



1402366607

**SWP 7/89 TRAINING AND TECHNICAL ASSISTANCE
FOR MICROENTERPRISE**

**PROFESSOR MALCOLM HARPER
Professor of Enterprise Development
Cranfield School of Management
Cranfield University
Cranfield
Bedford MK43 0AL
United Kingdom**

Tel: +44 (0)1234 751122

Fax: +44 (0)1234 781806

Training and Technical Assistance for Microenterprise

MALCOLM HARPER

Introduction

Much development assistance to smaller enterprises is intended to fill gaps; the availability of jobs may lag behind the availability of trained people, or there may be a need for people who have been trained in specific skills, so that there is a bottleneck which constrains development. People may have the necessary skills, but lack capital, they may have the skills and the capital, but lack markets, or premises, and the role of aid is to identify the gaps and to attempt to fill them.

As in other areas such as health, education or agriculture, the uneasy progress towards 'development' or 'industrialization' thus proceeds by fits and starts; as each bottleneck or gap becomes evident, it is filled, generally through people's own efforts, which are sometimes supplemented by assistance from their governments or foreign donors.

We are concerned with microenterprises, which belong to what is still called the informal sector. It is easy to spend time on definitions in order to avoid facing substantive issues; when faced with a given enterprise, however, most observers would probably be agreed as to whether or not it was a microenterprise, and most enterprises which were agreed to be micro would also be said to be in the informal sector. There might be disagreement at the margins, but if unanimity is possible for the majority of cases, we should rest content with the terms we have.

This sector, therefore, however defined, is rather different from the more traditional areas of development in that it is both a symptom and an internally generated and hopefully interim remedy for under-development, rather than a condition which development assistance projects should help people to attain, except in special cases. It is not a discrete or clearly delineated part of the economy, but it is, for the most part, self-contained and balanced, in that there are informal mechanisms for providing finance, for marketing and supply, for premises and for training. They may not be ideal, but they do exist and expand or contract in response to demand, because this sector of the economy has, at least until recently, been forced to rely on its own resources. Such official interventions as there have been were mainly intended to discourage and limit the scope of microenterprises and many still are.

MALCOLM HARPER is Professor of Enterprise Development at Cranfield School of Management, Cranfield, UK.

Existing services

Microenterprises have therefore developed a more or less self-contained network of support services, and they might be said, as a sector, not to suffer from the same bottlenecks and problems of imbalance as do the far smaller number of larger modern sector enterprises whose owners are trying to operate in an under-developed environment businesses of a type which originates from industrialized societies.

These support services and their equivalents in the modern or formal sector can be summarized as:

<i>Service</i>	<i>Microenterprise sector</i>	<i>Industrialized sector</i>
Credit	Moneylenders and supplier/customer credit	Banks
Training	Family links, apprenticeships	Training schools
On-demand Advice	Informal contacts, observation	Consultancy and extension services
Information	Informal networks	Data banks, circulars, newsletters
Marketing and Supplies	Traders	Marketing corporations, cooperatives
Premises	Squatting, pavements, home locations	Industrial estates

The services listed under microenterprises are often themselves microenterprises, and they all match the informality and small scale of the enterprises they serve. Some are illegal, all are flexible, they are unplanned and they are above all immediately responsive to the needs of those who make use of them. Networks are used when they are needed, and involve no expense when they are not, traders go out of business very quickly if they cannot buy or sell what people have and want to purchase, and young men and women only enter into apprenticeship arrangements, or other forms of on-the-job training, if they believe it will be to their benefit. There are no stipends or subsidies and nothing can outlive its usefulness.

The formal, modern sector services are totally different: they are operated by salaried staff whose jobs and rewards rarely depend on the short term, and often not even on the long term, value of their services to their clients, they are planned and systematic, they are often subsidized, and they are usually provided by and almost always authorized by governments. In general, in fact, they are about as different and 'distant' from microenterprises as it is possible to be: such officially provided services often fail to satisfy the needs of larger more modern enterprises, but they can very rarely be of any use to microenterprises, except to those at the margin of informality, which are striving to formalize.

If well-meaning governments or foreign assistance agencies attempt to provide services of this sort to microenterprises, they may do no more than fail harmlessly to do anything, and thus waste the funds that they spend on them. Given the record of aid projects, this is not too unsatisfactory an outcome, but such programmes can actually harm their clients, or other microenterprises.

One or two examples of the types of programmes which fail may serve to remind us that technical assistance which is not properly designed to address the needs of its clients, or is not effectively 'marketed' to them, can be worse than useless.

In many countries, numbers of people who are variously known as business consultants, counsellors, advisors, or extension staff are employed to go round local small enterprises, to provide business advice to the owners of microenterprises such as village shops, laundries, tinsmiths, carpenters, mechanics or pig farmers. They are in no position to offer any technical advice which is specific to the types of business, they have no business experience or management expertise as such and they are unable to help with privileged market or supply information or contacts.

