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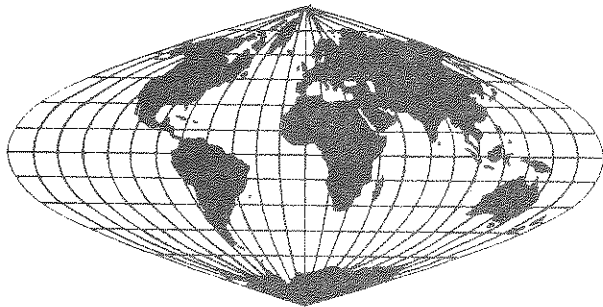
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CORNELL/INTERNATIONAL AGRICULTURAL ECONOMICS STUDY

ASSISTING INFORMAL-SECTOR MICROENTERPRISES IN DEVELOPING COUNTRIES

Katherine E. Stearns



DEPARTMENT OF AGRICULTURAL ECONOMICS

New York State College of Agriculture and Life Sciences

A Statutory College of the State University

Cornell University, Ithaca, New York 14853

The Department of Agricultural Economics offers training in International Economics and Development leading to the MPS, MS, and PhD degrees. A component of the Program in International Agriculture of the New York State College of Agriculture and Life Sciences, the course of study and research is flexible and designed to enable students to draw on the expertise of faculty in many disciplines and with wide-ranging international experience, as well as on a core of faculty within the Department who address themselves exclusively to international questions. The geographical focus is on the developing countries of Asia, Africa, and Latin America.

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DEPARTMENT OF
AGRICULTURAL ECONOMICS
WARREN HALL

Thomas T. Poleman
Professor of
International Food Economics

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It is a pleasure to introduce Katherine Stearns' study of micro-enterprise promotion in the informal sector of developing countries. It is a timely study. That the role of the informal sector will grow rather than diminish during the foreseeable future is increasingly apparent. Although agriculture will continue to dominate most developing economies, the scope for new jobs in farming is limited; and the failure of the formal sector to accommodate burgeoning urban populations is all too evident. Alternative sources of employment must be identified and assisted.

Ms. Stearns examined the experiences of over 20 microenterprise promotion programs from around the world. Four criteria were used to evaluate their impact: the degree of employment created; the extent to which incomes were improved; the level of financial self-sufficiency attained by the program; and the number of people who benefited from it.

She concludes that the most effective program design is one which targets very poor entrepreneurs, emphasizes credit rather than business education, relies on client self-selection and not program staff for assessing credit-worthiness, and initially extends very small loans with the proviso that larger sums will be forthcoming if repayment is prompt. This type of program lends itself to institutionalization and helps empower the poor through community-level organizing.

Another approach which can have a very favorable impact is the systems approach. Programs of this type provide credit, but also attempt to establish constructive links between informal and formal-sector firms. Their strength lies in that, if institutionalized, they may be able to open up greater opportunities for informal microenterprises. However, they cannot directly reach as many entrepreneurs as programs which confine themselves to credit.

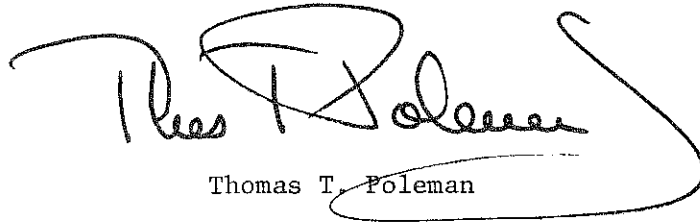
The more traditional microenterprise programs, which stress the importance of business education as well as credit, are shown to be the least effective. They tend to be costly, reach few entrepreneurs, and do not appear to raise incomes any more than programs stressing credit alone.

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Comments and suggestions are welcome, and these should be addressed to:

Ms. Katherine E. Stearns
Partners of the Americas
1424 K Street, N.W.
Washington, D.C. 20005



Thomas T. Poleman

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I - INTRODUCTION

From 1970 to 2000 the labor force in developing countries is expected to double from one to two billion people. The agricultural sector will be able to supply jobs for only about 8 percent of these people (57, p. 244). The rest will have to earn their livings through nonfarm activities in rural areas or find some type of employment in the growing cities of the developing world. In both rural and urban areas, much of the economic activity will continue to take place in the informal sector, which supplies jobs, incomes, products, and services to an enormous segment of the population.

A strict definition of the informal sector is elusive. In general, the term refers to the portion of the economy composed of people operating or working in very small businesses who: lack formal government recognition, registrations, and support for their enterprises; have no access to commercial sources of credit; earn low incomes; and have no employment security. The terms informal sector and microenterprise should not be confused. Microenterprises operate within both the formal and informal sectors. Conditions in the informal sector are difficult and it is not the sector itself that deserves promoting. Indeed, one does not provide assistance directly to a sector, but to the people within the sector.

This analysis focuses on microenterprise development (as opposed to other employment- and income-generating strategies such as skills training, job placement, etc.) and identifies the types of microenterprise programs that can best contribute to immediate and long-term improvements in the conditions of the informal sector. Over twenty programs from all regions of the world are examined with regard to their various components, implementation strategies, and impacts in order to determine which are more effective and why. The emphasis is on the varying designs of the programs and not on other factors that influence program outcomes, such as the local culture, economy, politics, etc. Information on the programs comes from numerous evaluations, published studies, articles, and personal communications.^{1/}

The paper begins by familiarizing the reader with some aspects of the informal sector: the characteristics of its enterprises, the reasons for their emergence, their extremely important role in developing

^{1/}Case studies on microenterprise promotion are neither numerous nor systematic. Moreover, there is considerable dissent among development organizations about what constitutes a successful project and what evaluation criteria and methodologies are appropriate. A major challenge of this analysis was to draw useful and valid conclusions from diverse and occasionally conflicting studies.

economies, and the factors that constrain further employment- and income-generation by the enterprises. The ways in which microenterprise programs can help remove some of these constraints are suggested and then a number of the case studies are presented and examined. An analysis of four particularly successful programs leads to the identification of critical similarities in the designs of the four programs. Likewise, an analysis of several other programs reveals program components that tend to diminish the beneficial impact of the programs on informal enterprises. A comparison of the program designs and outcomes indicates three approaches to microenterprise promotion, the traditional, nontraditional, and systems, and shows how the nontraditional and systems approaches have the most potential for assisting informal firms.

II - THE INFORMAL SECTOR

Understanding the importance of microenterprises to the poor requires an understanding of the informal sector, where the poor earn and spend much of their money.

Its Characteristics, Causes, and Importance

The informal sector, though perhaps unrecognized as such, is apparent to both residents and visitors in the urban areas of developing countries. Residents, without the aid of signs or advertisements, usually know to which house or workshop to go when needing particular goods or services. Many of their demands are met by microenterprises that an outsider would be unlikely to locate. Visitors, on the other hand, often are introduced to informal entrepreneurs who are car washers, shoe-shiners, or vendors of specialty items, souvenirs, crafts, and foods. These highly visible members of the sector, however, are not an accurate indication of the range of activities within the sector or of how many people depend on such activities to earn a living.

A close look at households in urban areas turns up a surprising number and variety of very small informal business activities that augment a family's income or even support the entire family. For example, in poor neighborhoods in metropolitan San Jose, Costa Rica, microenterprises were found in one out of every eight houses and provided an average of 70 percent of each family's income (6, p. 15). The enterprises are typically involved in furniture-making, shoe-manufacturing, tile production, cooking or baking, bicycle repairing, sewing, and much more. In Santo Domingo, Dominican Republic, estimates based on data from the 1970 census indicate that workers in the informal sector were involved in the following activities (56, p. 120):

Services of repair and activities like painter, electrician, plumber, mechanic, shoe mender:	44%
Manufacturing of clothes, shoes, and furniture:	34%
Marginal services as street vendors or shoe-shiners:	10%
Services directed to the formal sector such as washing and ironing, waiting tables, cutting hair:	6%
Transportation services:	5%

Information on Jakarta, Indonesia, from the 1967 census indicates that 27 percent of workers in the informal sector were involved in

services, 21 percent in trade, 19 percent in transportation-storage-communications, and 16 percent in construction. Smaller percentages were also active in agriculture and related industries, manufacturing, financial institutions, and public utilities (67, table 70).

While the economic activities within the sector vary considerably, urban informal enterprises share a number of common elements. One well-known study of businesses in the informal sector, The Pisces Studies, identified several characteristics of microenterprises in the sector. The enterprises are (12, p. 3):

- (a) Ubiquitous (i.e. street vendors, hawkers, cobblers, etc. are found in every city);
- (b) small-scale (e.g. the average number of persons engaged in industries in Sierra Leone is 1.8, the average value of the stock of traders in Haiti is US\$17.00);
- (c) localized (i.e. businesses meet the needs of low-income people);
- (d) labor-intensive;
- (e) low-income (i.e. though higher than agricultural workers the income of informal sector workers is generally lower than unskilled workers in the formal sector);
- (f) low profits and little capital for investment;
- (g) competitive markets.

These characteristics are a strong indication that an enterprise is not registered with the government, has no access to formal credit institutions, business advisory services, or formal marketing channels, and is consequently a participant in the city's informal economic sector.

In the rural areas and small towns of developing countries, informal enterprises produce and provide all kinds of goods and services. In fact, "the available evidence indicates that the vast majority of the existing rural nonfarm enterprises in developing countries would fall in the 'artisan and informal enterprise' category" (16, p. 11).

Studies have estimated that in most developing countries, 30 to 50 percent of the rural labor force engages in nonfarm activities as either their primary or secondary source of employment (16, p. 6). In addition to the characteristics listed above for urban enterprises, these businesses must contend with the poor infrastructure usually found in rural areas.

As the International Labour Office noted in 1984, "the emergence of the informal sector as an important source of employment...is in a sense a reflection of the failure of development planning and policies pursued" (77, p. 13). The path of economic development chosen by many countries emphasizes capital intensive industrialization and extensive integration into the international economy. The cost of creating jobs in capital intensive industries is so high that even though most resources have been invested in the formal sector, the level of job creation has been insufficient. Furthermore, many countries have concluded that low-priced labor is their "comparative advantage" that allows them to sell exports competitively on the international market. The low price of

labor is easily maintained if labor is overabundant. The situation is well described in the following quote (55, p. 140):

Firstly, the natural rate of population growth aggravated by migration of large numbers of peasants from the rural areas has meant that the rate of urbanization has far outstripped that of industrialization under the prevailing conditions of capitalist economic development; and secondly, the inability of the industrialization process to absorb into the urban productive labor force the large numbers of unskilled illiterate workers, rural and urban born, has resulted in immense poverty and unemployment for considerable portions of the urban population.

Substantial labor force underutilization, high levels of rural-urban migration, and widespread participation in the informal sector are all manifestations of this type of economic development. They are magnified by rapid population growth.

In both rural and urban areas, the prevalence of the informal sector can be interpreted as a necessary response to insufficient employment opportunities. A limited number of workers may choose to leave formal sector jobs to begin their own firms in the informal sector (73, p. 108). However, most participation in the informal sector can be attributed to the inability of the formal sector to provide enough jobs for the population. The informal sector is composed of many people who have created their own jobs. This concept of job creation is one characteristic that initially differentiates informal entrepreneurs from their small-scale counterparts in the formal sector. The primary motivation for beginning an informal enterprise is frequently employment creation, while formal enterprises are usually begun with profit maximization as the primary motivation (69, p. 17).

In Latin America, the following estimates of labor force underutilization of the economically active population around 1970 give an indication of the necessity of creating one's own employment (58, Table 1.9):

Brazil:	32%
Colombia:	29%
Mexico:	25%
Venezuela:	24%
Chile:	22%
Argentina:	13%

Where one-quarter of the labor force is underutilized, becoming a vendor or setting up a microenterprise in the informal sector may be the only survival strategy for many members of the disadvantaged classes.

High levels of labor force underutilization are compounded by rapid population growth. In simplistic terms, the inability of the

agricultural sector to absorb the growing rural labor force has both increased participation in rural off-farm activities and encouraged high levels of rural-urban migration. Migration, coupled with natural population growth, is causing dramatic increases in urban populations. The expanding urban labor force cannot be absorbed by the formal sector, which leaves residents to create their own jobs.

As Table 1 shows, population growth rates were well over 2 percent per year in all of the developing world. In most regions, the urban labor force was growing over twice as fast as the rural labor force. The table also indicates that the rural labor force, except in Latin America and the Caribbean, was growing considerably faster than the labor force in agriculture, revealing an increasing need for nonfarm sources of income.

In rural areas, the logical result of this type of population and labor force growth is increasing pressure on land and decreasing agricultural incomes. The percentage of landless or near-landless rural households is already very high in developing countries (55 to 85 percent in ten Latin American countries and 53 to 78 percent in five Asian countries) and may increase by half again by the year 2000 (18, pp. 6-7, 54). Nonfarm activities are consequently indispensable for the economic survival of many rural families, as Table 2 shows.

Inadequate access to land, rapid rural population growth, and low incomes have made informal off-farm income-generation necessary for rural residents. They have also convinced other rural residents to seek employment in the cities. Many rural workers and entire families have migrated to large cities, leading to a phenomenal increase in urban populations. From 1950 to 1970, migration caused over 45 percent of the urban growth in Nepal, Indonesia, Kenya, Ghana, Malaysia, Bolivia, and Nigeria (71, p. 99). High levels of rural-urban migration have contributed to the inability of the urban formal sector to accommodate the work force.

Rural-urban migration, rapid population growth, and national development strategies are interacting to help make the informal sector the only source of income for many rural and urban residents. As a result, the informal sector in many countries has been growing considerably faster than the formal sector. The growth rates of the economically active population in each sector from 1960 to 1970 in selected Latin American countries shows how rapidly the informal sector is growing (58, Table 1.8):

COUNTRY	<u>Informal Sector</u> <u>Growth Rate</u>	<u>Formal Sector</u> <u>Growth Rate</u>
Argentina	5.7	1.3
Venezuela	5.5	3.4
Nicaragua	5.1	4.0
Guatemala	5.0	3.5
Mexico	4.0	3.8
Trinidad & Tobago	2.9	2.8
Chile	2.2	1.8

TABLE 1. POPULATION AND LABOR FORCE ANNUAL GROWTH RATES, 1960-1970*
(percent)

Region	Population			Labor Force			
	Total	Urban	Rural	Total	Urban	Rural	In Agriculture
East Africa	2.6	5.4	2.3	2.2	5.0	1.9	1.7
West Africa	2.4	5.0	1.9	1.8	4.4	1.4	0.9
East Asia/Pacific	2.7	4.6	2.1	2.3	4.3	1.9	1.1
South Asia	2.4	3.7	2.2	1.7	2.9	1.6	1.2
Mid-Europe/North Africa	2.7	5.0	1.4	1.9	4.3	0.8	0.6
Latin America/Caribbean	2.8	4.3	1.0	2.4	3.9	0.6	0.8

*Adapted from Dennis Anderson and Mark Leiserson, Rural Enterprise and Nonfarm Employment (Washington, D.C.: The World Bank, 1978), p. 56.

