>
<td>development bank</td>
<td>108.00</td>
<td>830.00</td>
<td>13.0</td>
<td>na</td>
</tr>
<tr>
<td>Uttars 1/</td>
<td>Bangladesh</td>
<td>government-owned</td>
<td>31.27</td>
<td>122.00</td>
<td>25.6</td>
<td>12.1</td>
</tr>
<tr>
<td></td>
<td></td>
<td>commercial bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank Money Shops 3/</td>
<td>Philippines</td>
<td>commercial bank</td>
<td>197.00</td>
<td>687.00</td>
<td>28.0</td>
<td>na</td>
</tr>
<tr>
<td>SEDCO</td>
<td>Jamaica</td>
<td>development bank</td>
<td>843.00</td>
<td>280.00</td>
<td>275.0</td>
<td>na</td>
</tr>
<tr>
<td><strong>B. CREDIT AND TECHNICAL ASSISTANCE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DDF Solidarity 5/</td>
<td>Dominican Republic</td>
<td>PVO</td>
<td>242.00</td>
<td>1267.00</td>
<td>19.1</td>
<td>33.0</td>
</tr>
<tr>
<td>IDM 5/</td>
<td>Honduras</td>
<td>idem</td>
<td>561.00</td>
<td>1724.00</td>
<td>32.5</td>
<td>42.0</td>
</tr>
<tr>
<td>DDF &quot;Micro&quot;</td>
<td>Dominican Republic</td>
<td>idem</td>
<td>739.00</td>
<td>1680.00</td>
<td>44.0</td>
<td>42.0</td>
</tr>
<tr>
<td>UNO 6/</td>
<td>Brazil</td>
<td>idem</td>
<td>1700.00</td>
<td>200.00</td>
<td>85.0</td>
<td>8.0</td>
</tr>
<tr>
<td>pfp Burkina Faso 5/</td>
<td>Burkina Faso</td>
<td>idem</td>
<td>1238.00</td>
<td>670.00</td>
<td>185.0</td>
<td>23.0</td>
</tr>
</tbody>
</table>

References:


encourage graduation to formal credit institutions that charge lower interest rates, prevent misallocation of production factors such as excessive use of capital (overcapitalization), encourage more careful screening of borrowers, encourage better repayment morale, and promote self-sufficiency of the resource agency (institutionalization of the program). Higher real interest rates generally increase the marginal productivity of capital by fostering allocation of resources to higher-yield activities. Finally, by disbursing small loans and by charging slightly higher interest rates wealthier entrepreneurs who have access to formal credit are effectively screened out. For borrowers, however, terms of lending are as important as the interest rate charged.

Repayment cycles should be short to reflect the shorter buy-manufacture-sell cycle of microenterprises; the Grameen Bank, for instance, requests weekly installments irrespective of maturity cycles and the end-use of credit.47 For low-income clients, frequent repayment of smaller amounts is preferable because of high consumption pressures and lack of safe-keeping facilities. Alternatively, flexible repayment terms should be granted on an individual basis to match the seasonal pattern and production cycle of the enterprise, that is to make loans self-liquidating. In this respect it is worth noting that microentrepreneurs borrow to: pay off money lenders; buy supplies in bulk at cheaper prices and with fewer trips to suppliers; provide credit to customers and thus both reach new markets and save time collecting dues; and to upgrade equipment, expand business, and start a new venture (diversify horizontally).48

The successful programs reviewed by Stearns emphasized working capital although some argue that small firms mostly need venture capital. Initial investments are mostly financed by the entrepreneur's own savings and by borrowings from relatives (80% upwards), often at interest rates comparable to those charged by informal financial institutions.49 The risk of dividend overpayment (decapitalization) is greater when capital is raised from relatives, due to their greater leverage in investment decisions. The resulting dilution of ownership and of returns deters many from launching a venture. This reluctance to use institutional credit may reflect a lack of capital markets in which to raise equity funds, but it may also be due to the greater ease in rolling over a debt and in obtaining long-term financing from relatives and to the lack of other savings and investment opportunities for small savers. Finally, it may simply reflect mistrust for financial institutions in general. This reluctance to raise institutional capital for initial investments may limit the potential role of financial institutions as sources of venture capital, at least for microenterprises.

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B. Resource Mobilization

Savings mobilization is an important feature that enhances the success of a lending program for several reasons: it provides the basis for a sound financial institution; increases the capital of the loan fund (expansion of activities); discourages haphazard loan use, risky business ventures, and poor repayment morale; establishes a savings habit as a psychological basis for investment behavior; helps remove the capital constraint for borrowers, gives them more security (emergency fund) and a greater sense of self-esteem; effectively enforces the self-help principle; helps lenders screen borrowers; and also helps establish the organization's reputation for reliability by adding an element of scrutiny into its management. These benefits outweigh the possible losses of economies of specialization.

In spite of much recent enthusiasm for combined savings and credit components, other more profitable forms of savings should be considered as well. Non-monetary assets may keep their value better in periods of inflation or when uncertain and volatile monetary policies are pursued by the government. In egalitarian societies, it might also prove more advantageous in the long term to invest in "social credit" (community support and safety net) by sharing resources.

Savings and credit can be linked, either by setting up a dual purpose financial institution, or by making loan disbursements conditional on meeting specified savings requirements that may include savings in kind. Part of the savings fund can be deposited with a bank as collateral for a contractual loan-savings scheme. In such a scheme, a fixed credit-to-savings ratio is recommended, contingent upon the availability of funds. This savings fund can also be used for direct relending. In this case, a flexible ratio can be applied that varies with the amount of savings deposited and the number of satisfactory repayment cycles. This encourages both savings and prompt repayment.

Financial and other resources of the formal banking system, and possibly of insurance companies for long-term credit, also need to be mobilized and made available to smaller borrowers. Getting banks involved at an early stage provides an opportunity to introduce the parties to each other, and thus facilitates the eventual graduation of microentrepreneurs to formal financial institutions. It also improves the sustainability of financial

51 Stearns, Assisting Informal-Sector Microenterprises, 1985, pp. 31-32.
assistance programs.\textsuperscript{55} This objective of involving banks can be achieved most effectively by linking the banking system with existing grass-roots (informal) financial institutions; a third party may act as catalyst or broker. An important prerequisite of such a linkage scheme, however, is a strong and stable formal banking system. This is often not the case in Sub-Saharan Africa.

Successful credit programs such as that of the Grameen Bank have in fact improved on the desirable features of informal financial institutions and have integrated rather than opposed local traditional practices and institutions (downgrading of the resource institution).\textsuperscript{56} This process of integration and of upgrading existing informal institutions can be an important form of mobilization of indigenous resources.

