

Conflicting Goals in Microenterprise Lending Programs:
The Jamaican Experience

c. Steven Estey, 1993

A thesis submitted by Steven Estey in partial
fulfilment of the requirements for the Master of Arts Degree
in International Development Studies at Saint Mary's University

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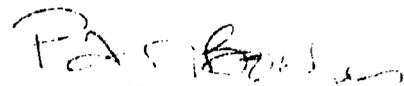
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TABLE OF CONTENTS

ACKNOWLEDGEMENTS	1
ABSTRACT	2
INTRODUCTION	4
CHAPTER 1: THE INFORMAL ECONOMY	
INTRODUCTION	10
1.1 THE RISE OF THE INFORMAL SECTOR	11
1.2 CONCEPTUAL FRAMEWORK	15
1.2.1 The neo-classical paradigm	16
1.2.2 The Keynesian paradigm	17
1.2.3 The structuralist paradigm	19
1.2.4 The political economy paradigm	21
1.3 WHERE DO MICROENTREPRENEURS FIT IN?	24
CHAPTER 2: WHY MICROENTERPRISE LENDING PROGRAMS (MLPs)?	
INTRODUCTION	27
2.1 AGRICULTURAL CREDIT PROGRAMS	27
2.2 CHARACTERISTICS OF MICROENTREPRENEURS	32
2.2.1 Close ties between business & family ...	34
2.2.2 Multiple occupations	35
2.2.3 Risk aversion	36
2.2.4 Invisibility or elusiveness	37
2.2.5 Patron - client ties	38
2.2.6 Associations with local institutions ...	38
2.3 CONSTRAINTS FACED BY MICROENTREPRENEURS	40
2.3.1 Credit related constraints	41
2.3.2 Non - credit constraints	44
2.4 THE RISE OF MLPs	48
2.4.1 Theoretical background	49
2.4.2 The emergence of MLPs	51

CHAPTER 3: ISSUES IN MLP ADMINISTRATION

INTRODUCTION	55
3.1 DIFFERENT TYPES OF MLPs	56
3.1.1 Commercial bank schemes	58
3.1.2 Intermediary programs	60
3.1.3 Parallel programs	62
3.1.4 Poverty focused development banks	65
3.2 TRAITS COMMON TO ALL MLPs	65
3.2.1 Narrow program focus	65
3.2.2 Close community ties	67
3.2.3 Urban based	67
3.3 TYPES OF PROGRAMS	70
3.3.1 Solidarity groups & individual loans ...	70
3.3.2 Minimalist vs credit plus	74
3.4 PROGRAM CONSIDERATIONS	78
3.4.1 Loan requirements	79
3.4.2 Loan review procedures	80
3.4.3 Loan disbursement & repayment	81
3.4.4 Interest rates	82
3.4.5 Training & technical assistance.....	84
3.4.6 Social promotion	85
3.4.7 Government policy	85
3.5 OTHER MAJOR ISSUES	86
3.5.1 Client graduation	87
3.5.2 Delinquency	96
3.6 CONFLICTS BETWEEN MLP PROGRAMS AND DONORS	101
3.6.1 Financial self-sufficiency	104

CHAPTER 4: MLPs IN JAMAICA

INTRODUCTION	107
4.1 THE JAMAICAN ECONOMY	108
4.2 CHARACTERISTICS OF THE SECTOR IN JAMAICA	111
4.2.1 Size & distribution	111
4.2.2 Legal & operational features	114
4.2.3 Social & demographic features	118
4.2.4 Main problems	120
4.3 SOURCES OF CREDIT	122
4.3.1 Partners	123
4.3.2 Money lenders	126
4.3.3 Supplier credit	128
4.3.4 Pawn shops	129

4.4	GOVERNMENT SUPPORT	130
4.4.1	Early efforts - 1956 to 1980	130
4.4.2	Increased attention - post 1980	134
4.5	NGO SUPPORT	141
4.5.1	Credit Organization for Pre-Micro Entrepreneurs (COPE).....	142
4.5.2	Jamaican Side-walk Vendors, Higglers & Marketers Association (JSVHMA).....	144

CHAPTER 5: CASE STUDIES

INTRODUCTION	148
5.1 METHODOLOGY	150
5.2 ENTERPRISE DEVELOPMENT TRUST (EDT).....	156
5.2.1 The EDT training program	159
5.3 AGENCY FOR THE SUPPORT AND SELECTION OF INDIVIDUALS STARTING TRADE (ASSIST).....	167
5.3.1 The ASSIST training program	171

CHAPTER 6: SUMMARY AND CONCLUDING REMARKS

6.1 SUMMARY OF ARGUMENT	177
6.2 CONSEQUENCES OF THE ARGUMENT	179
6.3 ISSUES FOR FURTHER STUDY	180

APPENDIX A: QUESTIONNAIRE	182
APPENDIX B: BALANCE SHEET	185
LIST OF ABBREVIATIONS	186
BIBLIOGRAPY	187

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Abstract: This thesis will argue that Microenterprise Lending Programs (MLPs) face at least one significant challenge if they are to remain viable in the long term: the clarification and reconciliation of their goals. It will be shown that MLPs have evolved over the past fifteen years and have met many challenges along the way. Among these are the choices that must be made in terms of administration, and even more basically, the choice of operational methodology in regards to the **minimalist** versus the **credit plus** approach to programming.

The first chapter establishes the location of microentrepreneurs, as a specific segment of the **informal economy**. The second chapter moves to a discussion of the origins of MLPs, from their roots in agricultural extension programs through to the characteristics of microentrepreneurs and the constraints which characterize their businesses. This discussion will be used as a background for a discussion of the rise of MLPs as a response to the needs of individuals engaged in microenterprises. The third chapter will then proceed to a more specific discussion of the **administrative issues and choices** faced by the program designers. This chapter begins to look specifically at the above mentioned conflict between operational methodologies.

Discussion revolves around the fact that there is significant pressure from donor agencies for programs to achieve financial self-sufficiency. This necessitates an emphasis on the credit component of the program, and may well detract from the program's ability to deliver other components usually identified with the credit plus approach, such as training and technical assistance. The conflict arises due to the fact that many programs see the provision of these other components as being of equal importance to the provision of credit. However, because of reliance upon donor funding, an **MLP may be forced to compromise** on the delivery of these components and adopt the approach more specifically directed toward financial self-sufficiency.

Given this concern, the following chapter goes on to consider the evolution of MLPs in a specific country context, that of Jamaica. The intention here was to provide a series of examples in order to better describe the process by which this conflict has come about. Chapter five considers two case studies with a view to illustrating and elaborating upon the argument that one of the central issues faced by MLPs is this conflict between minimalism and credit plus operational methodologies. In this way the argument will be brought to its conclusion, with evidence of conflicting goals clearly documented.

INTRODUCTION

When a Westerner walks down the main street of a city in the developing world for the first time, one of the first things he/she notices is the people on the sidewalk selling virtually everything imaginable. Any account of a city in Latin America, Africa or Asia makes reference to these people. Some discuss the irritation they experience upon the inevitable encounter with these street vendors, who are determined to sell them something - anything at all! Others marvel at the number of children, either alone or accompanying their mother. Still others wonder how these people survive, given the poverty and hardship which they so obviously face.

These are questions a casual tourist might ask on his/her first encounter with such a city and its people. Such questions point to much deeper and more systemic questions: why are there so many people who make their living on the street, and why must they work such long hard hours for so little money? These are the questions that the author has certainly asked. For it has been impossible for the author to walk the streets of cities in the Asia or in Latin America and not ask these very questions. First as a casual tourist fresh out of a Canadian University and anxious to see the world, and astonished by what the world really looked like. Then, some years later, as a student of international development, more

concerned with the deeper questions of what has caused so many to live in such poverty?

The simple fact that so many millions of people throughout the world make their living on the city streets, by whatever means possible, makes the discussion to follow an important one. This importance is increased by the fact that development practitioners and theorists alike have begun to ask these same questions. While at the same time attempting to formulate responses to the needs of these people. And, as with all development efforts they have met with some good results, and some unforeseen complications and difficulties.

It was in 1973, while working in Ghana, that the British anthropologist Keith Hart first coined the term, "the informal sector" (Hart, 1973, p.61.). Since then, countless development theorists and practitioners have studied and worked with the people who make up this large sector of society. Over this time the understanding has grown, and the forms of assistance have changed. Yet, despite the deepening understanding, millions of these people remain poor and there has been little success in the efforts to ease the hardships they face.

In fact, the global economic situation, since the onset of the debt crisis, in the early 1980s, has increased the numbers of people who make a living in the informal economy throughout the world. In Latin America, for example, between the years 1950 and 1980 the percentage of the non-agricultural

labour force involved in the informal economy remained at a fairly constant 30 percent. However, while the region's formal economies grew on an average of only two per cent in the years between 1980 and 1985, the urban informal sector showed an annual growth rate of 6.8 per cent (Levitsky, 1989, p.xiii).

Figures such as these cannot be overlooked. Clearly, there is a need to address the causes of the increase in the size of the informal economy. At the same time there is a need, at least as urgent, to put into place effective strategies which will assist the people working in the informal economy to achieve an acceptable standard of living.

While efforts to better understand the informal sector continue, many development practitioners are working in the field to offer assistance to people as best they can. One very well known approach to this has evolved over the past fifteen years. This approach deals with only one segment of the informal economy, that segment where people own tiny businesses and produce on a very small scale - these people are known in the development literature as **microentrepreneurs**.

Basically this approach provides support for micro-entrepreneurs to start a new business, or to expand already existing ones. Over time the major focus of this type of assistance has become the provision of credit, for this reason

the programs can be called **Microenterprise Lending Programs (MLPs)**. It is this form of intervention, the MLP, which is the subject area of this thesis.

Over the past two decades most countries throughout the developing world have witnessed efforts to assist the individuals known as microentrepreneurs. As one would expect, some of these efforts have been successful while others have not. This thesis will consider the basic approach taken by those interested in the establishment of an MLP.

It will further examine the array of policy options from which the project designers must choose when putting together a program. Among these are: credit, technical assistance, training, marketing, general research services, institutional brokering, and raw material supply (Loucks, 1988, p.3). And, it will argue that there are often conflicts between stated program goals and the things with which programs actually become involved. **This, according to the thesis, is due to the fact that there are often conflicts between the vision of the program as seen by the designers and those to whom they turn for financial support.** These conflicts create a situation in which the realization of the goals of either partner in the project, the non-governmental organization (NGO) or the donor, are not likely to be met. Because they are often working at cross purposes.

That is to say, the MLP will seek to accommodate the goals of the donor, goals which mainly concern the financial

self-sufficiency of the program itself. While at the same time they seek to achieve other goals which are not necessarily in step with the self-sufficiency goal. These will include community development related goals which will only be achieved through the inclusion of non-credit components in the program. Basically then, a situation of conflict can, and often does, arise between the goals that donors prescribe for an MLP and those goals which it sets for itself.

In order to address these issues the thesis will be structured in the following way. In the first chapter, a discussion of the informal economy takes place, with a particular view to locate microentrepreneurs as one specific segment of that economic grouping. In chapter two, the origins and evolution of microenterprise lending programs is reviewed in order to provide a framework of understanding for the discussions to follow. The third chapter of the thesis moves to deal specifically with the issues that have arisen around the administration of these programs. Particular attention is paid to the dichotomy between financial self-sufficiency and the community development goals of many programs. With the background thus established, the following chapter moves to a discussion of microenterprise lending programs in Jamaica. An overview of these programs since the mid-1950s is provided, with attention to both government and non-government initiatives. The next chapter provides a case

study which examines in more depth the activities of two separate MLPs currently at work in Kingston, these are Enterprise Development Trust (EDT) and the Agency for the Selection and Support of Individuals Starting Trade (ASSIST). The intention of this chapter is to specifically examine the stated goals of the two programs, and the way in which the programs are run. This is done with a view to determining whether or not a conflict exists between the stated goals and the actual ways in which the program is administered. This will be followed by the concluding chapter which will consider the evidence presented in the body of the thesis, in order to determine whether or not there is evidence of such a conflict, and, if so, what are the implications for MLPs and donors?

CHAPTER ONE: THE INFORMAL ECONOMY

INTRODUCTION

This chapter will explore the different conceptualizations of the informal sector. This will be prefaced by a discussion of the evolution of the informal sector concept within the development literature, since it was first introduced by Hart in 1974.

With the discussion of the informal sector complete, the chapter will then move on to a consideration of one specific part of the informal sector, microenterprises. The intention is to show that microenterprises must be seen as a part of the informal economy. This is necessary for a good understanding of the discussions to follow. For some are inclined to use the terms interchangeably as though they are exactly the same thing. This is not the case at all, for the informal sector, as we shall see below, is a very diverse concept which can include a multitude of activities that would lie outside the bounds of microenterprise activity. More on this distinction will be said in the last section of this chapter. For now, suffice it to say that it is important to keep this distinction in mind.

1.1 THE RISE OF THE INFORMAL SECTOR

The global rate of urbanization in the Twentieth Century has been extremely rapid. Virtually every country, in all regions of the world, has experienced a shift to a more urban population base in this century (see Table 1.1). Developing countries, however, have seen this transition occur at a much faster pace. Unfortunately they lack much of the necessary urban infrastructure to facilitate such a major change. Along with the lack of infrastructure, there is also the fact that there are simply not enough jobs for all of the people who arrive in the cities of the developing world. Migrants arrive every day from rural areas only to find out that their dream of a job and a better life in the city are not to be realized.

World Region	1920	1940	1960	1975
Europe	34.7	39.5	44.2	48.2
USA & Canada	41.4	46.2	58.0	65.4
Soviet Union	10.3	24.1	36.4	46.4
Oceanic	36.5	40.9	52.9	57.1
East Asia	7.2	11.6	18.5	23.7
South Asia	5.7	8.3	13.7	17.4
Latin America	14.4	19.6	32.8	40.5
Africa	4.8	7.2	13.4	18.1
Developed Nations (b)	29.8	36.7	45.6	52.1
Developing Nations (c)	6.9	10.4	17.3	22.2
The world	14.3	18.8	25.4	29.7

(a) Urban places - those with more than 20,000 inhabitants.

(b) Includes Europe, the USA and Canada, the Soviet Union and Oceania.

(c) Includes Asia, Latin America, and Africa

SOURCE: Gilbert & Gugler, 1987, p.5

While it is true that this phenomenon occurs in all countries as they experience a shift to a more urban population the situation is intensified in developing countries. As shown above, in Table 1.1, the rate of urbanization in Less Developed Countries (LDCs) has been extremely rapid. Between 1920 and 1975 there has been a three fold increase in the percentage of their urban population. The results of this are well known: shanty towns, disease, crime, malnutrition, and unemployment, for example. A concomitant reality, and the topic at hand, has been the rise in the size of the informal sector in these cities.

As the end of the Twentieth Century approaches, with rapid urbanization having taken place for over 50 years in the developing world, it would be naive to suggest that only newly arrived migrants are engaged in informal activities. This was a theory that once held currency with sociologists (Portes, 1978, p. 35). Current scholarship, however, acknowledges that the informal sector is in fact integrally tied to the dependent mode of production seen in developing countries. This concept will be explored more fully below. At this point, suffice it to say that the informal sector is comprised of families, many of whom have lived in the city for two or three generations. The informal economy is not, then, a transitional stage through which many migrants must pass. Rather, it is a structural manifestation of dependent capitalism, a manifestation which a large percentage of the

population is doomed to live with all of its life (Gilbert & Gugler, 1987, p.7). It is within this conceptual framework that the most helpful and illuminating discussions of the informal sector take place.

Before moving to discuss the various conceptualizations of the informal sector it is important to understand the significance of these activities to the economies of countries in Latin America and the Caribbean. In 1950, 16.9 percent of Latin America's labour force was engaged in informal sector activities. By 1980 this figure had risen to 19.3 percent. In both of these years, approximately 30 percent of the non-agricultural labour force was a part of the informal sector (Tokman, 1989, p.13). It is clear from these figures that informal activity is a very important part of these national economies. Further, it indicates that as urbanization occurred many people became involved in informal activities. The fact that non-agricultural labour force participation remained at approximately 30 percent over this period is significant. But it is even more significant when one considers that the percentage of the non-agriculturally engaged labour force increased at a rate at least equal to that of the urbanization rate itself. In other words, the percentage for 1980 is a much larger real number than the 1950 figure, due to the fact that the 1980 urban population was three times the size of the 1950 figure.

Even more significantly, there have been substantial increases in informal activity since the onset of the debt crisis in the early 1980s. The crisis and the attendant Structural Adjustment Programs (SAPS) have had a major impact upon the millions of people who survive on what they can earn in the informal economy. The relative stability seen between 1950 and 1980 has ended. In this period there was a 4.6 percent increase in the rate of non-agricultural labour force participation in the informal economy throughout Latin America. This 4.6 percent represented an increase of 39 percent in the number of actual people engaged in informal activities in the same time period (Tokeman, 1989, p.13).

This clearly indicates that the importance of the informal economy is on the rise. Since it now comprises at least 35 percent of all the non-agricultural labour activity in the region the need for further academic study and a deeper understanding has become urgent. Moreover, this 35 percent contains some of the poorest and most marginalized people in the whole region. In 1980 between 75 and 80 percent of persons who earned their living in the informal economy earned less than the legal minimums in their own country (Tokeman, 1989, p.14). Thus, study of the informal sector has become a development imperative for the 1990s and beyond.

1.2 CONCEPTUAL FRAMEWORK

It has been said that there exist as many definitions of the informal sector as there are persons who write about it. Peattie (1987, p.852) argues that the term responded to a gap in the existing development literature up until the time that the informal sector label was introduced by Hart in 1974. The gap of which she speaks is the failure of the literature up until that time to account for the millions of people in the developing world who were neither agricultural producers, nor wage labourers. Yet, somehow, these people were able to make a living. Up until Hart's discussion of this phenomenon, little attention had been paid to this group in the society. Initial discussions on the topic were vague and inconclusive, but the fact that there had finally been some recognition of the existence of these very small producers was the first step to the eventual evolution of several schools of thought which have offered different understandings of the role that these people play in a nation's economy.

A very good review of these different schools of thought has been written by the Jamaican economist Michael Witter. In his 1987 discussion paper, "Research Issues in the Informal Economy," Witter notes four broad theoretical perspectives, or paradigms, from which the current informal sector literature is derived. These he calls the: neo-classical, Keynesian, structural, and the political economy paradigms. Each will be discussed below, with a view to providing the most

appropriate and helpful paradigm in which to situate further discussions of the informal economy, and more particularly microenterprises.

1.2.1 The neo-classical paradigm

As one might expect, the neo-classical paradigm focuses on the existence of informal markets in the developing world. This focus tends to subsume production within the supply side of the market, thereby giving it an analytical importance equal to the demand side of the equation. This occurs, according to Witter, due to the methodological predisposition of the paradigm to problems of consumer choice. This predisposition creates a situation in which even aspects of production are analyzed in terms of consumer choice theory. This form of analysis is not particularly illuminating in any discussion of the informal sector, and must therefore be considered a major problem with the adoption of the neo-classical model as a methodology by which to fully understand the dynamics of the informal sector.

For, as Witter points out, the predilection to issues of consumer choice can easily lead to a conceptualization of the informal economy as, 'simply a network of markets.' Thus, eliminating the need to look any deeper, into problems associated with production and accumulation - areas so integral to any comprehensive discussion of the development potential of the informal economy.

At the same time, Witter does note that market forces are extremely important in the informal economy. Therefore, the emphasis on markets and consumer choice seen in the neo-classical approach does offer some useful information and understanding to the continuing discussions on the informal economy.

Still one must be cautious with the neo-classical approach. For it essentially postulates that informal activities arise from the defiance, by rational economic actors, of state laws and regulations that exist to govern economic activity. Therefore, according to this paradigm, the elimination of these laws would lead to the elimination of the informal sector itself. Although not of the goods and services that it now produces.

Thus, in terms of the explanatory value of the neo-classical, approach Witter concludes that it is limited. Limited especially by its consumer choice propensities, and by the legalistic interpretations that these propensities force upon it.

1.2.2 The Keynesian paradigm

Understanding of the informal economy derived from this perspective concentrates on the categorization of national accounts into sectors. It is the similarity between this approach and the economic modelling of Keynes that accounts for the name that Witter gives to this paradigm. These

sectors are distinguished by the type of economic activity. In this way informal activities are grouped into a separate sector; as opposed to the coherent whole that is implied by using the term, 'economy.'

This approach has proven useful to those interested in the impact of the informal economy on public policy, and of public policy on the informal economy. Adoption of the Keynesian accounting framework, with its focus on national income, and the related accounting aggregates, does provide some frame of reference for discussions concerning policy direction. The standard problems with the use of aggregates do, however, apply.

Of specific concern here are problems arising due to the fact that the informal economy actually contains many of the economic activities found in the formal economy. For example, trading, production of agricultural and industrial goods and services, and financial services are found in both the formal and the informal sectors. Thus, the use of aggregates and broad categories disguises the nature of both economies in a society. Witter (1987, p.3) suggests that the use of this paradigm will give rise to many problems and that it will offer few useful tools for analysis of the informal sector, or the economy as a whole. This is due to the overlapping of the two sectors, and the tendency of aggregates to confuse and disguise, through over generalization, the reality which they attempt to describe.

The Keynesian paradigm is an extreme expression of the dual sector economic model popularized by Lewis in the 1950s. Such efforts to divide economic reality into finite categories fail to account for the dynamic nature of real economies. Therefore, even with the use of this model, the basic question remains unanswered: what actually determines whether a particular form of economic activity is formal or informal? Moreover, is it always possible to distinguish between the two? And what are the implications for the classification scheme when the character of a given economic activity changes?

With so many questions left unanswered, Witter recommends that the Keynesian paradigm be avoided. For, while it does answer some questions, it offers little help in the broader process of trying to gain a well balanced understanding of the role and nature of the informal economy.

1.2.3 The structuralist paradigm

For their discussion of the informal economy, writers who come from the structuralist school rely upon institutional characteristics to distinguish the informal sector. The greatest weight is given to the socio-economic characteristics of the institutions and enterprises engaged in the informal economy. In this way, informal enterprises may be distinguished in one, or all, of the following ways: level of technology, degree of capitalization, number of employees, and

their relationship with the owner (ie. family members or employees).

It is from this perspective that early writing on the informal economy was derived. Because of this, for some time the informal economy was seen only as a point of entry for the rural migrant into the urban labour force. For, from the structuralist viewpoint, the small size and low levels of technology associated with the informal economy were things that would soon be overcome by the individual entrepreneur. This was to be accomplished with increased experience and accumulation of enough capital to increase production and the level of technology. Thereby the individual would soon emerge from the informal economy and take his or her rightful place in the formal economy. Thus, the informal economy was seen as a temporary stop along the way to full participation in the new urban life that the migrants had chosen.

As was discussed above (Section 1.1), this understanding has come under criticism, as evidence that people remain participants in the informal economy for generations begins to emerge. So, while the structuralist paradigm does offer some illuminating views, its basic premise, that the informal economy is comprised of recent migrants to the urban areas, is found to be wanting in terms of its explanatory value. This brings us to the final paradigm enumerated by Witter, that of political economy.

1.2.4 The political economy paradigm

Writers from this school see the informal economy as basically a petty commodity mode of production. This mode of production is subordinated within the dominant mode of production, which is, of course, the formal economy. This paradigm suggests the following:

First, the informal economy is a source of labour for the formal sector. Second, and perhaps more importantly, the informal economy provides consumer goods and services for the waged labour of the formal economy. This is done at prices well below those of the formal sector. In these two ways the informal sector is essential to the maintenance of the low wages paid to formal sector labour, and therefore integral to the reproduction of labour in the formal sector on an ongoing basis.

Political economists posit both a dynamic and a dialectical relationship between the two sectors in a national economy. When the national economy is contracting, then the informal economy absorbs the displaced workers; and when the national economy is expanding the informal economy provides a source of new labour. The informal economy functions, then, as Marx described in his discussions of the "reserve army of labour."