TABLE 2. GROWTH RATES AND LEVELS OF NONFARM EMPLOYMENT
IN SELECTED COUNTRIES*

(percent)

Country	Period	Rural Nonfarm Average Annual Employment Growth Rate	Nonfarm Share of Rural Labor Force	
			Initial Period	End Period
Taiwan	1955-66	9.4	30	49
Kenya	1969-74	8.8	NA	NA
Philippines (Gapan area)	1961-71	8.5	NA	NA
Mexico (Sinaloa)	1960-70	5.6	14	23
Indonesia	1961-71	5.5	17	24
Iran	1956-73	4.8	20	33
India	1953-60	4.0	NA	NA
Afghanistan (Paktia)	1964-71	3.9	NA	NA
Korea	1960-74	3.2	18	19

*Source: Enyinna Chuta and Carl Liedholm, Rural Nonfarm Employment: A Review of the State of the Art (E. Lansing, Mich.: Michigan State University, 1979), p. 18.

One consequence of these differing growth rates is that informal activities in some sectors of many urban economies are more prevalent than formal activities. For example, in Jakarta in 1967, more than 60 percent of all employment in construction, public utilities, and transport-storage-communication, was in the informal sector. In services, 32 percent of all employment was in that category, as was 22 percent of the employment in manufacturing (67, Table 70). In the Dominican Republic, the International Labour Office has estimated that 22 to 24 percent of urban employment in the entire country corresponds to the informal sector (56, p. 105). The situation in Peru is even more dramatic, with up to 65 percent of the economically active population employed in informal sector activities. In Lima, 65 percent of employment in construction, 85 percent in tailoring, 78 percent in furniture making, and 95 percent in public transportation are in the informal sector (39). Table 3 shows the importance of the urban informal sector to developing countries around the world.

Barriers to Higher Incomes and More Jobs

Considering these high percentages and the sector's expansion, it is surprising that governments have made so little effort to address the many constraints on informal firms. In both rural and urban areas government policies and other factors discriminate against informal enterprises, implying that a more favorable environment could increase jobs and incomes within the sector. In terms of day-to-day activities, micro-entrepreneurs in the informal sector generally run up against the following problems (adapted from 9, pp. 3-4):

- a hostile policy environment that requires either complex, expensive, and time-consuming registration, or the payment of bribes;
- a lack of institutional credit because banks feel that lending to small enterprises is too risky and expensive;
- high interest rates charged by informal sector moneylenders;
- a lack of management skills making business expansion less likely and more risky;
- a limited access to raw materials and supplies, partly because of an inability to buy large quantities;
- marketing problems partly due to a limited access to profitable markets.

Some of these constraints need to be addressed on a policy level and some are operational constraints that can be addressed on a program level. All of the constraints contribute to low profits and incomes for micro-entrepreneurs. They impede the expansion of the individual businesses and the initiation of new enterprises.

TABLE 3. ESTIMATED SHARE OF LABOR FORCE IN THE INFORMAL SECTOR IN SELECTED DEVELOPING CITIES*

City	Year	Percent
<u>Africa</u>		
Abidjan (Ivory Coast)	1970	31
Lagos (Nigeria)	1976	50
Kumasi (Ghana)	1974	60/70
Nairobi (Kenya)	1972	44
Urban areas (Senegal)	1976	50
Urban areas (Tunisia)	1977	34
<u>Asia</u>		
Calcutta (India)	1971	40/50
Ahmedabad (India)	1971	47
Jakarta (Indonesia)	1976	45
Colombo (Sri Lanka)	1971	19
Urban areas (W. Malaysia)	1970	23
Urban areas (Thailand)	1976	26
Urban areas (Pakistan)	1972	69
<u>Latin America</u>		
Cordoba (Argentina)	1976	38
Sao Paulo (Brazil)	1976	43
Urban areas (Brazil)	1970	30
Rio de Janeiro (Brazil)	1972	24
Belo Horizonte (Brazil)	1972	31
Urban areas (Chile)	1968	39
Santo Domingo (Dominican Republic)	1973	50
Guayaquil (Ecuador)	1970	48
Quito (Ecuador)	1970	48
San Salvador (El Salvador)	1974	41
Federal District and State of Mexico	1970	27
Mexico D.F., Guadalajara, and Monterrey	1970	42
Asuncion (Paraguay)	1973	57
Urban areas (Peru)	1970	60
Urban areas (Venezuela)	1974	44
Caracas (Venezuela)	1974	40
Kingston (Jamaica)	1974	33

*Source: S. V. Sethuraman, The Urban Informal Sector in Developing Countries (Geneva: International Labour Office, 1981), p. 43.

In Rural Areas

In rural areas many of the policy constraints of the off-farm sector are closely tied to those of the agricultural sector. It is exceedingly difficult for small-scale rural entrepreneurs to transport their products profitably to large towns or urban markets. Instead, the nonfarm sector often depends upon local agricultural incomes to create a demand for its goods and services. If agricultural product prices are kept low in urban areas and access to agricultural inputs are limited, as they are in most developing countries, the low income of farmers impedes purchases of products and services from the off-farm sector.

At the same time, it should be mentioned that even though low rural incomes constrain off-farm businesses, it is not evident that higher incomes would necessarily support those businesses. Farmers with higher incomes may be less likely to engage in off-farm activities and less likely to make local purchases.

There are other factors that handicap both on- and off-farm rural enterprises. Inadequate rural infrastructure, such as electricity, running water, and roads, prevents the initiation of many productive, income-generating activities. It is difficult for rural businesses to attain needed inputs, which may have to be transported from long distances, or to gain access to markets, which often are located far away. The problems in becoming formal are magnified for rural enterprises because transportation to and from government offices requires considerable time and expense.

In Urban Areas

Different policy-related problems curtail the income-generating opportunities in the urban informal sector. Informal activities generally take place in a negative, or at best neutral, policy environment. In many cases, the technically illegal status of enterprises necessitates bribes for small manufacturers and invites harassment by public officials. Governments have generally failed to realize the important safety-valve function of the informal sector as an employer of high percentages of urban populations that might otherwise be without a source of income (68, p. 202):

Clearly, there is a greater need to appreciate the merits of the sector....The main aim in such a change in policy environment is not only to eliminate restrictions preventing fuller participation by the informal sector but also to foster its growth over time....It may also include modifications in prevailing policies and attitudes at regional or local government levels that have a direct responsibility for this sector on a day-to-day basis. The important consequence of such a change seems to be on the access to resources and markets. It is clear that the problem of "access" is at least partly derived from the

prevailing policies and attitudes toward this sector though the existing socio-economic structure also plays a very important role.

Poor access to resources refers to both institutional credit and inputs. Without credit, microentrepreneurs in the informal sector find it difficult to buy in bulk and as a consequence must pay a higher price for inputs than formal sector enterprises. In terms of markets, informal enterprises may have a harder time, or be prohibited from, selling their wares in certain locations that are available to formal enterprises. They are unlikely to receive any government contracts, which are a considerable portion of the formal economy. In addition, they may only be able to expand to a certain size before government officials decide to close them down and cease accepting their bribes.

One might think that an easy solution to many of these problems would be for the small firms to register legally with the government. In many cases, however, that is a long and difficult process. Researchers in Peru recently attempted to set up a small formal enterprise in Lima (63, p. 3):

They found that the registration process involves completion of over 600 separate "tramites"--the Spanish word for "paperwork." This would require more than six months, working 40 hours a week and paying a minimum of four unavoidable bribes, for someone merely to register to do business. The equivalent process in a Florida city, which the ILD (Instituto Libertad y Democracia) also went through, took about four hours.

Nor does the bureaucratic nightmare end when the business begins. The ILD also found that the average Peruvian manager of a small firm in the formal private sector spends 44 hours a month coping with government red tape.

In the Informal-Formal Relationship

The informal sector also suffers through its relationship with the formal sector. The informal sector often provides cheap inputs to enterprises in the formal sector as well as cheaper wage goods for the workers in that sector. Therefore, part of the ability of the formal sector to generate a surplus can be attributed to the informal sector. The formal sector actually "appropriates at least a part of the surplus generated in the informal sector" (69, p. 31).

Moreover, it is often the case that informal firms are more directly exploited by formal businesses through sub-contracting. A formal sector factory that buys raw materials from informal enterprises may protect itself from labor problems and changes in demand while enjoying a low-priced and efficient source of inputs. In effect, the factory externalizes some of its risks. The informal enterprises, on the other

hand, are very vulnerable to market changes. The following quote explains some of the potential problems of sub-contracting (55, p. 146):

Firstly, it effectively fractionalizes its (the factory's) labor force and severely impedes any attempt at true collective wage bargaining; secondly, it permits the factory to avoid problems that arise due to the fluctuations of the market and to provide the necessary flexibility to cope with changing demand. The combination of piecework and independence of the suppliers...serves to keep efficiency high and costs low. The income of the ...(suppliers) is low....

Being informal, there is little that the exploited enterprises can do to alter the situation.

In Terms of Credit and Services

Many of the constraints described above can only be corrected by structural changes or shifts in government policy. Some constraints, however, are within the reach of microenterprise promotion programs. Lack of credit is nearly universally regarded as the major constraint on microbusinesses in developing countries (71, p. 142). In a survey of microenterprises in Lima, 68 percent of the entrepreneurs cited working and/or investment capital among their three priority needs (54, p. 59). In El Salvador, informal firms suffer from production discontinuities because the low level of capital available does not allow the entrepreneurs to purchase enough raw materials. The entrepreneurs are unable to extend credit to customers, to seek better prices for their products, or to obtain quantity discounts (21, p. 169).

Banks and other formal financial institutions cite a variety of reasons for not wanting to lend to small producers. First of all, because the application process is usually geared towards large producers, the cost of making a small loan is at least as high as that of a larger loan. As profit-seeking institutions, it is logical for banks to prefer making five \$10,000 loans to making five hundred \$100 loans. The former option has fewer transaction costs, is easier, and is consequently more profitable. Secondly, microentrepreneurs are viewed as very risky because they cannot offer physical collateral. Thirdly, even though it has been argued that default rates are actually lower among small businesses than large (73, p. 80), some banks claim that small production units are not credit-worthy (1, p. 43):

Apart from transaction cost and risk factors, these units do not usually borrow for production purposes; they lack technical knowledge of their craft and market conditions; they are difficult to supervise, being widely dispersed and some of them highly mobile, and often vulnerable to market fluctuations which in turn render them easily vulnerable to bankruptcy.

Without access to institutional sources of credit, entrepreneurs in both rural and urban areas must rely on extremely high interest loans from moneylenders. Credit is available in the informal sector at usurious interest rates, as the accompanying nominal interest rates for rural areas of selected countries from 1967 to 1970 indicate (71, p. 161):

<u>Country</u>	<u>Informal</u>	<u>Formal</u>
Nigeria	200%	6%
Bolivia	100	9
Ghana	70	6
Mexico	60	10
Honduras	40	9
Indonesia	40	14
Philippines	30	12
El Salvador	25	10
India	25	9

Capital in the informal sector is obviously much more expensive than in the formal sector. Its high cost curtails investments and consequently limits the productive activities and employment possibilities within the sector. Programs that provide credit at more reasonable rates to enterprises ineligible for formal credit can help remove this capital constraint.

A lack of management skills or business education may also curtail the growth or limit the profitability of many microenterprises. Some entrepreneurs see expansion and the hiring of additional workers as imprudent, partly because of managerial problems. Indeed, rational microentrepreneurs, much like poor farmers, cannot afford to take big risks because their margin for survival is quite slim. One mistake can ruin a microenterprise and destroy what might have been the sole source of income for a family. Among microenterprises in Brazil, an extensive study by Judith Tendler noted that "many owners felt that expansion would bring them up against barriers that they would not be able to overcome...or that would require a tremendous expenditure of energy and resources to overcome" (73, p. 118). Basic business assistance or management training may give entrepreneurs a better understanding of how to overcome some of the barriers confronting them. It may be prudent for some enterprises to remain quite small. However, for other entrepreneurs, those with the motivation to expand and the appropriate enterprise, programs that provide business assistance may help diminish the barriers and risks to expansion.

Programs may also be able to address some of the problems that informal firms have in their relationship to formal businesses. Support in arranging beneficial contracts with formal firms or in gaining easier access to inputs and markets may make it easier for microentrepreneurs to take advantage of economic opportunities.

III - MICROENTERPRISE PROMOTION PROGRAMS

Providing microenterprises in the informal sector with access to credit and assistance, the primary activities of most microenterprise promotion programs, can have both an immediate and long-term beneficial impact on the microentrepreneurs themselves and on the sector as a whole.

Influence on Government and Bank Policies

Microenterprise programs can contribute to policy changes by altering government attitudes towards the informal sector. Programs that reach large numbers of entrepreneurs, achieve high loan repayment rates, increase employment and incomes within the sector, and show a potential to be financially self-supporting will help convince policy makers of the merits of the enterprises in the informal sector. Governments may be inclined to create a more favorable policy environment once they are convinced of the viability and importance of informal firms in reaching the poorest segments of the population and in providing jobs, incomes, goods, and services.

Financial institutions may also begin to view the sector more favorably. As the programs discussed below will show, many programs prove the credit-worthiness of informal microentrepreneurs. The programs are achieving very high repayment rates, meeting their costs, and some are even producing a profit. Furthermore, the demand for credit at reasonable interest rates is immense. The informal sector in many areas is actually a huge, potentially profitable, as yet untapped, credit market for financial institutions. Commercial lending programs, if properly designed, can benefit all parties involved. Banks can make a profit; entrepreneurs can get loans at interest rates lower than the rates of moneylenders in order to stabilize, improve, or expand their businesses; and governments can see more people productively employed and with higher incomes.

Improvement in Economic Opportunities

Many programs, as the case studies will indicate, are already showing the immediate benefits of microenterprise promotion. The potential for job creation in the informal sector is immense, as "no other sector of the economy, whether government or private, can create jobs so rapidly and at such low cost" (64, p. 4). Many assisted enterprises hire more employees or are able to support full-time, instead of part-time, workers. Participants in programs enjoy increased profits, higher personal incomes, and lower levels of underemployment.

In addition to the employment- and income-generating benefits of microenterprise promotion, there are other reasons for assisting informal firms. There is considerable evidence that small enterprises are more labor-intensive and use their limited capital more efficiently than larger enterprises (38, p. 6). As such, they make better use of the developing country's abundant and scarce resources (labor and capital, respectively) than larger firms. Moreover, small firms often are more flexible than larger ones, enabling them to adapt and diversify their activities depending upon local opportunities and interventions. A recent cost-benefit analysis of five microenterprise programs carried out by economist Peter Kilby for the Agency for International Development concluded that, relative to other categories of development assistance, microenterprise lending programs are the "most successful" (44). The study found that such programs produce economic benefits that usually outweigh their costs. The record for many other types of development programs, including those assisting larger businesses and industries, is not nearly as positive.

Beyond assisting the microentrepreneurs themselves, an appropriate intervention can have multiplier effects and strengthen local economies through backward and forward linkages. For example, an entrepreneur who receives credit may increase purchases from a local raw materials supplier. The increased profitability of both businesses is reflected in the higher levels of consumption of both families that, in turn, helps the local businesses that supply basic goods to the community. There are other types of linkages that may be promoted by microenterprise programs. Programs may increase the clients' access to raw materials, markets, or information by arranging contracts between clients and formal firms.