C. Informal Financial Institutions

Any society has some form of lending, with a strong inclination towards establishing permanent institutions. Seibel identified four types of informal financial institutions:\textsuperscript{57}

- **TYPE I**: ROTATING SAVINGS ASSOCIATIONS (RSA). Fixed contributions at fixed intervals by members. The sum collected is disbursed in rotating order to one member at a time. Its shortcoming is lack of a permanent loan fund available in times of need to all members.

- **TYPE II**: ROTATING SAVINGS AND CREDIT ASSOCIATIONS (RoSCA). Same as RSA, except that part of the sum is put into a general fund for loans, insurance, emergency fund, and social services.

- **TYPE III**: (NONROTATING) SAVINGS ASSOCIATIONS. The regular contributions of members are deposited, possibly with a bank, and paid back at the end of a stipulated period.

- **TYPE IV**: (NONROTATING) SAVINGS AND CREDIT ASSOCIATIONS. Regular members' contributions plus revenues from fees, penalties, and joint business are put into a loan fund. Usually, different interest rates are charged on loans for


\textsuperscript{56}Chandavarkar, "Informal Credit Markets," 1989, p. 86.

\textsuperscript{57}For a more complete discussion, see Hans D. Seibel and M.T. Marx, *Dual Financial Markets in Africa: Case Studies of Linkages between Formal and Informal Financial Institutions* (Saarbruecken, Fort Lauderdale: Breitenbach Publishers, 1987).
members and non-members. Contributions may or may not be paid back at the end of a stipulated period.

The observed trend over the past 30 years, with the monetization of the economy, is a movement from work associations to financial self-help organizations, from rotating savings groups to non-rotating associations with a permanent revolving loan fund, and from mutual assistance and insurance funds to interest-bearing loan funds. These associations serve a multitude of purposes, and sometimes their main function is not their declared (most publicized) objective. Cost-effectiveness of credit programs can therefore be increased by working imaginatively with existing associations which range from church groups and women’s groups to actual credit associations.

Informal financial institutions offer flexible and quick unsecured lending; in our Western vocabulary they are cash-flow lenders rather than asset-based lenders. They may lend to formal businesses as well. Moreover, they are conveniently located, even accessible to illiterates, not as intimidating as official offices, and their funds are hard to embezzle. Their drawback is the high interest rates they typically charge (12% and upwards, as high as 300%-400%). On average they charge 20%-50% interest. Local social control mechanisms effectively prevent fraud and default. However, in India, urban informal financial institutions suffer bad debt experiences comparable to those of commercial banks for similar types of credit.

In summary, the poor can be bankable as long as innovative and flexible lending methods are employed. In this respect, informal financial institutions can be used to reach low-income clients, and existing social institutions can provide a means for guaranteeing loan repayment and for screening applicants.

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60 Grindle, "Capacity Building," 1987, p. 27.
VI. SUPPORT SERVICES AND TECHNICAL ASSISTANCE

A great variety of technical assistance projects for microenterprises exists. Some projects aim at supporting and strengthening resource institutions that provide support services to microenterprises while others assist microenterprises themselves. Only the latter are discussed in this chapter. The former type of technical assistance is reviewed in Chapter VIII in the section on assistance to resource institutions. Also, technical assistance programs that specifically aim at creating new enterprises are discussed more fully in Chapter VII in the section on entrepreneurship development.

A. Types of Services Provided

Technical assistance projects can be classified according to their objectives and target groups which determine the type of services provided. Harper distinguishes between three such objectives:

1. Assist groups excluded from mainstream economic life such as women (in certain societies), refugees, minorities, ex-offenders, and the disabled in setting-up their own (micro) business in traditional trades.

2. Assist micro-entrepreneurs in being more efficient in their current, traditional activities (assistance to existing first generation enterprises).

3. Help micro-entrepreneurs graduate to the formal/modern sector (assistance to existing second generation businesses of level III and beyond) or set up a new "modern" small venture.

The first objective is usually considered a form of self-employment creation and is most effectively achieved through community development or group programs offering a comprehensive assistance package. Psychological factors such as the building up of self-esteem are crucial. The main challenge is the effective integration of these marginalized groups into economic life rather than merely improving their lot while maintaining their segregation. This requires a clear understanding of the socio-cultural barriers that have to

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be overcome in the process. In this respect, the role and use of middlemen to foster linkages between these groups and the rest of the community is often neglected. This type of intervention aimed at social integration is more difficult because the target groups tend to cumulate many of the characteristics that render assistance more complex: first-time entrepreneurs, members of a marginal group in society, no tradition in cottage industry, no experience with credit and little own savings, and living in remote areas.

Only the second objective is assistance to microenterprises strictly speaking, yet projects with this aim are less common, more difficult to design, and least likely to succeed. The second objective aims at supporting microenterprises themselves in daily business. It is questionable, however, whether an outside agency can do much in this respect. Microentrepreneurs know their trade best. They can hardly be surpassed as far as making optimal use of scarce resources, which is the very definition of management, and they have proven amazingly persistent and ingenious. If anything, they need assistance in finding new ideas for using unfamiliar scrap materials, to learn about better ways for avoiding regulations and police harassment, and for finding more profitable locations. A formal assistance agency is hardly likely to offer that kind of counseling. Nonetheless, there is still a potential for support, on the condition that adequate delivery mechanisms are employed and that the services are suited to the particular needs of these microentrepreneurs. Hence, important elements of a support program with this objective include self-identification of needs by participants and the creation of business associations to discuss and help solve business problems. The resource agency primarily acts as a catalyst and a broker.

Most existing assistance projects fall into the third category. This type of assistance basically consists of a simplified and decentralized version of standard services and courses offered to modern-sector entrepreneurs. It is therefore relatively easy to provide and is the most common type of technical assistance. Here the key elements for effectively reaching the targeted entrepreneurs are timing and location, since time away from the business typically means loss of income. Overseas courses are therefore not advised: they are administratively costly and also run a higher risk of proving irrelevant and overly sophisticated. Some support agencies fall into the other extreme and hire extension workers with only rudimentary knowledge of business, who therefore can only offer overly simplistic and ill-informed advice. This is equally damaging and irrelevant assistance. Microentrepreneurs are not ignorant about business!

The main challenge with the third type of technical assistance program is to ensure that benefits outweigh the costs of graduation to the "modern" sector. Entrepreneurs basically have to learn from scratch how to operate in an economic environment foreign to them and how to integrate a new social organization of work and production. At the same time they can no longer benefit from the traditional community support networks they have left. Not surprisingly, many fail (about 50% turnover in five years).

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In practice, bookkeeping tends to be overemphasized as a panacea for better management, while marketing is often neglected. As a result, assisted entrepreneurs spend valuable time keeping books they don't know how to use, or which anyhow would not help them solve their most pressing problems. Also, microbusinesses practice extended fungibility: the domestic and business spheres are integrated with respect to resource allocation and financial flows, thus enhancing the staying capacity of the business. Under such conditions, separate bookkeeping for the business is difficult and of limited use.