Beyond the functioning in the Marxian "reserve army" sense, the informal economy is able to produce substitutes for consumer goods at lower prices than the formal economy

(Witter, 1987, p.10). This is done in various ways, including the use of less expensive inputs for manufacturing and the repair of second hand goods for resale. It is this capacity, to decrease the cost of consumer goods, that makes the informal sector key to the maintenance of the formal economy. For it allows the payment of low wages for labour throughout the developing world.

Within this paradigm, attention is also given to the implications of the smallness of scale of those engaged in the informal economy, and the impact that this has on the overall development of the national economy. It is noted that, due to the small size of their businesses, members of the informal economy will have a very limited potential for capital accumulation. In fact, the majority of the money they make will be used for consumption requirements, and in very few cases will savings generated. Thus, if one accepts the need for capital accumulation as the basis for economic development - as these writers do - then the development potential of the informal economy itself is very limited.

Witter (1987, p.5) notes that the political economy paradigm has three main implications. First, so long as the dominant mode of production is commodity based, the continuation of the petty commodity form of production is to be expected. In other words, the informal economy is not likely to disappear.

Second, as long as petty commodities exist, market forces will tend to stimulate the development of capitalist production. For, as some petty commodity producers manage to accumulate enough capital to become capitalists themselves; others will be marginalized or made dependent upon wage labour. In this way expectations will be raised and incentives created for those considering entering the informal economy.

Third, as noted above, petty commodity production helps to reduce the value of labour and to provide consumption goods and services for wage labour at reduced prices. In this way, petty commodity production helps to maintain conditions of profitability for private investment. Thus it is seen to create and maintain an environment which will foster dependent capitalist formations. The important concept here is that the informal economy is tied to continued dependency and under development. Thus, most political economists do not see the informal economy as contributing to overall national development. The following section will address this issue in greater detail.

Before going on it will be helpful to briefly summarize this section on the different paradigms. We have outlined the four basic approaches, as distinguished by Witter (1987), used to conceptualize the informal economy. Hopefully it is clear that while each approach has some merits it is the political economy paradigm that seems to offer the most comprehensive

and helpful discussion on the informal economy. However, this approach does conclude that the informal economy is both a cause and effect of dependent capitalism. Therefore, writers from this perspective are much less likely to actively support any efforts to bolster the informal economy, or assist those engaged in it.

The following section will attempt to provide a context in which the political economy paradigm may be both helpful, and in some cases seek to support the informal economy, and particularly microenterprises.

1.3 WHERE DO MICROENTREPRENEURS FIT IN?

As noted above, there are several competing understandings of the informal economy. Tokman (1989) makes the helpful distinction between two different views. One which expresses the relationship between the sectors as one of subordination, and the other which sees the relationship as complementary. He notes, further, that the political economy paradigm best exemplifies the subordination perspective; while the neo-classical paradigm is the best example of the complementary perspective. Most importantly, Tokman states that neither of these views is entirely correct, nor is either entirely incorrect.

Rather, he suggests that while the evidence weighs on the side of the subordination perspective, the real task is to determine the true extent of that subordination. The idea

worthy of note in the current context is that this level of subordination will vary. It varies between economies and even within one economy.

Since there is variance within a given economy it is logical to assume that there are differences in the types of activities found within that economy. Tokman states that in fact such differences do exist (1987, p.17). He further states that three main subgroups are found within any informal economy; these are as follows.

The first group operates at the base of concentrated markets where cost differences between businesses can be large. It is this group that includes informal manufacturing enterprises. They typically account for approximately twenty percent of the informal economy. The second group operates in markets where product differentiation and location are very important. For this group, operating cost are roughly similar. Here one finds mainly retail commerce, repair shops, and services offered by the semi-skilled. This group accounts for approximately thirty percent of the informal economy (Tokman, 1987, p. 17).

The remaining fifty percent of the informal economy is made up of people involved in personal and domestic services. These people operate in a very competitive marketplace. The competition is based on the cost of their labour and little else.

This segmentation of the informal economy is a useful tool for understanding where and how microentrepreneurs fit into the picture. Often a distinction is made between informal activities and those of microentrepreneurs. This may be based on the relationship that they have to the formal economy, or on the relationship that they have with the law. For the purposes of this paper, however, the first two groups identified by Tokman can be considered as both part of the informal economy and as microentrepreneurs.

Tokman's subgroups, then, offer a helpful method by which one can understand the relations within the informal economy and between the formal and informal economies. They also provide a framework from which a good understanding of the place occupied by microentrepreneurs can be gained. From this point the next chapter will move on to discuss microenterprises specifically, and in much greater detail.

CHAPTER TWO: WHY MICROENTERPRISE LENDING PROGRAMS?

INTRODUCTION

This chapter will discuss the circumstances which have given rise to MLPs. It will begin by briefly recounting previous small scale credit assistance programs, particularly those associated with agriculture. The chapter will then move on to discuss the characteristics of microentrepreneurs and the constraints under which they operate. Finally, the chapter will look specifically at the rise of MLPs throughout the developing world over the past two decades.

2.1 AGRICULTURAL CREDIT PROGRAMS

Since the early 1970s, throughout the developing world, development practitioners have been involved in the delivery of credit to small farmers. The primary objective of these programs has been to increase the supply of credit, while decreasing the cost of that credit. The goal of this, 'supply leading' approach, was to increase the production of small farmers, thereby increasing net income.

These programs are mentioned here because they parallel, in many ways, the more recent efforts at credit provision for urban based microentrepreneurs. As Meyer states:

The rationale, the approach, the earmarking of funds, the target of beneficiaries and the rationalization of poor performance in microenterprise projects are similar to agricultural credit projects. (Meyer, in Levitsky, 1990, p.121)

Much has been learned in the years since the agricultural credit programs were first established. Unfortunately, Meyer argues, little attention has been paid to these lessons. Consequently, many of the problems seen twenty years ago with agricultural credit programs are seen today in microenterprise lending programs.

When comparison are made between small farm and non-farm enterprises many points of similarity and of distinction emerge (Meyer, in Levitsky, 1990, pp.121 & 122). The similarities are as follows:

1. Both are small, whether measured in scale of production, capital investment, or number of persons employed.
2. Most employ family labour.
3. Most use only traditional technologies.
4. Income and wages are low - often less than the minimum wage - and thus they are viewed as subsistence operations.
5. Some may sell only a fraction of what they produce and be poorly integrated into factor and product markets.
6. Both have limited access to government programs and evade many laws and government regulations. In many case, it is only through the evasion of these laws that they are able to survive.
7. Both receive little credit from formal institutions, although it is not uncommon for them to have savings accounts at these institutions.
8. They self-finance most of their working capital.
9. Loans from family and friends are most often used to start up a business.
10. Informal lenders supply short-term loans, often at very high rates of interest.
11. Many participate in self-help groups that frequently have a savings and loan component.
12. Often a person will be a small scale lender and borrower simultaneously, making loans to family and friends while taking loans from traders.
13. People will build up borrowing capacity through volunteer savings, participation in traditional social groups, and by linking themselves to others who borrow from the formal sector (such as

landlords, traders, and suppliers). These relations are protected because it is necessary to keep them secure as a form of insurance in times of emergency or unusual opportunity. They preserve these good relations by making sure that debts to these people are the first ones to be repaid in difficult times.

Given this long list of similarities one can understand why Meyer argues that the agricultural credit programs of the 1970s can be seen as the forbearer of the non-farm microenterprise credit programs of today. However, the two are not without distinction, and he identifies the following areas as being particularly worthy of note:

1. The relative importance of agriculture declines with economic growth, while the importance of both the industrial and service sectors increases. Therefore, many small farmers will be forced to seek other means of subsistence, while the number of persons engaged in small non-farm enterprises will increase.

2. Farmers produce the same sorts of things and have difficulty switching their production. Non-farm enterprises often thrive just because they successfully develop products that few others offer, and their because of their ability to switch production quickly.

3. Farmers are constantly at risk from natural disaster, severe weather, disease and pests. These concerns are much less significant for non-farm enterprises, who are at risk from interruptions in power or water supplies, things over which they have a greater degree of control.

From this listing of similarities and differences it is clear that there are many parallels between small enterprises in both sectors. As stated above, the 1970's response to these small enterprises was to address the problem of access to credit. This gave rise to a rapid expansion of agriculture credit programs throughout the third world. It is in the agricultural credit programs of the 1970s that the forbearers

of the more recent MLPs, which are the main concern of this work, are to be found.

In the 1970s it was believed that the constraint faced by small farmers, and the one most easily addressed by the standard development project model, was the credit bottleneck. The credit problems of small farmers were two-fold. First, there was difficulty in obtaining enough credit. Second, what credit they were able to obtain often came at a very high rate of interest, typically from informal money lenders, and not the formal financial institutions, which are state regulated.

The most straightforward solution, it seemed, was to establish avenues by which the small farmers could access credit and access it at a reasonable rate of interest. In this way they would overcome some of the difficulties they faced. The policies associated with this 'supply leading' finance were aimed at the problems identified above: increased access to credit and a decreasing cost of that credit. The implementation of these policies was facilitated through two sets of programs which were established by aid agencies, credit unions, and banks active in rural areas.

The first group of programs attempted to increase the amount of funds available to small farmers. This was done through the implementation of several mechanisms: in some places portfolio quotas or targets for lenders already involved in the sector; in others specialized financial

institutions were set up to serve the sector; grants and subsidies were extended to non-financial institutions (i.e. ministries, departments, institutes, and NGOs); central bank rediscount schemes (often donor funded); the mandatory placement of bank and/or public sector deposits in specialized lending institutions; and sometimes the nationalization of banks that failed to meet these social objectives (Meyer, in Levitsky, 1990, p. 123).

A second type of program, aimed at the reduction of interest rates, was also implemented. Interest rate ceilings were set, with the lowest interest rates set for the smallest or poorest borrowers. Central banks charged low interest rates on refinanced funds. Banks were, in some instances, encouraged to charge higher interest rates to non-priority groups in order to subsidize the rates of the targeted groups. On occasion, governments directly (or through donors) subsidized interest rates to priority groups (Meyer, in Levitsky, 1990, p. 123).

These programs, argues Meyer, were the forerunners to today's microenterprise lending programs. Both in terms of establishing the basic methodology and suggesting that it would work. For these reasons it is important to note their existence, in order to give the proper background for the later discussion on MLPs.

It is important to note that agricultural credit programs were not particularly successful during their period of

popularity with development practitioners. This was caused by a number of factors that lie beyond the scope of this thesis. It is, however, important to bear in mind that the historical experience with programs of this nature, as far as it goes, has not been altogether positive. Meyer suggests that these programs have valuable lessons to offer those currently at work in the small non-farm enterprise lending sector. He argues, further, that little attention has been paid to these lessons, and that, as always when history is ignored, history is repeated. Yet the development imperative of assisting the poor in the developing world still exists. In the 1980s this imperative has moved development practitioners to extend credit to small enterprises, this time in the urban setting with non agricultural entrepreneurs.

2.2 CHARACTERISTICS OF MICROENTREPRENEURS

The International Labour Organization (ILO) has offered a list of the most obvious characteristics of MLPs; this offers a good starting point for understanding the nature of microenterprises. These characteristics are as follows: ease of entry, reliance on indigenous resources, family ownership of the enterprise, small scale of operations, labour intensive technology, skills acquired outside the formal education system, and competitive/unregulated markets (Farbman, 1981, p. 11). The PISCES (Program for Investment in the Small Capital Enterprise Sector) studies go on to suggest that there are

other significant characteristics that should be acknowledged when discussing the informal sector.¹ This second set of characteristics go beyond the superficial look at the sector. They offer a deeper insight into the linkages between the informal and the formal sectors of the economy.

These are: that microentrepreneurs are found in virtually every city in the developing world; that they are typically directed at meeting the needs of local low income labour; that due to the scarcity of capital, and the abundance of labour, enterprises in the sector tend to be labour intensive; that these enterprises usually provide their owners, and employees, a very low income - typically less than formal sector workers and slightly more than agricultural workers; that profits made in these enterprises are very small and do not usually allow for any reinvestment; and that they are flexible and therefore responsive to changes in the market (Farbman, 1981, p. 11).

It will be helpful to look a little more closely at some of these characteristics and to discuss them more fully. For this discussion Mann et. al (1989, pp. 11-13) offers a clear framework. The rest of this section (2.2) draws upon this work.

¹ Cited in Farbman, 1981, p.11. The PISCES project is an ongoing USAID research project which started in the early 1980s.

2.2.1 Close ties between business & family

For example, as Farbman notes, there is often a very close relationship between the family and the business. This may well translate into a situation where there is almost no distinction between the finances of the two. Therefore, when savings are low, families will draw upon the resources of the business in order to survive (Mann, et.al., 1989, p. 11). This will obviously have a negative effect upon the business and its ability to prosper, or even maintain itself in difficult economic times.

Despite the financial confusion, there are definite advantages to using family labour in this type of business. Family labour is inexpensive and trustworthy in comparison to wage labour and is thus well suited to the constraints associate with doing business in the informal sector. The problem is that when you use family labour, and it becomes increasingly difficult to distinguish between the business's finances and the family's, the confusion is exacerbated. This is so because separate accounts are often not kept and any extra money will likely be absorbed by the family, rather than reinvested in the business itself. Thus, sustaining the business at its current level and size is a much more likely scenario than growth of the business.

Clearly this situation has significant implications for those involved in lending programs to the sector. These will be discussed more fully below. Presently, suffice it to say

that the close relationship between business and family in this sector is a very significant characteristic.

2.2.2 Multiple occupations

Another common characteristic of businesses in this sector is the tendency of microentrepreneurs to be involved in a variety of occupations. These activities may shift seasonally, daily or even hourly. This is especially true for persons in rural areas, but also a factor in dealing with urban based microentrepreneurs. Mann (1989, p.10) points to a number of important considerations that arise from the fact that microentrepreneurs are frequently involved in more than one income generating activity.

First, any efforts by an MLP to encourage its clients to specialize in one occupation, through the pursuit of specialized training in that area, may be seen by clients as being too risky. Therefore, such efforts may not be well received and should be carefully considered before much time and energy goes into training and technical assistance directed in this way. It may well make better economic sense, from a survival point of view, to do several things fairly well rather than to do one thing very well.

Second, along the same lines, training programs for specific enterprises may have difficulty getting people to be away from their businesses for extended periods of time. This will be true for two reasons. People may well have more than

one business interest, and/or they may not be able to afford the time away from their business.

Third, given the tendency to be involved in several occupations at once, MLPs may have a more positive impact on their clients by addressing issues pertaining to general work conditions (such as transportation infrastructure, communications, or information systems) as opposed to attempting to reach individual entrepreneurs with specific skills training.

Finally, because people may have several business interests, it will be common for the collateral offered for a loan to be completely unrelated to the business for which the money is being sought. Someone seeking financing for a tailor shop might, for example, offer a lathe as collateral. This will require a fair degree of flexibility in the loan application process.

2.2.3 Risk aversion

This characteristic will vary greatly from one individual to another. It will also vary from one culture to another. The basic characteristic does, however, show itself to some degree amongst all microentrepreneurs. This is understandable when one considers the fact that no 'social welfare net' exists to catch those who are not successful with their enterprise. If the business fails, then the entrepreneur faces the loss of everything. This would include

collateral, and their only source of income with which to provide their families with food, clothing and shelter.

With so much riding on their business' success, and the lack of alternatives for those who are not successful, then it is only reasonable that all unnecessary risks be avoided, and further, that steps to avoid risky situations in the future will also be favoured. With this consideration, further light is also shed upon the propensity to be involved in several occupations at once. For with such diversification one is much more likely to be able to maintain an income even in difficult times.

2.2.4 Invisibility or elusiveness

For several reasons, microentrepreneurs will attempt to remain undetected even by agencies who are attempting to offer them support. The roots of this can be found in the desire of most microentrepreneurs to avoid government detection. This is necessary to avoid paying for licenses and permits that are often required to do business. Such behaviour also helps to avoid having to pay taxes. For this reason, many microentrepreneurs are suspicious of all formal institutions, including the ones that are trying to offer support. In many cases this situation may be exacerbated by the fact that many of the potential clients have great difficulty in differentiating between government and nongovernmental organizations (NGOs). This is because most people in the

sector have little formal education and, therefore, little understanding of the workings of government or non-governmental organizations.

The desire to avoid official detection may well make it difficult for an agency at work in the field to attract clientele. This will be especially true in the beginning. A long period of time may be required before people will accept newcomers for what they are, and not see them with suspicious eyes.

2.2.5 Patron-client ties

Sometimes microentrepreneurs (and in some cases MLPs) will have individual ties to a powerful political figure or parties. In exchange for votes, the politician will be expected to provide some sort of security or access to finance for the individual or the program. When working in the sector it is helpful to keep the possibility of this sort of relationship in mind; it may provide helpful insights into the behaviour and attitudes that one encounters.

2.2.6 Associations with local institutions

Many times microentrepreneurs will belong to local or regional institutions, such as political, religious or labour associations. Such memberships will involve both rights and duties to the organization. Often it will be these

organizations that people turn to in difficult times for some sort of assistance.

When trying to assist microentrepreneurs, a sensitivity to the possible existence of these affiliations may be helpful. For they may act as training centres, information exchanges, or even markets for goods produced. The ability to work with these institutions may increase the cost effectiveness of an MLP, for the infrastructure needed to reach many people will already be provided, thus saving the necessity of developing it all over again.

This brings to a close the discussion on the characteristics of the informal sector microentrepreneur. The section has shown that the nature of business in this sector is very small scale and precarious. It operates at the margin of the economy and therefore, as with all things at the margin, constantly seeks to increase its level of stability and security. It is to this issue that the next section will turn. Through discussion of the constraints faced by microentrepreneurs in their quest for stability. Along with discussion of the reasons why it is so difficult to overcome these constraints.

2.3 CONSTRAINTS FACED BY MICROENTREPRENEURS

The literature generally agrees that there are two types of constraints that face most microentrepreneurs to some extent during their business career. The constraints are divided into two categories: credit related constraints and non-credit related constraints.

The first category deals with the lack of access that the individual microentrepreneur faces in an attempt to obtain credit from a formal lending agency, and the subsequent need for such an individual to turn to a non-formal credit source. The second category refers to the myriad of obstacles that a microentrepreneur faces in the every day struggle to stay in business.

We shall see in a following section that a tremendous diversity of opinion exists about the extent to which an MLP should make efforts to assist a microentrepreneur. Before any such discussion can take place it is necessary to review the constraints as they have been identified in the literature. This will ensure that the debate over the extent of assistance will have an appropriate contextual framework.

2.3.1 Credit related constraints

Study after study has revealed that microentrepreneurs themselves see lack of access to affordable credit as the major impediment they face when trying to start or expand their businesses (see for example: Tendler, 1989; Chan-

davarkar, 1989; Meyer, 1989; Otero, 1987; McKee, 1987; ACCION, 1988).

With such overwhelming support for this view, a support that spans cultures and economies, it is reasonable to suggest that it is indeed a significant constraint faced by many microentrepreneurs (since it has been identified by so many as the major problem they face, it will be considered first in this review).

Typically, money used to either start a microenterprise, or for expansion, is obtained from either personal or family savings, a family member, or in some instances a friend. Where these are unavailable or insufficient, capital may be raised through the use of trade credit. Failing these avenues, the microentrepreneur will be forced to turn to the informal money lender so often mentioned in the popular literature on 'sidewalk' vendors (see for example Farnsworth, 1988).

Clearly, those who exercise the first variety of options are likely to face severe capital constraints. This is so because it is very likely that their family or personal savings are quite limited. Often what savings there are will have a variety of other uses including such things as medical emergencies, deaths, marriages and the other things that come up unexpectedly in everyone's life. It is also likely that people interested in starting a microenterprise are not going to have friends or acquaintances with a financial situation

very different from their own. So the potential to raise capital in this way is also rather limited. Nevertheless, the majority of microentrepreneurs do obtain the money needed to start their businesses from family and friends (Berger, 1989, p.1024).

Admittedly, if a person is prepared to borrow small amounts from several friends then this constraint could be overcome. However, this approach will not be likely to succeed, because few people who live on the margins of the economy will have much disposable income, and fewer still will be enthusiastic about investing it in someone else's business ideas - the risk is just too great. So, even though many do generate sufficient capital to make a start, many others must turn to alternative sources of finance.

Faced with this reality, people often turn to trade credit. The use of trade credit is fairly common for micro-entrepreneurs throughout the world. A very good example is provided in a paper by Reichman (1984), in which she examines the "Tricicloros" of the Dominican Republic.

These microentrepreneurs ride around the city of Santo Domingo with large tricycles selling fresh produce. Many of them have to rent their tricycles every day because they are unable to afford to buy one. This rental fee consumes a great portion of the money they make and leaves them in a constant state of debt to the tricycle renters. This situation is self-perpetuating, since the transactions are on a daily basis

and it is very nearly impossible for a lone tricicloro to get ahead and save the money needed to buy a tricycle.

This provides a very clear example of the relationship referred to as trade credit. Clearly it is not a desirable state of affairs for a microentrepreneur, and, just as clearly, it is a very hard one to escape.

There are definite parallels between the trade credit situation and the more direct informal money lender - micro-entrepreneur relationship that is so often discussed. The exorbitant interest rates charged by these informal money lenders are a matter of record all around the world. A 1988 New York Times article stated that cases of interest rates as high as 20 percent a day have been noted in some countries (Farnsworth, 1988). Clearly, when a business is forced to pay so much for credit, there is a serious disincentive to use it unless it is absolutely unavoidable.

The problem is that many microbusinesses operate so close to the margin that they may be forced to borrow money even at such high interest rates. Once you start borrowing this money, it becomes a form of bondage, where you will always owe the money lender, and therefore, you are not very likely to save anything from what you earn.

Faced with these concerns, it is obvious why so many microentrepreneurs identify poor access to credit as the major constraint faced by their businesses. This issue begs the question: if they have such trouble borrowing money, why do

they not go to the bank or the credit union and try to borrow it there? Of course, there are many reasons for this. But before addressing them it will be helpful to examine the non-credit constraints faced by the sector in order to provide a better background.

2.3.2 Non-credit constraints

Aside from the constraints associated with the lack of access to formal credit, microentrepreneurs face a number of other obstacles. Here we shall review them in an effort to provide a clearer picture of what sorts of issues MLPs face when attempting to design responsive and effective programs.

As with the credit issue, many of the non-credit constraints have to do with things that microentrepreneurs lack. The literature identifies these things as education, easy access to raw materials, and so forth. Along with these constraints there are legal and policy considerations that must be addressed here as well.

Lack of education has a far reaching impact for both microentrepreneurs and those attempting to design programs of assistance. Many entrepreneurs in this sector are both illiterate and innumerate (see discussion in: Berger, 1989; Loucks, 1988). This makes the delivery of training programs difficult, especially given the tendency for program administrators to be well educated and therefore inclined to

model their training programs after standard educational techniques.

Along with the problems illiteracy imposes upon the delivery of training programs, the other area where the impact is seen is in the application process itself. This applies especially to formal financial institutions and is a significant reason why microentrepreneurs shy away from them as a source of financing. For, the loan application process at a bank or a credit union typically involves filling out many forms and understanding literature produced by these institutions on their lending programs.

Microentrepreneurs face these difficulties due to lack of education. Also, the point has often been made that illiterate people are alienated from the mainstream of society (see, for example, Friere, 1970). Given this situation, the illiterate microentrepreneur will be unlikely to approach formal banks when he/she needs a loan, for they feel very much detached from the society in which these large institutions exist. They are consequently intimidated by the prospect of approaching a bank.

Lack of education has a significant impact upon the life of a microentrepreneur and upon the efforts of those engaged in the task of establishing MLPs. Illiteracy is indeed a significant constraint and one which demands consideration when examining the situation of microentrepreneurs.