Microenterprise promotion is also one of the most effective means of reaching the poorest of the poor and thereby contributing to a more equitable income distribution. Program eligibility requirements and design effectively discourage the participation of entrepreneurs with large asset holdings or access to formal credit and services. Besides, the poor are already "more proportionately represented or more readily assisted in activities like small trading, crafts, fishing, small livestock, women-controlled production, charcoal making, peddling..." (72, p. 53).

Rural off-farm and urban informal sector enterprise development also tends to improve the economic position of women. Microenterprises are frequently women-owned and -managed enterprises and may provide the sole source of income for many female-headed households. Studies in Latin America have found that the informal sector has proportionately more female participation than the formal, even when domestic services are not included as informal activities (70, p. 359). An emphasis on microenterprise development increases the involvement of women in production-oriented development projects, helping to reverse the tendency to target them with welfare-oriented projects that fail to lead to economic independence (see 14). Moreover, there is substantial evidence that a larger proportion of a woman's income goes toward family consumption than the income of a male household head. Such research indicates the need for

increasing women's access to income-generating activities as a way to improve family welfare.

The benefits described above are all potential outcomes of microenterprise promotion programs. They can be summarized and simplified into four program objectives:

- increase incomes and standards of living of program participants;
- decrease underemployment and create new jobs;
- reach a large number of poor informal sector microentrepreneurs;
- be a financially sustainable program, potentially self-sufficient, or even profitable.

Any program that reaches a large number of poor entrepreneurs and increases their incomes has a positive impact on its participants, many of whom will be women, and on the local economy. Such a program also helps policy-makers recognize the merits of firms in the informal sector. A financially sustainable program may tempt governments into setting up similar credit schemes for microenterprises, while a profitable program could entice banks (some of which are already involved) into the untapped market. In sum, the extent to which a microenterprise program meets these four objectives indicates, in part, its ability to benefit poor microentrepreneurs and to contribute to an improvement in the conditions of the informal sector as a whole.

Unfortunately, this recommendation of microenterprise promotion as a solution to many problems in the informal sector must be qualified. Small enterprises can be exploited through unfavorable links to formal sector firms. In such situations, assistance to informal enterprises may increase their level of exploitation by formal businesses. The benefits of assistance may be expropriated by the formal firms. Moreover, assisting some entrepreneurs may be at the expense of others in similar activities, causing job displacement and an actual decrease in local employment opportunities. The result is increased inequity within the sector, a situation of informal "haves" and "have-nots." A microenterprise program that contributes to either situation does not have much of a beneficial impact. The dilemma has no obvious solution. However, an understanding of the local economic links between the sectors and within the informal sector may allow programs to avoid promoting these unfavorable situations. There are programs that encourage activities that are unlikely to cause displacement and forge intra-sector links that will create more economic opportunities for informal firms through fair contractual arrangements.

Program Designs

The options in program design for microenterprise projects are numerous. The key to a successful project lies in choosing the right combination and design of components for the selected participants and program objectives.

Economic Level of Participants

The first variable that must be decided is the economic level of entrepreneur to be assisted. Even within the informal sector the size and complexity of the economic activities differ considerably. Both the vendor who buys cigarettes and sells them individually and the ceramacist or furniture maker with invested capital and eight employees are members of the informal sector. There is a continuum of the scale of enterprises within the sector, from the part-time cigarette vendor to the full-time manufacturer. For this analysis, the continuum has been divided into three levels of enterprise or entrepreneur (adapted from 4, pp. 20-22).

Level I beneficiaries are subsistence level entrepreneurs, involved in rather unstable economic activities, who have no significant amount of capital invested in their businesses. This level includes street vendors who buy their stock daily (or even more often) in small quantities, people who make and sell small amounts of candy or bread, and household entrepreneurs who manufacture or fix things with limited capital invested. Level II enterprises have some capital invested, are a little more established, but are not very stable. A tailor with a sewing machine, a furniture maker with some simple tools and an assistant or two, and a vendor with a shop location might all be considered in level II. The highest level, III, includes the rest of the informal sector that might be reached by microenterprise programs. They may have a significant amount of capital invested, a relatively stable and well-established enterprise, and numerous employees. A shoe manufacturer with machinery for cutting leather, a tile-maker with molds or presses, and a baker with an oven and a store would all fall under level III. Some programs reach more than one level of entrepreneur. However, different program designs are more appropriate for different levels of entrepreneurs. For example, very small, short-term loans may meet the needs of level I entrepreneurs but not be of much use to level III entrepreneurs.

Objectives

Just as the target populations vary, so do the immediate project goals. For example, some programs are designed to aid established enterprises, while others attempt to promote new enterprises. Programs designed for street vendors may be aimed at stabilizing their employment, increasing their incomes, and supplying them with access to a secure line of credit. A project geared towards small manufacturing enterprises may attempt to improve their profits, facilitate their interaction with

formal firms and institutions, and bring the entrepreneurs together so that they can buy inputs in bulk, address mutual marketing problems, or organize around other shared concerns. A project aimed at larger, more stable manufacturing enterprises may supply credit and business assistance so that the enterprises expand and employ more people. Program staff may hope to "graduate" successful entrepreneurs out of the program and into the formal sector where they have access to bank credit at commercial interest rates, to government contracts, and to other possible advantages. Though programs may have different specific objectives, in general they attempt to create employment and increase incomes. Their success is enhanced if they reach many people and approach financial self-sufficiency so that the program can be institutionalized.

Implementing Organizations

Depending upon the economic level of participants, objectives, and available local resources, the most appropriate vehicle of implementation is either a formal financial institution, a community development organization, a government agency, a local group, a private agency, or some combination of the above. Programs with empowerment or organizational objectives are probably better implemented by a local community agency than a bank. A private agency may need to work with a bank to set up a loan fund for small manufacturers. No matter what the arrangement, it is crucial that the staff be highly motivated and agree with the objectives of the program. They must avoid both a paternalistic and a bureaucratic attitude and be able to adapt to the needs of the clients. The program is initially promoted through the staff but, if it meets a recognized need, can be self-promoting within a short period of time.

Credit Component

The primary component of microenterprise programs is usually a credit scheme. How credit is disbursed varies according to the type of implementing organization, its objectives, and the targeted level of entrepreneur. The credit eligibility requirements effectively determine the economic level and type of participant. They also determine whether or not a client must be a member of a group to receive a loan. Groups are usually formed by three to eight friends or acquaintances and collectively guarantee a group loan, part of which each member receives to use as individually determined. A group leader collects payments from the members to pay the credit agent of the lending institution at the required intervals. Other programs determine credit-worthiness through an orientation program, attendance at courses, character references, or an economic assessment of the enterprise by staff. All include some sort of application that must be approved. The eligibility requirements and application process will determine, indirectly, the time it takes for a loan application to be processed.

Program staff must decide the size of the loans and the payback installments, the payback period, the effective interest rate, and

whether or not there are any payback incentives or disincentives. Some of the programs grant very small first loans that increase in size if payment is on time. Others grant comparatively larger loans, depending upon the enterprise and proposed use of the funds. Some have standardized loan sizes and payback periods while others tailor each loan to the specific client.

Other Components

In addition to credit, programs may provide direct business assistance to clients. Classes in accounting, marketing, and management may be offered, or even required, for program participants. Another option is for staff to visit the enterprises individually, offering informal advice and recommendations. Staff may even help clients to identify profitable opportunities or to locate better markets or sources of inputs. Entrepreneurs can be charged a fee for this assistance or it can be provided for free.

Programs may have an organizational component that consists of giving the participants the opportunity to get together and discuss their needs. If the program is centered around a community, such an opportunity may lead to the formation of a formal community association. If the program reaches a certain economic level or class of entrepreneur, participants may unite around problems that affect their businesses. They may decide to make contributions to build a warehouse, purchase inputs in bulk, start an emergency fund, or even construct a community center. It is also possible that a microenterprise program be incorporated into an organization formed for other reasons, such as advocacy or local community development.

Some programs may include a forced or voluntary savings component. Clients may be required to deposit a certain percentage of their loans or weekly incomes in a personal savings account that can be drawn upon in times of sickness or emergency.

Outcomes

How these many options are decided will directly affect the extent to which a microenterprise program meets the four basic objectives of increasing employment, raising incomes, reaching large numbers, and being financially sustainable. However, the economic and social environment in which the program takes place, a factor beyond the reach of the program participants and implementors, may have an even larger impact on the program's outcomes. If an area has an entrepreneurial tradition, a growing economy, and a growing population, even a poorly designed and implemented program may be able to benefit fairly large numbers and achieve some level of financial self-sufficiency. On the other hand, a well-designed program may need constant financial support in order to have a very limited impact in a sparsely populated area with a stagnant economy and no entrepreneurial tradition. In the latter situation, a

successful program may be a heavily subsidized one that slows the economic demise and the increasing underemployment in the area. Programs in both types of environments (and all types in between) need to be supported. Their impacts will vary considerably. It is imperative to keep in mind that while some programs are very impressive in terms of the four objectives and some seem without much impact, they are all taking place in very distinct and uncontrollable economic environments. The challenge is to use these diverse experiences to determine what types of programs or program designs are most likely to have the largest impacts; it is not to label the programs as successes or failures according to the number of jobs created, the level of increased income, the number of clients, or the program's level of financial self-sufficiency.

Experiences from the Field

In order to compare the different approaches to microenterprise development, information was gathered on over twenty programs from around the world. Each program was broken into its various individual components (such as credit and business assistance) and its design (such as eligibility requirements and payback periods). The program's effectiveness in meeting the four objectives of increasing employment, raising incomes, reaching large numbers, and being financially sustainable was assessed. A limited number of the projects were selected as examples and are presented, along with their basic design, in Table 4. They appear in the order in which they are referred to in the text.^{1/} The explanation following the table should facilitate frequent referrals to the table whenever specific programs are mentioned as examples of the issues discussed in the remaining chapters.

^{1/}A brief narrative description of each program, along with the source(s) of the information, can be found in the appendix in the same order.

TABLE 4. SELECTED PROGRAMS: DESIGNS AND MEASURES OF EFFECTIVENESS

1	2	3					7	8	9	10			12	13	
		4	5	6	7	8				9	10	11			12
PROGRAM		MEASURES OF EFFECTIVENESS					Economic Level of Beneficiaries	Eligibility Requirements	Average Loan Size (US\$)	Payback			Components in Addition to Credit	Implementing Organization(s)	
		Employment	Incomes	Jobs	Overhead	Disbursed				Structure	Total Loan	Period			Interest
(a)	Rural program in Central Java, Indonesia	M	H	H	H	H	I	Character reference of village headman; Payback of smaller previous loans.	\$50	Weekly	Up to 6 mos.	2-4.8% monthly	94%	Forced and voluntary savings.	Decentralized bank with government assistance.
(b)	Rural program for the landless in Bangladesh	M	H	H	H	H	I	Member of group of 5; hold weekly meetings; no defaults within groups. Have less than .4 acres or assets worth less than 1 acre.	\$70	Weekly	1 Year	16% yearly	96%	Forced group savings fund and emergency fund. Frequent meetings encourage organization and group investments.	Was a loan packaging operation of national commercial banks. Became independent bank in 1983.
(c)	P/F Urban program in San Salvador	M	H	M	H	H	I	In business for at least 1 yr.; member of credit group, 5-10 members; reference from outside group; payback of smaller previous loans.	\$80 to \$900 per person	Daily to Monthly	3-6 months	15-16.4% yearly	95%	Business courses were discontinued. Informal assistance from staff. Informal assistance between clients.	FEDECREDITO is a country-wide credit agency that works with PRUDECO, an urban community development organization, to administer the program.
(d)	PRODEM Urban program in Quito with both and individual credit scheme; and a group component	M	H	H	H	H	I	Visit by staff; attend orientation; have co-signer; payback of smaller previous loans.	\$193	NA	Average 6 weeks	3% monthly	92%	Business courses before receiving third loan. Forced savings. Fines for late payments.	Ecuadorian Foundation with assistance of a PVO from the US. (ACCION International/AITEC). Funded through grants but anticipating involvement with an Ecuadorian bank.
(e)	ADMIC Initially urban program in Monterrey that has extended to nearby towns.	H	H	H	H	H	I	Member of credit group, 3-8 members; attend orientation; select group coordinator; payback smaller previous loans.	\$49 per person	NA	Average 5 weeks	3% monthly	98%	Frequent group meetings. Forced savings.	Program established as Mexican affiliate of ACCION Internat'l/AITEC. ADMIC helps clients get loans from local bank which ADMIC has special arrangements with.
(f)	SEWA A women's trade union in Ahmedabad, India with rural component.	L	M	H	H	H	I	Member of SEWA; purchase 1 bank share; Savings account; 2 co-signers; visit by staff.	\$74	Monthly	20 months	4-12% yearly	91%	Forced savings. Program actively organizes for workers' rights, benefits, (social security, maternity); provides training & assistance in production.	Grew out of women's wing of the Textile Labor Association (TLA). Registered as trade union in 1971. Became independent of TLA in 1981.
(g)	FDR Rural lending program in Peru	M	H	H	H	H	III	Re literate; registered business; viable project; 100% collateral; ineligible for alternative credit.	\$5,900	Monthly	Average 2-5 years	Varied, below Commercial	93%	Some business courses offered through some of the bank branches.	Industrial Bank of Peru and its branch offices.