Most firms, however, are not likely to graduate to the next scale of operation. From a production perspective, an increase in scale is not necessarily warranted nor desirable; examples are retail services and customized production of goods. More generally, small-scale operations are preferable when sales markets are limited and for hedging against business risk by maintaining a small but versatile production capability (eg. craftsmanship).

Assistance needs of microentrepreneurs fall into the following categories:

1. Strategic Issues:
   - entrepreneurship
   - government relations
   - investment
   - planning (access to better premises)
   - negotiating
   - self-assessment of needs

2. Administrative Issues:
   - contracts
   - financial management (including under highly inflationary conditions)
   - administrative management
   - record keeping
   - personnel management (information on workplace standards)
   - credit (management and information on access to formal credit)

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68 Adapted from, Control Data Corporation, "ARIES: Training Materials Evaluation Report Phase One," report prepared for USAID, Washington, D.C., August 1986, Table 1. (Mimeo.)
3. Operations and Technical Issues:
- marketing
- sales
- production (trouble shooting)
- quality control (information on product standards)
- inventory control
- customer relations
- technology (selection and use of new equipment)

Technology deserves a special note. Microenterprises need access to adapted technology to take advantage of new business opportunities and to compete with larger firms; otherwise, oversaturation of a few markets will continue. Unlike larger firms, microenterprises cannot choose from a wide range of technologies, and down-scaling of existing technologies is often not the answer. New, adapted technologies must be developed, tested, and made available to them. This is an expensive and complex task that requires closeness between the scientific community and the microentrepreneurs as well as access to dedicated facilities. Technological improvement, however, is of limited use without steady supplies and advice on raw material selection, process technologies, and quality controls (i.e. without parallel improvements in management skills).

An alternative to technological improvement is to make greater use of goods produced with traditional production methods whenever feasible. For instance, there is much scope for microenterprises to participate in public works, particularly in construction, provided quality standards are relaxed for applications that do not require prime quality goods and materials. Quality standards are often set arbitrarily, with little regard for their relevance in achieving the desired objective.

B. Provision Arrangements

Experience has confirmed the virtue of using self-help organizations and private voluntary organizations, preferably run by entrepreneurs familiar with the trade rather than by official agencies staffed by civil servants with no business experience. Small entrepreneurs generally prefer to deal with fellow entrepreneurs. For instance, in the Port Sudan Urban Program, local business persons were hired to teach business courses. Such

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70 For example, in Egypt ice bars are produced following strict quality standards. However, they are transported under such unhygienic conditions that they anyhow cannot be used in drinks.
arrangements facilitate networking and help foster much-needed links between formal and informal enterprises to restructure the local economy. Both parties thus benefit.\textsuperscript{71}

Most analysts agree that \textit{single-purpose institutions} are preferable to dual purpose agencies that provide both financial and technical assistance. Financial institutions also find it onerous and do not have the staff to provide much more than follow-up and client supervision, or else the quality of their financial assistance suffers. However, if graduation is the objective, careful coordination of the two components -- financial and technical assistance -- is recommended.\textsuperscript{72} World Bank programs, and others, have tended to lack coordination in this respect because setting up service centers takes longer than disbursing credit (possibly by setting up new financial institutions).\textsuperscript{73}

The most effective organizations for providing technical assistance are small, independent, and local. The resource agency must be close to microenterprises to effectively assist them, whether in daily business, for graduation, or as follow-up to enterprise development. In this respect, the style and procedure of assistance efforts (flexibility, "gap filling" under pressure, showing concern, and charisma) are as important as their substance.\textsuperscript{74} Flexibility is enhanced if beneficiaries are organized into groups to discuss and find solutions to their business problems, to exchange ideas and information, and to foster self-identification of assistance needs. Such groups can be the basis for a process approach to gradually broaden the scope of the program. The resource agency, however, should not seek to solve all problems itself but primarily act as a referral center.\textsuperscript{75}

The ILO first introduced this "action-learning" technique in Costa Rica, and it proved more cost-effective than techniques which are not based on self-identification of assistance needs. Of critical importance are the dynamics and cohesion of the group, which consists of six to eight entrepreneurs from varying business backgrounds. They meet regularly under the coaching of a "trainer" who acts as a process consultant (animator), not a resource consultant. The choice of trainer is crucial.\textsuperscript{76}

\textsuperscript{71}Stearns, \textit{Assisting Informal-Sector Microenterprises}, 1985, pp. 45-46.

\textsuperscript{72}ILO, \textit{Promotion of Small Enterprises}, 1986, p. 38.

\textsuperscript{73}Levitsky, \textit{Lending to Small Enterprises}, 1986, pp. 34-36.

\textsuperscript{74}Hunt, \textit{Evaluation of Small Enterprise Programs}, 1983, p. 25.

\textsuperscript{75}Elisabeth Rhyne, "The Small Enterprise Approaches to Employment Project: How a Decade of A.I.D. Effort Contributed to the State of Knowledge on Small Enterprise Assistance, Employment and Enterprise Division," evaluation prepared for USAID (Washington, D.C., April 1988). (Mimeo.)

\textsuperscript{76}ILO, \textit{Promotion of Small Enterprises}, 1986, p. 87.
A feedback device used to enhance adequacy of technical assistance is to charge for the services provided, even if only a token fee. This also helps institutionalize the scheme, increases motivation, and encourages recipients to take the program more seriously. The objective of such schemes is, after all, to establish reliable service centers for microentrepreneurs where needed, not to provide inappropriate assistance or services that are discontinued.\textsuperscript{77}

\textsuperscript{77}Stearns, \textit{Assisting Informal-Sector Microenterprises}, 1985, pp. 37, 39 and 50.
VII. ENTREPRENEURSHIP AND SELF-EMPLOYMENT DEVELOPMENT

Entrepreneurship and self-employment development programs are training/technical assistance programs aimed at setting up new businesses (or radically transforming existing ones). The key feature, therefore, is the development of a business idea and its translation into a viable venture. The related issue of technical skills acquisition, through training programs and on-the-job, is not discussed in this paper.

A. Which Type of Entrepreneurship?

Entrepreneurship as such is not lacking in Sub-Saharan Africa, and the supply response of entrepreneurship in terms of the number of people having established small or large firms has proven highly elastic. The problem, it seems, is the inefficiency of entrepreneurs in carrying out routine managerial functions, rather than lack of Schumpeter’s innovators, and the resulting inability to expand beyond the threshold of 10-20 workers as found in most LDCs. There would be a difference of roughly 1:1.5 to 1:2 in managerial efficiency between indigenous entrepreneurs and multinational corporations or resident minorities. Also, entrepreneurs have difficulties diversifying into new trades because of their lack of experience in such ventures, barriers to entry, and the lack of incentives/support.