Another input typically associated with the running of a business is access to raw materials. Here again microentrepreneurs are often lacking (Farbman, 1981, p. 12). Due to their limited access to capital it is often difficult to assure a steady supply of raw materials and thus difficult to have a steady flow of production. This will impact upon the stability of the business and the level of confidence that potential customers feel in counting upon them.

This instability will have implications for their credibility with customers, and is therefore considered to be related to the next constraint - the transient nature of microbusinesses, and the related difficulty of securing an established clientele. In a highly competitive market, this is a major constraint. Stability often be related to their ability to secure a steady source of raw materials. This in turn is often tied to their ability to secure the credit necessary to purchase them. Yet, lack of stability and established clientele are also constraints in and of themselves, and therefore deserve separate mention here.

The final thing identified by the literature in this area is simply time. That is to say, there is an opportunity cost associated with efforts to take advantage of lending programs, be they formal or informal. Time must be devoted to going to the loan source to make application and go through the necessary paper work. Such time will take away from time spent at work, and therefore most likely involve a loss of

income. This is especially true for persons who have no employees to keep the business open in their absence.

Next we shall consider the policy constraints that apply. Social policy, of course, is a major consideration here. This will have impact in the area of access to education - and subsequent levels of literacy in the sector. Other policy areas which will affect the sector include economic considerations and the legal framework.

Economic policies relating to interest rates, exchange rates and pricing policies will impact upon the sector. For example, low interest rates will discourage small loans, since the administrative costs remain virtually the same no matter the loan size (Berger, 1989, p. 1026). Equally, an exchange rate that is artificially high will encourage the purchase of imports as opposed to things produced domestically. These sorts of policies will, without question, impact upon the sector. Another area of policy that will, in many cases, be considered a constraint, is the legal framework of the country.

As de Soto (1989) argues, there are costs associated with remaining informal. These have to do with the time and energy devoted to avoiding detection by the authorities, as well as the fact that by their illegality many microentrepreneurs deny themselves access to formal credit institutions and the recourse to the law that other businesses have in the event of default by persons who owe them money etc. (de Soto, 1989, pp.

153, 166). Further, without formal contracts, people will tend to deal with friends and relatives. Thus they will not always be able to get the best quality or price for their money, and this will have a negative impact upon their businesses (de Soto, 1989, p. 166).

This concludes the discussion of the non-credit constraints faced by microentrepreneurs. Clearly these are significant, and difficult to overcome. The discussion has shown that **microentrepreneurs face a number of constraints beyond those related to credit.** In fact their businesses face many challenges just to survive, let alone expand and prosper. These challenges have given rise to microenterprise lending assistance programs throughout the developing world. The following section will look at this phenomenon and attempt to offer an explanation for its occurrence.

2.4. THE RISE OF MICROENTERPRISE LENDING PROGRAMS (MLPs)

Given all of the above - the tradition of lending to small agriculturally based businesses in the 1970s; the characteristics of small non-agricultural urban businesses; and the constraints faced by these small urban businesses - it seems only natural that MLPs would evolve in response to their needs. Yet, as was discussed in Chapter One, development theory has traditionally stood against the promotion of microbusiness. Several perspectives have argued that promotion of microbusiness is actually anti-developmental. In

fact, until recently these businesses have been seen as a hindrance to the overall economic development of a country. Briefly these arguments are as follows.

2.4.1 Theoretical background

From the political economy perspective, it has been argued that microenterprises exert a downward pressure on wages in the overall economy. This is done in two ways, first, by providing a 'reserve army of labour,' second, by providing consumer goods and services at a lower cost than those produced by the formal sector. These low cost consumer goods allow the formal sector employers to pay lower wages than they otherwise would, while the existence of a 'reserve army of labour' ensures that workers may be easily replaced - and in this way exerts a strong downward pressure on wages.

The structuralist school, the first to recognize the informal sector as distinct, has seen the sector as merely an entry point into the urban economy for rural migrants. They point to the low levels of technology employed by microentrepreneurs and suggest that the potential for significant economic growth, based upon their production, is very small. Structuralists are inclined to see the informal sector only as an entry point, and therefore something that will soon be left behind. Because of this understanding, little attention has been paid to the development of the sector.

An even more pronounced expression of this dual economy model is found in the work of the Keynesian school. Here, as discussed previously, efforts to completely separate the formal and the informal economics prevail. Further to these efforts is the underlying view that the informal economy is completely distinct from the formal economy. From this understanding comes the belief that development efforts should be focused entirely upon the formal (or modern) sector, which has much greater potential for economic growth. Therefore, from this perspective, little attention will be focused on the informal economy since it does little to promote overall economic development.

Finally, from the neo-classical perspective, there is the view that the informal economy is little more than a network of markets. This view suggests that there is little need to examine the sector more closely. In other words, there is no need to look at problems associated with production or accumulation. So, while the neo-classical view does see that the informal sector exists as a market place, it does not encourage thorough evaluation of the situation faced by entrepreneurs in the sector. This trivialialization of the sector leads to an incomplete understanding which will not form a good basis for serious efforts to assist the sector.

2.4.2 The emergence of MLPs

Clearly, based upon these traditional views of the informal sector, it is not an area of economic activity that should receive much attention from development practitioners. However, as has been noted, there has been a growing interest in the sector since the late 1970s. How is it possible to explain this increased interest in an area that is seen as anti-developmental by the main body of theory?

Essentially, this increased interest and support have come about, not as a response to theory, but as a response from practitioners who are at work in the field. This has occurred despite the view that assistance to the informal sector will do little to assist in the pursuit of overall national development. Development practitioners have long recognized that a large part of the population engages in these microbusiness activities. Their involvement has been caused by a number of things, including massive rural-urban migration, the changing nature of production in the developing world, and the attendant fluctuations in employment opportunities in the wage economy.

Further, it was realized that this group of people was in need of assistance. The constraints discussed above placed ever increasing burdens on microentrepreneurs, and their seemed little hope of them becoming involved in the formal wage economy. Practitioners too recognized that little overall economic development (in a macro sense) would be

achieved by bolstering the efforts of microentrepreneurs. However, the reality of their existence, and their poverty, was not diminished by this understanding. The response conceived by practitioners - Microenterprise Lending Programs - then is essentially a micro-level response to a macro-level (or structural) problem.

It can certainly be argued that this is not an appropriate response. However, those engaged in support to the sector suggest that, while it may not be ideal, their work is important because microentrepreneurs have little choice but to do what they do in order to survive.

Muhammad Yanus, founder of the Grameen Bank in Bangladesh, speaks of an experience with a market woman who made and sold baskets. He met this woman on the street in a small town in Bangladesh and, rather than buying one of her baskets, he loaned her a small amount of money (about \$6.(US)) so that she could set up her own business and make the baskets herself. She agreed to borrow the money and pay it back at a fixed rate, with interest, over a period of months. It was this direct experience with a microentrepreneur that was the inspiration for Yanus to begin his work to establish the Grameen Bank (Lewis, 1990).

The success of the Grameen Bank has been quite remarkable. From the original loan in 1977 it had grown by 1990 to an institution with over 800,000 loans, and about \$6 (US) million worth of new loans each month (Lewis, 1990). This experiment

in Bangladesh did not go unnoticed. Development practitioners and donors were much impressed by the success of the Grameen Bank and began to implement similar programs in other countries. This was not based upon any particular paradigm of development. Instead it was based upon the recognition that a large percentage of the population had no access to the formal credit offered by the traditional institutions.

The experience of the Grameen Bank suggested that people in this sector would pay back their loans despite the risks associated with lending to them as perceived by the banks. These, as suggested above, had to do primarily with the fact that these people had no collateral in the traditional sense, and had no previous association with banks as borrowers. Thus, based upon the early successes of the Bangladesh experience, the first tentative steps at extending credit to microentrepreneurs in other countries were taken. It would be simplistic to attribute the whole development of MLPs to the successes in Bangladesh. However, this early success did serve to challenge the perspective which suggested that these entrepreneurs were untrustworthy and not likely to repay their debts to lending agencies.

This chapter began by discussing the development experience of the 1970s, and the efforts at that time to extend credit to farmers. This too had much to do with bringing credit extension to small non-farm businesses to the development agenda. However, one major difference does exist;

the fact that some farmers do own land. Land can be seen as collateral and in this way lending to farmers is quite distinct from lending to microentrepreneurs. So the experience of the Grameen Bank did much to break the mindset of development practitioners, a mindset which dictated the exclusion of microentrepreneurs from their efforts.

This exclusion was based upon two essential factors. First, the fact that the literature tended to ignore microentrepreneurs as either a temporary anomaly in a country's development, or worse, as a constraint upon economic development itself. The second factor related to the view that microentrepreneurs were not likely to repay loans, and therefore it was unwise to lend to them at all.

The fact that microentrepreneurs did repay their loans gave rise to many other efforts at assisting them throughout the developing world. And these efforts have met with varying degrees of success in the places where they have been tried. The next chapter will look at MLPs as they exist today to examine the methodologies they employ and the issues that they face.

CHAPTER THREE: ADMINISTRATIVE ISSUES

INTRODUCTION

The last chapter discussed the evolution of micro-enterprise lending programs (MLPs). In this chapter the thesis will give an overview of the different ways that these programs are administered, the things that are common to all programs, and the different services that a program may offer. Once this basic framework is established, the chapter will move ahead to discuss the more technical concerns involved in program delivery, and the main issues faced by all program administrators. Finally, the chapter will consider what has become a major issue in the delivery of microenterprise credit programs throughout the world today: the tension between the program self-sufficiency offered with the so called 'minimalist approach' and the more broadly based methodology, which is sometimes called the 'credit plus approach.' The credit plus approach is seen to be more broadly based because it emphasizes more than the provision of credit, it supports additional program elements such as technical assistance, marketing, and raw material supply.

3.1 DIFFERENT TYPES OF MICROENTERPRISE LENDING PROGRAMS

There are several different ways in which the distinction between programs may be made. Generally, the approach distinguishes between the different types of institution involved in program delivery. The differences stem from various authors, who tend to draw the lines of distinction in different places. Mann, for example, has delineated six distinct types of institutions involved in program delivery (Mann et al., 1989), while Berger covers the same sorts of institutions but collapses some categories and in this way only distinguishes four different types of institution involved in the process (Berger, 1989).

It is important to recognize that a great many agencies are involved in the area, and the difficulty this creates when trying to divide them into distinct and easily definable groupings. As Mann puts it:

Numerous organizations, kaleidoscopic in their variety, pursue programs to assist small and microenterprises . . . (T)he number of such organizations is impossible to know with precision. (Mann et al. 1989, p.31).

Nevertheless, there are some broad categories into which most of these institutions will fall.

These, according to Mann, are as follows: international private voluntary organizations; national and local private voluntary organizations; cooperatives (private, public and semi-public); business associations; government agencies; and banks. These represent the very broadest grouping of

institutions involved in running programs of support for microentrepreneurs. These types of institutions vary greatly between themselves, but they do have at least one thing in common: the basic belief that they are helping to increase incomes and welfare levels among low income people and that they are generating much needed employment in areas where they work (Mann et al., 1989, p.31).

Berger (1989), in contrast to Mann's six institutional distinctions, delineates only four types of programs. These are: commercial bank schemes; intermediary programs; parallel programs; and poverty focused development banks. Essentially, Berger and Mann cover all the same institutions but Berger's intermediary and parallel programs encompass the international and the local level private voluntary organizations as well as business associations and cooperatives, as they were enumerated by Mann. Because the two authors cover essentially the same ground, only the distinctions made by Berger will be discussed below in more detail. This discussion will provide a clear description of how these programs do differ in their every day application. Before doing so, it may be helpful to provide a diagram of these categories, for ease of reference.

TABLE 3.1 CORRESPONDING CATEGORIES FOR MLPs, BY AUTHOR	
Berger	Mann, et al.
Commercial bank schemes	Banks
Intermediary programs	International private voluntary organizations National/local private voluntary organizations
Parallel programs	Cooperatives Business Associations
Poverty focused development banks	Government Agencies

NOTE: in some cases the Poverty focused development banks, discussed by Berger, are run by NGOs.

3.1.1 Commercial bank schemes

Commercial bank schemes are the first type of program discussed by Berger. Into this category fall all the commercial banks that have become involved in lending to micro-entrepreneurs. Typically these are government owned banks that have been directed by the government to offer assistance to the informal sector.

In many cases the banks that do get involved in the sector operate with microentrepreneurs in the same style that they have used in their dealings with other businesses. That is to say, they require some form of collateral for loans. Along with this the loan process itself requires a good deal of paper work and time. For these reasons, Berger (1989, p.1019), argues that the commercial bank schemes are not

accessible to most microentrepreneurs, since they have neither the necessary collateral, nor the time to complete the lengthy and complicated loan application process. Therefore, it is only the elite of microentrepreneurs that are able to access the credit available from commercial banks.

Along with these constraints, the programs themselves often receive less than enthusiastic support from the banks. The banks tend to see them as social programs and seldom enter into them unless the government has extended loan guarantees. In such a situation, the banks are not necessarily concerned with the success of their client and their related ability to pay off their loans. As stated above the banks that get involved in the sector are often government owned banks, who have little choice but to be involved if the government mandates it. Yet, according to Berger, these microenterprise programs are little more than government guaranteed public relations schemes (Berger, 1989, p.1019).

At the same time, most donor agencies encourage this approach. This encouragement is based upon the belief that the well developed institutional structure of the commercial banks, and their many branches, provides the opportunity to reach many microentrepreneurs all over the country (Berger, 1989, p.1020). While there may be some truth to this rationale, the basic point that only the most successful microentrepreneurs can meet the banks' requirements, still stands. This leads to questions about the real impact of such pro-

grams. For what is really accomplished if only the most wealthy, and already successful business people, are aided by these programs?

3.1.2 Intermediary programs

The next type of program Berger discusses are what she calls 'intermediary programs.' These programs act as a link between the microentrepreneur and the formal lending agency. Such a linkage is useful given the reasons outlined above which serve to make commercial bank schemes unattractive to microentrepreneurs themselves. This includes all the difficulty associated with the lengthy formal loan process and the collateral requirements that typically accompany such transactions.

Intermediary programs are often administered by Non-Governmental Organizations (NGOs). Along with the NGOs, government agencies sometimes perform similar tasks. Both types of agencies perform some, or all, of the following tasks: referrals to banking institutions, assistance to the micro-entrepreneur with loan applications, training, technical assistance and, sometimes, loan guarantees to lenders.

Clearly, with support such as this, the prospect of lending to a microentrepreneur is much more appealing than in a situation where the commercial bank itself must perform these tasks. For, these supports make the process virtually risk free for a bank. This, in combination with an agency

that will provide assistance to the loan applicant, creates a situation where the commercial bank incurs no extra cost in the extension of credit. A bank then may be much more amenable to the prospects of extending such credit to individuals.

A very successful example of this approach is found in the work of the NGO called **Women's World Banking (WWB)**. This NGO operates in over 50 countries and has met with good results in most of them. WWB offers the services mentioned above, including the use of a guarantee mechanism for the loans. Borrowers pay a fee for the services provided, including referral to a bank and assistance with the application process. This fee allows them to offset their administrative costs. Financing is often required from either the national government or a donor agency. This provides the money that guarantees the loans, which come from the commercial banks (Berger, 1989, p.1020).

While this approach has many positive points, it has been criticized for failing to reach the poorest microentrepreneurs, who have neither the time nor the inclination to go through the entire loan application process. For, one of the main problems associated with the commercial bank approach was the long periods of time between the initial application and the actual granting of the loan; this approach does not reduce the time needed to obtain the loan.

Along with the issue of inaccessibility, another concern arises: the necessary size of a program. It was mentioned above that intermediary programs charge a small fee to offset their administrative costs. While this does help to defray costs, it is only when the agency is dealing in high volume that these administrative costs will be completely covered. In an environment of constant pressure for program self-sufficiency by both national governments and international donors, serious questions will be asked about the length of time involved in generating sufficient clientele to make the program administratively self-sufficient.

So, while intermediary programs may be more appealing to both banks and borrowers, they may not be nearly so appealing to the donors from whom the NGO's will seek support. Therefore, other programs have developed in this environment.

3.1.3 Parallel programs

In this typology, the MLP is a non-banking institution, and usually an NGO, which is established specifically to extend credit to microentrepreneurs. Since NGOs have much experience in working with marginal groups, they are, in many ways, suited to the task of extending credit to microentrepreneurs. This would include the flexibility to accommodate individual needs, and a sensitivity to their particular circumstances. For example, the need for a quick turn around

time between the initial application and the granting of the loan.

These parallel programs are found throughout the developing world and in many cases have been fairly successful. The work of ADEMI (Asociación Para el Desarrollo de la Micro-empresa) in the Dominican Republic and PRODEM (Fundación Para la Promoción y Desarrollo de la Micro-empresa) in Peru are good examples of parallel agencies that have been successful. However, in contradistinction to these two examples, many parallel programs run into major difficulty, due mainly to their lack of the business expertise and management capacity necessary to run a solid program that will make good loans and insure that they get repaid on time and in full (Berger, 1989, p.1020).

It seems that the very thing that makes them so effective, their ability to work with marginal groups, also puts them at risk of losing sight of the need to remain financially viable themselves. This is a major concern, which will be considered in further detail below. At this point it is sufficient to say that a conflict of interest may exist for a parallel program that sees itself first as an NGO working to better the lives of microentrepreneurs in developing countries, and as a financial institution second.

There is another problem faced by parallel programs, in the area of raising capital. This stems from the difficulty associated with obtaining deposits. The problems may come

from a variety of sources, for example a country's banking regulations may make this process very difficult. Or, it is also possible that persons who seek to borrow from the parallel agency will have very limited savings and what they do have will be held somewhere else. In this event it may be difficult to convince the clients to switch their savings from one institution to another. Because of these difficulties, parallel agencies will be forced to generate their funds for lending and operating cost through donations from international donors and national governments, and sometimes forced savings programs, high interest rates and fees levied upon the borrower. These methods of generating funds pose problems for parallel programs. This topic will be considered in greater detail below.

3.1.4 Poverty focused development banks

Finally, Berger discusses what she calls, 'poverty focused development banks.' This type of program is simply a parallel program that has evolved to the point where they are officially registered as banks in the country where they operate. Perhaps the most famous of these is the **Grameen Bank in Bangladesh**, which has over 500,000 borrowers (see below, section 3.2.3).

The key point about these poverty focused development banks is that they offer only limited services, mainly credit.

That is, they are not likely to provide the other services discussed above.

It is important to realize that no one of these approaches is always more appropriate than the others. When trying to determine which route to take in the establishment of an MLP it is essential that an agency, donor, or government consider the country context, the cultural realities and the economic climate of the country where the program is to be carried out.

3.2 TRAITS COMMON TO ALL MLPs

Although the institutional character of an MLP may differ greatly from one agency to the next, it is still a fact that these agencies share many common characteristics. It is the task of this section to discuss characteristics that are found in all MLPs at one time or another. Very broadly these fall into three categories: a narrow focus in the beginning, strong ties to the community, and a tendency to be urban based.

3.2.1 Narrow program focus

The narrow focus can be achieved in one of two different ways: it can mean a concentration on a particular sector or a concentration on a particular area (Tendler, 1989, p.32). The narrow sectoral focus forces an organization to tailor their interventions to the needs of a specific group. This requires

careful study of the sector, after which possible points of intervention can be identified. Such a study will leave the agency with a very good understanding of the sector in question, including its production processes, sources of supply, markets, and the overall structure of the industry. Tendler provides the following example:

Learning about trade is a process that leads organizations to propose small changes in the way things work - institutions, market structures, production processes. One tries to identify the bottlenecks, and then to work on them one at a time (Tendler, 1989, p.33).

This narrow focus is equally applicable for a concentration on a small community area. The same basic understanding can be derived for the businesses that operate in a small area. Even though they will often be engaged in different activities, many problems they face will be the same, due to their close proximity to one another (McKee, 1989, p.995). For example, if one business experiences difficulties in transportation of goods to market, then it is reasonable to expect this problem to be faced by others in the same area.

Thus, many MLPs get involved in a specific (geographic) area, or sector, of production. This is especially true in the beginning when the program is seeking to find its own place and develop a better understanding of the milieu in which it has chosen to operate.

3.2.2 Close community ties

Another characteristic that seems common to MLPs is that they will often have close ties to the community. This is often because their founders come from backgrounds that would give them strong links to the power centres. Tendler, for example, in a study of six successful "Livelihood, Employment and Income Generation" programs that were funded by the Ford Foundation discovered that they were all headed by someone who had close links to important political figures and to powerful institutions in both the public and the private sectors (Tendler, 1989, p.39). These links were attributable to the individual's previous work experience or to their class background. Thus, it may be important for the success of a program that it have links to the source of power, thereby ensuring sources of finance from both government and donor agencies.

While it cannot be said that these connections are absolutely necessary for the success of an MLP, it can be said that studies have shown a correlation between such connections and program success.

3.2.3 Urban based

Finally, many programs that are successful are urban based. This is especially true in the beginning of a program's life. In almost every case reviewed, the programs were at least started in an urban setting. There is an obvious and

famous exception - that of the Grameen Bank, which will be discussed further below. Before doing that it is important to discuss why urban settings usually offer a more attractive environment for the establishment of an MLP.

First, cities are the seats of the powerful government and private elites of any county. Concessions from these elites for assistance are often easier to win in cities where they live themselves. Rural based institutions provide much less opportunity to have an influence on power (Tendler, 1989, p.41).

Second, and related, is the fact that it is necessary to win the support of the local elites. This is so because opposition from this quarter will quickly undermine the work of an agency. This sort of support usually arises from a familiarity with the members of this group, a familiarity very difficult to achieve for persons working outside urban areas - where members of the elites usually reside (Tendler, 1989, p.41).

Finally, there is the obvious point that an urban setting provides an environment in which it will be much easier to do the job of running an MLP, from a logistical point of view (Tendler, 1989, p.42). In an urban environment one can see more clients per field trip simply because, by definition, population density is higher in the city than in rural areas. This means that fewer trips will be required to see the same number of clients. Also, the urban setting will allow a field

worker to use public transportation and avoid costly program expenditures on vehicles, their maintenance and their fuel. Without these expenses, an urban program will be required to spend far less on administratively related expenses than will a rural program.

Before finishing this section, it is necessary to mention the exception of the Grameen Bank, because it is one of the most famous MLPs of its type operating today, yet it is a rural based program that seems to contradict much of what has been discussed in this section. The fact is that the Grameen Bank operates in Bangladesh, a country with one of the highest rural population densities in the world. In this way many of the advantages that can only be gained in an urban setting in most countries are available to the Grameen Bank in the rural setting (see, Farnsworth, 1988; Yanus, 1989). Beyond this, its approach requires little of the support often associated with MLPs. That is to say, the Grameen Bank uses a minimalist approach to credit extension that does not require as much supervision from staff members.¹ For these reasons, the Grameen Bank has been successful in a rural setting, whereas initially most successful MLPs operate, in an urban environment.

¹ This approach exists in contrast to a 'credit plus approach.' The distinction between the two will be fully explored below.

3.3 TYPES OF PROGRAMS

There are two fundamental types of distinction when discussing MLPs. The first concerns the way in which the loan portfolios are managed and disbursed; this can be done on either an individual basis or what have become known as a solidarity group basis. The other type of distinction that must be made is between the so called minimalist and the credit plus approaches. In this section we will discuss both these dichotomies, in a further effort to understand how MLPs operate today.

3.3.1 Solidarity groups and individual loans

First, we distinguish between the solidarity group and the individual approaches. It is important to understand that neither of these approaches is appropriate in every situation. The determination depends upon many issues, perhaps most significantly, cultural characteristics must be considered. That is to say, what will work well in one culture will not necessarily work well in another. Therefore, it is not the intention here to propose that one approach is the right one, and the other the wrong one. Instead, the fact that both approaches exist must be accounted for.