TABLE 4. (continued)

(h)	UNO Lending program begun in Recife and extended to the interior of Brazil's NE	M	M	L	(1978-1981) 1,483 371 (1978-1981) 1,837	II	Have less than 10 employees; less than US\$2,000 fixed investment; a family income of less than \$5,900; a co-signer.	1978-81 \$1,500	Monthly 1-3 years 25% Yearly, Below Commercial	92-97%	Voluntary courses are offered.	Begun by US PVO with local support and foreign donors.
(i)	MIDP Urban program in Manila	L	M	L	(1978-1982) 246 businesses 62 NA	I to II	I Project feasibility study; attend 2-day training course; interviews with clients, neighbors and community leaders.	\$240 to \$1,195	NA Usually 1 Year 18% Yearly	87%	Required courses and one-on-one assistance.	Government program under the Ministry of Trade and Industry.
(j)	SELP Urban program in Manila	L	M	M	(1976-1981) 788 154 NA	I	Orientation; character references; repayment of smaller previous loans. Larger loans require feasibility study and attendance at courses.	\$3 to \$375	Daily or Weekly NA 10-18% yearly	98%	Required courses for larger loans. Training and activities for community leaders.	MCSI runs the SELP program and was founded by a number of church groups as a nonprofit, nonstock company.
(k)	APP Rural program in Burkina Faso	M	M	L	NA NA (1981-1984) 967	I to II	Evaluation of character; sincerity; contribute 20% of proposed investment, propose a legal, non-speculative activity that adds economic and/or social value.	\$350	Flexible Flexible 30% Yearly	96%	Considerable personal attention to clients. Business extension services. Access to network of mutual technical assistance.	APP is the Burkina affiliate of the US PVO Partnership for Productivity. The project began with support from US AID.
(l)	TDD Urban program in Santo Domingo with a group component and, an individual microenterprise component	L	M	M	(1981-1983) 1,998 800 (1981-1983) 343 group loans (1981-1983) 211 84 (1981-1983) 211 loans	I II	Be a vendor or other small entrepreneur in need of working capital; orientation; member, credit group of 3-8 people; attend group meetings.	\$233 NA \$1,817	Weekly 1 year 24% yearly Weekly Average 14 months NA	65-80%	Group meetings encourage organization and sharing of experience and information, clients formed Triciclos.	Program was launched by the Dominican Development Foundation with assistance of US PVO ACCION International/AITEC.
(m)	Port Sudan Urban program in Port Sudan	M	M	M	(1 year) 730 NA (1 year) 312	I to II	Visits by staff; registration fee; feasibility study; loan guarantor; household income ceiling.	\$10 to \$1900	NA 2 weeks to 20 months monthly	99%	One-on-one assistance. Help in initiating and strengthening links with the formal sector. Marketing and supply services.	The program is run by a London PVO, Euro Action-ACORD with support from various international organizations.
(n)	DESAP Urban program in several Colombian cities	M	H	L	(1979-1983) 1,300 325	II III	Visit by staff; collateral; motivation meeting; complete 3 15-hour courses; less than \$5,500 monthly sales, \$11,250 capital and 11 employees.	\$1,500	NA 1-3 years 23% yearly	99%	Emphasis on business courses and one-on-one assistance. Marketing assistance.	The Carvajal Foundation of Colombia runs the program with assistance from US PVOs and credit funds from a variety of sources.
(o)	WFF Women's program in Madras, India that also has a rural branch	M	H	M	(1977-1982) 13,202 members NA (1978-1982) 7,000	I	Be a member of a neighborhood group of 10-20 people; pay small fee; attend meetings; select group leader; loan approval from leader, program staff and bank staff.	\$12 to \$36	daily to Weekly 10 months 4-12% yearly	90%	Day Care centers, night classes, skills training, health and family planning, pro-women advocacy and lobbying.	WFF is a grass-roots organization with some international financial support. Loans come through the nationalized banks.

COLUMNEXPLANATION OF TABLE 4

- 1 The first column, composed of the letters "a" through "o," gives the location of the program in the table and in the appendix. These letters are included in the text the first time that each program is mentioned.
- 2 The second column identifies the program by its abbreviated name and gives a brief description of where the program operates.
- 3-6 Columns three through six indicate the effectiveness of the program with regard to the four objectives. The first three impacts are judged as either low (L), medium (M), or high (H), while the fourth is measured by the actual numbers reached. The letters refer to the program's effectiveness with regard to each assisted enterprise. For example, a program assisting 100 enterprises that helped create an average of five jobs per enterprise would receive an "H." A program assisting 1000 enterprises but creating very few jobs would receive an "L."^{1/}
- 3 The extent to which the programs decreased underemployment or created new jobs can be found in column three.
- 4 The programs' ability to help raise the incomes and standards of living of participants is indicated in column four.
- 5 Each program's financial sustainability, primarily assessed by the amount of operating costs which the program itself covers, is revealed in column five.
- 6 Column six gives the total number of clients reached in the time period indicated, the yearly average, and the number of loans extended. All three figures were included when available and they serve as an indication of the scale of each program.
- 7-11 The variables within the credit component of each project are briefly described in columns seven through eleven.
- 7 Column seven indicates which economic level of beneficiary the program reaches (with I as the poorest and III as the wealthiest, as discussed in the text).
- 8 The eligibility requirements for participating in a program or for receiving a loan are summarized and described in column eight.
- 9 The approximate size of loans disbursed is indicated in column nine.
- 10 The payback structure is briefly explained in column ten. There is an indication of how frequently payments must be made, the period of time in which the total loan must be repaid, and the effective interest rate.
- 11 Column eleven reports the repayment rate of the various programs.^{2/}
- 12 Column twelve mentions any components, in addition to credit, that each program includes. If the program provides classes, direct business assistance, or a structure that encourages organizing among clients, they are noted in this column. Any savings components are also included here.
- 13 Lastly, in column thirteen, the type of organization(s) involved in the implementation of the program is described.

^{1/} The low, medium, and high measurements are obviously subjective, but were assessed as fairly as possible from a comparative examination of the available program evaluations. The socio-economic environment greatly influenced these outcomes but is not measured.

^{2/} Many of the program evaluations and descriptions use different definitions for determining whether or not a payment is late or unrecoverable. Therefore, these figures should not be rigorously compared between projects but, instead, viewed as a general indication of how effective the program is in having funds repaid.

IV - FOUR PROGRAMS: FACTORS THAT CONTRIBUTE TO THEIR SUCCESS

The results of the first four programs summarized in Table 4 are impressive in terms of the four objectives. The programs also have similar methodologies. After a brief description of each of the four programs, the common elements which have contributed to their positive impacts will be examined. Limited reference will also be made to other programs included in the table and the appendix.

Profitable Lending to the Poor: the BKK Program

The Badan Kredit Kecamatan program (BKK; Table 4, Row a) was launched in Indonesia in 1972. The program's objective is to supply capital conveniently to the rural poor for off-farm income-generating activities. There are local BKK units located in 482 of Central Java's 492 sub-districts and they receive loans from the Central Java Provincial Development Bank. The local BKKs can approve small loans, while larger ones are approved at the sub-district level. Clients choose from six different loan options with effective monthly interest rates ranging from 5.6 percent for a six-month loan to 10.8 percent for a 22 day loan. Eligibility is based on character references of village headmen and there is little screening except in trying to ensure that the loan is for productive purposes and not consumption. There is also a forced savings program for borrowers.

Survey results from an external evaluation indicate that the businesses of most borrowers have expanded and that one-quarter of the clients have begun new economic activities. The program has had a moderate effect on employment while considerably decreasing the under-employment of participants. It has contributed to village and area development, particularly through backward linkages. The Government subsidizes the program by paying the salaries of one-third of the BKK staff who are usually local primary school graduates. However, a 7 percent return on the average portfolio makes the program financially viable and "one of the few publicly funded and administered credit programs in the world that makes money from providing loans to small enterprises" (27, p. xiv). Other aspects of the program that help explain its success are reflected in the following comment (27, p. xxi):

The program's success is the result of a complementary blend of political support and accountability, decentralized operations and control, skilled external financial and administrative supervision, lending terms and procedures that offer the convenience of moneylenders at much lower cost, a socially cohesive and homogenous setting, and a moderately expanding economy. The absence of one of these factors without a replacement performing the same function

could doom programs based on the BKK model before they are ever established.

Assisting the Landless in Bangladesh: the Grameen Bank

The Grameen Bank program of Bangladesh (GBL: Table 4, Row b) is also geared towards the rural poor, especially women and the landless. After several years of being a program of the Bangladesh Bank, the Grameen Bank Ltd. was institutionalized in 1983 as an autonomous financial institution with its own charter to extend unsecured credit to landless individuals and groups. The program operates in over 1,100 villages and is decentralized into branches, each with a field manager and six bank workers. The bank workers explain the program and requirements to prospective clients who organize themselves into groups of five. Every five or six groups is federated into a center, of which there are typically one or two per village depending upon village size. Individual borrowers, nearly half of whom are female, receive their own loans, are eligible for repeat loans, and make weekly payments to the bank worker at the center meetings. The workers supervise up to five centers; clusters of centers are supervised by resident district managers, who are in turn supervised by the headquarters office in Dhaka.

There is a required group savings fund to which each member must contribute weekly and for which 5 percent of each loan amount is deducted. Any group member can borrow from this fund in a time of need at terms fixed by the group. There is also a group emergency fund, intended to be used as insurance against loan defaults, to which each borrower must pay an amount equal to 25 percent of the interest charges. With these mechanisms, the savings performance has been impressive, with over US\$536,000, or \$15.50 per borrower (16 percent of the country's average annual per capita income), being saved by July 1983. Increases in participants' incomes have also been impressive. The average per capita income of the borrowers' households has increased in real terms by 35 percent in two and one half years and the project is increasing consumption, capital formation, and investments in housing. The program has decreased underemployment for most borrowers and actually helped initiate new income-generating activities for the 65 percent of the women and 2.5 percent of the men who entered the program claiming that they had no ongoing income-generating activity. At current interest rates of 16 percent, a GBL branch can cover its costs within three years and then begin to contribute to program overhead costs. The program is subsidized, but cash flow projections suggest that the entire operation can break even and may even make a profit within ten years.

Group Loans as a Means to Reach the Urban Poor: San Salvador

The PRIDECO/FEDECREDITO program in El Salvador (P/F: Table 4, Row c) is also based on a group credit scheme but operates in the urban

areas of San Salvador. PRIDECO, an urban community development organization, provides services to FEDECCREDITO, the coordinator of the country's 42 affiliated credit agencies, in order to supply credit to the city's informal sector entrepreneurs. The beneficiaries, 86 percent of whom are women, live in 37 of the poorest neighborhoods of San Salvador. They form themselves into "solidarity" groups of five to ten members and go to the PRIDECO office where loan applications for each individual are filled out. Soon thereafter, a PRIDECO staff person visits each member to verify the application information. Each client is also visited briefly by a FEDECCREDITO person who explains the responsibilities and benefits of credit. P/F staff calculate the appropriate loan size and frequency of payment. Each group selects a leader who collects payments from the other members on an agreed upon schedule and then makes payments to the FEDECCREDITO agent. If one group member does not pay, the amount missing is proportionately subtracted from the payments of the other members. Officially, every member of the group becomes behind in their payments. In this way, each member is directly responsible for the entire group. Prompt repayment leads to larger loans for longer periods of time.

Program participants generally use their loans to expand inventories of raw materials and stock in order to increase production and sales. Most have shown increases in incomes and levels of consumption. The program charges commercial interest rates and FEDECCREDITO, in 1979, was expecting to cover its costs within the next year. The PRIDECO operating costs will probably have to remain subsidized, but add up to less than US\$1500 per month.

Immediate Results in Quito: PRODEM

The fourth program is the Program for the Development of Micro-enterprises in Quito, Ecuador (PRODEM: Table 4, Row d), which was begun in May 1984. The program has a solidarity group component for the poorest beneficiaries and an individual microenterprise component for slightly larger enterprises. Group size ranges from three to eight members, with most groups at the lower end of the spectrum. Groups form themselves, select a leader, and then contact the program. A staff person visits them, makes sure they understand the program, and fills out a loan application. Individual borrowers in the microenterprise component are also visited by a staff person who fills out an application with information on the individual and the business. In less than two weeks, the entrepreneur or group receives the loan. Loans begin very small, even for individual borrowers, but are immediately increased upon prompt repayment. Effective interest rates are higher than those of commercial banks, but much lower than those charged by informal sector money-lenders. The program also has a forced savings component.

The results from the first eight months of the program are impressive, although it is impossible to determine whether or not they can be maintained. Many individuals and groups have already received more

than one loan. Program staff report that clients see the benefit of the forced savings component and that there is considerable evidence of increased employment and higher incomes. Some of the most remarkable aspects of the program, however, are that in just eight months it is 80 percent financially self-sufficient and has reached at least 1500 beneficiaries.

Similarities in Program Design

All four of these programs, though operating in different economic environments, have been successful with regard to the four criteria of an effective microenterprise program. Perhaps most impressive is that they each provide an extremely high number of very poor people (ranging from 900 to 21,000 yearly) with a needed service in a nearly self-sufficient manner. As a result, the programs have the potential to be institutionalized to provide this service for as long as it is needed. There are few development programs that can make this claim.

Participation by the Poorest

Interestingly, all four programs were designed for the poorest level or levels of entrepreneur (levels I and II) and have high percentages of female participation. They are effective at working at this level because all of the projects' components are designed with this level in mind. Programs designed to meet the needs of very large borrowers have eligibility criteria, loan sizes, and payback schemes geared towards those borrowers. They are consequently ineffective and not cost-efficient for small borrowers. For that reason, lending to small borrowers has appeared too costly and risky to formal financial institutions. On the other hand, as the four examples indicate, programs designed for the small borrower discover that the small borrower is an extremely credit-worthy client who can be served inexpensively.

Self-selection and Self-promotion

The first variables of the credit component that are different for a program reaching the poor, as opposed to a commercial lending program, are the eligibility requirements. As these four programs indicate, a character reference or credit group approach with the promise of larger future loans can avoid lengthy and costly visits to the businesses, accelerate the loan application process, and result in repayment rates well above 90 percent. The character reference by the village headman required in the BKK program is unique and can be used only in societies with a similar village structure. However, it relies on the same basic concept as the group credit approach: the local people themselves know who the good credit risks are. Because the groups are formed by the beneficiaries themselves, the clients, and not the program staff, select credit-worthy individuals. Few people will join a group with someone who

has a poor reputation for paying back loans or for being dishonest. Because the clients are self-selected in this manner, the costs and time required for program staff to select clients are minimized. In sum, it is an extremely effective method of selection: the poorest entrepreneurs are reached; there is no discrimination against women; loans can be disbursed quickly; costs are minimal; and repayment rates are high. Another benefit of a credit group approach that will be discussed later is that it can lead to the formation of local organizations with objectives beyond just receiving and paying back credit.

The four programs need very limited promotion, beyond an initial phase which lets people know of their existence and policies, because they are providing a service which is in great demand. Word among small entrepreneurs travels extremely quickly. In its first eight months PRODEM has had to slow its lending activities because the demand for credit has exceeded the supply of loan funds. Potential borrowers approach a successful program in search of a loan. Program staff do not have to look for eligible clients and then convince them of the merits of the program. Promotion is another costly activity that these programs minimize.

Small Initial Loans and Frequent Payments

In all four programs the initial size of loans is very small and is geared towards the poorest entrepreneurs. In addition to discouraging the participation of wealthier businesses, the small initial loans minimize the program's risk. If a client, or group, does not repay the first loan, the program's financial loss is minimal and no significant fund decapitalization takes place. Prompt repayment of small initial loans proves to program staff that the borrower is credit-worthy and knows how to use that size loan productively. The second, slightly larger loan, proves the same thing at a higher level. The entrepreneur, realizing that prompt repayment literally assures the availability of future, larger loans, indeed, the availability of an entire line of credit, does everything possible to maintain a good credit record.

The loan repayment schedules are designed to make it easy for a small entrepreneur to maintain a good credit record. The schedules reflect the level of economic activity taking place. In general, payments can be made daily to the group leaders or weekly to the program staff. Where capital is scarce, it is imprudent and inappropriate to demand that poor entrepreneurs accumulate their money at home to make relatively large payments monthly or even less frequently. The consumption needs at this level are too demanding. It is feasible, however, for the entrepreneurs to put a little aside daily or weekly to slowly pay back their loans. Furthermore, most enterprises at this level operate with minimal cash flow but fast turnover. A program participant who receives a loan may be able to buy more of a needed input at a lower price, and manufacture and sell more of a product, all within a week. In a short period of time the entrepreneur notices the increased income and can continue buying in larger quantities. The buy-manufacture-sell cycle is usually quite short and should be reflected in the loan repayment cycle.