Entrepreneurship development programs can have three types of objectives:

1. Assist members of economic minorities to become self-employed;
2. Assist existing entrepreneurs to graduate by transforming their current business; and
3. Help set up new "modern" enterprises.

78 An important prerequisite is the acquisition of relevant skills, which raises the issue of training programs and skills acquired on the job. This issue however is not discussed here.


Many development specialists exclude the first objective from entrepreneurship development on the grounds that the beneficiaries merely become owner/managers, not entrepreneurs demonstrating innovative (risk-taking) behavior for profit. This type of definition of entrepreneurship has been criticized for being too ethnocentric. McClelland’s "n Ach" (Need for Achievement) theory of entrepreneurship falls into this category: it postulates that the need for achievement is a universal human quality varying only in degree, not in kind. Yet, cultures vary greatly in what they consider achievement. Moreover, this definition tends toward tautology since economic growth is used as the main indicator of "n Ach", which in turn is used as the main explanation for economic growth. Other behavioral traits considered to be entrepreneurial attributes include: initiative, strong persuasive powers, flexibility, creativity, independence, imagination, high belief in one's ability to control one's destiny, leadership, and hard work. These behavioral attributes, however, can be exercised by people from any walk of life, and they are learned, not innate. The extent to which these attributes/skills will be exercised depends greatly upon the nature of the task structure and the environment. A more damaging criticism is that existing studies mostly examine established entrepreneurs, and thus fail to provide a comparison with the attributes of those who did not become entrepreneurs or who did not succeed.

The practical implication of such ethnocentric definitions of entrepreneurship is to concentrate on supporting the creation of "modern" enterprises (third objective), and to promote vertical expansion rather than horizontal diversification of traditional businesses (second objective).


B. Some Approaches

Step-by-step progress from the first objective above to the third is the logical sequence to follow and increases the chances of success in entrepreneurship development. This is particularly true for communities that lack a strong entrepreneurial tradition in non-agricultural activities or for groups (minorities) not yet integrated into the mainstream economy. Individuals should acquire experience and skills through other employment prior to becoming self-employed. Short-cuts have not proven very successful.86

The first objective can be met effectively by means of community projects, whereas the latter two require more individualized measures. In the first case, the program primarily fulfills socio-political objectives at some economic cost, since it cannot be as selective in its recruitment. Primary emphasis is put on skill acquisition, which may be provided on the job, possibly through an apprenticeship arrangement. However, unlike technical training for employment, technical training for business creation involves the direct relationship of market demands for a product with the technical skills required by the entrepreneur; technical training institutions respond to manpower (skill) demands, not to demand for goods and services. This approach has been adopted by the Xavier Institute of Social Services in Bihar (India) which targets village youth with minimal literacy and numeracy skills.87

The traditional EDP model seeks to create first-time entrepreneurs. It utilizes behavioral tests for screening potential entrepreneurs as well as prior motivation and behavior training inspired from McClelland’s work. It has been widely replicated, with some variations, throughout Asia. The main drawback is that such behavioral selection packages are not universal but need to be adjusted to the specific target group and to the economic and cultural environment. Also, it is based on a surplus of educated and trained manpower previously excluded from business. Such manpower is scarce in Sub-Saharan Africa. Accordingly, attempts at replicating the EDP model in Africa have shown somewhat disappointing results.

The success rate is higher for programs that target existing entrepreneurs rather than trying to create first-time entrepreneurs and matching them with business opportunities. Similarly, smaller programs are more successful.88 Accordingly, most efforts have been directed toward existing entrepreneurs to meet the second objective (above).


87 For more information, see Loucks, "Training Entrepreneurs," 1985.

The Durham model targets existing entrepreneurs and does not include behavioral screening tests or separate motivation and behavioral training, on grounds that motivation is developed through ownership and development of the business idea while behavioral attitudes are acquired by doing. Experience indicates that the single most indispensable element for a successful entrepreneurship development program is an intensive and comprehensive business planning activity whereby participants identify, develop, defend, and implement a business idea. The Durham method therefore proceeds immediately with training. This also shortens training cycles and lowers the cost of the program.

The Durham model recruits beneficiaries through inquiry into the candidate's past experience and background. In this respect it has not been possible to correlate entrepreneurs' performance with a particular social or economic background. The four indicators of potential success this method uses are motivation and commitment, ability, business idea, and resource requirements. The focus is on the business project, not on personal characteristics as in the traditional EDP model. This recruitment process, however, tends to preserve existing elites, since it selects individuals who come from an "enterprise culture," that is a community or family with experience in business ventures and already plugged into a support network.

The process approach is best suited for this type of program: The content is structured according to the participants' existing skills and to the stage of the business creation process at which they join the program. Some may already have a well-developed business idea. The tasks and learning needs involved at each stage are summarized in Table 7-1. Thus, the training method must be organic, flexible, participative, and should build heavily on the material found in the classroom (experience and needs of participants).

To keep motivation high, lengthy programs should be avoided and should offer in a brief and pragmatic fashion just the "appropriate" amount at the "appropriate" time. This requires an all-round trainer-referee, not an expert who mechanically teaches a specific topic. Also, good follow-up assistance and support services reduce the depth and coverage necessary for the program, and therefore greatly reduce its length and costs. Follow-up assistance can be provided by separate technical assistance institutions.

Technical training components in entrepreneurship development programs significantly raise their cost. An alternative is to "subcontract" such technical training components to existing training institutions. These institutions increasingly want to introduce management and entrepreneurship training into their curriculum since they face a shrinking employment

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### TABLE 7-1

#### ENTREPRENEURSHIP DEVELOPMENT: STAGES AND TASKS IN STARTING A NEW BUSINESS

<table>
<thead>
<tr>
<th>STAGE</th>
<th>KEY TASKS</th>
</tr>
</thead>
</table>
| 1. From Idea and Motivation Acquisition to Raw Idea | .to find an idea  
.to generate an idea  
.to explore personal capability  
.and motivation for self employment |
| 2. From Raw Idea to Valid Idea             | .clarify idea  
.clarify what needs it meets  
.see it works in operating conditions  
.ensure practicability  
.satisfactory quality  
.customer identification  
.explore legality  
.check for business barriers  
.identify competition and learn from it |
| 3. From Valid Idea to Scale of Operation and Resource Identification | .identify market: number, location, type of customers  
.clarify how to reach the market (promotion)  
.identify minimum desirable scale for a living  
.identify physical resource requirements at that scale  
.estimate additional physical resource requirements  
.estimate financial requirements  
.identify any additional financial requirements needed |
| 4. From 'Scale' to Business Plan and Negotiation | .develop business plan and proposal  
.negotiate with customers; labour; and suppliers of materials, premises, capital, and land; to ensure physical supply capability  
.negotiate with banks and financiers for resources |
| 5. From Negotiation to Birth               | .complete all legal requirements for business incorporation  
.meet all statutory requirements  
.set up basic business systems |
| 6. From Birth to Survival                  | .consolidate business systems for processing  
.ensure adequate financial control (debtors, creditors, banks, etc.)  
.develop market, attract and retain customers  
.meet all legal obligations  
.monitor and anticipate change  
.maintain good relations with banks, customers, suppliers and all environment contacts  
.provide effective leadership development for staff |

market for their graduates; this would provide additional returns for the heavy investments made in these institutions. In this kind of arrangement the entrepreneurship development program itself can concentrate on guiding the candidates through the various stages of the process of business creation and survival. However, training courses must be constantly revised and adapted to current business opportunities. The Calcutta "Y" Self-Employment Center solved this flexibility problem by hiring workers from industry or self-employed artisans as non-permanent staff, an arrangement that greatly contributed to its success.92