Solidarity groups are very common in many places, and there are several good reasons for this which will become clear. But first a brief explanation of exactly what is meant by the term is in order. Essentially, a solidarity group is

a small group of microentrepreneurs (usually between six and ten) who gather together in a group for the purpose of accessing credit from an MLP. The exact method by which the credit is disbursed will vary slightly from one program to another. Basically it follows this pattern: the solidarity group will be formed, usually by people who are acquainted with one another, and a field officer from the MLP will meet with this group and explain the program to them. The explanation goes as follows: the group will receive one loan at a time and it will go to one of the members; that member will use the loan to start or expand their business, and will be required to begin payments on the loan immediately; only once the loan has been completely repaid is the solidarity group eligible for another loan; the next loan will go to another member; this member in turn will be responsible to repay the loan in full before the group can get a third loan. This process is repeated until every member of the solidarity group has received a loan. Once the cycle is complete, then the group may choose to go on in the same way for a second round, in which case the loan size is likely to be larger. The key to the importance of this approach is that members do not need to have collateral in the traditional sense of the word. As Berger puts it:

The solidarity group provides a character-based substitute for collateral, an innovative feature that sets them apart from conventional banks (Berger, 1989, p.1024).

As has been stated above, one of the major constraints faced by many microentrepreneurs is the fact that they often do not have any collateral, or the collateral that they can provide is not appropriate for the type of loan they require.² In this way the solidarity group methodology overcomes one of the major problems faced by microentrepreneurs.

Along with this benefit, solidarity groups substantially reduce the administrative costs of running a program. This is so because one field worker can meet with the solidarity group all at once. In this way the program will actually be servicing between six and ten people while only requiring one visit from a field worker and one set of documentation on the loan - which is considered to be held by the group as a whole and not by any particular individual in that group. The significance of this group responsibility is the very key to the solidarity group approach. In the event of default by one member, then the rest of the group is responsible for repayment of the bad debt. Therefore, it is in the best interest of the group to ensure that each member makes their payments, not just to ensure the timely progression of the revolving credit, but to ensure that they will not be liable for a portion of any bad debt.

² A situation in which the collateral would be inappropriate could arise when a person attempted to use equipment from one business as collateral for a loan to another business. For example, if an individual attempted to use a refrigerator as collateral for a loan to purchase wood working tools. This situation could well arise, given the tendency of microentrepreneurs to be involved in more than one income generating activity.

Individual loan programs operate in a much more traditional fashion and require, in most cases, much more documentation and collateral. As one would expect, these programs extend credit to an individual microentrepreneur as opposed to a group. These programs operate in situations where, for whatever reasons, the solidarity group approach is not an acceptable one. For the reasons outlined above, the solidarity group approach is very appealing for an MLP, yet it may not always be the best approach given the circumstances of the MLP and the environment in which it works.

Certainly, individual loans have administrative disadvantages, mainly related to the amount of time it will take field officers to do all of the paper work and client contact involved in this approach. However, one could suggest that it may be a safer alternative for the individual, since they cannot be held responsible for the default of another person. Also, in the individual loan methodology, the program can offer an initial loan for a very small sum of money. In this way, the loans become a sort of test for the individual. Once the first very small loan is paid off (usually in a matter of weeks) then a second, slightly larger loan will be extended. Thus, with a series of loans, the microentrepreneur will build a relationship with the program and trust will be established over a period of time. Along with this fact, the individual will be afforded the opportunity to develop his or her money management experience, and not get into a situation where they

have more money than they are accustomed to handling at once (Lassen, 1990, p.6).

This is similar to the solidarity group approach, which also uses incremental loans. It is, however, seen as a more important part of the individual loan methodology, since the character-based collateral that Berger speaks about is not present.

3.3.2 Minimalist versus credit plus

This distinction is perhaps the most fundamental of all the questions faced by MLPs today. It concerns the type of services that the agency will offer. On the one hand, the minimalist argument states that the most appropriate and effective approach is to offer clients credit and nothing else. On the other hand, credit plus proponents argue that credit must be offered as part of a package which should include other components. This section will outline both approaches in preparation for a later discussion on the relative merits of each.

To do this effectively it is necessary to first outline exactly what the other components of an MLP could be if the agency chose to follow the credit plus methodology. Loucks (1988, p.3) identifies six areas beyond financial services, or credit, that MLPs may choose to include in their program. These are as follows: training, technical assistance, marketing, general research services, institutional brokering, and

raw material supply. The combination of financial services with any of these will, by definition, create a program that would be characterized as having a credit plus approach (Loucks, 1988, p.3). The table below summarizes the options used by each type of program:

Service	Credit Plus	Minimalist
Credit	Yes	Yes
Training	Yes	No
Technical Assistance	Yes	No
Marketing	Yes	No
General Research	Yes	No
Institutional Brokering	Yes	No
Raw Material Supplies	Yes	No

SOURCE: Loucks, 1988, p.3

Training programs may focus on either the individual or on business formation. The individual focus will concern itself with such things as motivational and behavioral training. Business formation, on the other hand, will focus on business planning and market analysis (Loucks, 1988, p.53). Both sorts of training are fairly generalizable, and may be conducted with persons from various business backgrounds and with different business objectives. Training of this sort seeks to provide the microentrepreneur with either motivation to succeed in business, or more particularly, with a clear plan of what is necessary to make their business work (ie. a good business plan).

Technical assistance is much more specific in its focus and is directed at persons in a particular sector of production. The intention is to improve the skills associated with production, and in this way to reduce the costs of production and increase the profitability of the business. Technical assistance is a very specialized process that is best offered by an expert in the type of production concerned. For this reason it lies outside the capacity of most MLPs and therefore requires the assistance of an outside expert, a factor that significantly increases the costs associated with this area of intervention.

The next area is **assistance with marketing**. This may take one of two forms. It may be assistance to microentrepreneurs on how they may better market their products -- in a class room or one on one format. Or sometimes MLPs have undertaken to bring people involved in their program together to a central market location and have then built, or renovated, to create a marketplace for clients to sell their product.

Some MLPs have engaged in research that is designed to be of assistance to the program participants. This could be research into more cost effective methods of production, developing a better understanding of municipal regulations and methods for business registration, or any one of several other areas that would be of assistance to microentrepreneurs but

that they have neither the time nor the skills with which to gain this sort of information.

Another area that some MLPs have become interested in is what Loucks calls **institutional brokering** (Loucks, 1988, p.3). This refers to efforts to increase cooperation between agencies involved in support to microentrepreneurs in the area. For example, an MLP might attempt to increase cooperation between itself and other community organizations and financial institutions. This would be done with a view to increasing the level of community support and involvement available to clients of the program. The benefits of this would be the increased integration of individuals into the community and the attendant empowerment that would be encouraged.

Finally, some MLPs have become involved in **supplying raw materials** and other inputs to their clients. The idea here would be to avoid a situation where the individual microentrepreneur is forced to buy these things individually, thereby paying full retail price for them. Instead, with this approach, an MLP could well expect to purchase raw materials at the wholesale price and in turn pass the savings on to their members.

These then are the options open to an MLP interested in following a credit plus approach to microenterprise development. Loucks states that **no program will do all these things**. Rather, they will choose from this array of options to

determine which areas will be the most effective, given their own client base and areas of expertise (Loucks, 1988, p. 3).

In contradistinction to this credit plus approach there is a very popular approach known as minimalism. Very simply minimalism is an approach that does not support the inclusion of any of the services listed above. Instead it is predicated upon the belief that what microentrepreneurs need most is credit and that this is what they should get from an MLP - and nothing more. This approach is very popular for many reasons which will be discussed below (Section 3.6).

3.4 PROGRAM CONSIDERATIONS

No matter whether a program chooses a minimalist or a credit plus methodology there are certain things that it must consider over the course of implementation. These things are: loan requirements, the loan review process, loan disbursement, interest rates, training and technical assistance, social promotion, and government policy. Each of these will be discussed below.

TABLE 3.3 MLP PROGRAM CONSIDERATIONS

- Loan Requirements	- Training and Technical Assistance
- Loan Review Process	- Social Promotion
- Loan Disbursement	- Government Policy
- Interest Rates	

3.4.1 Loan requirements

As with all lending agencies it is necessary for an MLP to have the capacity to determine the credit worthiness of its potential clients. This is especially important since very few loans will be secured by collateral. In this case it is necessary to find some other way to ensure that the loan gets repaid. The use of solidarity groups as one way of securing loans has already been discussed. There are other approaches that are also employed by MLPs to secure their loans.

A very common technique used is the requirement of a character reference from community leaders, such as a clergyman or the local politician. These references attest to the integrity of the loan applicant. After a period of time at work in the community the program will learn which references to treat seriously, and which must be treated with caution. Along with the requirement of a reference, many programs use the loan application process as a time to get to know the clients. This is seen to provide an opportunity for the field officer to make an informed judgement of the individual's character and willingness to pay back the loan.

Besides these subjective criteria MLPs have recourse to some more objective methods as well. First among these is the already mentioned approach of small initial loans that will be paid back in short order. These loan sizes will be increased gradually over time as the individual's experience with handling money grows, and as the program's relationship with

the individual develops and trust is gained. Along with this gradual increase of loan size, an MLP will most often conduct a simple economic analysis to verify the economic viability of the business in question, and its need for a loan as requested by the microentrepreneur (Otero, 1987, p.51).

3.4.2 Loan review procedures

All these requirements must be dealt with by some form of standardized procedure. These may be cumbersome, bureaucratic and time consuming. This is a natural tendency, for any program will wish to ensure to the best of its ability that its loans will be repaid. However, this tendency should be kept to a minimum because they may cause many problems.

It is a well known fact that most loan applicants will want to have their loan processed quickly in order to receive the money quickly. When the loan process is extremely bureaucratic this will not be possible and the initial result is likely to be dissatisfaction with the program by the clients. Along with this dissatisfaction, the tendency to bureaucratize the process will increase the administrative costs of the program, and this is something that should be avoided where possible. Along with the administrative costs, a lengthy process of application review will slow down the turnaround time of the loan fund. This may well have serious negative implications for the financial wellbeing of the program itself. These issues of too much administration and

too slow a turnaround time will be further discussed below. For now it is important to understand that these things are seen as problems from both the point of view of the clients and managers (Otero, 1987, p.52).

3.4.3 Loan disbursement and repayment

The method favoured for loan disbursement depends greatly on the type of institution involved (see section 3.1 above). The approach favoured in the most recent literature is to disburse loans through a commercial lending institution. This is recommended because experience has shown that when borrowers deal with commercial lending institutions they are more likely to approach these institutions for loans in the future. In this way, disbursing loans through the commercial institutions promotes graduation of the client from the MLP to the formal financial system.³

In terms of repayment, Otero has this to say:

. . . Projects that tailor loan terms and payback schedules to the borrower's experience tend to have fewer repayment problems. Successful projects also tend to emphasize working capital loans and frequent loan repayments. Built in incentives for repayment include the prospect of larger future loans, simplified procedure, and individual technical assistance. (Otero, 1987, pp. 55-56.)

Beyond this, she states that a short payback term is very important because it will prevent the misuse of the loan and/or the over purchasing of raw materials. The idea is that

³ The concept of client graduation will be fully explored below (Section 3.5.1).

if the loan must be repaid in short order then the client will be forced to begin thinking about it almost immediately and therefore they will not get themselves into a situation where they spend all the loan money and then begin to spend all of their profits too - without any regard for the loan payments that must be made. The fact is that many people who become involved with MLPs have very little experience with borrowing money that must be paid back within a structured framework and time. This inexperience can lead them into difficulties and a short repayment period is a good way to prevent this from occurring.⁴

3.4.4 Interest rates

The next thing that an MLP must consider is the rate of interest that it intends to charge to borrowers. Typically the rates are set at the same level as regular market interest rates. This is not a barrier to borrowing in most cases, nor does it contribute to delinquency according to Otero (1987, p.57). This is true because microentrepreneurs typically pay higher than market rates when they borrow money on the informal credit market.

This decision to set interest rates at market levels is a recent phenomenon in microenterprise lending. Previously

⁴ Most people only have experience in borrowing money from friends and relatives and in some cases on the informal credit market. These sources have very different rules and expectations, so the microentrepreneur will have little experience with formal repayment structures. (See Chandavarkar, 1989, p. 79.)

the standard was to offer subsidized rates of interest. This was seen as an appropriate methodology, given the poverty in which microentrepreneurs exist. It was felt that subsidized rates would offer them affordable credit, and that the subsidization was an important part of the program as a whole. With time and experience this assumption began to be challenged. Three arguments emerged that called into question the propriety of subsidized interest rates.

First, some argued that subsidies led to the creation of a state of dependency for the microentrepreneur. This was caused by establishing a situation where the individual begins to count on subsidized rates. In this case it is not likely that the individual will ever seek to move beyond the parameters of the program into the mainstream commercial financial institutions, that is, they will not graduate. Second, it was pointed out that continued subsidization of interest rates would quickly lead to the decapitalization of the fund itself. Because interest payments are an important source of income for any financial institution. Third, and finally, this approach assumes that grants from donors will continue; and over time it became apparent that this was not necessarily the case. In many cases the grants from donors dried up. Therefore, self-sufficiency of programs began to become increasingly important (Otero, 1987, p.57).

3.4.5 Training and technical assistance

As was discussed in section 3.3, MLPs must also consider what role, if any, training and technical assistance will play in their program. As was also noted previously, training and technical assistance cover a very broad range of activities. These range from basic business and motivational programs to more specific assistance with production techniques and appropriate levels of technology. Otero (1987, p.59) notes that the costs associated with running these programs are often underestimated and can, therefore, cause a program significant financial hardship. This may require a substantial degree of financial support from outside funding agencies. She notes:

. . . Experience has shown it is beneficial to charge a minimal fee for training; this ensures a certain interest level on the part of the trainees and helps to reduce operational costs (Otero, 1987, p. 59).

With the understanding that there will most likely be significant costs attached to the delivery of training, a program must decide whether this expense is justified. Usually the decision will be based on the financial situation of the program itself, and the emphasis that is placed on financial self-sufficiency.

3.4.6 Social promotion

Another area that many MLPs must consider is the role that social promotion or empowerment is to play in their program. This comes back to the fact that many MLPs are operated by NGOs. As mentioned, NGOs have a long history of work in development, and they are not keen to give up this role simply because the methodology employed by the project has changed somewhat. Concerns in the social promotion area revolve around the welfare of the community and community development issues. As is always the case in this sphere of development the benefits of these programs are a long time in the making and difficult to measure. For these reasons, along with the financial concerns that have become increasingly prevalent in MLPs today (ie. the goal of financial self-sufficiency) many people involved with MLPs are attempting to move away from the social promotion goals to increase the cost-effectiveness of their programs.⁵

3.4.7 Government policy

The overall policy environment in a country will have a significant impact upon the MLPs area of emphasis. For example, the policies concerning pricing, licensing, infrastructure, education and trade will all impact upon the environment in which microentrepreneurs operate. In almost

⁵ This tension between the desire to pursue social promotion goals in the context of pressure for greater cost-effectiveness will be discussed in more detail below (Section 3.6).

all situations the larger business in the formal sector will be the ones that derive the most benefits from government policy decisions.

For these reasons an MLP must consider the policy environment in which it operates to determine which are the most appropriate services it can offer to its clients. Also a decision must be made on whether priority should be given to efforts to lobby government for policy change that is more favourable to microentrepreneurs (Berger, 1989, p.1027).

3.5 OTHER MAJOR ISSUES

A review of the relevant literature on microenterprise development reveals at least two other major issues identified in the field by donors and academics involved in the study of microenterprise development around the world. These have both been mentioned briefly above, they are client graduation and client delinquency.

There are two questions related to graduation: is it a realistic goal, and if so, is it desirable from the perspective of the program? In terms of client delinquency the question is the obvious one: how can the program reduce rates of delinquency. This question takes on a greater urgency when one understands the way in which most lending programs operate; particularly the importance of a quick turnaround of the credit fund necessary to maintain an income large enough to cover the administrative costs of the program.

3.5.1 Client graduation

In an ACCION International discussion paper Katherine Stearns discusses at length the idea of client graduation (Stearns, 1989a). In this paper she examines graduation from many different angles and poses the question: is client graduation a myth? The paper begins by stating that it is the accepted goal of virtually all MLPs that their clients one day graduate. This term connotes a situation where, after a period of involvement with the agency in question, the individual microentrepreneurs experience growth in the size and stability of his/her business to the point where they are able to approach the formal, or commercial, financial institutions for credit. In this way they will leave the MLP behind and have "graduated" to a point where they no longer need their services.

This, traditional logic assures us, is the proper path of development for both the individual, and for the institution. Graduation is good for the individual because it means that their business will be larger and more profitable than it was when they first approached the MLP for assistance. It is good for them too because they will have access to much more credit through a commercial financial institution than they would through an MLP.

Graduation is good for the institution because it fits in with the institutional goals. As stated by Stearns, these goals are: the encouragement of growth of the enterprise,

increased income, job creation, legalization of the enterprise and access to formal credit institutions - or graduation (Stearns, 1989a, p. 11). It is the goal of graduation that Stearns calls into question in this paper. She claims that graduation is not a likely outcome of most microenterprise development programs. In order to frame her discussion, Stearns delineates between three different types of graduation: legal graduation, social graduation and financial graduation.

Legal graduation refers to the ability to fulfil the requirements necessary to become a legally licensed enterprise. This would include such things as permission from the ministry of health, payment of taxes, employee benefits and other similar things (Stearns, 1989a, p. 12). This conceptualization of graduation is seen in the writing and the work of Hernando de Soto from Peru.

de Soto (1989a, p.4) equates informality with illegality arguing that it is very costly for micro-entrepreneurs themselves, and for the economy as a whole. This is so, he says, because the situation makes it necessary to spend a great deal of time and energy developing mechanisms to avoid detection by the authorities. Beyond this, informality will preclude the possibility of significant growth. This is because things like advertising and locating in established market places will be contrary to the primary goal of avoiding detection by the authorities.

Sterns also suggests that there is only a small chance of an informal enterprise becoming formal in this sense. Moreover, if the enterprise does graduate to the formal or legal sector, then it is done only when the costs of remaining informal outweigh the benefits of remaining informal. Stearns states:

Growing firms tended to legalize once the cost of being illegal, including bribes, limited markets, and no access to credit on reasonable terms outweighed the costs of legalization (Stearns, 1989a, p.12).

Social graduation refers to the fact that the micro-entrepreneur will be able to operate more effectively within their own business and within the overall business community. Credit can be the main tool of this sort of approach. It will be used to build a more stable and secure source of income from the business over time.

Along with credit, social graduation will require training and/or technical assistance to the microentrepreneur. These things try to provide the individual with new knowledge, skills and self-confidence.

The goal of social graduation is not to end the relationship between the microentrepreneur and the MLP; in fact this relationship is likely to continue. The goal is instead to ensure that the individual is better able to interact with his/her own environment. For example it could mean that the microentrepreneur will be more effective in negotiations with suppliers of raw materials or with buyers. It can also

translate into more participation with community organizations or even to a greater capacity for savings (Stearns, 1989a, p. 13).

Finally, there is **financial graduation**. This is by far the most commonly held understanding of the term graduation by both practitioners and academics. The concept here is that the microentrepreneur will leave the program and move on to formal credit agencies. This will require that the individual be able to satisfy the commercial institutions' collateral requirements, and of course that they will want a loan large enough to interest the bank. Most MLPs identify this form of graduation as one of their primary goals (Stearns, 1989a, p.14).

The reasons for the popularity of this goal are quite sound and easy to understand. Essentially, a program with limited financial resources has two options when its clients do not graduate and continue to use the program: they can finance these people indefinitely; or they can force them out of the program after a certain period of time, number of loans, or attainment of a maximum loan size. The latter approach will allow new people into the program, thereby increasing community impact of the program, at least in terms of the number of different clients that have been served.

The problem associated with the non-graduation of clients is that the program is seen to promote the dependence of the clients on the program itself. Other related problems are

associated with the failure to graduate clients; these are as follows. First, development projects (of which MLPs are one form) are usually seen as temporary measures of intervention. In this conceptualization, it will only be the individual who gains access to the formal credit system that will be seen as a success. Others will not have access to credit at all once the project is finished, and therefore the program will not help them in the long term. Second, MLPs are supposed to help microentrepreneurs grow in size and/or level of profitability. If this is actually happening then, it is argued, the individuals should reach a point where access to commercial financial institutions becomes an alternative. Third, the MLPs limited resources mean that it will be necessary for people to move out of the program to give others access. Fourth, and finally, many have seen the business that are served by MLPs as part of a sector of the economy that needed to be fixed. Based upon this understanding it was only natural to encourage business to grow to the point where they are considered part of the formal economy. This is done with a view to reducing the size of the informal economy and ultimately eliminating it all together (Stearns, 1989a, p.16).

Despite all of these good reasons to promote client graduation, the fact is that very few clients do graduate from MLPs and become involved in the commercial credit system."

⁶ Stearns (1989a, p.22) reviews ten MLPs operating throughout Latin America and the Caribbean, with a total of over 16,000 current clients. Of this number approximately 287 clients have

This reality has led to some serious questioning of the propriety of the goal of graduation for MLPs. Stearns has reviewed the literature on graduation and has the following to say:

These findings corroborate the limited literature that exists on graduation. From Tendler's study of UNO in 1983 to Jim Boomgard's 1989 study of AID-supported microenterprise programs world wide, the available evidence indicates that graduating clients to formal financial institutions is quite uncommon (Stearns, 1989a, p.22).

There are, according to Stearns, three sets of factors that affect client graduation: those affecting the client, those affecting the program and those affecting the banks.

A client would be encouraged to leave the program if the commercial sector were to offer the following incentives: lower interest rates, larger loans and/or longer loan periods. But even if these factors were to come into play, there are other things that would inhibit the client from a decision to deal with a commercial bank. Most importantly here is the length of time it takes for a bank to process a loan application. This includes the time spent filling out the loan application, and the time involved in the processing of the application form by the bank staff. Also, many clients feel more comfortable with the MLP staff who they have come to know over a period of time. Many clients will have difficulty in meeting the loan guarantee requirements of a bank and in

gone on (graduated) to formal sources of credit. Dividing the 287 graduates into the number currently being served by MLPs yields a graduation rate of 1.8 percent.

providing the financial statements usually required. And, of course, the bank may well want proof of the proper licensing and registration of the business - something that many microentrepreneurs will be unable to provide (Stearns, 1989a, p.26).

When discussing the factors that will affect a program's efforts to ensure graduation, an interesting point comes up. This is the suggestion that it may not be in the best interests of the program to promote graduation. This is so because it would be the best, most reliable, clients that would be able to pursue this option. Therefore, graduation would leave a program with fewer of its most reliable clients, and this would very likely impact negatively on a program's financial stability, Stearns put it like this:

It appears that the goals of self-sufficiency and client graduation may be contradictory, and that some programs may sacrifice the latter to strengthen the former (Stearns, 1989a, p.27).

So it is clearly a conundrum for an MLP, on the one hand they would not wish to lose their good clients, while on the other hand they need to move people through the program so that others can become involved.

Finally, the banks also have reasons for not wanting to accept microentrepreneurs as clients. First, they argue that the loans are too small to make it worth their while spending the time and the money on the administrative work. It is far more cost efficient to make one loan totalling 10,000 dollars (for example) then it is to make ten loans of 1,000 dollars.

This is because of the much higher administration involved in processing the paper work for ten loans then in processing the paper work for one loan. Beyond this, the guarantees offered by microentrepreneurs are less valuable then the guarantees offered by larger borrowers. Thus, banks will be reluctant to become involved with microentrepreneurs (Stearns, 1989a, p.28). Indeed, as mentioned above, it often takes government intervention to convince commercial banks to get involved at all with business in this sector.

Given that there are several factors that work against the possibility of clients graduating from a program, in the financial sense of the term, then it is necessary to find alternatives if the programs themselves are actually going to survive. Stearns (1989a, pp.30-32) points to two options open to programs facing the dilemma of non-graduation.