Commercial Interest Rates

Another common variable within the credit component of the four programs is that the interest rates are not subsidized. They are at least as high as commercial rates and, in the case of PRODEM, higher than commercial rates. Although this issue will be discussed more thoroughly in the following chapter, briefly, the reasons for high interest rates are: (1) it promotes the financial self-sufficiency of the program; (2) it discourages participation by entrepreneurs who have access to credit at commercial rates; and (3) it provides entrepreneurs with an incentive to "graduate" to formal credit institutions where the interest rate is lower.

Cooperation with Formal Financial Institutions

As these variables within the credit component illustrate, the four programs effectively adapted lending practices to their low-income clients. Formal financial institutions play different roles in each of the four projects. The BKK program was actually set up and implemented by a bank. With government encouragement and support, the bank developed a methodology different from its standard lending practices in order to reach the rural poor. The Grameen Bank began as an intermediary between the poor and the national commercial banks in order to facilitate loans to the landless. When martial law was declared in 1982, the Government rescinded the order mandating that commercial banks cooperate with the GB project and the banks were put under pressure to improve their regular lending programs. Realizing that the banks would no longer cooperate fully with the GB project, the Grameen Bank Ltd. became an autonomous financial institution.

The P/F program is an example of full cooperation between a national credit agency and a community organization. PRIDECO has extensive experience working with the poor in the city and FEDECCREDITO knows how to run a loan program. Cooperation between the two facilitates lending to the poor. PRODEM, unlike the others, has thus far capitalized its loan fund through grants from international development organizations. However, because of the enormous demand for credit, PRODEM may receive a loan from one of Ecuador's commercial banks that would be protected by an outside guarantee and help expand the program. Even if banks help capitalize the loan fund, PRODEM probably will continue to administer the funds to clients without additional bank involvement.

These examples reflect a variety of ways in which banks can be involved in microenterprise projects. An effective arrangement gives field staff of the microenterprise promotion agency enough bank support to operate in the field with autonomy, responsibility for selection, and the flexibility to determine appropriate loan sizes, payback schedules, etc. This division of labor limits the bank's role in assessing loan eligibility and in pursuing delinquent borrowers, two tasks that banks cite as raising their loan costs above a profitable level.

The advantages of involving banks are that it introduces them to the poor, a population with whom they rarely conduct business, and it may convince them of the viability of lending to that population. It also can introduce the poor to banks, an institution that may have always seemed quite intimidating and unapproachable to a relatively assetless entrepreneur. This is especially true if the borrowers have to go directly to the bank for some of the financial transactions, as they do in the program in Monterrey, Mexico (ADMIC: Table 4, Row e).

Removal of One Barrier at a Time

That the programs address only one constraint at a time reduces their costs and allows them to reach large numbers. The programs do not provide skills training, attempt to improve markets or access to inputs, or even actively promote any type of advocacy by the clients. They simply help remove lack of capital as a major barrier to business improvement. PRODEM offers courses, but they are not required for individual borrowers until after the second loan. In essence, once lack of credit is no longer the major constraint and borrowers have learned to use their line of credit, the program begins to address the lack of business education. The courses are not provided to entrepreneurs for whom credit is still the major constraint.

An International Labour Office evaluation also concluded that success is more likely in programs that address only one constraint at a time. After evaluating eight cottage industries and handicrafts programs, they determined that "the relatively successful projects... have generally sought to provide a single ingredient or to remove a single bottleneck" (1, p. 109). The programs evaluated in this analysis confirm that conclusion. Simpler programs are easier to implement, less costly, and more likely to reach larger numbers. However, some situations may require more extensive assistance. These situations and the program designs that can meet their needs are discussed in the following chapter.

The savings funds that three of the four programs require are an additional approach to the same objective of removing a capital constraint. A fairly stable but small enterprise can be ruined by a family sickness that requires immediate cash. The entrepreneur may have no choice but to sell what is invested in the business or to borrow from the local moneylender at usurious interest rates. An entrepreneur with a savings account may be able to pay the emergency expenses without borrowing and preserve the operations of the business. Although poor entrepreneurs may initially complain about a required savings component, they tend to recognize quickly the benefits of such a program and actually enjoy the increased security and self-esteem that their own savings give them. In addition to benefitting the clients, a savings component can benefit the program by increasing the capital of the loan fund.

The fact that three of the four programs have a savings component also substantiates the assertion that the poor can save, accumulate

capital, and reinvest it. It is frequently argued that the immediate consumption needs of the poor make it impossible for them to save or to expand their businesses (33, p. 5):

The poor have no resources, little training or economic skills and frequently cannot even invest the time unless the returns are immediate. Their first financial returns cannot be reinvested in the business unless urgent living requirements are satisfied.

However, there is considerable evidence that the poor do save and reinvest in their businesses. Required savings in the three programs does not appear to deter program participation. The BKK evaluators found that over 40 percent of the clients had other savings accounts in addition to the BKK forced savings program. In the Self-Employed Women's Association program (SEWA: Table 4, Row f) encouraging, but not requiring, savings among women has been an integral part of the banking activities (66, p.84):

The experience of the SEWA bank demonstrates both the capacity and willingness of poor women to save. At the same time, it has provided the basis for establishing a sound financial institution.. ..SEWA's experience reflects the importance of this element (mobilizing indigeneous sources of capital in the context of providing credit to small scale entrepreneurs and the poor) in credit programs. By the end of 1976, the volume of savings allowed the SEWA Bank to begin advancing loans from its own resources.

The poor can save if given the opportunity and incentive. However, if the only place that they can keep their money is at home, they may be much less likely to accumulate an amount sufficient to tide them over a time of emergency or to make a substantial investment in an enterprise.

V - FACTORS THAT CAN LIMIT PROGRAM SUCCESS

Many factors threaten the success of a microenterprise project, especially the context in which the program operates. No program can control whether or not an area has an entrepreneurial tradition, a growing economy, or a widely dispersed population. Creating jobs and increasing the incomes of large numbers of people in a financially sustainable manner may be impossible in some contexts and relatively easy in others. On the other hand, there are factors that programs do control that may decrease their impact unnecessarily. Many programs have components or designs that limit their ability to reach large numbers inexpensively but do not increase substantially their effect on job creation or income-generation. In other words, they needlessly sacrifice two measures of success for the misguided notion that that sacrifice will improve their ability to increase incomes and employment. Financial sustainability may be sacrificed simply because a program is not designed with potential self-sufficiency in mind. Likewise, the ability of the program to reach large numbers may be sacrificed by providing business education which may or may not be of much value. This chapter explains some of the reasons why many programs do not meet the four objectives as successfully as the programs discussed in the last chapter. In so doing, frequent reference is made to the programs described in Table 4 and in the appendix.

Subsidized Interest Rates

There are two schools of thought on the interest rate issue: some argue that rates should be subsidized and others that they should cover the lending costs of the program. Although many programs offer subsidized rates, the argument against subsidizing is far stronger than the argument for it. One obvious problem with subsidized interest rates is that they tend to lead to fund decapitalization, especially in economies with high inflation rates. For example, in the Rural Development Fund project in Peru (FDR: Table 4, Row g), the real interest rate ranged from negative 12 percent to negative 42 percent, depending upon the rate of inflation. The loan fund was rapidly decapitalized and administrators had to raise the interest rate to a positive level to reduce erosion of the fund. In contrast, the evaluators of the BKK program attributed part of the program's success to charging interest rates high enough to maintain the fund and cover the program's costs. By contributing to fund decapitalization and financial dependency, subsidized rates create institutions with little possibility of becoming self-sustaining.

Subsidized rates also encourage borrowers with access to formal credit at higher market rates to attempt to participate in programs that are designed for poorer entrepreneurs who have no access to formal credit. Likewise, they discourage participants from moving on to

commercial sources of credit. Participants in programs with subsidized rates are also more likely to view the program as a charitable institution than a financial institution. Consequently, they may be less inclined to repay their loans promptly.

In addition, the interest rates that the poor are accustomed to paying on the informal market are exceedingly high, showing their willingness to pay high rates to borrow for productive activities. In the FDR program, evaluators concluded that the low interest rates were not a prerequisite to either project success or the economic survival of the borrowers. Evaluators of the Northeast Union of Assistance to Small Businesses program (UNO: Table 4, Row h) found that clients stressed the favorable payment period, not the low, subsidized interest rates, as the most desirable aspect of the program. Both the UNO and FDR programs rely on external injections of capital to maintain their loan funds.

A report on the SEWA program found that the repayment rates of clients paying 4 percent and 12 percent interest annually were not significantly different. They concluded that many poor women can pay commercial rates of interest and that lending programs for the poor do not need to subsidize their interest rates. Judith Tendler, who has carried out several extensive studies of credit programs, agrees with this conclusion (73, p. 70):

Highly subsidized interest rates, in sum, are felt to be unnecessary in order to lend to the poor. They undermine attempts to make institutional credit available to the poor, and they encourage investment in low yield activities.

The argument for subsidizing interest rates is not nearly as clear or persuasive. Initially, perhaps, practitioners felt that interest rates for the poor should be low simply because of the poverty of the clients. The wealthy receive so many subsidies that forcing the poor to pay for their services is quite unfair. Subsidizing interest rates became the only thing to do because of "political, social, and economic realities" (16, p. 72). Today, it seems to be tradition, more than anything else, that encourages interest rate subsidization (72, p. 72):

Subsidized rates are so common a tool of credit and development policy--not only in today's third world but in the histories of the industrialized countries--that one would have had to abstain from development assistance if one refused to finance programs using them. In this policy context, it seems unreasonable...to expect (a small program) to charge more for credit to the small borrower, in the name of economic wisdom, than is currently being charged for credit to the large.

Though they may be fairer, subsidized interest rates do not enhance a program's ability to serve the poor and actually threaten the sustainability of loan programs.

Extensive Promotion and Selection Activities

Another manner in which some programs needlessly increase their costs, and thereby reduce their potential for self-sufficiency and for reaching large numbers, is by including costly promotion activities and eligibility requirements. Obviously, eligibility requirements should encourage the participation of targeted entrepreneurs and preclude the participation of others. They should help avoid loans to people unlikely to repay them. Requirements such as 100 percent collateral or extensive financial information will limit the participation of poor entrepreneurs. Such requirements may be appropriate for evaluating loan applications of larger entrepreneurs who have financial records and are requesting large loans. They are not, however, an appropriate or cost-effective way to assess the credit-worthiness of small borrowers. As a matter of fact, many programs have found "no relationship between the amount of information collected on a client and his promptness at repayment" (72, p. 116).

Both the UNO and the Micro-Industries Development programs show how extensive eligibility requirements can dramatically increase a program's costs and limit the number of beneficiaries without significantly improving payback rates or the economic performance of the clients' businesses. For the first six years of the UNO program, client selection consisted of a costly four-stage process: (1) a census of microenterprises in a specified area; (2) a selection visit to see if a firm was interested in credit and met UNO's criteria; (3) an assessment of the business' finances, costs and outlays, assets and debits; and (4) an account-building process for the credit application. With such an involved process, only about 27 percent of the enterprises surveyed ever completed loan proposals, and only 17 percent actually received loans. However, in 1981, UNO combined the last three stages into one. Loan proposals as a percentage of firms surveyed immediately increased to 50 percent and average cost per loan declined by 30 percent. The change had no apparent effect on the high repayment rates.

The Micro-Industries Development Program in the Philippines (MIDP: Table 4, Row i) also performs expensive feasibility studies on even very small enterprises. Their objective is to select and provide assistance to those enterprises that have the most potential for generating employment. Despite this objective, "employment generation by MIDP businesses has not been great" (10, p. 125). The program has proven to be quite costly, and less than 300 businesses were assisted in the first two years. Some of the problems with the selection process are pointed out in the following quote (10, p. 133):

The client selection process is skewed too much towards presenting the application for MIDP credit assistance.... MIDP currently uses a project feasibility format which presents... detailed costings and cash flow analyses, beyond the needs of the enterprise and the reach of the entrepreneur. While appraising the likelihood of payback is

essential for maintaining character loans, this exercise tends to dominate staff time. MIDP staff should be learning how to assess client needs (credit, training, management) and to "pick winners".

Picking winners, or entrepreneurs likely to repay loans and create employment, can be extremely difficult for program staff, especially if they are trying to minimize costs. Letting local people assess credit-worthiness is more effective. In the Philippines, the Self-Employed Program (SELP: Table 4, Row j) has implemented an innovative method of using community leaders as volunteer credit agents. The community leaders, chosen through their own participation as clients in the program, are entrusted with a small loan fund. At their discretion, they grant very small "trial" loans (from US\$3 to \$16) to local entrepreneurs. Prompt repayment of the trial loans qualifies the clients for larger loans from the program. The system is efficient, with a repayment rate close to 100 percent, and inexpensive because the community leaders are volunteers. The leaders are motivated to work for the program because of various incentives: they themselves are clients and receive priority loans; the position carries significant prestige within the community; they participate in courses and social functions sponsored by the program; and they can even use their extensive business contacts within the community to further develop their own enterprises.

SELP, along with the BKK, GBL, P/F, and PRODEM programs show that local people are more efficient at assessing credit-worthiness than program staff. There are inexpensive and effective ways of selecting credit-worthy entrepreneurs that increase a program's ability to reach a large number of enterprises.

Business Education: High Costs and Poor Results

Financial sustainability and the ability to reach many people may also be sacrificed by the inclusion of an extensive business education component in microenterprise programs. Teaching better business practices is intended to increase the likelihood that entrepreneurs will repay on time, use loans productively, expand their operations, and create more employment. Overall, the case studies indicate that providing effective assistance or training to the microentrepreneur is the most difficult and most expensive project component. They also indicate that such business assistance is not the best way to ensure prompt repayment or to promote business expansion and job creation.

Repayment Rates

The repayment rates in themselves do not justify courses or formal training as a means to promote prompt repayment. The programs with business courses (Table 4, Rows d, e, h, i, j, k, l, m, n) do not have repayment rates significantly different from the programs with no formal

educational component. As a matter of fact, the MIDP program, with its extensive eligibility requirements and required management and accounting courses, had a repayment rate of only 87 percent with more than 35 percent of payments in arrears. The "line of credit" approach used by other programs, including BKK, GBL, PRODEM, and P/F, is much less expensive and perhaps more conducive to prompt repayment. The latter programs offer small initial loans that, if used productively, allow the entrepreneur to repay on time and gain access to progressively larger loans. The entrepreneur learns to use credit through experience with small loans and has a powerful incentive to pay back loans on time. Consequently, an educational component cannot be justified by its contributions to high repayment rates. Less expensive methods are at least as effective.

Business Improvement and Expansion

More than for encouraging prompt repayment, however, programs include an educational component because of its potential benefits to the client, the business, and the local economy. Most development practitioners seem to feel that entrepreneurs are more likely to increase their own incomes, improve local economies, and, most importantly, expand and hire more workers, if they receive business training. However, when the difficulties and costs of implementing an effective educational component are considered along with the impacts of that component, the case studies suggest that education is not the most effective way of promoting employment in microenterprise programs.