Government-sponsored business nurseries and incubators such as the KIE scheme in Kenya have been criticized for being bureaucratic and for stifling entrepreneurship, since the program effectively shifts many of the entrepreneurial tasks and responsibilities off the shoulders of the beneficiaries. Such projects also encourage absentee entrepreneurs; the earlier use of "open projects" to which candidates applied favored civil servants (absentee entrepreneurs) who had contacts with the government agency. The KIE scheme follows the Indian model of entrepreneurship development by means of business nurseries, which has been widely replicated throughout Africa. Its basic tenets include comprehensive coverage of all necessary inputs required by the assisted enterprises, provision of supplies on a concessional basis, and centralized administration by a public bureaucracy.93

Much of the controversy over such business nurseries evolves around the risk factor inherent in entrepreneurship. Risk is said to be a driving motivation for entrepreneurship. Therefore, incubators should not assume all risks in the place of entrepreneurs. On the other hand, entrepreneurship development programs in effect promote second-generation businesses, which face higher risks than first-generation businesses: second-generation enterprises have to learn to operate as "modern" businesses, using new technologies and management techniques. Also, by seeking profit maximization they often exclude themselves from traditional support networks. At the same time, lack of well-developed capital markets and insurance schemes forecloses risk spreading/sharing options available to similar enterprises in more sophisticated economies. A compromise solution, therefore, would seek to avoid jeopardizing more traditional risk-spreading strategies, such as horizontal diversification and investment in non-monetary assets (real estate, social credit within the community). This would be a more fruitful approach than seeking to raise the beneficiary’s level of risk tolerance.

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A major challenge in supporting microenterprises is to reach them, hence the importance of choosing an appropriate intermediary and institutional arrangement. The objective is to link microenterprises effectively to relevant resource institutions and sponsoring agencies. In this respect, much can be done to help microentrepreneurs by upgrading and increasing the efficiency of intermediaries (capacity building). Such an approach has much potential for large sponsoring institutions such as the World Bank which do not have the field staff to carry out direct assistance projects, which are set up to disburse large loans, and which are not accessible to microentrepreneurs. It is a compromise between direct and indirect assistance programs.

A. Which Intermediary?

The task of reaching microenterprises requires small, flexible, and responsive organizations. They must have sufficient autonomy to make ad hoc decisions in response to the needs of beneficiaries and field staff and to the quickly changing local environment. Yet a proper balance between autonomy and coordination at the national level is necessary to optimize the project’s effectiveness. Also, certain tasks demand a sympathetic ear (e.g. outreach and referral), while others necessitate strict discipline and efficiency (e.g. loan collection). To prevent such conflicting demands from paralyzing the project, specialized agencies should each handle one type of task, but they should cooperate closely with one another.

Different types of organizations can be used imaginatively to meet the desired objectives. Successful organizations learn from experience and are adaptive to change in order to achieve efficiency, effectiveness, and sustainability. A brief description is given below of potential intermediaries and their respective fields of activity and institutional strength. This sort of appraisal and comparison helps identify and select appropriate intermediaries for a project.

- INTERNATIONAL PRIVATE VOLUNTARY ORGANIZATIONS: They have an international focus, often a long and distinguished record in community development and relief work. They have become increasingly involved in income generating activities as a central intervention component. The scope of their activities is generally rather

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Based on Grindle, "Capacity Building," 1987, pp. 34-44.
limited. They increasingly tend to belong to umbrella organizations, which impedes their flexibility, particularly if local affiliates must clear decisions through central headquarters. They have been most concerned with replicable models for enterprise assistance due to their multi-country focus. They are very concerned about projecting an image of humanitarian, not political, motivation and therefore have in general limited influence on government policies. They tend not to depend too heavily on any one donor.

- NATIONAL AND LOCAL PRIVATE VOLUNTARY ORGANIZATIONS (PVO): These are the most numerous, narrow in focus, and flexible. Often the "creation of zealous or charismatic individuals," they are attached to his/her particular model which hinders their adaptability,95 therefore they find it difficult to survive the loss of their founder. Although they increasingly join well institutionalized national level umbrella associations or networks, their "informality" makes them vulnerable to lax management which, together with their proneness to depend on one or two donors only, affects their sustainability. In Africa however most successful projects are run by PVOs.96

- COOPERATIVES: These include the financial cooperatives described in chapter V and which are the most concerned with enterprise development; others are production, marketing, and supply cooperatives. Cooperatives are often part of a national federation (or confederation), at times government sponsored, and tend to be heavily regulated. In the past they often depended greatly on government subsidies and therefore were more affected by government policies than they could affect policies to their members' benefit. They have been criticized for being overly bureaucratic and rigid, inappropriate for the cultural context, and for being taken over by well-to-do individuals.97 However, cooperatives can be responsive to local needs when they are effectively controlled by their members; There exist some examples of success in Africa.

- BANKS: Public and private banks, except in a few cases, are not set up to assist microenterprises; To be able to engage in this kind of retail lending they need to

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operate on a large scale, develop special trimmed-down procedures, and hire special staff. They are not very adaptable to local circumstances. However, they have the firmest commitment to performance unless they depend on government subsidies or donor funding. They also have much capacity to influence policies, particularly with regard to interest charges and exchange rates.

- **GOVERNMENT ORGANIZATIONS (GO):** Similar to banks in size and scale potential, they have the capacity to offer several types of services simultaneously. They are typically starved for funds relative to the broad tasks assigned to them; they tend to display poor financial management and therefore generally operate at a deficit; they tend to be extremely rigid (overly bureaucratic and centralized) and vulnerable to political influences, and thus have difficulties applying strict eligibility and repayment criteria. Further, since they tend to be assigned to less powerful ministries such as labor, or set up as agricultural parastatals, their ability to influence national policies is relatively limited. Evidence suggests that they are better suited for providing indirect support to MEs.  