First, there is what she refers to as 'program graduation.' Here the idea is to identify a gap in the services typically offered by the MLP and the commercial bank. Once this gap is identified then steps should be taken to fill it with the appropriate services. This will, over time, give the program a foothold in the formal financial sector, while at the same time they will still be able to service microentrepreneurs.

Another form of program expansion is called 'massification.' This refers to a situation where the focus continues to be microentrepreneurs, but the program will try

to reach much greater numbers of these people. This approach will require careful consideration by the implementing agency. This is so because it will force a revision of program goals, structure, access to resources, methodological adaptations, and the internal financial capacity to manage a very large program.

The second type of alternative to client graduation that Stearns discusses is called 'financial intermediation.' In this situation a program may seek to increase its portfolio by borrowing from a bank itself and then recycling the money out to microentrepreneurs. This approach is rather risky and will have a high cost attached when the MLP is forced to pay commercial interest rates for the loan received from the bank. This is especially difficult since most of the capital that MLPs operate with comes from donor agencies as development assistance money, and does not have to be repaid at all; or, occasionally, repaid at negligible rates of interest.

Another type of financial intermediation would be to have MLPs guarantee loans that microentrepreneurs negotiate with commercial banks. In this way it would normally only be necessary to have cash reserves of a prearranged value on hand, and not the entire amount of money that was to be loaned out.

In this approach, the MLP would assume responsibility for the bulk of the administrative costs associated with the program. It would also provide a cash guarantee to the bank.

This approach seems to address two of the largest problems that banks have with extending credit to microentrepreneurs: the administrative costs and the lack of solid financial guarantees for their money. A major difficulty, however, would be the necessity to charge interest rates high enough to cover the costs associated with administration. This, in many cases, may not have to be significantly higher than the rates charged by many MLPs already.

In conclusion, Stearns states that the evidence suggests that client graduation is not a realistic goal for MLPs. And, given this fact, a search for viable alternatives must be undertaken (Stearns, 1989a, p.34).

3.5.2 Delinquency

This is the second of the other major issues faced by MLPs in operation today. The key here is to discover ways to reduce and prevent delinquency from occurring. For it can pose a major threat to the financial wellbeing of any program. In another paper for ACCION International Katherine Stearns (1989) discusses delinquency; the following analysis will be drawn mainly from that paper.

To begin with it is noted that no standardized definition of delinquency exists for all programs involved in microenterprise lending. Furthermore, many programs are unaware of the real quality of their loan portfolio. Stearns states:

With few exceptions, poor portfolio quality is more a reflection of a flawed credit program, rather than "bad" borrowers or an unfavourable economic context (Stearns, 1989, p.8).

This is very important to remember because it suggests that with some administrative work a problematic program may be able to reduce the rate of default it is experiencing. The importance of curtailing delinquency is put well in the following quote:

On-time payments indicate that loans are appropriate for the needs of the clients because they are capable of paying them back on time. It is also an indication that clients value the service and their relationship with the institution enough to want to repay loans on time. On the other hand, high delinquency and loan loss rates suggest that a program is providing inappropriate loans, which clients are unable to pay back on time. Or that the service is not valued by clients (Stearns, 1989, p.27).

In her analysis of the costs of delinquency, Stearns distinguishes between costs that are quantitative and costs that are non-quantitative.

There are two sorts of quantitative costs: costs to the program's structure and costs to the program's income. The former include costs associated with increased work time spent on information systems for monitoring payments, more visits to borrowers, more extensive portfolio analysis, legal fees, and costs associated with repossessing and selling physical guarantees. Moreover, time spent on the above activities will take away time that could be spent on program promotion with new borrowers (Stearns, 1989, p.30).

The costs to the program income that delinquency brings are of the first order of importance. For this reason alone it demands that the issues be dealt with. First, there is the obvious cost to the program of postponed income, and the opportunity cost that this represents. For, if people are not paying back their loans on time, then it will reduce the size of the overall portfolio, thereby reducing the amount of capital base that the program operates its lending from. Second, and related, there is the slowed rotation of capital. This means that interest will be earned on less income. For example, a program may expect to use \$100 twice a year (2 loans for 6 months each) thus earning interest on \$200. If, however, the account is in arrears, the program may only lend \$150 a year and collect interest on that amount. When loans are long overdue, a program may give up trying to recover the interest and settle for just the principal; in this way they will forfeit income due them from the interest on the loan (Stearns, 1989, p.31).

The non-quantitative costs associated with delinquency are much more difficult to pin down, yet they are no less detrimental to the success of a program and therefore must be mentioned. In a situation where delinquency is common, a sense of frustration will develop among the staff. This frustration will, as it does with all employees, reduce their level of their enthusiasm and effectiveness. Also, word may spread that many people are defaulting on their loans. This

could cause those who pay faithfully to ask, "why should I pay if so many others are getting away without paying?" Finally, the existence of high delinquency rates will reduce a bank's openness to microentrepreneurs who approach them for loans. Thus, one of the major factors that gave rise to MLPs in the first place, will be further entrenched in the financial system of the country.

Since there are so many serious costs associated with delinquency, efforts must be made to control it at all times. Having said this, it is only fair to point out that there are some circumstances that will occur which make it very difficult for an individual to maintain the original payment schedule. Things such as natural disasters, changes in government policy (particularly economic policy), and personal or family crisis are the best examples.

These things do happen, and if an open relationship between the MLP and the client is maintained, they should be able to be handled on an individual basis without too much trouble. In the event of a natural disaster, the program may well consider rescheduling of loan payments of all the affected clients. Much more common as a cause of delinquency are the factors that can be controlled. Stearns suggests the following steps to deal with delinquency caused by controllable factors.

First, particular attention must be paid to program image and philosophy. It is important to operate from the framework

of a financial institution and not a charitable institution. This will be key to removing the "give-away" sort of understanding that many people have of development agencies. This will also have a positive impact on the staff, who will see their positions as part of a business that can support itself.

Second, the credit methodology is important. Solidarity groups have proven to be an effective way of combating delinquency. If, however, the solidarity group approach is not appropriate, then most MLPs have adopted a co-signer requirement, or another form of loan guarantee. It is essential that these requirements be enforced so that people do not begin to get the impression that they can take advantage of the program.

Besides these negative reinforcements there should be a good system of incentives for promptness. That is a system in which the benefits of prompt payment outweigh the benefits of delinquency. These are usually linked to future loans being based upon one's past loan record.

An interesting variation of this positive reinforcement is seen in the "Kredit Unit Padasaan" (KUPEDES) program in Indonesia. There they charge an extra one-half percent interest on the loan. If all the instalments are received in full and on time then the extra interest is returned to the borrower. After five years of lending, with a portfolio of

US\$ 310 million among 1.4 million borrowers, the program has only a 7.5 percent rate of arrears (Stearns, 1989, p.43).

The third way of reducing delinquency is to ensure that the program has a good information system. This will allow it to keep track of exactly who owes what and when they owe it. A good information system allows a program to understand and respond to an emerging arrears problem before it gets out of control. This then is key to the reduction of delinquency. Every effort should, therefore, be made to establish a good information system from the very beginning of the program and build on it as the program grows.

3.6 CONFLICTS BETWEEN MLP OPERATOR AND DONOR GOALS

This chapter has described microenterprise development programs as they exist today. Discussion has moved from an overall definition of MLPs, through a discussion of the types of programs, to a consideration of the logistical concerns associated with program delivery, and finally to a discussion of the major issues faced by MLPs at work in the field today. These discussions have offered a clear and comprehensive picture of microenterprise lending programs and how they operate.

It is clear from the above pages that the delivery of a microenterprise program is a complex and difficult task. There is, however, one further issue that must be discussed.

This issue increases the level of complexity even beyond what one would expect from the above discussions.

This is the tension that exists between the goals of many programs and the goals that many donors have for the program. Essentially, the point here is that many MLPs are run by NGOs, or persons with an NGO background. These organizations have a history of development work, which in many ways contributes to their ability to work effectively with microentrepreneurs (Tendler, 1989, p.27). The fact that they are run by NGOs also gives them a predisposition to work toward the social and economic advancement of their clients. While in itself this is by no means a bad thing, the desire to promote social and economic advancement can lead to situations where the approach taken by the NGO will differ markedly from the approach desired by the donor agency.

This difference will arise because donors look at MLPs as financial institutions first and foremost, and this translates into a strong desire for the financial self-sufficiency of the MLP. The hope of the donors will be that an initial start up grant will provide the MLP with sufficient capital to get their program up and running. This will be the basis of cost effectiveness that will preclude the need for further financial assistance from the donor. This differs from the goals of the MLP staff, who often come from a background which has little concern with financial self-sufficiency. Instead

the main concern of these people is the social and economic advancement of their clients.

In terms already used in this chapter, the dichotomy that exists is between the minimalist approach and the credit plus approach (see section 3.3.2 above). As has been discussed, these two approaches stem from different understandings of the role of MLPs. They will, therefore, treat the role of financial self-sufficiency in very different ways. Clearly, financial self-sufficiency is much more likely when a program is structured in a way that will minimize its costs and maximize the use of the capital.

Therefore, a program that offers only credit (and no other services such as training and technical assistance) will have the best chance of achieving financial self-sufficiency. This possibility will be much more likely if the credit granting institution is able to make short term loans, and thus recycle the capital quite often.

Given the fact that MLPs have become a popular approach to development in recent years,⁷ some NGOs will put forth project proposals to donors seeking to expand or maintain a presence in development in a particular country. The NGO will see it as an opportunity to support the urban poor, and therefore they will agree to start the program.

⁷ ". . . Their increasing popularity since the late 1970s is due in part to their 'match' with donor agency goals of increasing economic growth and productivity, improving access to productive resources by low income groups and, in general, their market orientation." (Grown & Sebstad, 1987, p.943).

With the agreement in place, the donor will work with the NGO to establish the program's goals and objectives. Since it is the donor's money, they will have significant input into this process. Many will push for a program set up along minimalist principles, thus ensuring an approach directed toward financial self-sufficiency. At the same time, the NGO will enter into the goal setting sessions with the view of furthering its work in the social and economic advancement of the urban poor with whom they will be dealing.

During this process, it is likely that some form of compromise will be reached, and that a middle ground acceptable to both donor and NGO will be negotiated. This is the basis of the dilemma. The middle ground is agreed upon, yet both players have retained their initial principles, and somehow will hope that their goals will be achieved over time. It is the contention of this thesis that the conflict of these basic principles often creates a situation where the MLP is operating at cross purposes. It will, therefore, be unable to fully satisfy either the hopes of the donor or of the NGO.

3.6.1 Financial self-sufficiency

If designed properly, SME (Small and Micro Enterprise) projects can achieve considerable levels of self-sufficiency, particularly in the provision of credit. However, experience shows that reaching full self-sufficiency in SME projects (i.e., covering program costs from interest and other income earned through the program) is very difficult unless the project manages a very large fund and has a quick rotation of loan monies (Otero, 1987, p.17).

MLPs, like any development project, should be designed to provide the optimal amount of project benefits per unit of project cost. Calculations of cost-effectiveness must make the distinction between various project components. Possible components include such things as credit, training, technical assistance, and other areas such as marketing assistance, or raw material supply.

Often the credit component of a program that is well run will be able to pay for itself (ie. cover costs of administration and sustaining the capital base). This, however, is not the case with other components of a program. It is here that programs run into difficulty when trying to become financially self-sufficient. Along with non-credit program components, Otero (1987, pp.18-19) identifies other challenges to cost effectiveness and financial self-sufficiency.

The first of these potential problems is the **disbursement of donor funds**. This often occurs in instalments, or tranches, that are not in line with the credit needs of the MLP itself. If, for example, the MLP disburses the original credit faster than planned, then the capital reserves of the project will be temporarily depleted. If the project must wait for several months for new funds, it may well lose momentum and discourage potential clients.

The second challenge to cost effectiveness comes from the fact that MLP **staff responsibilities are often defined in very**

broad terms, and there is no special emphasis on cutting costs or worrying about program cost effectiveness. Staff productivity, in terms of amount lent, number of borrowers, client repayment, etc. is not considered an indicator of their performance. Consequently, little attention is paid to these important areas.

Third, the movement of credit is hindered by lengthy application procedures, complex review processes and insufficient disbursement systems. If the time lag is too long, clients will lose interest in the program and it will also mean that capital is not used at an optimal rate.

These problems are faced by all MLPs and it takes a great deal of effort to overcome them and achieve some level of cost-effectiveness. If this effort is further complicated by the existence of other program components besides the extension of credit, then cost effectiveness will be even more difficult to achieve. For these reasons many donors are not enthusiastic about the inclusion of other program components besides basic credit. Still, many NGOs see the other components as integral to their ability to meet the social and economic goals they have for the program participants.

In the next chapter the experience of several MLPs will be examined in light of this dilemma. It will argue that MLPs find themselves in a situation where they wish to pursue the community development related goals but, for reasons of financial self-sufficiency, they cannot.

CHAPTER FOUR: JAMAICAN PROGRAMS

INTRODUCTION

This chapter will build upon the work of chapter three. The intention here is to take the discussion of MLPs from the general level down to a more specific country level. With a country based perspective it becomes easier to see the specific issues which are faced by programs, in their day to day operation. The discussion of MLPs in a specific country should be prefaced by a discussion of the specific characteristics of that country and its economy. Along with this, discussion of the informal economy, and particularly microenterprises, will be important. Discussion of MLPs is made clearer by providing this country context, so that the discussions move beyond general conceptualizations and begin to consider exactly what MLPs are and how they have come about.

This chapter will consider the following subject areas: the Jamaican economy, the characteristics of Jamaican microentrepreneurs, their sources of credit, and two different types of MLP found in the country (those run by government agencies, and those run by non-governmental organizations). The last section, devoted to a consideration of different types of agencies, will give a brief overview of four different agencies involved in the support of

microentrepreneurs in Jamaica - two government and non-government programs will be briefly considered.

4.1 THE JAMAICAN ECONOMY

Before beginning a discussion about microentrepreneurs in Jamaica it is important to offer some brief background to the Jamaican economic situation today. This is important in light of the discussion that took place in Chapter One, regarding the conceptualization of the informal economy, and within it microenterprises. For, as that discussion revealed, the informal economy is primarily a phenomenon of developing economies. More particularly there was reference to the fact that economies in a state of contraction are much more likely to have significant informal activity than are economies that are experiencing growth.

Polanyi-Levitt characterizes the Jamaican economy as being in a state of severe balance of payments disequilibrium, a state so severe that the government is said to be in a situation of "defacto receivership to the multilateral agencies" (Polanyi-Levitt, 1991, p. 3). This has been the case since the early 1980s, with the onset of the debt crisis throughout the developing world. Jamaica's state of indebtedness is among the most severe of any country in the world, with each Jamaican man, woman and child being responsible for US\$ 1,839 (Ross-Frankson, 1990, p. 11).

TABLE 4.1 MEDIUM AND LONG TERM EXTERNAL PUBLIC DEBT OF JAMAICA (in US\$)

Year	Total external debt (end of year)
1979	1,451,000,000
1980	1,867,000,000
1981	2,293,000,000
1982	2,740,000,000
1983	3,267,000,000
1984	3,262,000,000
1985	3,587,000,000
1986	3,576,000,000
1987	4,013,000,000
1988	4,009,000,000
1989	4,035,000,000

SOURCE: Polanyi-Levitt, 1991, p.3,

The result of this excessive level of indebtedness has been that, over the past 10 years, the government has entered into a series of standby arrangements with the International Monetary Fund (IMF). These arrangements provide the government with sufficient foreign exchange to meet the interest payments on the money that is owed to the international institutions. In exchange for providing the government with these loans, the IMF expects certain actions in order to improve their economic situation; namely, to make the economy more competitive over the long term, with a view to ending the need to borrow money to meet Jamaica's financial obligations. These arrangements are found in a great many countries in the developing world, and are generally referred to as Structural Adjustment Programs (SAPS). It is not within the purview of the current work to examine these SAPS and the many issues that surround their implementation. Suffice it to say that

significant evidence exists to support the view that one of the impacts of the imposition of a Structural Adjustment Program will be to increase the size of the informal economy. Evidence supporting this thesis abounds, and in the Jamaican case writers such as Boyd (1986), Polanyi-Levitt (1991), and Witter (1990) have documented the increase in the size of the informal economy on the island in the years that have followed the implementation of the first SAPS.

For the purposes of the current work it important only to understand that the macroeconomic situation in Jamaica today has given rise to a large informal sector and that there is little sign of this sector doing anything but growing in the next few years.¹ For this reason, Jamaica presents a good example for examining the work of agencies engaged in efforts to assist the informal sector, and microentrepreneurs in particular.

¹ "The decrease in salaries and public consumption can create dynamics of substitution at the level of commercial activities, but can also generate recessionary effects (the Keynesian multiplier playing upon the decrease in the level of demand, or the effects of the decrease in inputs and imported equipment on activities" (Hugon, 1988, p.17).

4.2 CHARACTERISTICS OF SECTOR IN JAMAICA

In this section the chapter will offer an outline of the basic characteristics of both Jamaican microentrepreneurs, and the agencies which offer them assistance. It is the intention here to offer a framework of understanding from which the following discussions will flow.

The discussion will begin with an examination of the main characteristics of the sector as a whole. These include the following areas: size and distribution, legal and operational features, social and demographic issues, and the main problems for individuals and for the institutions involved in supporting them.

4.2.1 Size and distribution

It was estimated by the Inter-American Development Bank in the late 1980s that 33 percent of Jamaica's labour force found its work outside the formal economy (figure quoted in Witter & Kirton, 1990, p. 11). The age group 65 and over accounted for 11.6 percent of the population over 14 years of age. If this group is excluded, then 18.4 percent of the population over 14 years of age were outside the labour force, and were therefore potentially members of the informal sector. Moreover, it is very hard to see how, with incomes so low and living costs so high, people in this group could afford not to engage in some form of income generating activity.

The 1983 Small Establishments Survey (SES) conducted by the Statistical Institute of Jamaica estimated that there were 36,777 small establishments, or businesses, at work in Jamaica in 1983. This is the most recent statistic available from an official government source and based on census data.² While it is true that not all of the businesses covered by this survey would be characterised as microbusiness, according to the definition given in Chapter 2 of this thesis, it does provide some sense of the size of the sector at the time.³

A more current measure was taken in a USAID sponsored study of the microenterprise sector in 1989, undertaken by the Kingston consulting firm of Trevor Hamilton and Associates. The Hamilton study looked at only the businesses of microentrepreneurs, and not at other small business ventures. Hamilton (1989, p.II-2) estimated the number of microentrepreneurs at 33,000 at the end of the decade. Both of these studies would suggest that there were in excess of 30,000 microentrepreneurs in Jamaica during the 1980s. Again, the literature suggests that this number is rising as the Jamaican economy continues to exist in a state of crisis into

² It has been stated that the economic crisis in Jamaica since the time of this survey has spawned many more microentrepreneurs. See for example Boyd, 1988, p.101.

³ This is due mainly to the fact that the SES study considered all businesses with less than 10 employees, whereas, according to the definition of microenterprise offered above, the number of employees is not to exceed five.

By the end of the 1980s some estimates of participation in the informal economy were at approximately 20 percent. As Witter & Kirton state:

. . . it is clear that almost 20 percent of the (Jamaican) population over 14 years were potential participants in the informal economy; and this is a low estimate since it necessarily excluded workers in the formal economy who work part-time in the in formal economy (Witter & Kirton, 1990, p.12).

In terms of distribution, Jamaican microentrepreneurs are active in virtually every area of economic activity. This, of course, refers only to activities that can be undertaken on a small scale and not such things as mining or the manufacture of heavy equipment. The sectoral breakdown of microenterprise activities in Jamaica is as follows:

TABLE 4.2 SECTORAL DISTRIBUTION OF JAMAICAN MICROENTREPRENEURS	
Sector of activity	Percentage of all microenterprises
Retail	45
Manufacture/fabrication	31
Personal care	5
Repairs	5
Cooked/prepared food	4
Food processing	4
Construction	3
Transportation	2
Other	1

SOURCE: Baker, 1991, p.20

It is important to note that the great preponderance of microenterprise activity in Jamaica is in the retail and the manufacturing sectors; together these account for 76 percent of the total activity. The remaining 24 percent is made up of

businesses in the areas of personal care, repair, food preparation, construction, and transportation. The retail sector is the one that many people associate with microenterprise activity, for here are found the sidewalk vendors seen by anyone who has ever visited a city in the developing world. But beyond this, many microentrepreneurs work from their homes or in small "back-yard" workshops. Also, Kingston has a thriving informal transportation sector, composed of mini-bus and unlicensed taxi operators.⁴

4.2.2 Legal and operational features

Hamilton notes that nearly 85 percent of Jamaican microenterprises are individually owned. The ownership structure of the other 15 percent is divided among four other types, these are: limited liability companies, family ownership, partnerships and cooperatives. The Hamilton study offers its estimate based upon the sample of 1000 microentrepreneurs that it surveyed across the island in 1989, the breakdown is as follows:

⁴ For a full discussion on mini-bus operators in Kingston see Anderson, 1987.

TABLE 4.3 JAMAICAN MICROENTERPRISE OWNERSHIP STRUCTURE-SAMPLE		
TYPE	NUMBER OF ENTERPRISES	PERCENTAGE OF ENTERPRISES
Limited liability co. ..	21	2.1
Individual	827	82.7
Family	72	7.2
Partnership	72	7.2
Cooperative	8	0.8
TOTAL	1,000	100.0

SOURCE: Hamilton, 1989, p. II-6

Clearly, the vast majority of microenterprises in Jamaica are individually owned. According to Hamilton there are three major reasons for this (1989, pp.II-6 -II-8). First, most microenterprises are initiated as a way to meet **immediate personal income requirements**. Therefore, there is not likely to be a long-term financial plan involved, nor even the intention to remain self-employed. Thus microenterprises are seen by their owners as short-term or stopgap measures to see them through a difficult financial period. Even when the involvement becomes long-term there is still a tendency to hope that it will not be a permanent situation, and in this case it will be unlikely that employees will be sought out.

Second, the **costs associated with creating a more formal arrangement are quite high**. Hamilton notes that any business that is not individually owned will require some type of legal registration. He points to the registration of a limited liability company as an example; stating that the formal

registration of such a company could consume up to half of the money available to many microentrepreneurs for start up costs. In this context it is clear that the avoidance of such costs, by remaining small and unregistered, is important to many potential microentrepreneurs.

Third, and perhaps most significant, is the fact that there are very few economic advantages to be gained from the more formalized business structures associated with multiple ownership. The main advantage that could be used to persuade microentrepreneurs to enter into more formalized business relationships would be the availability of credit. The access to credit is not likely to improve even with more than one owner in a business because the commercial banks will continue to rely upon personal guarantees in making decisions about the provision of credit.

Given the fact that most microenterprises are individually owned, the structure of production and marketing (or operational features) is fairly easy to predict. The majority of microentrepreneurs engage in forms of production that can be sold directly to the consumer. An estimated 97 percent of all microentrepreneurs in Jamaica market their products directly to consumers. At the same time, approximately one-third of microentrepreneurs sell to other microentrepreneurs and to small business, especially retail outlets. About the same proportion sell their products to larger businesses, who then market them to consumers. This is particularly common in

the wood working and furniture making industry, where the woodworker will sell to the larger furniture store who will in turn sell to the final consumer (Baker, 1991, p.21). And, finally, Hamilton estimates that approximately 16 percent of Jamaican microentrepreneurs sell their products to government agencies.⁵

A closer look at the operational features of Jamaican microenterprises will consider the following aspects in greater detail: location, capacity utilization, employment levels, institutional support, business support received, and major business problems.

Six main sorts of business location have been identified among Jamaican microentrepreneurs. These include the following:

Location	Percentage
Rented Building	29.0
Own Homes	23.0
Sidewalk	16.0
Rented / Leased Land	13.0
Own Land	9.0
Other	10.0

SOURCE: Hamilton, 1989, p. 22

⁵ A very good example of this is the government agency which buys crafts from all over the island. This agency has rigidly enforced standards and pays a fairly good price for the crafts, which it in turn markets at tourist locations in stores called, "Things Jamaican."