The first difficulty with business training arises because microentrepreneurs frequently fail to perceive their own need for training, the potential benefits of training, or the relevance or importance of what is being taught to their own enterprise. Consequently, their motivation to participate and learn is minimal. For example, few clients attend the voluntary courses in bookkeeping, sales promotion, and check-writing that are offered to UNO project participants, and fewer still find them valuable. "Most of those who attended the courses said that they 'could not put anything they learned into practice'" (73, p. 96).

Some programs require attendance at courses before a participant can receive a loan. Such motivational tactics, however, have not been particularly successful in promoting better business practices. In Burkina Faso (then Upper Volta), the staff of the Association for Productivity program (APP: Table 4, Row k) found that few of the clients used the managerial assistance provided with the loans. Staff shifted the training concentration from bookkeeping to working capital management and general business planning but still found that clients ranked the training component very low in importance and usefulness. A.T. International found the same results in its study of MIDP and SELP in the Philippines. The reviewers concluded that it was quite logical that clients felt their training was useless since few of the enterprises would ever be large enough to use the training. Courses initially given

to P/F participants in mini-bookkeeping, sales, and very simple notions of cost analysis were discontinued because they were "ineffective and not well received" (21, p. 180):

The material was too sophisticated, even though an attempt was made by the instructors to keep the subject matter very simple. Furthermore, the subjects taught were not perceived as immediate priorities for the businesses.

In order to be effective, training must be fitted to the level of the entrepreneurs and to the needs that they themselves recognize.

Even if appropriate training can be offered to microentrepreneurs, they may not wish to expand or hire employees. Although it is debatable, limited research indicates that a significant portion of informal sector businesses may not want to expand, meaning that business assistance may increase their profits but is unlikely to promote job creation. In Cordoba, Argentina, only 20 percent of the informal firms surveyed were interested in expanding (69, p. 156). In the FDR program, profiles of a small sample of aided entrepreneurs revealed a desire to use any increased income to improve the family's standard of living rather than to expand the enterprise. The UNO evaluation reports similar findings, that entrepreneurs showed increased profits but felt no need to expand. Providing business education to entrepreneurs that have no intention of expanding may greatly increase the costs of a program without increasing the program's impact on job creation.

It appears, then, that business education does not motivate entrepreneurs to expand. It may, however, provide already motivated entrepreneurs with the ability to expand. For example, staff of the Dominican Development Foundation program (FDD: Table 4, Row 1) discovered that microentrepreneurs who were younger, better educated, in business for four to five years, and frequently with that business as their sole source of income, were quite likely to adopt the tools offered in training programs. Among program participants of any level, only a small percentage are going to be likely to take advantage of courses, expand, and hire more workers.

Consequently, it is not cost-effective to require all participants of a program to attend business courses. This finding is corroborated by a recent cost-benefit analysis of five microenterprise programs that determined that technical assistance added very little to the value of the projects (44). Courses should be provided only to those entrepreneurs who show a desire to learn and to expand their businesses. For example, clients of PRODEM must attend courses before their third loan. The third loan is usually for about US\$300 and is approved for clients who have successfully repayed two smaller loans. In the SELP program, participants must also take courses before their loans reach a certain size. These entrepreneurs are already using their credit effectively, paying their loans back on time, and are probably more likely to expand. The courses support growth and expansion, but are not intended to cause or stimulate it.

Another way to assure that those entrepreneurs receiving courses are motivated to improve or expand their businesses is to charge a fee for the courses. As the coordinator of the Port Sudan program (Table 4, Row m) asserts (65):

The best service to a small business is rendered by another small business....Services rendered free of charge are subject to suspicion as to their quality or relevance or else to the motives of the agency; serious people appreciate and honour straight-forward contractual relationships.

Entrepreneurs who pay to attend classes are likely to be more motivated to learn than those who are required to attend courses that are free. The payments also help the program to defray the costs of formal training.

In sum, business courses can help promote expansion among certain entrepreneurs, but may have a relatively limited impact if they are required of all program participants. If the program has an extensive selection process, like ADMIC, MIDP, and the Program for the Development of Small Business (DESAP: Table 4, Row n), then an attempt can be made to admit only those entrepreneurs who will benefit from the courses. Unfortunately, it is difficult for program staff to pick those entrepreneurs and both the courses and the selection process are very costly. In the ADMIC program, 64 percent of all costs in 1982 were for promotion, courses, visits, and assistance.

Overall Program Impact

In addition to being costly, a very limited number of entrepreneurs can be assisted by programs that emphasize education. The varied socio-economic contexts and internal resources and capabilities of microenterprise programs cast doubt on the validity of directly comparing the numbers of clients assisted. However, the difference between the two types of programs in the numbers of entrepreneurs reached is of such a magnitude to justify the comparison. The comparison reveals that it is extremely unlikely that programs stressing education can create enough jobs with enough of an impact through linkages in the economy to make up for the small number of entrepreneurs directly assisted.

The ADMIC program, in its first four years, provided loans to 240 businesses and assistance to 455. One can estimate that the program reaches an average of 115 businesses each year, though a smaller number receives credit. The MIDP program assisted approximately 246 firms in four years, averaging 62 a year. DESAP enrolled 1,300 entrepreneurs in its training programs in four years, for a yearly average of 325. The three programs together assist approximately 502 businesses each year, or an average of 167 enterprises each. All three emphasize their business education component, are costly, and are unlikely ever to approach self-sufficiency.

In contrast, the P/F program provides loans to an average of about 912 clients yearly. PRODEM, extrapolating from its first eight months and assuming a conservative average of four members per credit group, will reach a yearly average of at least 2,000 entrepreneurs. Together the two programs reach 2,912 microentrepreneurs yearly, for an average of 1,456 each, and operate their programs relatively self-sufficiently. If these 1,456 entrepreneurs created one job each (i.e., each client who was 50 percent underemployed became fully-employed and hired one half-time assistant; each fully-employed entrepreneur hired one full-time assistant; or each client with no previous income-generating activity succeeded in becoming fully employed), then they would create 1,456 new jobs.

The 167 businesses assisted by the programs stressing education would each have to create more than eight jobs to have the same impact on employment as those stressing credit. That each of the 1,456 microenterprises could create one job each is doubtful, but that each of the other 167 firms could create an average of eight jobs each is even more unlikely. For example, an evaluation of DESAP found that the average number of jobs per microenterprise that received credit increased from 3.8 to 5.1 (40, p. 55), or by slightly more than one employee. This increase is among those clients that received courses and credit (464 in four years). The number of jobs created by each of the 1,300 entrepreneurs enrolled in the training programs, most of which had not yet received loans, is undoubtedly even lower.

Furthermore, if the BKK and GBL programs are added to the calculations, the 167 firms receiving extensive business training would have to create an average of over 68 jobs each to have the same average impact on employment as the other four programs. No matter how many jobs the credit-intensive programs help create, it is implausible that the programs stressing education can create 8 to 68 times as many jobs. It is not easy for the benefits of a business education component to outweigh its high monetary costs or its costs in terms of the limited number of entrepreneurs reached.

At this point, one might argue that the entrepreneurs reached by credit programs like BKK, GBL, F/D, and PRODEM are unlikely to create any jobs. A loan might help them decrease their own underemployment and increase their own incomes, but they would probably increase their families' level of consumption instead of investing in their businesses. Their impact on employment would consequently be minimal whereas better-off businesses, those reached by ADMIC, MIDP, and DESAP would be more likely to be able to reinvest in business growth and expansion. While this is a valid argument, it is not likely that the better-off businesses will create between 8 and 68 times as many jobs.

Furthermore, the ability of microenterprise programs to stimulate job creation depends more on the type of activity assisted than on the level of beneficiary. Evaluations of the BKK and GBL programs reported significant levels of employment creation even though they work with the poorest of entrepreneurs. Microenterprises involved in commerce, such as

street or market vendors and shopkeepers, will not create many jobs. Enterprises involved in small manufacturing activities, however, such as shoe-makers, tailors, or furniture-makers, are able to create a significant number of jobs regardless of their economic level. The poorer segments of the informal sector are disproportionately represented in commerce activities because those activities require minimal capital investment. Nonetheless, the programs that reach these vendors also reach microentrepreneurs involved in manufacturing. Evaluations of BKK, UNO, and FDR all indicate significant levels of employment creation. None of the three emphasized an educational component and the three reached all three levels of entrepreneur.

It might also be argued that the linkage effects of programs geared towards poorer beneficiaries will be quantitatively less than if larger businesses are assisted. While this is true, the linkage effects of level I businesses will tend to be more influential on the poorest sectors of the economy, where even a small increase in business or income can have a large impact. This is not to say that there is a dual economy, simply that each economic level within a society tends to conduct much of its economic transactions within its own levels.

VI - APPROACHES TO MICROENTERPRISE PROMOTION: SOME CONCLUSIONS

Thus far, the components of microenterprise programs that tend to increase or decrease a program's effectiveness have been examined. It remains to link these to the several methods of microenterprise promotion followed in the developing world.

Traditional versus Nontraditional

In general, programs that promote microenterprises in the informal sector can be divided into three types: traditional, nontraditional, and systems. Those that stress education can be called "traditional" and those that stress credit "nontraditional". Stephen Gross, who has extensive experience in working with microenterprise promotion programs in Latin America, prepared the following table which compares these first two approaches.

The table depicts fairly accurately the differences discussed between programs that stress education and programs like BKK, GBL, P/F, and PRODEM. Nontraditional programs are designed for self-sufficiency with high interest rates, promotion and selection primarily done by the clients, and an emphasis on credit instead of education. However, the programs stressing credit in this analysis do not always meet the criteria of the nontraditional programs as presented in the table. Payback periods are frequently longer than four months and the programs are unlikely to reach financial self-sufficiency within two years. That nontraditional programs reach 400 new clients yearly with education can only apply to programs like PRODEM that have an educational component. It is difficult to determine whether or not they actually create 900 jobs yearly. Lastly, that there is an incentive in nontraditional programs to graduate to commercial banks may very well be true. However, there is little evidence that graduation is much more than an uncommon exception for participating microentrepreneurs. In general, though, the table reflects the evidence from the case studies that programs emphasizing credit are more effective in terms of employment- and income-generation than those that stress education.

That programs emphasizing education reach primarily better-off entrepreneurs while the more effective programs reach levels I and II does not mean that programs should only target levels I and II. Nor does it mean that programs should not include courses as a means of improving business management skills. Although larger businesses may not be the poorest, they still suffer from a lack of credit, and sometimes a lack of business education, which limits the potential of even the most motivated entrepreneur. Whether these larger businesses can be assisted by the same type of program that is proving effective for smaller businesses is as yet unknown. Because the larger businesses often require larger loans, it

TABLE 5. CHARACTERISTICS OF "TRADITIONAL" AND "NONTRADITIONAL"
PROGRAMS FOR MICROENTERPRISE PROMOTION*

	"Traditional"	"Nontraditional"
Objectives	Create and strengthen employment; increase incomes	Create and strengthen employment; increase incomes
Business size	Larger	Smaller
Emphasis	Education	Credit
Loan size	US \$800-\$3000	US \$100 initially and increasing to \$1000
Use of loans	Fixed assets and working capital	Working capital
Payback periods	6 months to 2 years	2 weeks to 4 months
Interest rates	Subsidized	Commercial or higher
Time lapse from initial program contact to loan disbursement	1 to 2 months	4 to 7 days
Learning experiences in use of credit in one year	1	4 to 6
New clients served in one year	250 with education 150 with credit	400 with education 600 with credit
Loans disbursed in one year	150	2000
Jobs created in one year	450	900
Financial self-sufficiency	Impossible	Possible, 1 to 2 years
Promotion and selection	Program is responsible	Clients are responsible
"Graduation" to commercial banks	Little incentive because of subsidized interest rates and long payback periods	Positive incentive because of high interest rates and short payback periods

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

may be difficult to adapt the nontraditional approach to their needs. Meeting their needs probably requires some combination of the non-traditional approach with the lending procedures of commercial banks. It may also require more of an emphasis on education, meaning that financial self-sufficiency is more difficult to attain.

The microenterprise component of PRODEM is a promising approach for small level II businesses and may be adaptable to even larger enterprises. Enterprises must participate in courses before their third loan. Instead of a solidarity group, participants need a "firma solidaria" or a co-signer whom program staff visit before considering a loan. The loans are still so small, averaging US\$193, that they probably do not meet the needs of larger entrepreneurs. Though the results of the first eight months are impressive, they are not nearly as impressive as those of the solidarity groups in the same program. In the first eight months 489 microentrepreneurs received loans, the repayment rate was 91 percent, and the component was 59 percent self-sufficient. The same figures for the solidarity groups were approximately 293 groups (of three to eight entrepreneurs each) assisted, a 99 percent repayment rate, and 88 percent self-sufficiency.

The problem is that while an inexpensive methodology has been developed to assist the poorest of entrepreneurs, one has not been fully developed to assist the better-off entrepreneurs of the informal sector. Therefore, it is necessary to continue implementing relatively costly programs geared towards levels II and III in order to provide the needed credit and assistance services and to develop a more effective methodology. All three levels of entrepreneurs need assistance.

Another limitation of the traditional and nontraditional approaches is that they tend to avoid addressing directly the constraints beyond credit and education that are of a more structural nature. Moreover, there may be areas where neither the traditional nor the non-traditional approach can produce significant increases in employment and incomes for large numbers. It is doubtful that a program like PRODEM or BKK could be effectively implemented in the poor rural areas of Burkina Faso where APP is promoting microenterprises. While lack of credit and business education are major constraints on the entrepreneurs, the extreme underdevelopment of the economy, the low level of population density, and the lack of entrepreneurial tradition make enterprise promotion extremely difficult.

The Systems Approach

After about seven years of experience in rural areas of Burkina Faso, APP has found it necessary to implement a systems approach because addressing simply the credit and educational constraints was not particularly effective (46):

(APP)... takes a systems approach to human and economic development. On the level of the individual, it couples access to an important means of production (credit), with knowledge of how to use this means, and with increased motivation and moral support for people developing enterprise activity. On the level of the area economy, this systems approach means assisting the entire range of productive activity necessary for an economy to grow: producers, processors, repair services, retailers, wholesalers, distributors, artisan manufacturers, and transporters. Clients are encouraged to analyze the needs and opportunities in the local economy and to propose enterprises that will fill them. Although APP prefers to respond to local demand, sometimes it takes a more initiating stance when there is a need for a certain kind of business (e.g. transport) to enable many producers to develop. APP is also careful not to encourage excessive production or competition for local markets.

The process has developed a relatively strong institution that can meet the needs of aspiring and experienced local entrepreneurs. More than half of the assisted entrepreneurs (from permanent enterprises operating for at least three years) felt that their businesses had improved during one year of assistance in terms of: net worth, use and maintenance of business records, quality and quantity of labor, refinement of product or service, management of cash, acquisition of inputs, reinvestment of profits, and the ability to obtain and use credit. More importantly, the program is providing much-needed links between the beneficiaries and formal businesses through contractual arrangements and apprenticeships. APP's support of the informal microentrepreneurs reduces the risk of exploitation in these arrangements. In addition, APP identifies and encourages activities in areas that can stimulate the economy, create more employment opportunities, and not lead to displacement.