- **BUSINESS ASSOCIATIONS:** Similar to PVOs in size, operation and modesty of budget, most concentrate on urban areas, on providing training in business skills, and on entrepreneurship development. They have considerable capacity to influence policies, though they tend to cater to the needs of medium and large businesses which make up most of their membership and upon whose support they depend. This gives them a relatively high degree of autonomy. However, this autonomy and their adaptability to local circumstances tended to be lost when they ran programs in support of microenterprises with the funding of donors.

**B. Institutional Arrangements**

Institutional arrangements need to be adjusted creatively to local socio-economic conditions and to existing networks and organizations. No fixed model can be prescribed, and only certain procedural guidelines can be followed. In this respect, the linking-up task is greatly facilitated when beneficiaries are organized into groups on a self-help basis; the objective of creating groups is to provide a forum for articulating and voicing needs, yet minimizing the threat to established power centers. Projects are successful when stable patterns of relationships already exist between power centers and beneficiaries.  

Four examples of institutional arrangements for credit programs are presented in Table 8-1. These are examples of the much recommended strategy of lending through informal financial institutions and of using an NGO (PVO, business association) or a GO as

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Note: (=) indicates direct linkages, and (-) cooperation/collaboration/assistance, between institutions.

a second-tier intermediary with the formal banking system. Creating new quasi- or even full-fledged financial institutions that bypass inefficient formal banks adds several layers of complexity and risk to a project. This linkage strategy on the other hand makes best use of existing resources and institutions.

In such linkage schemes, the specialized second-tier intermediary or the informal financial institution itself can be a vehicle for graduating the project (linking with formal financial institutions), rather than pursuing the more elusive objective of graduating the microentrepreneurs themselves. What the latter need is a broker/catalyst who helps bring resources together. In this type of arrangement the bank restricts itself to an administrative role and automatically provides access to loan funds for well-performing projects. This limited task should be compatible, except in the most hopeless cases, with the bureaucratic banking practices of formal financial institutions. A savings component can be used as a mutual guarantee fund. The specialized intermediary is entirely and solely responsible for the selection, appraisal, approval, monitoring, and supervision work; tasks the banks claim raise the loan costs above profitability levels. An ingenious division of labor can significantly reduce the costs of a project.

The linkage stage, however, might be bypassed altogether. In Rwanda, KORA, a local business organization of craftsmen, successfully upgraded its savings and credit activity to a formal financial institution and set up its own in-house bank, the People's Bank. The ILO replicated the approach to the provincial towns of Butare, Gisenyi, and Ruhengeri.

Another example of such a linkage arrangement is provided by entrepreneurship development and training programs. These projects cannot be expected to be fully self-financing, particularly when aimed at disadvantaged groups. Also, for coordination purposes and to subcontract budget funds adequately, the involvement of the government is recommended, although the project itself must be run by fellow entrepreneurs with relevant experience. A possible compromise is to create a separate grant-supported body whose board of directors includes representatives from the government, the banking community, various business and trade associations, and chambers of commerce. It should also include the university sector if possible. For instance, EDP in India has a comprehensive structure involving more than 50 agencies in 20 states, including 25 Small rocker.


Industries Service Institutes, 13 Technical Consultancy Organizations, 10-12 other agencies such as banks, management institutes, PVOs, and some colleges and universities. The central organizations in this network are EDII and the National Institute for Entrepreneurship and Small Business Development (NIESBUD).{104}

C. Capacity Building of the Intermediary

An important aspect of microenterprise support that often is neglected is the capacity building/upgrading of resource institutions that serve and support these businesses. Capacity building of the intermediary helps improve the effectiveness of the linkage and of the quality of services. It should be incorporated into the microenterprise support project as an explicit objective, and be included in the budget. Most of the recurrent problems that intermediaries experience in their own management fall into eight categories:{105}

- Setting objectives and priorities
- Becoming efficient
- Managing change
- Creating independence
- Project design
- Accounting practices
- Personnel and organizational management
- Information management

The quest by donors for short-term achievements and visible results, as well as unrealistic requirements, are partly to be blamed for the insufficient strengthening/upgrading of intermediaries. Donors make only short-term commitments (three to five years), whereas projects often start showing results only after eight years.{106} Also, NGOs tend to save on manpower and overhead costs because of their social orientation. This does not help. However, better financial management and multiple funding sources can help smooth over these "funding cycles." Further, to avoid disagreement over achievements and results, the social orientation of most NGOs and the economic efficiency that donors require of support programs must be reconciled at the project design phase. Since most projects are in effect undertaken to hasten human resource development and employment, a mixture of

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economic and social objectives can be acceptable to both parties, but appraisal criteria must be made explicit at the outset. Finally, donors can do much to assist NGOs in their operation by providing management information, by sharing their often more extensive expertise and research documentation, and by helping hire external expertise.\textsuperscript{107}

\textsuperscript{107}Peter Buijs, "Institutional Shortcomings of NGOs and Donor Agencies Affecting Microenterprise Support Activities," paper presented at the World Conference on Support for Microenterprises, Washington, D.C., 6-9th June 1988. (Mimeo.)
IX. CONCLUSION

This paper reviewed projects and models in support of microenterprises, indicating their respective relevance, strengths and weaknesses. For microenterprise support in particular, the lure of convenient blueprints must be resisted. Only the essence and procedure of successful programs/projects, not a specific model, can be replicated. This learning-by-doing process, in which various models are tried out and mixed, is not useless reinventing of the wheel but a necessary adaptation to local circumstances. This is what the process approach is seeking to achieve. Without this adaptation, the active participation of beneficiaries and their self-identification of needs, plus a reliable long-term funding source (possibly self-financed), a project cannot be institutionalized and sustained. Institutionalization is indispensable for accomplishing lasting achievements.

An approach that has had much success is the minimalist approach. Projects that adopt this format have a specific and narrow coverage; thus, they are easier to manage, run less risk of spreading scarce resources thinly (particularly managerial and technical capabilities), and therefore can be institutionalized more readily.

Direct support to microenterprises must be coordinated with indirect assistance aimed at improving the business environment by reforming government policies (economic and social policies), streamlining government regulations and procedures, and improving the physical infrastructure. In this respect, the special needs of microenterprises should be taken into consideration more fully.

Microentrepreneurs however are hard to reach by means of direct support programs. One option is to shift the focus from support to microenterprises themselves to capacity building of intermediaries such as NGOs, and to upgrade the latter into effective support agencies. This compromise between direct and indirect assistance programs is particularly well-suited for reaching the most marginal microenterprises, and for strengthening business support networks and linkages in the economy. Operationally, the crucial element for a resource agency that adopts this hybrid approach is to maintain a proper balance between decentralization and coordination.