It is interesting to note that even though the popularized conception of the microentrepreneur sees them on the sidewalk doing business, when the reality is that less than one in five actually conducts their business from the sidewalk. The most common site in Jamaica is in a rented space. This may be a rented retail or factory space. The other point to note here is that fewer than ten percent of microentrepreneurs actually own the space from which they operate their business. This will certainly have implications for those attempting to access credit from formal financial institutions, which usually require some form of collateral.

4.2.3 Social and demographic features

Along with this sectoral breakdown it is helpful to note that most of microentrepreneurs in Jamaica come from the parishes of Kingston and Saint Andrew, where the city of Kingston is located." In fact, approximately 80 percent of microentrepreneurs reside in the five parishes that border the Kingston metropolitan area (LeFranc, 1989, p.106). The fact that the majority of microentrepreneurial activity in Jamaica takes place in the principal urban area of the country parallels the experience of other countries.

" Jamaica is divided into eight parishes. A Jamaican person will often identify them self as being from a particular parish, in the same way that a Canadian may identify them self as being from a particular province.

Another important factor to consider is the gender composition of microentrepreneurial activity in Jamaica. For microentrepreneurs as a whole, Hamilton states that the majority are male. Interestingly, this does not hold true when one just considers the very visible portion of the microentrepreneurial population who make their living as sidewalk vendors, or "higglers." ⁷ The majority (52 percent) of higglers are women, according to a study done by the Kingston Urban Development Corporation (quoted in Witter & Kirton, 1990, p.17). For the sector overall, Hamilton offers the following figures on the gender composition:

TABLE 4.5 GENDER BREAK-DOWN OF JAMAICAN MICROENTREPRENEURS	
Gender	Percentage
Males as principal owners	68.6
Females as principal owners	31.4
Males sharing in ownership	68.4
Females sharing in ownership	31.6

SOURCE: Hamilton, 1989, p. II-50

In light of the Witter and Kirton figure, which suggests that the majority of Higglers are women, an important distinction is highlighted. It was mentioned above that only a portion of Jamaican microentrepreneurs are involved as sidewalk vendors, or higglers; this is an important distinction to keep in mind during the discussions to follow.

⁷ In Jamaica these side walk vendors are very much a part of urban life. They are called "Higglers" and although most prominent in Kingston they can be seen all over the island.

These statistics suggest that women are over-represented as higglers and underrepresented in other areas of microentrepreneurial activity.

Aside from the gender and place of origin characteristics it will be helpful to briefly mention some other social and demographic traits common to microentrepreneurs. This is done in order to provide a more complete picture of the sort of individual that becomes involved in a microenterprise in Jamaica. Baker, using data from the Hamilton (1989) study, sums up these characteristics in the following paragraphs:

The average age of the (micro) entrepreneur is 38 years, with fifty percent of owners being between 35 and 54 years of age. Less than 10 percent of these business persons were under 25 years of age.

Despite a fairly high level of female participation, the principal owners of microenterprises are male (31.4 percent and 68.6 percent respectively). Women tend to concentrate in the retail trade, especially vending and in the personal service area.

Almost forty percent of owners have had primary education, and almost fifty percent have had secondary schooling. More than eighty percent of the principal owners of these businesses are heads of household, with an average of 3.49 dependents (Baker, 1991, p. 23).

4.2.4 Main problems faced by Jamaican microentrepreneurs

An interesting comparison exists between the findings of the 1983 Small Establishment Survey (SES) and the 1989 Hamilton study in terms of the main problems faced by Jamaican microentrepreneurs. In 1983 the number one problem identified by microentrepreneurs was the lack of customers that they were able to attract. The implication was that the supply of

microentrepreneurs was greater than the demand for their products. By 1989 this concern does not even find its way into a list of the top five problems facing the sector."

The fact that the demand for the goods and services of the microenterprise sector increased to a point where, by the end of the 1980s, there was no concern about the availability of customers, can be explained by the fact that the Jamaican economy underwent severe contraction during the decade of the 1980s and many people were forced to seek less expensive sources of consumer goods in order to survive (see for example Polanyi-Levitt, 1991; Boyd, 1985). This suggests that people's incomes have decreased, and that the economy as a whole has not fared well over the course of the decade.

In terms of the problems faced by microentrepreneurs in the late 1980s and into the 1990s, the work of Hamilton is the most comprehensive review seen to date. As mentioned above, Hamilton lists the top five problems identified by microentrepreneurs in their efforts to run their businesses (see table 4.6, next page).

^a Hugon, 1988, p. 17, states, "The decrease in salaries and public consumption can create dynamics of substitution at the level of commercial activities, but can also generate recessionary effects . . ."

TABLE 4.6 TOP FIVE PROBLEMS AFFECTING JAMAICAN MICROENTREPRENEURS		
Type of problem	Number one	In top five
Securing Credit	42.0	83.0
Securing commercial Space	25.2	59.2
Securing Commercial Vehicle	7.2	55.5
Securing Raw Material	7.1	50.3
Burdensome Taxes	8.2	30.2

SOURCE: Hamilton, 1989, p.II-32

As is indicated, the most commonly identified problem faced by Jamaican microentrepreneurs is their lack of access to credit. The reasons for this problem were reviewed in detail in the previous chapter. Here it is important to note that the experience in Jamaica is similar to the experience of the microentrepreneur in most countries in the developing world. This is important here because it informs the decision made by MLPs in developing the approach that they will take when developing strategies for their programs.

The next section will address the ways in which Jamaican microentrepreneurs are able to access credit to set up, or to operate their businesses.

4.3 SOURCES OF CREDIT

In Jamaica people who own microenterprises identify access to credit as the major constraint they face in their efforts to create and maintain their businesses. This does not mean that there are no avenues open to them through which

they may secure credit. In fact there are several possibilities. The intention of this section is to review these possibilities and to discuss how well they fulfil the needs for credit cited as a major problem by so many. Discussion in this section is based upon a very recent article by Salas, Weiland and Stearns (1991). Reference to other materials will be duly cited.

4.3.1 "Partners"

The academic term used here is, "Rotating savings and credit associations" (ROSCAs), and they are found in virtually every country of the developing world. In each country or region they are known by a different name. In Jamaica, ROSCAs are called, "partners." The principles by which a partner operates are the same as the principles which guide ROSCAs around the world.

The basic concept is best described through the use of an example. A typical partner in Jamaica would consist of a group of 10 people who come together and agree to save J\$ 100 per week, over a 10 week period. Every week the members give their J\$100 (called a hand) to a designated individual (called a banker), who in turn gives this money - J\$1,000 (called a draw) to one person. So that over a 10 week period each person will receive one draw for J\$1,000. In this way the

partner system serves as both a savings and a credit mechanism for all the participants".

There are variations on this basic theme, the most common one being what Salas et al. (1991, p. 41) refer to as a 'banker-partner.' In this arrangement an individual, the banker, is responsible for organizing and directing the partner. The services of the banker include: the selection of participants, the collection of payments, the distribution of draws, and the securing of funds when a participant fails to pay. The banker is paid for these services in one of two ways. One way is through an optional system of 'tipping' from each participant when he/she receives the draw - the customary tip being half of a share (J\$ 50 in the above example), though it is true that the individual may choose not to tip at all. The other way to compensate the banker is to ensure that they receive the equivalent of one share at each draw which is then put back into the partner. In this case the banker then becomes a full member of the partner at no extra cost. In this situation the banker will be entitled to one full draw of the partner, which is usually taken at the end.

' The uses of a partner draw differ greatly, Salas et al. (1991, p. 40) state the following: "For smaller microentrepreneurs finance is a vehicle through which to restock inventory or to take timely advantage of a low wholesale price of supply . . . Larger microentrepreneurs require long term and larger loans to purchase fixed capital; they also require financial services to temper liquidity and cash flow crises . . . This is a result in many cases of the fact that microentrepreneurs must pay for inputs in cash and must sell their product on credit."

Partners are a primary form of finance for low income individuals in Kingston. The main reason for this is the already mentioned fact that low income individuals do not have access to the formal financial institutions, due to their lack of ability to guarantee the loans. There are other important reasons for the popularity of the partner in Jamaica.

First, partners can provide credit fast, and when it is needed. If, for example, an individual in a community were in dire need of immediate credit, they could ask one of the community bankers to form a partner, and in less than a week the individual could receive credit. Second, participant selection is not based on the availability of collateral. Instead it is based upon the information that the banker has about the individual and their cash flow. Third, and related, partner schemes are flexible in meeting the individual savings and credit needs. This flexibility is achieved through a system of half, double and triple hands. Bankers do not allow individuals who cannot afford to pay three hands a week to ask for three draws in the partner. Bankers have sufficient knowledge of participants cash-flows to make these sorts of judgements and for this reason the bankers are usually able to harmonize the individual's needs with their ability to repay.

The fourth point regards savings. Many microentrepreneurs stated that the thing that attracted them to the partners in the first place was the fact that it forced them to save. This is a very interesting point to note because it directly

contradicts the commonly held belief that these individuals have neither the capacity, nor the desire to save. Moreover, the fact that so many people are willing to become involved in partners and thereby be forced to save could well be put into use by MLPs who could begin to include savings as a part of their programs.

4.3.2 Money lenders

It is very difficult to gather information about this form of credit because most of the arrangements contravene Jamaican law, and people are consequently quite reluctant to discuss their experience. Salas et al. did, however, manage to find some people involved in this form of credit extension and in this way put together a picture of the operations in this area.

One money lender they met lent money at a monthly interest rate of 25 percent (Salas, 1991, p.43). The borrower continues to pay the monthly interest amounts until the entire loan is repaid. Understandably, borrowers pay back loans in as short a period as possible. One individual who had borrowed J\$ 5,000 under such an arrangement repaid the entire loan in three months. In this case the borrower had needed money quickly to refinance another loan and the moneylender was able to provide the quick access to credit he required. Rather than requiring real guarantees, many lenders use a system of guarantors. Here it is typical that the moneylender

will only lend to individuals of whom he has a substantial knowledge and who have good references attesting to their credit worthiness.

The fact that moneylenders do exist in Kingston has several implications for MLPs. First, it clearly demonstrates a demand for credit. Second, the high interest rates charged would indicate that poor people in Kingston are willing to pay a high price for credit, if it is disbursed quickly and conveniently. Third, and most important, the existence of moneylenders shows that it is possible to remain in operation even though they are providing credit to low-income individuals and usually in small amounts. The lessons that can be learned from this are many, but the most important thing is certainly that extending credit to microentrepreneurs in Kingston can be a viable business.

Key to this viability, according to Salas et al. (1991, p. 44) is the ability to extend this credit quickly. Loans are granted much more quickly than is the case with the formal financial institutions and because of this ability moneylenders are able to expand their client base. Loans are also recovered quickly, because moneylenders are aware that long-term loans are difficult to recover because of the nature of the businesses that these people operate. They also recognize the importance of information about clients, for high repayment rates are maintained to a large extent by

lending only to individuals about whom they have a sufficient amount of information.

4.3.3 Supplier credit

A great many Jamaican microentrepreneurs make use of this type of credit in the operation of their business. The conditions under which it operates will naturally vary between suppliers. Stores selling woodworking equipment, for example, would offer short-term credit (between 15-30 days). Also, credit is only extended to those who have a previous working relationship with the company. In some cases, along with a working relationship, the company will require the individual to have credit references from other stores or banks.

Another variation of supplier credit is seen in schemes where an individual may make a down payment on a particular item and then finish paying for it in instalments over a period of weeks or months. For example, if a person wanted to become a seamstress in Kingston then it is possible to get a sewing machine within seven days. All that is required is a down-payment of J\$ 300 and an acceptable character reference. Upon receipt of these things it is possible to get a new sewing machine and pay off the remaining debt in instalments of approximately J\$ 200 every month (Salas et al. p.43).

There are two main points to note with supplier credit. First that, in many cases, it takes only five to seven days to receive the loan. Second, that the credit is backed up by a

system of guarantors and references as opposed to collateral. In this way the supplier is selecting clients based upon their good references and not by making credit difficult to obtain because of prohibitive collateral requirements.

4.3.4 Pawn shops

Many microentrepreneurs are forced to turn to pawn shops for credit at one time or another. Pawn shops have fronts to conceal their lending activities, but they are always involved in lending. One pawn shop discussed by Salas et al. lent money only when the collateral provided was worth twice the value of the loan. Along with this stringent requirement the pawn shop in question charged an interest rate of 20 percent a month and the interest accrued against the declining balance. Most pawn shop loans are short term, for the same reasons that moneylender arrangements tend to be short term. The other point of interest noted by Salas et al was that the clients of pawn shops were usually people with very small incomes - less than J\$1,300 a week (Salas et al., 1991, p.45)

After this review of the types of credit typically used by microentrepreneurs in Jamaica a number of characteristics can be delineated which would be appropriate for any organization contemplating the establishment of an MLP. Salas et al. finish their paper by listing them as follows:

Microenterprise finance projects might do well to emulate the performance of informal financial arrangements by incorporating their more valuable characteristics, particularly their method of

client selection, the quick disbursement of credit, loan recovery and interest rates that cover the costs of their services (Salas et al., 1991, p.46).

4.4 GOVERNMENT SUPPORT

This section will offer a brief review of the small business initiatives that have been undertaken by the Jamaican government since the pre-independence period of the 1950s up until the early 1990s.

4.4.1 Early efforts - 1956 to 1980

The first official government assistance directed to microentrepreneurs in Jamaica was found with the establishment, in 1956, of the Small Business Loan Board (SBLB). This agency was mandated to offer loans to Jamaican small business up to a maximum of J\$1,000. The intention was to offset the serious capital constraints faced by these businesses at the time. The program was designed to function simply as a credit agency, without any offer of technical assistance or training (Grossett, 1990, p. 4).

The SBLB was the only official source of credit available to many small businesses during the last half of the 1950s and the early 1960s. This is the period immediately predating Jamaican independence in 1962. The neglect of the small business sector was recognized almost immediately by the newly independent country, and in its first five year economic plan,

steps were taken to rectify this situation. The five year economic plan (1963-68) drafted in 1963 states:

Insufficient attention has been paid to the problem of assistance to very small enterprises, and the need to help and encourage them to improve their techniques and expand their activities.
(quoted in Davies, et al., 1980, p. 25)

The study goes on to say that little real help was to materialize for small businesses in the country during the period of this five year plan. No real attention was paid to the development of training programs, and the only real impact was the increase in the credit ceiling from J\$1,000 to J\$2,000. In fairness, it should be stated that the country at the time was caught up in the predominant economic development model of the day, that is, import substitution industrialization (ISI), and consequently devoted the majority of its energy to the pursuit of large scale industrialization. Davies et al. state:

At the time much attention was being paid to the ISI model popularized by Lewis and therefore most of the industrialization was focused on large scale enterprises through the Jamaican Industrial Development Corporation (JIDC) (Davis, et al., 1980, p.4).

By the 1970s the Jamaican government had reconsidered the importance of small businesses to the national economy, and early in the decade began to actively promote their development. At that time several sectors were identified as key to the future development of Jamaican small business; among these were: furniture manufacture, garment making, footwear production, wooden toys and food processing. The

government proposed integrating four departments which had shown interest in these activities. The idea was to create one department that would assist with finance, marketing and other problems faced by small entrepreneurs.

The new institution was to be made up of the following departments: the SBLB, mentioned above; Development Venture Capital Financing Limited (DVCF) which had been established in 1973 as a division of the Jamaican Development Bank; the Small Industries Development Division (SIDD) which was a department of the Jamaican Industrial Development Commission (JIDC); and the Small Business Financing Scheme (SBFS) which was operated by the Bank of Jamaica (BOJ) (See table 4.7, next page). Although a good deal of energy was expended in putting this proposal together, the scheme was did not work out, and for the first part of the 1970s support for Jamaican small businesses continued to be fairly uncoordinated.

TABLE 4.7 SUPPORT AGENCIES INTENDED FOR MERGER IN 1973	
Name of Agency	Affiliation
Small Business Loan Board	Independent
Development Venture Capital Financing Ltd.	Jamaican Development Bank
Small Industry Development Division	Jamaican Industrial Development Commission
Small Business Financing Scheme	Bank of Jamaica

SOURCE: Davis et al., 1980, p. 4.

By 1977 the government had devised a new plan which called for a similar effort at coordination. In that year the government established the Small Enterprise Development Company (SEDCO) which operated throughout the rest of the 1970s and into the early 1980s. The highlight of these latter years of the 1970s, along with the creation of SEDCO, was the government's drive to build small scale industrial and retail complexes for microentrepreneurs. In addition, significant efforts were undertaken to establish training facilities for these people. The significance attached to small business is clear from the J\$68 million commitment of the PNP to the development of small industry in fiscal year 1980 (Davis, et al., 1980, p.5).

It was in 1980 that the PNP was thrust from power, and with it their approach to support of small business development. However, at the same time the potential of small and microenterprise economic development was being explored in

other parts of the world. With this discovery many of the international donor agencies were beginning to encourage microenterprise development projects around the world. In this environment it was only natural that the new Jamaican government, the JLP, would avail themselves of this opportunity to encourage microenterprise development initiatives.

The record of the Jamaican government during the 1980s, as with the governments of many developing countries, is filled with examples of efforts to support the microenterprise sector. The next section will look at these efforts in more detail than has been given the efforts of the period between independence and 1980. The reason for this greater attention is twofold; first much more information is available on efforts in this period, and second because the 1980s was a period of clearer vision for the future of microenterprise development in Jamaica.

4.4.2 Increased attention - post 1980

During the 1980s a number of government sponsored programs evolved in support of microentrepreneurs. Hamilton identifies at least seven different programs in operation in 1989. These were: JAMPRO, Things Jamaican, Self Start Fund, Solidarity, Jamaican Agricultural Society, Human Employment And Resource Training (HEART) Trust, and the College of Arts Science and Technology (Hamilton, 1989, p.V-1). This list provides an indicator of the extent to which support did

increase overall during the 1980s, over what had been previously available. This section will look more closely at three well documented examples of government sponsored support to microentrepreneurs: JAMPRO, Solidarity, and the Urban Development Corporation.¹⁰

JAMPRO is a government owned and managed agency. It is mandated to provide promotional services related to trade and investment. Within the organization there is a small business division, through which assistance to microentrepreneurs is available. JAMPRO has a staff of experienced professionals who specialize in certain areas related to their mandate. For example, they have staff who specialize in areas such as garment production, leather goods, woodworking and electrical installation.

These people are well able to provide technical assistance to microentrepreneurs involved in these areas. Beyond these supports JAMPRO has specific services for small business. These include skills upgrading, investment promotion outreach, and the execution of special technical assistance programs for people with very small businesses. This is a fairly comprehensive list of the type of support offered by JAMPRO. Notable by its absence from this account is the provision of credit to individuals. JAMPRO does not engage in

¹⁰ The Urban Development Corporation is not one of the top seven public sector agencies listed by Hamilton (1989). For this reason it is helpful to refer to it because it is one of the smaller MLPs working in Jamaica.

this area of support to the sector. The closest they come is to act as a liaison, or referral service, to other agencies which do extend credit (Baker, 1991, p. 12).

Thus, the main area of concentration for JAMPRO is in the delivery of technical assistance to clients. In fact, according to the findings of Hamilton's study, the demand for this form of technical assistance is not as great as JAMPRO'S ability to provide it. Therefore, they have technical assistance and training programs that are being run for less than capacity groups (Hamilton, 1989, p. V-24).

"Solidarity" is a division of the Human Employment And Resource Training (HEART) Trust. It was established in the early 1980s and its main focus was to be on Jamaican youth (between 18 and 35 years of age). For members of this group, Solidarity was to provide a number of supports for individuals interested in microbusiness. Operations were started all over the island, and by the late 1980s Solidarity had a staff of 130 employees, 105 of whom were program staff, while the remaining 25 were responsible for the program's administration (Baker, 1991, p.18) In 1989 Solidarity's budget was J\$ 6.8 million which was secured from a combination of funding from the Jamaican government and donor agencies.

The support provided to microentrepreneurs included most of the standard areas such as counselling, skills training, business training and advice, marketing assistance, and loans up to a maximum of J\$20,000. These loans were granted to

microentrepreneurs engaged in the following business activities: manufacturing (especially handicrafts), vending, the service sector, and agricultural enterprises (Hamilton, 1989, p. V-15).

Clearly, Solidarity had a much broader scope than do many MLPs, in that it worked with people in the rural areas and with agricultural businesses as well. It should, however, be noted that despite this mandate to work with people outside the urban environment the majority of Solidarity's clients came from the Kingston Metropolitan Region (Baker, 1991, p. 18).

This broadness of scope may be considered to be one of the factors that led to the termination of the program in 1991. It was argued at the time that Solidarity was too diffused and that it was not particularly effective in any of the areas where it was active. For this and other reasons, Solidarity was closed down in the summer of 1991. The other reasons alluded to concern the fact that Solidarity was a creation of the previous regime, and it was politically wise to create the impression that the efforts had not been successful.

At the time of the closure of Solidarity offices all over the island, there was much talk about a new program that the PNP government was to establish. The new program was not a reality by the time the present writer left Jamaica, in late 1991. Since that time there has been the announcement of a

new program, to be called the Micro Investment Development Agency, or MIDA. It would appear that the new agency is rather similar to the old one, which could raise questions as to the real rationale behind the closure of MIDA in the first place; was it because of poor economic performance, or was it a partisan political move on the part of the PNP government?

It is not the intent to answer this question in the current paper. The issue is raised simply because it highlights the importance of MLPs on the Jamaican political scene. This importance is not to be underestimated in a country where for 35 years some governmental agency has been involved in the promotion of small business and microenterprises throughout the island.

The third, and final, public sector program to be discussed is the Urban Development Corporation (UDC). Although not part of the top seven, as identified by Hamilton, the UDC can be seen to represent the many other public sector players in the Jamaican microenterprise support field.

The UDC has a very wide scope of interests throughout Jamaica. One major area of interest is community development; it is in this division of the UDC that one finds the support services for microentrepreneurs. Broadly, the community development division of the UDC undertakes urban upgrading and specific development projects in aid of this upgrading. The community development division seeks also to improve economic opportunities for the residents of the areas in which it

works. It is through this provision in the mandate, to improve economic opportunities, that the UDC offers assistance to microentrepreneurs. The community development division of the UDC employs eight staff and it is their responsibility to ensure that all of the community development programs are carried out. They are thus responsible for much more than just the economic initiatives; they must also devote much of their time and energy to broader community based programs.

The emphasis of the UDC economic assistance program is on the provision of business training and technical supports, where these are available from its own staff. There is no mechanism through which credit may be extended, and the UDC functions only as a referral agency in the area of credit. That is, it will send clients to the formal lending institutions and, in some cases, provide a reference or a guaranteed order for goods for the individual applying for the loan.

Another important point about the efforts of the UDC, given its community development orientation, is the tendency to favour group business ventures over individual ones. This translates into a situation where very little support being offered to street vendors through UDC programs, because they are almost always in business on their own.

The efforts of the UDC to promote economic activity in the communities where they work is just one among many of their programs. In this light it is easy to see why the UDC's

efforts in this area have not been measured as among the most important in Jamaica. Yet, it is instructive to note that government agencies not specifically directed to the support of microentrepreneurs are, at least to some extent, involved in their support.

By way of conclusion it may be helpful to provide a brief summary of the types of clients served by each agency and the types of services that are available to individuals or groups who become involved with any one of the three agencies discussed above.

Agency	Male/Female ratio	Age group served	Individual enterprise	Group enterprise
JAMPRO	55:45	Over 20	First*	Second
SOLIDARITY	64:36	18 - 35	First	Second
UDC	N/A	Over 20	Second	First

* refers to the level of preference given to supporting this type of enterprise

SOURCE: Baker, 1991, p.15.