The Port Sudan program is also actively encouraging closer working relationships between beneficiaries and more established or formal businesses and institutions. The program has management advisory teams that help arrange contracts for clients with formal sector firms and with relief agencies operating in the famine-stricken areas of Eastern Sudan. They arrange for the clients to hire local businessmen as teachers of business courses. The program addresses marketing problems by constructing markets in which clients can rent stalls to sell their wares. The income from these rentals and the fees charged for all of the services provided are expected to cover a significant portion of the program's costs.

It is more difficult for programs like APP and Port Sudan to reach large numbers and be financially self-sufficient because of the individual attention given to each entrepreneur. From 1981-1984 APP had disbursed 967 loans. In Port Sudan, the program is expected to serve up to 800 clients by the end of the second year. However, because the programs help create links between clients and formal firms, they may

be contributing to profound changes in the structure of the local economies. They may be helping to integrate the economy so that poor entrepreneurs can respond to economic opportunities as easily as formal firms. The programs' abilities to make such long-term changes depends upon their institutionalization which, in part, depends upon their financial self-sufficiency. Both programs charge clients for all of the services provided. Once institutionalized, these programs should be able to provide microentrepreneurs with the same services that are available to formal firms. The logic behind this approach is explained by the coordinator of the Port Sudan program (65):

If big business can't survive without services (like continuous access to credit, consultancy, lobbying, public incentives such as serviced estates, etc.) how can one expect small business to survive without such services....An agency serving small business must ultimately become self-financing as a temporary engagement is not sufficient and to expect subsidies in eternity is not realistic; don't offer help, but services; promote your services; economize; if returns on single cases are small go for big numbers; work quickly towards cost-recovery....

Though inevitably more costly, programs using a systems approach still need to strive for financial self-sufficiency in order to be institutionalized and provide a long-term service to microentrepreneurs. Such an approach may be the best way, in some situations, to improve the conditions of microentrepreneurs, create jobs for the poor, and alter existing local economic structures.

Contributions to Development

Obviously, there is much more to development than the provision of credit and services. A program that has a truly positive developmental impact is one that promotes equity and empowerment, two conditions without which the poor will never get beyond needing to be beneficiaries of development projects. Equity in this context means providing the poor with the same opportunities and services as the rest of the population so that they can partake in the benefits of development. Empowerment refers to enabling the poor to voice their concerns and have a say in the formation of the policies and decisions that affect them. It is usually the result of extensive community-level organizing. Well-designed and well-implemented microenterprise programs can contribute to both equity and empowerment.

Promoting Empowerment

Programs that depend on the active participation of clients and encourage or facilitate organizing among the poor have the most potential for contributing to empowerment (see 74). The solidarity group credit component is an excellent example. Required meetings within and among the groups encourage interaction among the microentrepreneurs. Participants have the opportunity and a forum in which to voice their grievances, discuss their problems, and propose solutions. These problems may be with the credit program itself, but, as the program becomes more routine, will tend to concern other aspects of the participants' lives.

In the FDD program, the meetings of the solidarity groups led to the formation of the Dominican Association of Tricicleros (vendors who sell primarily fruits and vegetables from tricycles throughout Santo Domingo). The Association helps participants to develop leadership skills such as public speaking, organizing, and financial management while providing a forum in which local issues can be discussed. In addition, the Association has created its own emergency loan fund, burial insurance fund, and savings cooperative. It is also instrumental in keeping the program administrators in touch with the concerns and views of the program participants.

The GBL, with its groups, centers, and clusters of centers has also provided an organizational structure which the landless can use to identify their problems and work together to solve them. The structure is intended to bring disadvantaged people "within the folds of some organizational format which they can understand and operate, and can find socio-political and economic strength in it through mutual support" (35, p. 15). As a result, some schools are being established where the village meetings take place. Because over half of the bank's staff and members are women, there is evidence of increased respect, rights, and leadership opportunities for women and a growing movement toward dowry-less marriages (37).

Perhaps the best example of credit as an organizational tool is the Working Women's Forum (WWF: Table 4, Row o) in Madras, India. Through attempts to organize poor urban women around social issues, organizers realized that the women's main concern was getting money to maintain and expand their businesses. "The Forum sees credit as a catalyst that encourages women to organize" (13, p. 349). According to one report on WWF, the Forum (15 p. 1):

has provided its members with access to funds, has expanded to include support services such as child care, education, health and family planning and ... (has provided a) sense of strength and purpose... to tackle the political and social problems that affect their lives.

Forming community-wide organizations through group credit programs helps the poor to be well-represented in these organizations. Smaller solidarity groups are less likely to suffer from the intra-community divisions that make it difficult for lower economic levels and selected castes, religions, or political affiliations to participate in community-wide organizations (72, p. 119). However, there is still no guarantee that some people will not be self-selected out of participation or some solidarity groups be under-represented when participants form associations or larger groups.

In addition, empowerment requires more than organization. It can take place only when the poor control the resources and run the programs themselves. Therefore, the financial self-sufficiency and client involvement of these programs is crucial. Although it is not fair for the poor to pay higher interest rates than the wealthy, it loosens the ties of dependency that many development programs tend to tighten. Increasing participation by clients in these programs also promotes independence. Programs that rely on a group credit component depend on the clients themselves for promotion, selection, and the repayment of loans for the entire group. This level of client involvement may be a crucial factor in program success and community organization (32, pp. 48-49):

Programs must be carried out through structures which themselves have their bases in local organizations, incorporating, representing, and directed by the intended beneficiaries....The presence of these program elements (active participation and shared responsibility on the part of the beneficiaries) thus appears to be the key to the establishment of a viable, long-term comprehensive lending program, as well as to the generation of other spin-off development endeavors undertaken by the marginal groups themselves.

Likewise, a credit program can be a spin-off endeavor for local organizations already involved in other community development activities. Because the poor have so little access to credit, a credit component within a community development organization is an effective mechanism for getting people involved in that organization. The Self Employed Women's Association began as a workers' association concerned with low wages, poor working conditions, police harrassment, and exploitation by middlemen. The involvement of poor women in SEWA's activities was greatly increased when the Association opened its own bank and began to provide loans. Similarly, PRIDECO is primarily an urban development organization that, with the help of FEDECREDITO, has effectively implemented a credit component. The incorporation of lending services into community development organizations can be an effective means of increasing interest and participation in those organizations.

Promoting Equity

Without a credit service, poor entrepreneurs are unlikely to escape their poverty. A system in which the wealthy can get loans and other business services while the poor cannot perpetuates the disparity between the two classes. Providing credit to the poor helps promote equity. Microenterprise programs, especially those stressing education, often are designed as programs of assistance to help informal sector entrepreneurs "graduate" to commercial banks and the formal sector. They are seen as a stepping stone for microentrepreneurs. Self-sufficiency is not important because the programs offer assistance to the poor that should not be needed one day. Instead, microenterprise programs should promote their assistance with the idea that they are institutionalizing a service to the poor that is continually available to the wealthy. The Managing Director of the GBL explains the lack of logic in the first approach (78, p. 15).

An odd question is usually raised by some: when would the poor be self-reliant so that the bank can stop giving them credit?

This is a very strange question. This is strange because nobody in his right mind will ever ask the question: when would the rich (or the farmers) be self-reliant so that the banks can stop giving them credit?

To the extent that equity is of any concern, poor entrepreneurs should have access to the same services that wealthier entrepreneurs do. Programs like the GBL and BKK give large numbers of entrepreneurs access to credit while APP and the Port Sudan programs supply credit and services. Both approaches contribute to more equitable development to the extent that they can be institutionalized. This analysis has shown that entrepreneurs are credit-worthy, even without physical collateral, if lending procedures are adapted to their needs and not the needs of the wealthy. That such lending programs "can lend on the basis of personal judgements about the reliability of a person helps to overcome one of the major causes of inequality in the distribution of credit channeled through public and private banks" (72, p. 115).

Not Resolving All Concerns

Microenterprise promotion is not the sole answer to underdevelopment. The needs of developing countries go far beyond the provision of credit and services to entrepreneurs in the informal sector. Microenterprise promotion is only one strategy, seemingly quite effective, for addressing low incomes and underemployment in the informal sector. However, it raises a variety of troubling issues. Firstly, the approach is different from the type of activities that development organizations are accustomed to supporting. They may find it difficult to justify aid to

individually run profit-seeking businesses and call it development assistance. On the other hand, is not aid to small farmers comparable? Though not producing food, many small enterprises sell food or provide goods and services that are basic needs.

Secondly, whether or not assisted businesses simply displace other struggling entrepreneurs has yet to be determined. It is likely that some displacement takes place but the complex relationships within the informal sector are not yet well enough understood to determine how much. Thirdly, evaluations of these programs may not be providing sufficient information to assess accurately the programs' developmental worth. The immediate and long-term impact of the programs on families, communities, and employer-employee relations often is not addressed thoroughly. Moreover, the lack of control groups makes statistics of jobs created and increases in income a bit ambiguous. Evaluations rarely consider the socio-economic environment of the program, leading to glowing reports of programs operating in relatively positive environments and severe criticisms of those operating in less promising areas (see 45).

Lastly, and most importantly, one must ask whether microenterprise promotion is conducive to bringing about long-term socio-economic development. As this analysis has shown, some programs can contribute to equity and empowerment. In the long run, however, it is possible that microenterprise promotion perpetuates the system against which it is struggling. Do programs simply benefit a small segment of the informal sector and leave the unassisted poor in poverty with even less opportunity for advancement? Will microenterprise promotion discourage the long-term structural changes that are needed to eliminate the gross poverty and inequality existing in developing countries?

The Case for Microenterprise Promotion

The concerns raised above are complex and some are unresolvable, just as they are when considered with regard to other types of development initiatives. Even with these issues in mind, however, microenterprise promotion compares well to other types of development assistance. Most importantly, it directly addresses an obvious need. Incomes in the informal sector are low and levels of underemployment among the poor are high. There is no indication that the formal sector is going to be able to employ larger proportions of the population or decrease the dependency of the poor on the informal sector. It is much more likely that increasing percentages of the labor force in rural and urban areas will have to support themselves and their families through informal economic activities. These activities must generate enough jobs and incomes to keep people out of poverty. Informal firms need assistance if they are to be able to sustain even a portion of the growing labor force.

Microenterprise programs can help create many jobs and increase the incomes of large numbers of very poor people. They can become institutionalized as financially self-sufficient programs run by local people. They can help convince governments and banks of the viability and credit-worthiness of informal enterprises. More favorable government policies will decrease the harassment and discrimination against informal firms and increase their access to credit, services, inputs, markets, and large contracts. Moreover, microenterprise promotion contributes to more equitable development by providing the poor with the credit and services which the rich use to build profitable businesses.

The nontraditional approach is an effective strategy for supporting informal microenterprises. It makes the clients themselves responsible for determining credit-worthiness through credit groups or assessment by reputation. It reaches the poorest of entrepreneurs with very small loans that increase with prompt repayment. The programs approach financial self-sufficiency by charging unsubsidized interest rates and keeping costs low. They offer education and additional services only to those clients who recognize their need for such services and who are willing to pay for them. They encourage organization among the clients through group activities, meetings, or courses. Such organization increases the participation of the poor in decisions that affect their lives.

Where nontraditional credit programs may not be sufficient, the systems approach may be effective. It provides credit but also tries to establish beneficial links between poor clients and formal sector businesses and opportunities. It reaches fewer entrepreneurs but may be able to alter local economic structures, making them more favorable to informal firms.

Microenterprise programs that stress education or fail to strive for financial self-sufficiency appear ineffective from this comparison of programs. They are expensive, reach relatively few clients, and do not seem to create more jobs or raise incomes any more than programs that emphasize credit. Furthermore, because of their high costs, they are less likely to become institutionalized or influence government or bank policies.

Conditions in the informal sector are harsh. Government policies, development strategies, and population growth are not giving the poor any alternative to informal economic activities. The informal sector is growing and providing increasing percentages of people with incomes, goods, and services. At the same time, underemployment among the poor persists and incomes remain low. Microenterprise promotion is one strategy that can help improve this situation. It is a strategy that can be implemented effectively in numerous situations to directly benefit many members of the informal sector. Moreover, microenterprise programs encourage the organization of the poor around social, political, and

economic issues and consequently contribute to a more participatory and equitable system than that which currently exists.

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APPENDIX

NARRATIVE DESCRIPTION OF FIFTEEN MICROENTERPRISE PROMOTION PROGRAMS

(a) BKK PROGRAM

Full Name: Badan Kredit Kecamatan Program.

Setting: Central Java, Indonesia. The program operates in relatively densely populated rural areas. Indonesia's economy was expanding moderately during the evaluation period.

Description: The program was launched in 1972. Its objective is to supply capital conveniently to the rural poor for off-farm income-generating activities. Local BKK units receive loans from the supervising bank and then make sub-loans, most of which are approved at the local level. Loan eligibility to sub-borrowers is determined by character reference from village headmen. Repeat loans function as an incentive for repayment and borrowers must begin with very small loans that increase as the repayment record warrants.

Implementing Organizations: The Central Java Provincial Development Bank received a loan from the Provincial Government to make loans to BKK branches. The Government helps supervise the program and subsidizes it by paying the salaries of one-third of BKK staff.

Results: Survey results show that loans have promoted the expansion of most borrowers' businesses; one-quarter of clients have begun new economic activities; most reinvest profits into the business and withdraw from their forced savings accounts for consumption. The program has had a moderate effect on employment while considerably decreasing under-employment. It has contributed to village and area development, particularly through backward linkages.

Source: (27).

(b) GBL PROGRAM

Full Name: Grameen Bank Ltd.

Setting: Rural areas of Bangladesh.

Description: GBL sets up a bank unit with a field manager and a number of bank workers. For a loan, clients must form themselves into groups of five, select a chairman and secretary, and hold weekly meetings. A new group is observed for a month before two members are selected for taking loans. If these two members meet loan paybacks during the first month or two, the other group members become eligible for loans. If one member defaults, the whole group becomes ineligible to get repeat loans. Group members must contribute to a group savings fund and an emergency fund. Bank workers attend the weekly meetings, disburse loans, and collect payments.

Implementing Organizations: The program used to be implemented in cooperation with commercial banks but GBL is now an independent bank. It is funded with investments by the Government, commercial banks, and members; loans from IFAD and the Bank of Bangladesh; and members' savings (10% of total funding by 1985).

Results: The households of Grameen borrowers have experienced average per capita income increases of 35 percent in real terms in two and one half years. In terms of levels of employment, client households are generally better-off than comparable non-member households. The organizational structure has led to an increasing number of loans for joint enterprises (8 percent of all loans in 1984).

Sources: (20, 34, 35, 36, 37, 78, 79).

(c) P/F PROGRAM

Full Name: PRIDECO/FEDECCREDITO

Setting: San Salvador, El Salvador. The program operates in 37 of the poorest neighborhoods of San Salvador.