Much remains to be learned in order to support microenterprises effectively. Three types of inquiry stand out. The first is to collect more information by means of comparative studies on the impact of microenterprise support programs, including their indirect effects and qualitative (social) dimensions.

The second is to keep rosters of NGOs and to document their experience in this field more carefully. NGOs often lack resources and time to appraise their own work, sometimes they do not even possess a proper supervision capacity, yet they are most familiar with the field and have accumulated much valuable experience.
Third, prior to launching a program/project, much more needs to be known about specific local conditions such as:

- indigenous informal mechanisms, in particular informal financial mechanisms, and potentials for tie-ins with assistance programs and existing formal institutions that could lead to more appropriately "African" models and institutions;

- intersectoral linkages and reinvestment patterns (vertical vs. horizontal) in the informal sector in particular;

- constraints specific to microenterprises in their daily operation and for expansion (vertical or horizontal), in the area of technology, training, credit, marketing, infrastructure, and regulations.

This last recommendation is equally important for projects that do not seek to support microenterprises directly but aim at improving the environment in which they operate by means of policy and regulatory reforms. A related question is the impact of structural adjustment programs on microenterprises given their informality, lesser dependence on foreign exchange and formal financial institutions, and the fact that they produce mainly non-traded consumer goods and services. The answer to these questions would help determine the extent to which structural adjustment programs should be revised, or alternatively complemented with direct assistance programs, in order to best harness the growth potential of the microenterprise sector.
APPENDIX

DESCRIPTION OF FIFTEEN PROJECTS IN SUPPORT FOR MICROENTERPRISES

AND

EXAMPLES OF SIX MODELS OF ASSISTANCE TO MICROENTERPRISES
<table>
<thead>
<tr>
<th>PROGRAM</th>
<th>LEVEL OF ENTERPRISE ASSISTED</th>
<th>ELIGIBILITY REQUIREMENTS</th>
<th>CLIENTS REACHED (PERIOD)</th>
<th>NO. OF LOANS DISBURSED (PERIOD)</th>
<th>LOAN SIZE (US$) (TOTAL LOAN PERIOD)</th>
<th>REPAYMENT STRUCTURE/ INTERESTS (a)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BKK, Indonesia</td>
<td>I</td>
<td>character reference of village headman; credit history</td>
<td>211,738/211,137 per year (1972-82)</td>
<td>274,192 (yearly average)</td>
<td>$50 (up to 6 mo. 2-4.8% mo.)</td>
<td>weekly/</td>
</tr>
<tr>
<td>GBL, Bangladesh</td>
<td>I</td>
<td>member of group of 5 holding weekly meetings, no defaults; have less than 1 acre worth of assets</td>
<td>110,400/22,080 per year (1979-84)</td>
<td>173,000 (in 1984)</td>
<td>$70 (1 year) weekly/</td>
<td>16% year</td>
</tr>
<tr>
<td>P/F, San Salvador (urban)</td>
<td>I to II</td>
<td>in business since at least 1 year; member of credit group (5-10); credit history</td>
<td>221,756/912 per year (1977-80)</td>
<td>60,000 (1977-80)</td>
<td>$80-900 per person monthly/ (3-6 months) 15-16% y.</td>
<td></td>
</tr>
<tr>
<td>PRODEM, Quito/individual</td>
<td>I to II</td>
<td>credit history; cosigner; attend orientation; visit by staff</td>
<td>489/NA (May-Dec. 1984)</td>
<td>1,325 (May-Dec. 1984)</td>
<td>$193 NA/ (6 weeks) 3% month</td>
<td>NA/</td>
</tr>
<tr>
<td>ADMIC, Mexico</td>
<td>II to III</td>
<td>attend courses; cosigner; references; financial analysis of business</td>
<td>455/145 per year (1980-83)</td>
<td>240 (1980-83)</td>
<td>$878 monthly/ (1-3 years) commercial</td>
<td></td>
</tr>
<tr>
<td>SEWA, India</td>
<td>I</td>
<td>member of SEWA; purchase 1 bank share; savings account; 2 cosigners; visit by staff</td>
<td>NA 1,668 (1976-81)  (20 months)</td>
<td>$74 monthly/ 4-12% year</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FDR, rural Peru</td>
<td>III</td>
<td>registered business; viable project; 100% collateral; ineligible for alternative credit; be literate</td>
<td>NA 6,253 (1978-81) (2-5 years)</td>
<td>$51,960 (2-5 years) below commercial</td>
<td></td>
<td></td>
</tr>
<tr>
<td>UNO, Brazil</td>
<td>II</td>
<td>Cosigner; have less than 10 employees, US$ 52,000 in fixed investment, $8,900 family income</td>
<td>1,483/371 per year (1978-81)</td>
<td>1,837 (1978-81)</td>
<td>$1,500 (1-3 years) 25% year</td>
<td>monthly/</td>
</tr>
<tr>
<td>MIDP, Manila, Philippines</td>
<td>I to II</td>
<td>viable project; attend 2-day training course; 62 per year (1979-82)</td>
<td>246/NA</td>
<td>$240-1,5195 (1 year) NA/</td>
<td>(1 year) 18% year</td>
<td>NA/</td>
</tr>
<tr>
<td>SELP, Manila, Philippines</td>
<td>I</td>
<td>Orientation; character reference; credit history; feasibility study and course attendance for larger loans</td>
<td>768/NA</td>
<td>$3,375 (NA)</td>
<td>daily or weekly/ 10-18% y.</td>
<td></td>
</tr>
<tr>
<td>REPAYMENT RATE</td>
<td>EMPLOYMENT CREATED (d)</td>
<td>IMPACT ON INCOME (c)</td>
<td>COST RECOVERY (d)</td>
<td>OTHER COMPONENTS</td>
<td>IMPLEMENTING ORGANIZATION</td>
<td></td>
</tr>
<tr>
<td>---------------</td>
<td>------------------------</td>
<td>---------------------</td>
<td>------------------</td>
<td>-----------------</td>
<td>--------------------------</td>
<td></td>
</tr>
<tr>
<td>94%</td>
<td>M</td>
<td>H</td>
<td>H</td>
<td>forced and voluntary savings</td>
<td>decentralized bank with government assistance</td>
<td></td>
</tr>
<tr>
<td>96%</td>
<td>M</td>
<td>H</td>
<td>H</td>
<td>forced group savings ans emergency fund; frequent meetings to encourage organization and group investments</td>
<td>loan packaging operation of national commercial bank which became an independent bank in 1983</td>
<td></td>
</tr>
<tr>
<td>95%</td>
<td>M</td>
<td>M</td>
<td>M</td>
<td>informal assistance from staff and among participants (business courses were discontinued)</td>
<td>FEDECREDITO is a nationwide credit agency which works with PRIDECO, a community development organization</td>
<td></td>
</tr>
<tr>
<td>92%</td>
<td>M</td>
<td>H</td>
<td>H</td>
<td>forced savings; business courses before receiving third loan; fines for late payments</td>
<td>Ecuadorian foundation anticipating involvement with an Ecuadorian bank; assistance from ACCION International</td>
<td></td>
</tr>
<tr>
<td>98%</td>
<td>M</td>
<td>H</td>
<td>H</td>
<td>forced savings; frequent group meetings</td>
<td>idem</td>
<td></td>
</tr>
<tr>
<td>98%</td>
<td>H</td>
<td>H</td>
<td>L to M</td>
<td>required courses; clients have founded a union of microentrepreneurs with over 300 members</td>
<td>Mexican affiliate of ACCION Intl.; ADMIC helps clients get loans from local bank, under special arrangement</td>
<td></td>
</tr>
<tr>
<td>91%</td>
<td>L</td>
<td>M</td>
<td>H</td>
<td>forced savings; assistance in production and training; actively organizes for workers' rights (social security, maternity leaves)</td>
<td>Grew out of the Textile Labor Association; independent from TLA in 1981</td>
<td></td>
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<tr>
<td>93%</td>
<td>M to H</td>
<td>H</td>
<td>L</td>
<td>bank branches offer some business courses</td>
<td>industrial bank of Peru and its branch offices</td>
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<tr>
<td>92-97%</td>
<td>M</td>
<td>M</td>
<td>L</td>
<td>voluntary courses</td>
<td>started by U.S. PVO with local support and foreign donors</td>
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<tr>
<td>87%</td>
<td>L</td>
<td>M</td>
<td>L</td>
<td>required courses and one-on-one assistance</td>
<td>government program under the Ministry of Trade and Industry</td>
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<tr>
<td>98%</td>
<td>L</td>
<td>M</td>
<td>M</td>
<td>training and activities for community leaders; required courses for larger loans</td>
<td>MCSI runs the SELP program which was funded by a number of church groups as a nonprofit, nonstock-holding company</td>
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<tr>
<td>Project</td>
<td>Phase</td>
<td>Activity</td>
<td>Character Reference</td>
<td>Type</td>
<td>Duration</td>
<td>Interest Rate</td>
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<tr>
<td>APP, rural Burkina Faso</td>
<td>II to III</td>
<td>character reference; type of business proposed; contribute 20% of investment</td>
<td>NA</td>
<td>967 (1981-84)</td>
<td>$350 (flexible)</td>
<td>flexible/30% year</td>
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<td>FDD, Santo Domingo/individual</td>
<td>II</td>
<td>visit by staff; project feasibility; cosigner or collateral</td>
<td>211/84 per year (1981-83)</td>
<td>211 (1981-83)</td>
<td>$1,817 (14 months)</td>
<td>weekly/NA</td>
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<td>idem/group lending</td>
<td>I</td>
<td>vendor or other small entrepreneur needing working capital; attend orientation; member of credit group (5-8)</td>
<td>1'998/800 per year (1981-83)</td>
<td>343 (1981-83)</td>
<td>$233 (1 year)</td>
<td>weekly/24% year</td>
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<td>Port Sudan urban prg., Sudan</td>
<td>II to III</td>
<td>visit by staff; project feasibility; registration fee; loan guarantor</td>
<td>730/NA (1 year)</td>
<td>312 (1 year)</td>
<td>$10-1'900 (2 weeks to 2 months)</td>
<td>NA/2-4% month</td>
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<td>DESAP urban Colombia</td>
<td>II to III</td>
<td>visit by staff; collateral; motivation meetings; attend 3 15-hour courses; less than $5'500 sales/mo.</td>
<td>1'300/325 per year (1979-83)</td>
<td>NA</td>
<td>$1'500 (1-3 years)</td>
<td>NA/23% year</td>
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<td>WWF India</td>
<td>I</td>
<td>member of neighborhood group (10-20); pay small fee; attend meetings; loan approval from group leader, program staff, and bank</td>
<td>13'205 members/NA (1977-82)</td>
<td>7'000 (1978-82)</td>
<td>$12-36 (10 months)</td>
<td>daily to weekly/4-12% year</td>
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*Effective interest rate charged on loans.