Agency	Non-financial		Financial		
	Train.	Tech. Asst.	Ref.	Up to J\$20,000	Over 20,000
JAMPRO	Yes	Yes	Yes	No	No
SOLIDARITY	Yes	Yes	No	Yes	No
UDC	Yes	Yes	Yes	No	No

SOURCE: Baker, 1991, p.15

4.5 NON-GOVERNMENTAL SUPPORT OF JAMAICAN MICROENTERPRISES

In this section two examples of non-governmental support for microenterprises in Jamaica will be discussed. The first is a program run with the support of the Canadian International Development Agency (CIDA) with a view to assisting individuals in small business to improve their situations. It is similar to the government programs discussed above in many ways. The second example is more of an effort at self-help and organization, The Jamaica Sidewalk Vendors, Marketers and Higglers Association (JSVHMA). As such, the JSVHMA does not follow the approach described thus far, it is included in this section to point out that there are other approaches to assistance for microentrepreneurs than those that have been already been discussed.

4.5.1 Credit Organization for Pre Micro Enterprises

The Credit Organization for Pre MicroEnterprises' (COPEs) main goal is the encouragement of the development of very small enterprises in Kingston.¹¹ This goal is to be recognized with the achievement of seven stated objectives, they are:

1. To create employment and increase income.
2. To build public interest in supporting small-scale private enterprise and to demonstrate how that support is a significant development strategy.

¹¹ Pre-microentrepreneurs are the smallest businesses, that is those employing one or two people only. This is distinguished from the standard definition of microenterprise which usually includes up to five people.

3. To encourage the development of very small business in Jamaica and to improve the economic viability and maintenance of its clients, the owners of such businesses.
4. To demonstrate to traditional lenders that lending to the poor is no more risky than lending to the highly collateralized.
5. To operate a timely and efficient loans program, and harness clients' economic resources to provide a good loan service for production purposes.
6. To ensure effective use of loans through technical assistance and supporting activities before, during, and after, the loan, and to instill in clients the importance of loan repayment.
7. To strive to achieve a self-sufficient institution to serve its clients. (Campbell, 1991, p. 2).

These very broad objectives translate into the following characteristics. COPE has a staff of eight people, four of whom deal directly with clients while the other four are concerned with the administration of the office and the loan portfolio. COPE's annual budget is approximately J\$1.4 million. This money comes to them from CIDA, via the Canadian NGO called "Save the Children - Canada" (Baker, 1991, p. 18). Along with this project-financing, COPE contributes to its own budget from interest revenues, and the fees charged to clients. Figures on the exact percentage breakdown of the budget were not available.

In order to achieve its goals, COPE offers not only credit to its clients, but also some training and technical assistance. However, according to the Executive Director of the organization, most clients were interested only in the credit provision, and sought to avoid participation in training and technical assistance activities. This was found

to be especially true when these activities demanded time away from the business. For, in this event, given the fact that most clients have no staff, the business would have to be closed down. Many individuals determined that the opportunity cost for this training was too high. In these cases the people were often open to discussions with a COPE field officer at their place of business - since they could stay open while the discussion took place (Campbell, 1991).

Because of this lack of enthusiasm for the training and technical components of the program, COPE concentrates upon the provision of credit to its clients. When questioned about this poor response to training, the Executive Director pointed to the fact that the people that they were involved with had very small businesses and were concerned mainly with their own survival, as opposed to the larger micro-entrepreneurs who might be more interested in increasing their business size through reinvestment and savings (Campbell, 1991).

The other point to note about the concentration on the credit component of the COPE program is that it reduces the administrative costs associated with the program as a whole. This makes the achievement of objective number seven, institutional self-sufficiency, more likely than if much time and money was spent on the training and technical assistance end of things. For, as has been stated above, these program components are not able to recover the costs associated with their delivery.

4.5.2 The Jamaica Sidewalk Vendors, Higglers and Marketers Association

The second example, The Jamaica Sidewalk Vendors, Higglers and Marketers Association (JSVHMA) is quite different from any of the microenterprise assistance organizations discussed above. Up until this point discussion has centred around organizations that have been started by non-microentrepreneurs as ways of lending them assistance from outside their own community. The JSVHMA was begun by the people themselves, as a response to a specific situation that was a cause of concern.

In 1986 the Jamaican government developed a plan for the 'revitalization' of downtown Kingston. This plan called for new construction to replace many of the old buildings, streets and parks that, at the time, existed in that part of the city. The rationale was that this part of Kingston was getting very old and run down and it was, therefore, time to do something about it. Among the potential impacts of this restoration plan was imminent dislocation of the thousands of street vendors who had their businesses in this part of the city. In the initial plan, no provision was made for these individuals, and they were quite concerned about their future.

Therefore, the street vendors came together to express their concerns and to demand that some consideration be given to them and their needs. This was the beginning of the JSVHMA. In 1986 representatives of the sidewalk vendors began to meet with government planners to discuss their concerns

over the proposed plan and the dislocation of their businesses that would surely result. A plan to create several alternative locations was developed. These locations, called plazas and arcades, were to be built throughout the city. Initially four were built in areas where old city buildings were located. While this was not adequate to house all the vendors who would be cast off the sidewalks in Kingston's downtown, it was surely a sign of the value of organizing and speaking with a unified voice (Whittingham, 1989, p. 2).

From this initial show of strength the JSVHMA has developed into an organization of some seven thousand Jamaican microentrepreneurs (Hamilton, 1989, p. V-30). Today the Association provides many services to its membership, most important are the advocacy and administrative services it provides for its membership. A complete list of the services available to members is provided in a publication of the Association, called the Higglers And Vendors Bulletin:

1. To organize and mobilize vendors, higglers ICIs¹² and small traders in the JSVHMA membership.
2. Registration of vendors, higglers, ICIs and small traders throughout the island.
3. Identification card processing of members.
4. Making representation on behalf of ICI's and small traders to the private and public sectors.
5. Make recommendations on behalf of members with problems.
6. Lobbying the Small Business Development Centre (SBDC) on matters of importance.

¹² ICI is the commonly used acronym for the group known as Informal Commercial Importers in Jamaica. These individuals travel of the island to other countries in the region and buy consumer goods which they bring back and sell either on the informal market, or in some cases to larger, formal sector, businesses.

7. Government guideline policies, measures and tax support review for members.
8. Documentation and processing of members' statutory returns, income tax returns, education tax returns, and tax compliance certificates.
9. Recommendation letters for members to obtain foreign exchange from commercial banks for overseas business ventures.
10. Hold dialogue, discussion, meeting with government agencies, such as the Ministry of Local Government, Kingston and St. Andrew Corporation, Metropolitan Parks and Markets Authority or the Ministry of Industry and Commerce. (Wittingham, 1989, p.3).

The JSVHMA is very different from all of the support agencies that have been reviewed above. This difference manifests itself in two very concrete ways: the Association offers no credit component to its services, nor does it offer technical assistance or training. While the JSVHMA does not offer these traditional supports, there is still a good deal of support and enthusiasm for its work, as is evidenced by its membership of seven thousand.

There may well be lessons in the JSVHMA's success for other agencies attempting to support microentrepreneurs in Jamaica. The importance of these lessons is, perhaps, underscored by the fact that the Association operates solely from money generated from its membership. The members are all required to pay an annual fee to maintain their rights to the services offered, this fee is the sole source of income for the association. In 1988 (the last year for which data is available) J\$200,000 was generated from membership fees. In that same year the total operating expenses were only J\$175,000 (Hamilton, 1989, p. V-31).

In an environment where donor agencies are constantly pressing agencies that support microentrepreneurs to become financially self-sufficient, the success of the JSVHMA should not be overlooked. Of course it is essential to note that the services offered by the association are not the only services required by microentrepreneurs, since they also look for access to credit and for training. So it is not fair to say that the approach of the JSVHMA should replace the approach of the other programs operating in Jamaica today, only that these programs might do well to consider offering some of the same services to their clients, in an effort to increase project income and thereby to offset some of the other expenses that cost so much - technical assistance for example.

Finally, it should be clear that the example of the JSVHMA is not cited to undermine the importance of the work done by others in the field. Rather, it is noted to provide an example of an alternative approach that may be somewhat instructive for other people who are trying to increase the level of economic self-sufficiency of their own particular program. This will be of particular importance in the discussion of the case studies to follow.

CHAPTER FIVE: CASE STUDIES

INTRODUCTION

This chapter will consider two case studies. The intention here is to complete the analysis of MLPs with specific examples. These studies will elucidate and contextualize the issues and concerns raised in the preceding chapters. Data for these case studies were collected during a six month research placement in Jamaica during 1991.

Specifically, it is the intention of this chapter to examine the contention that many MLPs face conflicting goals and aspirations. These conflicts have arisen because of the donors' desire to ensure that programs attain financial self-sufficiency, whereas they are often operated by organizations and people whose experience lies in community development programs rather than running a business. This creates a situation where the project seeks to accomplish empowerment-related goals associated with community development strategies but finds itself constrained by fiscal realities and limited financial management experience. These realities often push the organization very strongly toward financial self-sufficiency, no matter what their stated goals may be. This conflict is compounded by the fact that many donors who fund MLPs are particularly keen that programs achieve financial self-sufficiency in the shortest time possible.

Faced with these expectations of self-sufficiency, an MLP must often operate within a strictly minimalist framework. As discussed in chapter three, minimalism dictates that a program focus its energy upon only one of the many components identified as part of the package of measures available to an MLP in its efforts to assist micro-entrepreneurs, namely credit. This leaves little room for other areas of program development such as training, technical assistance, marketing, or other non-financial forms of assistance that might well be favoured by one with a community development background.

One way in which this conflict between goals can be identified is to observe differences between the stated goals and the actual activities of the program. The idea here is that the organization which initially designed the project may very well have included some reference to non-financial goals. This is especially true for organizations that come from a community development perspective. If an examination of an organization's actual operation reveals an overriding concern with financial issues, in the face of stated community development goals, it reveals a conflict between the stated goals and the actual program delivery.

The chapter will commence with a statement of the methodology. From there it will proceed to the first case study, **Enterprise Development Trust (EDT)**. This will offer a brief discussion of the origins of EDT, a statement of its goals, and a discussion of the daily operations, especially

the training component of the program. There will also be specific reference to an evaluation of the program carried out by EDT staff over an 18 month period, ending in December 1990. From this discussion the chapter will move to the second case study, the **Agency for the Selection and Support of Individuals Starting Trade (ASSIST)**. This will follow a similar format to the EDT study, although more reference will be made to printed materials, because time did not permit the same level of familiarity with the daily operations of ASSIST.

5.1 METHODOLOGY

The data used here were collected during a six-month field placement in Kingston, Jamaica, during 1991. Over the course of that placement, cooperation of the Enterprise Development Trust was essential, for they had agreed to act as a host and a research base over the entire placement period.

From this base, the opportunity was provided to meet with many other persons involved in assistance to the micro-enterprise sector. A brief chronology of the course of the field assignment is included in order to clarify the data collection process.

Even before the field placement, the researcher took the opportunity to review the literature on MLPs available from North American university libraries. The intention was to become familiar with various conceptualizations of micro-enterprises and the different approaches used to assist them.

During the four months devoted to this review, it became clear that one of the essential debates in the literature was between advocates of the "minimalist" approach versus advocates of the "credit plus" approach. This debate has been discussed at length in previous chapters of the thesis (see especially Chapter 3, section 3.3.2.).

With an appreciation of the central debate, it was time to embark upon the field placement with a view to better understanding how this debate might be resolved in a developing country context. The researcher was aware that it would take time to develop an understanding of the underlying dynamics at work in any development project. Therefore, an initial introductory phase was very important, with the time used to get acquainted with the project and many of the people involved. To that end, the first weeks in Kingston were spent mainly observing the daily operations of Enterprise Development Trust, the MLP who had agreed to act as host.

During this initial phase there was an opportunity to meet with the manager and the staff of EDT was available on almost a daily basis. Most of these early weeks were spent talking to program staff and reviewing EDT's client files.

Simultaneously, other people involved with microentrepreneurs in Kingston were also contacted. These included people at other MLPs, those working for donor agencies, such as the Canadian International Development Agency (CIDA) and the United States Agency for International

Development (USAID), and academics from the University of the West Indies graduate school of international development. These discussions provided a good general understanding of assistance currently being offered to Kingston's microentrepreneurs. Along with these informal discussions, efforts were also made to collect as much documentation as possible about the work of MLPs in Kingston.

After several weeks at EDT it was determined that an impact evaluation of EDT's program would be valuable to both the program and to the researcher. To that end work on a questionnaire which sought to measure the impact of the program upon its clients began (see Appendix A). The intention was to administer the questionnaire to a stratified random sample of EDT's clients. For the thesis research the same questionnaire was also to be distributed to clients of another MLP working in Kingston. This was to form the basis of a comparative evaluation. After discussions with several different program managers, it was decided that the program best suited for such a comparison was the Agency for the Support and Selection of those Starting Trade (ASSIST).

In this way a comparative evaluation of the impact of the two programs, focusing on the benefits to clients, was chosen to form the basis of the thesis research. Once this approach was finalized, the work of developing the questionnaire began. A model for a questionnaire was located in the literature (See Buzzard et al., 1990). This was adapted to suit the

specific approach of the programs in Kingston. The process of questionnaire design was a long one involving the staff at both EDT and ASSIST, as well as input from local academics and donor agencies. The final draft of the questionnaire was also reviewed by members of the faculty at Saint Mary's University in Halifax. The final draft was then pre-tested. The pre-test indicated that no further revisions were required.

With the research tool in hand and the sample drawn, all that remained was to conduct the interviews and complete the questionnaires. This, however, proved to be much more difficult than anticipated. The main problem was in locating the microentrepreneurs selected as part of the sample. Virtually none of the clients at either EDT or at ASSIST had access to a telephone, and many did not have a current address listed in their files. The only way to locate these individuals was to wait until the field worker who managed their loan was going to see them, and to accompany that person on the visit. The process of random sampling, while statistically important for reasons of validity, does not lend itself to this method of interviewing.

The logistics associated with the approach described above made it a very slow and often frustrating process. Cooperation and coordination from ten different field workers (the combined field staff of the two programs) was necessary. The way that the data collection evolved is perhaps best understood through an example. On one day it would be

possible that none of the clients from either program would be scheduled on the list of visits for any of the field workers; on the very next day it was possible that three different field workers would be planning to see clients who were on the sample list. These three field officers could be travelling to three different parts of the city and doing so on the public transportation system - making it impossible to accompany all the field officers on that day. This situation arose often, and it was not possible to change the schedules of the field officers. For, understandably, their first priority was to accomplish their own work and these interviews were of secondary importance to them.

One could ask why it was necessary to be accompanied by a field worker? The necessity of this is clear when one considers the nature of clients' businesses. Many of the clients, from both EDT and ASSIST, are street vendors who run their businesses from the sidewalk. Most work in market areas and are surrounded by many other people with similar businesses. For a white North American student researcher to arrive on the street one day and start asking questions about the location of a person's business would raise many questions in the minds of the other microentrepreneurs in the area. Therefore, it was more appropriate for the researcher to be accompanied by a field worker, and in this way reduce the difficulties for the respondents.

To say the least, this was a rather cumbersome way of conducting interviews. Due to the slowness with which the interviews progressed, only a fraction (approximately 55 percent) of the individuals in the sample were ultimately interviewed. At the end of this time, the dilemma faced was whether to extend the research time in the hopes of collecting more data or to seek an alternative to the quantified data as a basis of the research.

Having spent a significant amount of time and energy attempting to locate the individuals in the sampling frame, with only partial success, another approach was seen to be more practical and likely to succeed. During the discussions with many MLPs in Kingston all available documentation was collected. Several documents of particular interest were available, these included: the study conducted on the microenterprise sector by Trevor Hamilton and Associates (1989), and an update of that study done by the, Kingston based, Association of Development Agencies (ADA).

It was decided that, because of the difficulties experienced with data collection through client interviews, the best course of action was to discontinue that effort, and to rely instead upon already existing research material, including both the Hamilton study and the ADA study. These would be supplemented by the documentation gathered from other agencies and by observations made over the entire research period. Special concentration would still be given to EDT and ASSIST.

Therefore, the revised research approach was to compile documented information on each of these two programs. This would be supplemented by the observations of the researcher over the six month period spent working with them.

5.2 ENTERPRISE DEVELOPMENT TRUST

Enterprise Development Trust (EDT) was launched in June of 1991 as a locally operated development program in Kingston, Jamaica. For approximately four years prior to this, the program had been in operation under the name Mini Enterprise Services (MES). MES was a program founded in Kingston under the auspices of the Mennonite Economic Development Associates, or MEDA; a business oriented development agency based in Winnipeg, Canada. In the late 1980s, two Canadians working for MEDA decided that they could make an additional contribution to development efforts in Jamaica with the establishment of an MLP.

The rationale was based upon the success that MEDA was having with similar programs in other developing countries at the time (Schaefer & Waterfield 1989, p.2). MEDA was, therefore, anxious to attempt the replication of that success in Kingston. To that end, MES was formed in 1987. It started slowly, being operated from an extra room in a small church in the Allmantown district of Kingston. In the beginning there were just the two MEDA workers and one employee. Efforts began by contacting local micro-entrepreneurs, and discussing

the possibility of expansion with credit from MES. The basic goals of the program were determined at that time, and remain essentially unchanged. These goals are as follows:

To enhance the economic viability of individual businesses by providing credit, technical assistance, training, and coordination. The impact (of the program) will include increased income, expanded asset base, increased number of jobs, new businesses started, economic linkages established and communities strengthened (Blackwood, 1991, p. 3).

With time the operation grew and began to experience some success. As it grew, more people were hired and sources of increased funding sought. During the years between 1987 and 1991 MES became a well known and respected member of the NGO community in Kingston. By the time the current research was initiated, steps had been completed to transfer the management of the program away from MEDA to a local Board of Directors, and a Jamaican manager was also appointed. This process of indigenization is part of MEDA's general philosophy, as they try only to begin projects that can be turned over to local interests once established (Blackwood, 1991, p.6).

When one looks at the goals, as quoted above it is clear that the organization saw itself as making a significant contribution to the development of clients' skill levels. This contribution, based upon the training, technical assistance and coordination offered by MES, was to be a major part of the program, operating in conjunction with the credit component. Thus, individuals who came to MES for loans were also to be provided with training and technical assistance. In

this way the impact of the program would be increased beyond what could be accomplished by providing credit alone. For, as many have argued, credit alone is not a sufficient condition for the success of a microentrepreneur (see, for example, Nelson, 1986, p. 5). This perspective, referred to as the 'credit plus' approach earlier, was the basis for the design of the original goals of the program.

It will be remembered that the central question raised above is the way in which programs attempt to implement the credit plus model in an environment which favours minimalism. It will further be recalled that the concern raised was that donor agencies may place programs in a situation where, even though they favour the credit plus approach, they are compelled to work within the minimalist framework.

In order to determine whether the credit plus methodology was still the basis of the EDT approach, given the previously discussed data collection constraints, it was decided that the observation of EDT's training sessions was the best indicator available. This decision was based upon the belief that the training sessions represented the most accessible measure of the program's ability to work toward goals beyond the provision of credit to clients. Therefore, the next section will consider EDT's training program, in an effort to provide an indicator of the program's ability to attain the goals associated with the credit plus methodology.

5.2.1 The EDT training program

The EDT training program was structured in the following way at the time of data collection. First, a potential client would contact a field officer (or be solicited by a field officer) and discuss the possibility of obtaining credit. After the initial contact, a preliminary evaluation of the client's business was conducted by the field officer. Or, in cases of a new business, efforts to determine the potential for success of the business were undertaken. Second, based upon the preliminary findings, the potential client would be contacted. If the findings were favourable, than the client would be asked to attend the training program.

In this way the training program served as a further tool to evaluate the client, and determine the viability of the loan. At the time of this research, EDT was conducting one training program a week. The number of participants in these sessions varied, but there were usually around twelve new clients. The training program consisted of three afternoon sessions, each one lasting approximately two hours, for a total of six hours.

The topics covered in the training sessions were as follows. The first session provided an overview of the program. The second, a discussion on the value of financial planning and the development of a balance sheet by each participant. The third session offered a review of the balance sheet, which each person had been required to complete

between the second and third training sessions (see Appendix B). The completed balance sheet was retained by the EDT program and became part of the documentation used to determine the client's eligibility for a loan.

Underlying all the training sessions was an effort to convince the potential clients of the importance of repaying their loans. This concern was very clear from the discussions that took place in the training sessions themselves. It is further evidenced in the evaluation of the program submitted in early 1991; in that evaluation Blackwood states:

... any program which seeks to implement a development strategy with credit as its principal focus, must through training and some other support mechanisms instill in its clients the responsibility and the discipline of repayment in an environment in which repayment does not seem to be the norm (Blackwood, 1991, p. 6).

Based upon the information gathered through observation of the training sessions the major goal of these sessions was not the improvement of business skill level of the client. Instead they were used to supply information with which to make a judgement upon a potential client's credit worthiness, and to impress upon them the importance of repayment. There is significant evidence in Blackwood's evaluation that there was a definite need to impress upon new clients that repayment was indeed important. In the statistical summary of that report it is noted that 39 percent of EDT's loans were in arrears during the first six months of the fiscal year 1990/91 (Blackwood, 1991, p.8). Perhaps even more significantly, some

clients appear to have given up repayment entirely. A review of the programs files disclosed that some of the clients listed as having their loans in arrears had not made a payment for as much as one year.

What follows is a list of some extreme cases, as extracted from the client files at EDT. It is important to note that these individuals do not represent the majority of EDT's clients, but that the possibility of loan default or arrearage clearly does exist. This possibility is a major motivating force behind the large degree of attention paid to 'instilling responsibility and discipline' among potential clients.

TABLE 5.1 SELECTED EDT CLIENTS WITH OUTSTANDING LOAN PAYMENTS			
NAME	AMT./TERM*	MONTHS**	COMMENTS***
Client A	3200/18	38	owes \$1,228/ 240 days
Client B	5100/24	35	owes \$1,098/ 161 days
Client C	4500/18	34	owes \$1,723/ 31 days
Client D	4500/ 9	35	owes \$2,986/ 121 days
Client E	2000/15	19	owes \$1,936/ 211 days
Client F	5600/18	38	owes \$2,481/ 216 days
Client G	15000/24	36	owes \$14,625/ 331 days, moved to USA.

* loan size and the number of months to be repaid.

** months elapsed since the loan was negotiated

*** the amount of money (in Jamaican dollars) to be repaid and the number of days since the last payment.

SOURCE: Client files, EDT, June 1991.

It is clear from the examples above (Table 5.1) and the 39 percent arrearage rate that the possibility of a client falling behind on their loan payments did exist. Therefore, it is understandable that attention be paid to the issue during the training sessions. The problem that arises is that when so much attention is given this topic there is less time for other issues to be covered.

This became very clear in the final training session, when the clients were expected to supply a completed balance sheet. It was intended that each client would make use of the discussion in the second training session in order to complete the document before attending the third training session. As mentioned above the second training session dealt with the balance sheet, especially its construction and its value for any business person.

Notes taken by the researcher at one of the final training sessions attended read as follows:

Today clients were expected to bring a completed balance sheet which is to be turned over to Beth (the trainer) at the end of the session and be used, in part, to ascertain the individual's credit worthiness. As I sit here some of the clients are filling out sheets in the class, while others simply do not have one and are making no effort to come up with one! (Estey, 1991, research notes).

Many things might be taken from this observation but the point here is that the clients were unable or unwilling to complete their balance sheets. Further examination of the research notes indicates that the clients who were filling out balance sheets in the training session were doing so as the trainer

was reviewing each of the components of the balance sheet document. This may suggest that the individuals did not receive sufficient instruction in the area the first time around.

It is not the intention here to dwell upon a particular aspect of the training. The above example is included only to point to the possibility that the training sessions did not accomplish what they set out to do. This was, in part, due to the large amount of time spent trying to instill a sense of responsibility for repayment in the loan itself. While obviously this was an important concept to convey, the effectiveness of doing so at a training session is questionable.