Description: P/F was initiated in 1977 when FEDECCREDITO began working with PRIDECO in order to set up a loan program for the poor. The credit system depends on solidarity groups. Business owners form groups of from five to ten members and select a group leader. The group goes to the PRIDECO office where each member fills out a basic information form. Within a week, they are visited by an agent from both organizations. Group members give their payments to the group leader who is visited weekly by a FEDECCREDITO collection agent. Loan size and frequency of payments for each group are determined by staff. Once the first loan is repaid, subsequent loans are usually approved within a week.

Implementing Organizations: PRIDECO is a government-funded urban community development organization founded in 1973 to assist slum dwellers. FEDECCREDITO coordinates the country's rural credit agencies and directly administers credit within San Salvador. It receives funding from the Central Reserve Bank, the Inter-American Development Bank, and the World Bank.

Results: Clients have increased their own incomes and local levels of employment. Investments in housing, nutrition, clothing, and education have increased. Some credit groups have initiated community projects.

Source: (21).

(d) PRODEM

Full Name: Program for the Development of Microenterprises.

Setting: Quito, Ecuador.

Description: The program began in May 1984 with two components, one for individuals and one for solidarity groups. Both provide very small initial loans for short periods of time. Prompt repayment leads to larger loans for longer periods. Clients in either program must maintain a savings account. The solidarity groups form themselves, select a leader, and attend an orientation. The leader collects the loan payments and the groups meet frequently to exchange ideas and information. The microenterprise component provides loans to individual business owners. A credit agent visits the business, fills out an application, and usually disburses the loan in six to eight days. The first loan is for only US\$50 to \$100 and must be repaid within fifteen days. The same day it is repaid, however, the client may receive a second loan for about US\$200. Before receiving a third loan, clients must attend a basic accounting course.

Implementing Organizations: PRODEM is a program of the Ecuadorian Development Foundation. The program is assisted by ACCION International/AITEC and funded by various international organizations.

Results: In its first eight months, PRODEM has reached over 1,500 beneficiaries. Staff have noticed higher levels of employment and improved business management. Many solidarity group members have increased their activities enough to employ family members.

Sources: (8, 28, 29, 30).

(e) ADMIC PROGRAM

Full Name: Dynamic Assistance to Microenterprises.

Setting: Monterrey, Mexico. The program began in the city but has extended to include a few rural towns outside of Monterrey.

Description: ADMIC was formed in 1981 to create income and employment opportunities for the industrial and commercial enterprises of Monterrey's informal sector. Each microenterprise receives an initial evaluation that includes financial analysis and planning for the business and an assessment of its managerial and technical training needs. Clients must complete courses before applying for a loan. If a loan is approved, ADMIC helps the client secure it from a local bank. Clients pay for the courses which are in accounting, taxation, and project analysis. Staff visit client businesses to offer informal assistance.

Implementing Organizations: ADMIC was established as a Mexican affiliate of ACCION International/AITEC. It administers credit with the assistance of a local bank and a loan fund from the Inter-American Development Bank. Operational costs are covered by private sector donations, revenue from program activities, and grants.

Results: Many of ADMIC's clients have experienced substantial increases in incomes and employment. From 1981 to 1984 the program is estimated to have helped generate over 1200 new jobs in the city's informal sector. Participants also formed the Mexican Association of Micro-entrepreneurs which has helped clients cut costs and develop linkages with larger producers by forming buying and selling groups.

Source: (3).

(f) SEWA

Full Name: Self-Employed Women's Association.

Setting: Ahmedabad, India. The city's economy is based on textiles.

Description: SEWA was established in 1972 by a group of poor self-employed women. It has an economic wing, a rural wing, an emphasis on organizing workers against harrassment and discrimination, and a bank. The SEWA bank began by administering loans from nationalized banks to SEWA members. Because of a variety of problems, however, SEWA began disbursing loans from its own funds in 1976. Any SEWA member can apply for a loan by filling out an application at the Bank. The woman is visited by a field worker who also talks to friends and neighbors of the applicant. Within two weeks, if the loan is approved, the money is deposited in the woman's savings account.

Implementing Organizations: SEWA is a grass-roots organization that grew out of the Women's Wing of the Textile Labor Association, one of the oldest and largest unions of textile workers in India. It has received support from many international organizations.

Results: SEWA's wide variety of activities, backed by the substantial research and sensitivity to women's problems of the SEWA staff, have led to many accomplishments. In terms of microenterprise promotion, SEWA has provided credit, helped organize women into productive units to purchase raw materials and sell their goods collectively, linked women directly to suppliers and markets, provided training, and lobbied for public policies to support self-employed women.

Source: (66).

(g) FDR PROGRAM

Full Name: Rural Development Fund.

Setting: Rural areas, Peru. By 1980 the program was operating in 19 of Peru's departments, including most of the sierra and high jungle regions. During the time period evaluated (1975-1981), Peru's economy was beset by recession and extremely high rates of inflation.

Description: The Fund is managed by sixteen branch offices of the Industrial Bank of Peru (BIP). Over 80 percent of all loans can be approved locally. In order to be eligible, borrowers must have no alternative source of credit; belong to the artisan, small-scale industry, services, or small-scale agribusiness sectors; provide collateral for the full amount of the loan; and contribute at least 10 percent of the amount to be invested. Loan applications usually take from two to three months to process. Depending upon the proposed use of the funds, loans may be paid directly to the supplier of the machinery or raw materials to be purchased. From 1978-1981, 60 percent of loans were smaller than US\$584 and 10 percent greater than \$12,400.

Implementing Organizations: The Government of Peru and US AID funded the Industrial Bank of Peru to implement the FDR program.

Results: Survey results show an average yearly increase of 53.5 percent in net income of loan recipients. Evaluators estimate that every \$7000 of loan funds helped create one additional full-time job. Though BIP planned to continue capitalizing the fund, it had been fully decapitalized by 1981 because of the highly negative interest rates.

Source: (24).

(h) UNO PROGRAM

Full Name: Northeast Union of Assistance to Small Organizations.

Setting: Recife, Brazil. UNO began as an urban program in 1972 but expanded and extended to Brazil's northeast interior. During the evaluation period (1973-1981), Brazil was suffering from extremely high rates of inflation.

Description: From 1974-1978 UNO was a modest lending program in Recife, making an average of 165 loans a year. In 1979 UNO became part of a World Bank project which resulted in a quadrupling of total UNO loans between 1979-1981. UNO generally carries out a census of an area's enterprises and then holds a promotional meeting to explain its program. By 1981, the selection process consisted of one visit to a censused firm to diagnose the firm and fill out a credit proposal. Working capital loans are generally for fifteen months and fixed asset loans for two years. The 25 percent interest rates are actually negative given Brazil's inflation rate (30-100 percent from 1974-80).

Implementing Organizations: UNO was created in 1973 by ACCION International/AITEC. Most of its recent support has come from the World Bank and the Brazilian public sector.

Results: Most borrowers appeared to experience an increase in profits and standards of living, but little change in growth or productivity. Though UNO reports the creation of 1.6 jobs per loan, Tendler's study (73) disputes this claim and argues that many of the assisted firms prefer not to expand.

Sources: (10, 73)

(i) MIDP

Full Name: Micro-Industries Development Program.

Setting: Manila, Philippines.

Description: The program focuses on family-based microenterprises and identifies clients through interviews with community leaders and neighbors. Entrepreneurs are screened for their dependability, production skills, attitudes, willingness to take a risk, and interest in expanding their business. MIDP staff work with the client to prepare a project feasibility study which is designed to help clients analyze the management, marketing, and financial aspects of the enterprise. Before receiving a loan, clients must attend a two day training course in basic business management and accounting. Staff give advice on all aspects of the business and help clients set up a bookkeeping system. Clients are visited weekly for two months after the loan is disbursed and monthly thereafter.

Implementing Organizations: MIDP is a branch of the Ministry of Trade and Industry. Some loan funds come through commercial banks.

Results: There appeared to be little evidence of significant, measurable, and sustained business growth on the part of participating enterprises. Increases in profits typically showed up through increased expenditures on the family and higher levels of living. Many businesses increased their sales considerably during the life of the loan, but showed little evidence of being able to sustain those increases. Employment generation was not found to be substantial.

Source: (10).

(j) SELP

Full Name: Self Employment Program.

Setting: Manila, Philippines. The program primarily assists entrepreneurs from the squatter settlements of Metro Manila.

Description: Community leaders, who are experienced clients of the program, receive a trial loan fund which they use to make very small loans to local entrepreneurs who have favorable character references and an entrepreneurial motivation. The leaders give a one-day orientation to clients on the goals and objectives of the program. They are responsible for collecting loan payments and visiting the clients to monitor the loans. A client can receive no more than three loans from the trial fund. Clients who graduate from the trial fund in good standing, carry out a project feasibility study with the help of the community leader, and participate in a two-day course become eligible for larger loans (US\$38-\$63) from a Philippine bank. Clients can get two loans at this level. Those who graduate from this level attend more advanced courses and are eligible for loans of US\$125 to US\$375.

Implementing Organizations: Manila Community Services Inc. operates the program and was founded by a number of church groups. It relies on loan funds from the Philippine Commercial and Industrial Bank.

Results: The evaluation (10) indicates that SELP has the same general impact on clients as MIDP. However, the reliance on community leaders has generated benefits for the leaders who can take advantage of many of MCSI's activities, such as courses and family outings.

Sources: (10, 13, 60)

(k) APP PROGRAM

Full Name: Association for Productivity/Burkina.

Setting: Eastern region, Burkina Faso. The rural areas where APP operates are semi-arid and among the poorest parts of Burkina. The economy is underdeveloped and there is little entrepreneurial tradition.

Description: The program began as an experimental project in 1977. Prospective APP clients must show sincere character and intention. They must put up 20 percent of the equity for the proposed project. APP works closely with each client to formulate a loan package appropriate for each enterprise. Loan size, repayment size and periods, and length of loans are all flexible and determined by the client and APP staff. The program provides business extension services to clients, arranges contracts, and enrolls clients into a network of mutual technical assistance in which previous APP clients help new clients.

Implementing Organizations: APP is the Burkina affiliate of the US PVO Partnership for Productivity. AID has funded most of the project but APP is raising some funds through private businesses in Burkina.

Results: An external evaluation of Phase I (1978-1981) indicated that the program contributed to small increases in income but had a negligible impact on employment (25). In Phase II however, the program has doubled the number of loans disbursed and institutionalized its operations. It has linked clients to suppliers, markets, and formal sector firms. Surveys indicate that clients have improved their business operations and profits much more than non-participants.

Sources: (25, 46, 47).

(1) FDD

Full Name: Microenterprise Program, Dominican Development Foundation.

Setting: Santo Domingo, Dominican Republic. The Dominican economy has been in a recession and experiencing high rates of inflation.

Description: FDD has a solidarity group component and a microenterprise component. Most (83 percent) of the members of the solidarity groups are "tricicleros".^{1/} They receive loans for working capital and to buy the carts that they usually rent. The weekly loan payments are less than the rental fees. To get loans, they must form groups, select a president, attend an orientation, and attend neighborhood meetings. In the other program component, assistance is to individual enterprises and considerable effort goes into setting up a bookkeeping system and improving management capacity. Enterprises receive frequent staff visits for management assistance both before and after loan approval.

Implementing Organizations: The Dominican Development Foundation and ACCION International/AITEC began the program with funding from AID, local Dominican sources, and international organizations.

Results: Because of inflation, it is estimated that the real income of the tricicleros is declining slower than it would be without the program. The solidarity groups formed the Dominican Association of Tricicleros. The individual microentrepreneurs have shown considerable increases in incomes and employment.

Sources: (5, 7, 61).

^{1/}"Tricicleros" sell primarily fruits and vegetables throughout Santo Domingo from carts that they pedal.

(m) PORT SUDAN PROGRAM

Full Name: Port Sudan Small Scale Enterprise Programme.

Setting: Port Sudan, Sudan. The program operates in five of the most deprived neighborhoods where there are relatively high concentrations of refugees.

Description: The program is implemented by five Management Advisory Teams, one in each neighborhood. They process applications for assistance, provide management assistance, administer loans, and initiate and strengthen links with the formal sector. Staff also arrange courses taught by formal sector entrepreneurs, identify and monitor sources of supply, solicit bulk contracts, and organize sub-contracting arrangements. Much of the sub-contracting is with relief agencies operating in the famine-stricken areas of Eastern Sudan. The program is currently building five Industry Consultancy and Development Centres. They will each house an administrative office, workshop space, a marketing area, technical development workshops, and a women's business area. Space in the centers will be rented out to the microentrepreneurs.

Implementing Organizations: The program was begun by a European PVO, Euro Action-ACORD, and funded by a variety of organizations.

Results: Of the 312 businesses that have received loans, one-third were start-up enterprises that the program helped initiate. Average incomes of business owners has doubled since they began participating in the program. The total number of jobs provided by the businesses went up from 289 before assistance to 392 after one year.

Source: (65).

(n) DESAP

Full Name: Program for the Development of Small Businesses.

Setting: Urban areas, Colombia. The program began in Cali but has spread to other cities, including Bogota, Medellin, and Bucaramanga.

Description: The participation of entrepreneurs in the program begins with a visit by a promoter to the business. The promoter explains the program and invites the entrepreneur to a motivational meeting. At the meeting, the program is further explained, the problems of small businesses are discussed, and one successful entrepreneur gives a testimony. In order to continue participating, the client must enroll in and pay for two basic courses: accounting and costs. During the courses, the client is visited by a consultant in order to integrate the class material into the operations of the business. After completing the courses, the client is eligible for a loan, although staff might recommend further course work before the loan is disbursed. Courses are offered in many business-related subjects.

Implementing Organizations: DESAP is a program of the Colombian Carvajal Foundation. It has been assisted by US PVOs and receives loan funds from a variety of domestic and international sources. Carvajal also works with many local Colombian organizations.

Results: As of September, 1983 about US\$500,000 in loan funds had been disbursed. It was estimated that one job had been generated for every \$1000 in credit. Many participants felt that they had benefitted considerably from the courses.

Sources: (22, 40, 64).

(o) WWF

Full Name: Working Women's Forum.

Setting: Madras, India. Members come primarily from the slums of Madras.

Description: WWF was begun by a political organizer and social worker who realized the necessity of organizing poor women around economic issues. She helped organize a group of thirty women in one slum area and leveraged a loan (for US\$33 each) from the Bank of India. The success of that group led to the formation of WWF. To receive a loan, individuals must form a group and select a leader who stands as guarantor of the loan. A bank official attends a meeting of the group and interviews potential borrowers. The clients pick up the loan at the bank and then make daily or weekly payments to the group leader. She must deposit the payments in the bank before a stipulated date each month. WWF has also developed a number of social service projects. There are day-care centers, night classes, skills training courses, a health and family planning program, and organized lobbying against discrimination and harrassment.

Implementing Organizations: WWF is a grass-roots organization with some international sources of funds. Credit is disbursed through eight local branches of the Bank of India.

Results: The credit program has allowed many women to initiate new economic activities or expand and diversify their previous activities. Earnings in participating enterprises have increased an average of 50 percent.

Sources: (13, 15).

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