**Impact on employment creation (new jobs and reduction of underemployment) per enterprise assisted.

***Impact on income and living standard of participants.

^Measure of the financial sustainability of the program, assessed by the share of operating costs covered by the program itself.

Note: L stands for low, M for medium, H for high, and NA for not available.

(From Katherine E. Stearns, *Assisting Informal-Sector Microenterprises in Developing Countries*, Cornell International Agricultural Economic Study, no. 85-18 (Ithaca: Department of Agricultural Economics, Cornell University, August 1985), p. 44.)
<p>| %  | M  | H | L | | --- | | | | | 96% | M | M | L | considerable personal attention to participants; business extension services; mutual assistance | affiliate of Partnership for Productivity (U.S. PVO); began with USAID support | | 71% | M to H | H | L | required courses and one-on-one assistance | launched by the Dominican Development Foundation with assistance from ACCION International | | 65-80% | L | M | M | group meetings to promote organization and mutual assistance; participants founded the Dominican Assoc. of Tricicliros | idem | | 99% | M | M | M | one-on-one assistance; helps linking up with formal sector; marketing and supply services | run by a London PVO (Euro Action-ACORD) with support from various international organizations | | 99% | M | H | L | emphasis on business courses and one-on-one assistance; marketing assistance | run by Caravajal Foundation of Colombia with assistance from U.S. PVO and diversified funding sources | | 90% | M | H | M | day-care centers; night classes training; health and family planning; pro-women advocacy and lobbying | grassroots organization with some international financial support; loans granted by nationalized banks |</p>
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<th>MODEL: I</th>
<th>II</th>
<th>III</th>
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<td>UNO (Brazil) 9/</td>
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<td>PRODEME (Dominican Republic) 7/</td>
<td>Calcutta &quot;Y&quot; Self-Employment Center (India) 8/</td>
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<td>PCIB Money Shops (Philippines) 2/</td>
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<td>Village Polytechnic Program (Kenya) 10/</td>
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<td>MSCI (Philippines) 2/</td>
<td>Working Women's Forum 8/</td>
<td>Lesotho Opportunities Industrialization Center (S. Africa) 15/</td>
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<td>Carmona Social (India) 5/</td>
<td>PROJUVIUD 6/</td>
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<td>COLMENA 6/</td>
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<td>Grameen Bank (Bangladesh) 14/</td>
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</table>
Note: Model I- Individual financial assistance  
II- Integrated financial assistance and technical assistance/social promotion  
III- Integrated and sequenced financial assistance, technical assistance, and training for individuals  
IV- Integrated and sequenced training, technical assistance, and financial assistance for individuals  
V- Group-oriented social promotion, financial assistance, and technical assistance  
VI- Training  

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