Another major feature of the training sessions was their brevity. This combined with the fact that training came when the main issue on the potential client's mind was obtaining the credit that the program offered. Training at this point in the relationship has certain drawbacks, specifically in terms of participants' interest level and the difficulty they have in absorbing the volume of material presented to them during the six hours of training sessions.

It is true that the training sessions did provide the staff with some additional information about the individual and their businesses. However, it seems unlikely that the method by which this information was gathered was the most effective.

This training program, it should be remembered, sought to enhance the economic viability of participants, especially those who went on to become clients of the program. As stated above, the test to be employed was the comparison between the stated goals on the one hand, and the observations and program documentation on the other. There is a marked distinction between what EDT sets out as its objectives and the way that the training program attempts to achieve them.

There are legitimate concerns over the repayment of loans which cannot be ignored. However, it must be born in mind that the training program was originally intended to increase clients' skill levels and in this way enhance community development. To use it for other purposes may well prohibit the fulfilment of the program's original goals in this area. The question that must be addressed then is; why has the situation arisen in which the training program does not work toward the achievement of its stated goals?

It was noted above that the training program is only six hours in total. Further to this, it should be clear by now that the many other issues present themselves to the program administrators, particularly, the concern with gathering sufficient documentation with which to make an informed decision on client credit worthiness and the other concern of impressing the client with the importance of repayment of their loans on time, and in full. Given that the training period is so short, these two tasks take precedence over the

other goals of increased skill levels and community development.

This dynamic must also be understood within the context of the expectations of the donor agency which provided the financing for EDT beginning with the June 1991 launching of the program in its current form. This donor agency, USAID, has a long standing and well documented commitment to the minimalist approach (see, for example, the proceedings of a USAID hosted conference on microenterprises, in Levitsky, 1989). Therefore, in order to fully comprehend the training program at EDT it is important to realize that the program donors sought to minimize the time and expense associated with all components that did not directly relate to the provision of credit. This goes a long way toward explaining not only the brevity of the training sessions themselves, but also their content.

Given the need to focus upon credit and related issues, it is easy to see that a training program devoted to increased skill levels and community development would be perceived as time consuming, and costly. Therefore, it would be incompatible with the minimalist approach espoused by the donor agency.

In summary, then, the evidence suggests that the training methodology employed by EDT is based on the minimalist approach, and not the credit plus approach evident in their stated goals. This dichotomy between the stated goals and

actual program delivery suggests that pressures beyond simply the concern with loan repayment are at play within the organization. Chief among these is the donor agency's tendency to believe in the minimalist approach to operating an MLP.

The case of EDT supports the contention that there may be a conflict between the approach of the program management and the donor agency. This conflict is not necessarily a black and white issue. For, as discussed, there are valid reasons for EDT to be concerned with the credit component of their program, and particularly the issue of loan repayment. These concerns are, however, given even more weight because of the perspective of the donor.

A situation is created where the MLP is forced to keep its expenditures on non-credit related activities at a minimum. In such a case it would be extremely difficult to accomplish both the stated goals and the other things deemed necessary - documentation and discussion of the importance of loan repayment. So the program must choose between pragmatic concerns, or the more idealistic goals associated with increased skill levels and community development. Since the former concerns must be addressed there is little choice but to do so and hope that other concerns can be dealt with at some time in the future. Perhaps this can occur when other sources of finance are found, or if the program is able to achieve self-sufficiency somewhere down the road.

Thus, it can be said of the EDT program that it exists in a state of conflict between the goals it espouses and those which it is able to address. This situation exists, at least in part, because of the expectations placed upon it by the donor agency.

5.3 AGENCY FOR THE SELECTION AND SUPPORT OF INDIVIDUALS STARTING TRADE

The first efforts at the establishment of the Agency for the Selection and Support of Individuals Starting Trade (ASSIST) came during 1985. In that year, several successful business people from Kingston came together to discuss the fact that they were often approached by microentrepreneurs for small loans to either begin or expand their small businesses. It became clear that many of these business people were lending money and virtually none of them were being repaid. This meeting also revealed that many micro-entrepreneurs were secretly receiving more than one loan at a time. That is to say, they would simultaneously approach several people for a loan, and make use of all these loans at once for their businesses (ASSIST, 1991, p. 1).

After some discussion a decision was made to coordinate their lending activity, in hopes that this would both avoid duplication and improve the possibility of repayment. In late 1985 ASSIST was established with a mandate to:

. . . identify marginalized entrepreneurs; evaluate their proposals; make loans to approved applicants

and where necessary to offer training programs that are appropriate and effective (ASSIST, 1990, p. 2).

So, in the last months of 1985, a small office was established. It opened with the intention of offering small loans to microentrepreneurs in Kingston and the surrounding area. This program was initially financed through donations from the local business community, and some support from local churches. Initially, little effort was made to expand the program beyond the role of finance for people who had nowhere else to turn.

Thus, throughout the latter part of 1985 and 1986 ASSIST functioned as a very small scale program focusing on credit provision. By the end of 1986 the program was experiencing significant problems. Grossett puts it as follows:

The lending scheme got started but was unsuccessful as the debtors were not given much guidance on managing a successful business, furthermore the lending policy was not well defined and thus needed a central steering body (Grossett, 1990, p. 12).

It was during this period that the people running ASSIST realized the need to do more than simply provide their clients with credit. Their efforts up until that point had created a situation where no one was paying the program back. People were viewing the loans as free money, and they seemed to have no intention of repayment. It is this trouble that Grossett refers to when saying that lending policy was not well 'defined.'

By the end of 1986 the managing board of ASSIST recognized the necessity of a new approach. Also, it became clear that a new source of capital had to be found if their efforts were to continue. The program operated, on a very small scale, throughout 1987, while new policies were drafted and new financing was sought. During that year, an American based organization was located by the Jamaican business people who had started ASSIST. This Chicago based organization, called **Opportunity International (O.I.)**, seemed to be just the sort of organization that ASSIST was looking for.

The board at ASSIST was very pleased to discover O.I. because both organizations were motivated by the same concerns and viewpoint. Both professed to be associations of Christian business people who sought ways to help aspiring business people less fortunate than themselves. The similarity of motivation seemed to the ASSIST board of directors to offer a good basis for a working relationship, and they were anxious to pursue the possibility. By 1988 a working partnership had been established and O.I. became the major source of funding for the organization.

Figures for the breakdown of the funding structure at ASSIST were unavailable for 1988. However, by 1989, O.I. was the source for 90 percent of the program funding. The other 10 percent came from a variety of sources, including interest payments and service charges; also some additional funding came from the government and foreign donors such as CIDA and

USAID (Grossett, 1990, p. 14). Clearly the funding from O.I. was by far the most important single component for the program. The extent of the relationship between ASSIST and O.I. is further evidenced by the method of loan approval in use during 1989 and 1990. Grossett refers to this in his review of ASSIST where he states that:

... ASSIST will assess projects, have them 'veted' by a local credit committee; the approved projects are 'faxed' to O.I. where further assessment takes place, then funds are disbursed to ASSIST for direct funding of the projects (Grossett, 1990, p.14).

It is clear that during these years O.I. took an extremely active role in the whole of ASSIST'S activities. The financial relationship between the organizations was negotiated in 1987 and began in 1988. By 1989 a method of operation had been worked out and O.I. was working very closely with the program to ensure its success. The financing from O.I. was central to the continuation of ASSIST'S work in Kingston in the late 1980s and early 1990s. But the arrangement was not to be a permanent one. Instead the agreement between the two organizations called for an end to the financing arrangement in 1992. It is important to keep this time line in mind, as discussion moves on to ASSIST'S ability to pursue the goals that it had established for itself from the beginning in 1985.

5.3.1 Training Programs at ASSIST.

As stated above, the initial ASSIST program in 1985 and 1986 did not offer any significant amount of training to its clients. This was recognized as one of the major problems of the program in these early days. A later ASSIST document refers to the training component of the program in the following way:

We (ASSIST) feel that it is virtually suicidal to entrust relatively large sums of money to persons who are unaccustomed to handling such amounts, and who possess no knowledge of business. Hence a fair amount of emphasis is placed on very basic training (ASSIST, 1990, p. 4).

The reference to 'suicidal' here presumably refers to the first years of operation when little attention was paid to training. At this time the program almost found itself out of capital and unable to continue operations.

The documentation provided by ASSIST notes an evolution in the training programs over the years 1988 through to 1991. In 1988, with the establishment of a funding relationship with O.I., a small scale training program was established. This training program originally consisted of a single two hour session which provided clients with an introduction to the program.

As with the training program at EDT, this orientation discussed the nature of a revolving credit scheme with a view to instilling the clients with a sense of the importance of loan repayment. For ASSIST, too, had a history of client default and arrearage which it hoped to reduce. So, again, a

major part of the training program was devoted to the maintenance of the credit end of the program. It is fair to say that this training alone did not move to achieve the more community development related objectives of the program as stated above. This especially refers to the provision of training programs that were both appropriate and effective.

It does seem that the training programs offered in 1988 and 1989 were effective in the promotion of loan repayment. This, however, is impossible to substantiate with data because the program did not release the figures to the researcher. Over the course of time spent with the staff members at ASSIST in 1991, it was clear that the rate of loan repayment was much better than it had been in the early years (1985-1988) of the program's operation. This improvement was, at least in part, attributed to the establishment of the two hour training program in 1988 for all clients.

The intent here is not to determine the impact of the training program on the credit component of the program. It is mentioned only because it formed part of the rationale for the beginning of the training program in 1988. The issue that interested the researcher was the impact of the training program on ASSIST'S ability to meet the other goals. On this point it was recognized that the two hours of orientation were not sufficient to make an impact on the skill levels of the program's clients. Therefore, in 1989 steps were taken to address this shortfall in the program's administration.

It was decided that ASSIST clients would be required to attend other training sessions relevant to their specific business area. In addition, clients with more than three employees would be required to attend a seminar which would deal with personnel management (ASSIST, 1990, p.4). The inclusion of these training sessions should be seen as a serious effort by the program to realize some of the non-credit related goals which it had established in 1985. Clearly, a program committed to the provision of this training is moving beyond the minimalist model of assistance to microentrepreneurs. In 1990 ASSIST held 35 of these training seminars and approximately 275 clients had been able to participate in them (ASSIST, 1990, p. 5).

Thus, after five years of struggle, the program had begun to take steps toward the realization of the goals which had been the basis for its initial formation. These included offering appropriate and effective training for clients. At this point there was a convergence of the goals identified by both ASSIST and O.I. and the program was running well. However, as mentioned above, the funding relationship between the two organizations was only designed to be temporary. The relationship was to end in 1992, and ASSIST would have to seek funding from an alternative source.

By 1991 ASSIST was actively seeking new financial support for its efforts, and this had to come from a different source. During the time that this researcher spent in Kingston, ASSIST

was soliciting support from various donor agencies, including both CIDA and USAID. Discussions were already taking place with USAID about the possibility of financial support for the Agency following the 1992 cessation of funds from O.I. This situation was mentioned at the end of the previous section as something that could have significant impact upon ASSIST'S evolution as an MLP in Jamaica.

Evidence of the possibility of significant changes to the approach used by ASSIST came from discussions with the USAID staff. It was their opinion that significant changes would have to be made to the program before ASSIST could be considered as a viable project for USAID funding. These changes had to do with what was broadly termed, "the high cost of administration" at ASSIST. This, in effect, referred to the time and money the Agency spent on training and support.

It was the opinion at USAID that this methodology would never allow ASSIST to become a financially self-sufficient organization. Therefore, it was the view of USAID staff that ASSIST would have to restructure its program quite substantially before it could be considered for funding. This goes to the very heart of the current debate: the conflict of program and donor goals in the administration of MLPs.

For, as we have seen, by 1990 ASSIST had taken significant steps to the realization of its community development goals. These were clearly demonstrated by the delivery of 35 training seminars for approximately 275 of its clients. Yet

it seemed to be the existence of these seminars, and the time and money spent on their delivery, that stood as one of the major obstacles to financial support of the Agency by the donor, USAID.

A situation existed where the goals of the two players were in contradiction with one another. It appeared that in order to gain the financial support it would be necessary to curtail the training programs, or at least to significantly limit their focus, thereby minimizing the resource commitment to their delivery. The future relationship between ASSIST and USAID had not been worked out before the end of the research assignment, and it is therefore not possible to say how things worked out in the end between the two. It was, however, clear that only by changing its approach would ASSIST be likely to receive funding from USAID.

In summary then this brief case study has shown a situation where the agency experienced difficulty, in the early years of its operation, with domestic sources of finance and management. These difficulties were overcome through the linkage formed with Opportunity International. In the years after the establishment of this relationship, ASSIST was able to work toward the goals which it had established for itself in 1985. Most especially there was an emphasis on the community development orientation, associated with training and technical assistance. These components were major features of the program by 1990, when 275 clients participated

in 35 different workshops offered by the Agency. The significant point here is that the MLP was forced to consider redefining its goals in order to obtain the further funding necessary to continue operating after the 1992 cessation of funding from O.I.

The experience of ASSIST gives clear support to the argument that there is indeed conflict between the goals and aspirations of some MLPs and the donor agencies upon whom they rely for funding. It does not suggest that the only basis for the difficulty faced by MLPs is this conflict. But it is certain that this conflict in approaches is one major source of frustration and confusion for MLP administrators and donor's alike.

CHAPTER SIX: SUMMARY AND CONCLUDING REMARKS

6.1 SUMMARY OF ARGUMENT

This thesis has argued that Microenterprise Lending Programs (MLPs) face at least one significant challenge if they are to remain viable in the long term: the clarification and reconciliation of their goals. It has been shown that MLPs have evolved over the past fifteen years and have met many challenges along the way. Among these are the choices that must be made in terms of administration, and even more basically, the choice of operational methodology in regards to the **minimalist** versus the **credit plus** approach to programming.

In the first chapter, the location of microentrepreneurs, as a specific sector of the informal economy, was established. The second chapter moved to a discussion of the origins of MLPs, from their roots in agricultural extension programs through to the characteristics of microbusiness and the constraints which characterize the sector itself. This was used as a background for a discussion of the rise of MLPs as a response to the needs of individuals engaged in microenterprises. The third chapter then proceeded to a more specific discussion of the administrative issues faced by MLPs. It was in this chapter that the above mentioned conflict in goals was first introduced into the thesis.

Discussion revolved around the fact that there is significant pressure from donor agencies for programs to

achieve financial self-sufficiency. This necessitates an emphasis on the credit component of the program, and may well detract from the program's ability to deliver other components usually identified with the credit plus approach, such as training and technical assistance. The conflict arises due to the fact that many programs see the provision of the other components (training, etc.) as being of equal importance to the provision of credit. However, because of reliance upon donor funding, an MLP may be forced to compromise its goals in favour of the donor's, and thereby adopt an approach directed toward financial self-sufficiency.

This conflict is referred to in the thesis as the conflict between the minimalist approach and the credit plus approach. It is the central tension identified by the thesis, and the main concern of the work as a whole.

Given this concern, the following chapter went on to consider the evolution of MLPs in a specific country context, that of Jamaica. The intention here was to provide a series of examples of the evolution of MLPs in order to better describe the process by which this conflict has come about. Chapter five considers two very specific case studies with a view to illustrating and elaborating the argument that one of the central issues faced by MLPs is this conflict. In this way the argument was brought to its conclusion, with evidence of conflicting goals quite clearly documented.

6.2 CONSEQUENCES OF THE ARGUMENT

The fact that conflicts in the goals of MLPs and their donors exist, at least in the Jamaican context, has certain immediate consequences and offers the possibility of significant growth and continued evolution in the relationship between the two.

The main consequence of this conflict is the creation of a situation in which the MLP is compelled to place its own agenda, which includes the provision of training and technical assistance, on the back burner. We have seen that the training programs offered by both agencies considered in the case studies fall far short of making a significant contribution to increased skill levels for participants. Instead the training, such as it is, seeks to instill in the participants a sense of obligation and responsibility designed to ensure that they actually repay their loans.

While this is by no means an improper use of training programs, it does fall far short of the ideal which would see participants gain real entrepreneurial and management skills. However, given the fact that only a certain amount of time and money can be spent on the training program, there is not much chance that these skills can be passed on - and at the same time allow the program to move toward financial self-sufficiency.

So a situation is created where the MLP cannot achieve its own stated goals and at the same time achieve the finan-

cial self-sufficiency expected by the donor. In this case it is only logical that one perspective or the other must win out. The evidence collected in Jamaica suggests that the donor perspective has become dominant.

At this juncture it is impossible to say with certainty what the outcome of this evolving situation will be. However, it is clear that it cannot continue indefinitely. Currently, Jamaican MLPs are trying to satisfy donor expectations, while at the same time doing as much training as they possibly can. This situation of conflict may well lead to the demise of the programs, as they currently exist, for they are not likely to be able to achieve either set of goals when they are in fact pursuing them with less than full commitment.

Therefore, given all of the above, it is clear that the key to the continuation of lending programs for Jamaican microentrepreneurs is a resolution of the conflicts between the minimalist and the credit plus approaches to program administration. Failing that, it seems very likely that these programs will not last beyond their current funding cycle. This would be a great loss for all parties concerned.

6.3 ISSUES FOR FURTHER STUDY

The most important areas for further study lie in the development of acceptable accommodations for both agencies and donors. It is obvious that neither perspective can be

completely dominant, and the key now is to determine the range of alternatives that may be open to both agencies and donors as they struggle to find a middle ground, but at the same time is sensitive to the needs of the individuals they intend to serve.

Here further exploration of group training and peer support may be worthy of consideration. It must be borne in mind that, for this sort of research to be successful, it will be essential to have the support and endorsement of both donor agencies and MLPs alike. In order for this to occur, it is first necessary to have them admit to the fact that such a conflict exists, and this, in and of itself, may be a very difficult assignment.

No matter, if Microenterprise Lending Programs are to be saved the fate of so many other development strategies, it is essential for this issue to be resolved. Further study and policy development are clearly warranted.

APPENDIX A:

SURVEY OF MICRO ENTREPRENEURS IN KINGSTON

ID# _____ DATE _____ SECTOR _____ GENDER _____

GENERAL

- 1) To which of the following age groups do you belong?
a)___ <25 b)___ 26-35 c)___ 36-45 d)___ 46-55 e)___ 56-65 f) ___65
- 2) For how many years did you attend school? _____
- 3) What's the highest level you reached in school?
a)___ elem. b)___ Sec. c)___ Col. d)___ Univ. e)___ Other
- 4) Where do you operate your business? a)___ at home b)___ at an established business premises c)___ as a peddler d) other

- 5) The place where you operate your business is made of ...
a)___ concrete b)___ wood c)___ concrete & wood d) zinc e)___ N/A
f) other _____
- 6) Did the loan allow you to: a)___ start b)___ expand c)___ stay in business
- 7) Does any one work for you in your business? Y___ N___ #___
- 8) Are they: a)___ family b)___ friends c)___ employees d) other

- 9) In the past year have you earned/received money from any source but your business? Y___ N___
- 10) If yes, where did the money come from? _____

SOCIAL IMPACT

- 11) Did you attend the EDT/ASSIST training programme? Y__ N__
- 12) Did/do you find the training helpful? Y__ N__ N/A__
- 13) What did you learn? _____
- 14) Would other types of training be helpful to you? Y__ N__
- 15) What types? _____
- 16) Would you join a clients organization? Y __ N __
- 17) What would it do? _____
- 18) Do you keep records of sales & spending Y__ N__

ECONOMIC IMPACT

- 19) How much money do you take in each week from your business?
- a) __ <500 b) __ 500-1000 c) __ 1000-1500
- d) __ 1500-2000 e) __ >2000
- 20) How much do you spend each week for supplies?
- a) __ <500 b) __ 500-1000 c) __ 1000-1500 d) __ 1500-2000
- e) __ >2000
- 21) How much did you take in each week before your 1st loan?
- a) __ <500 b) __ 500-1000 c) __ 1000-1500 d) __ 1500-2000
- e) __ >2000
- 22) How much did you spend each week for supplies at that time?
- a) __ <500 b) __ 500-1000 c) __ 1000-1500 d) __ 1500-2000 e) __
- >2000
- 23) Have you made improvements to your work place since the loan? Y__ N__

24)If yes, was it to: a)___machinery b)___structure
c)___furniture d)___more stock e) other _____

25)Have you borrowed money from other sources? Y___ N ___

26)From: a)___ bank b)___ c.u. c)___ m.e.p. d)___ friend e)___
family f)___ N/A

27)What did you use it for? _____

28)Are your loan repayments to EDT/ASSIST on time? Y ___ N ___

29)Do you always pay the full amount that you owe? Y ___ N ___

30)Do you have a savings account (bank or C.U.)? Y ___ N ___

31)Have you ever saved money through a "partner"? Y___ N___

32)Compare your situation today with what it was before your
first loan. Is it:

	worse	no change	better	how
a)food	_____	_____	_____	_____
b)h.hold goods	_____	_____	_____	_____
c)clothing	_____	_____	_____	_____
d)housing	_____	_____	_____	_____
e)school costs	_____	_____	_____	_____
f)health care	_____	_____	_____	_____

33)Overall, would you say that your business and your family
are better off now than they were before your 1st loan with
ASSIST/EDT? Y___ N___

34)Do you have any further comments you would like to make?

APPENDIX B

SAMPLE BALANCE SHEET		
ITEM	VALUE	TOTAL
ASSETS:		
Fixed assets		
furniture		
equipment		
other ()		
Total fixed assets		
Current assets		
inventory		
people who owe me		
bank accounts		
cash		
other ()		
Total current assets		
TOTAL ASSETS (Fixed + Current)		
LIABILITIES:		
people I owe		
client advances		
loans		
other ()		
TOTAL LIABILITIES		
CAPITAL (assets - liabilities)		

Abbreviations

ADA	-	Association of Development Agencies, Jamaica
ADEMI	-	Asociacion Para el Desarrollo de la Micro-empresa, Dominican Republic
ASSIST	-	Agency for the Selection and Support of Individuals Starting Trade, Jamaica
BOJ	-	Bank of Jamaica
CIDA	-	Canadian International Development Agency
COPE	-	Credit Organization for Pre - Micro Enterprises, Jamaica
DVCF	-	Development Venture Capital Financing Limited, Jamaica
EDT	-	Enterprise Development Trust, Jamaica
HEART	-	Human Employment And Resource Training, Jamaica
ILO	-	International Labour Organization
ISI	-	Import Substitution Industrialization
JAMPRO	-	Jamaican Producers Association
JIDC	-	Jamaican Industrial Development Corporation
JSVHMA	-	Jamaica Sidewalk Vendors, H'gglers and Marketers
KUPEDES	-	Kredit Unit Padasaan (Rural Credit Scheme of Bank Rakyat) Indonesia
LDC	-	Less Developed Country
LEIG	-	Livelihood, Employment & Income Generating
MEDA	-	Mennonite Economic Development Associates
MES	-	Mini Enterprise Services, Jamaica
MTDA	-	Micro Investment Development Agency, Jamaica
MLP	-	Microenterprise Lending Program
NGO	-	Non - Governmental Organization
PISCES	-	Program for Investment in the Small Capital Enterprise Sector, USAID
PRODEM	-	Fundacion Para la Promocion y Desarrollo de le Micro-empresa, Bolivia
ROSCA	-	Rotating Savings and Credit Association
ROSCA	-	Rotating Savings and Credit Association
SBFS	-	Small Business Financing Scheme, Jamaica
SBLB	-	Small Business Loan Board, Jamaica
SBLB	-	Small Business Loan Board, Jamaica
SEDCO	-	Small Enterprise Development Company, Jamaica
SES	-	Small Establishments Survey - 1983
SIDD	-	Small Industries Development Division, Jamaica
SME	-	Small and Micro Entrepreneurs
UDC	-	Urban Development Corporation, Jamaica
USAID	-	United States Agency for International Development
WWB	-	Women's World Banking, India

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