They owe their credibility solely to the fact that they are employed by small business lending institutions. The only advice they can really offer is on bookkeeping; they tell their clients how to keep records, but cannot tell them how to use them, and the business people go through the motions of keeping books, either because they wish to remain in the good graces of the lending institution or because they erroneously believe that their businesses will somehow benefit from records which they themselves have no idea how to use.

The credit supervision function could far more economically and effectively be carried out in a different way, but these advisors also mislead some of their clients into thinking that management of a small enterprise is mainly a matter of bookkeeping; those who cannot keep books, perhaps because of limited literacy, lose confidence, and some of those who can keep books believe that this ability should guarantee their success.

A not dissimilar situation was revealed by investigations of the financial performance of a large sample of rural shopkeepers. Analysis of the data came up with the apparently strange finding that the shops whose owners kept records were in most cases earning a significantly lower rate of return on total capital employed than those which had no records. The explanation was that business owners who had been to courses, where they had been taught to keep records, had often also achieved the goal for which they went to the course, namely, to get a loan. Their management ability had been in no way improved by the course, and their profits had therefore remained static; the rate of return on investment was therefore reduced.

In most poor countries, large numbers of people are forced to be entrepreneurial because there is no other way for them to survive. They are

motivated by the need to achieve, that is, to survive, and they display all the traditional characteristics of entrepreneurs, by grasping opportunities, working persistently and delaying gratification in order to accumulate and preserve the modest capital they need.

Numerous agencies offer 'entrepreneurship development programmes' which are based on learning methods originally designed to enhance or reveal entrepreneurial qualities in people who had never set up in business for themselves. Some of the microentrepreneurs attend these courses, attracted by stipends, the hope of loans or other associated assistance or by the belief that the courses can actually help them.

The participants enjoy themselves enormously, playing a variety of games, and everyone expresses great satisfaction and high intentions at the end. The actual results are often less encouraging; some participants have higher expectations, which are unfulfilled when they fail to obtain improved access to markets, cheaper credit or whatever other service they really needed, and the final effect can be damaging.

Many rural training courses are designed to enable people to start their own small handicraft businesses. The participants are trained in sewing, weaving or other skills, and they also receive some instruction in simple management techniques and in achievement motivation.

After the courses, it may be possible for participants to obtain a loan to buy a sewing machine or a loom, but they often discover that it is almost impossible to purchase raw materials or to sell their products from their villages. Some give up and fail to repay their loans, thus disqualifying themselves from further credit for any other purposes. A few of the more enterprising trainees use their new skills to escape from rural poverty and go to the city, usually to find a job. This latter may not be an altogether unsatisfactory outcome, but it is quite different from what was intended by the course organizers.

The above is only a very small sample of programmes which have been designed to assist microenterprises but have actually helped them very little or not at all; a tool and raw material supply project for small producer cooperatives in Burma has the effect of further concentrating attention on a favoured few units in the Rangoon area, and exacerbating official neglect of the vast numbers of more needy and more deserving units elsewhere. Projects to provide street vendors with permanent stalls and other facilities in Malaysia, India and other countries have give municipal authorities a pretext to expel the vast majority of microtraders for whom official places cannot be provided, thus depriving them of a livelihood and their customers of convenient sources of whatever they used to sell.

Other 'projects', in many different parts of the world, have had similar effects: they have either assisted a few at the expense of many, or have even damaged the few they have tried to help, often by bringing them into the formal sector, but not to the extent necessary to enable the benefits to

outweigh the costs of formality. There are probably very few programmes which can really be said to have been a success, in that the additional earnings of the beneficiaries exceeded the costs of the programme, including foreign donor costs; the linkages, if damage to non-beneficiaries can be so called, would make the equation still less favourable.

Entrepreneurship development programmes, with a substantial component devoted to training which has the objective of developing entrepreneurial motivation or behaviour, are often the least valuable form of assistance, in that their participants have clearly demonstrated whatever qualities are required by their survival in the microenterprise sector. Academics and others responsible for this type of programme often bewail the lack of entrepreneurs in their countries while their cars are beset by enterprising vendors at every street junction from which government has not succeeded in excluding them.

Other policy makers sponsor courses to create proper manufacturing entrepreneurs where the policy environment creates conditions such that short term and usually illegal trading is the obvious outlet for entrepreneurial skills. Training and otherwise assisting people to do things which they cannot do, or which are not in their long term interest, is, fortunately, bound to fail.

What can be done?

It might in fact be argued that the only genuine bottleneck in the microenterprise sector is the lack of credit: since microenterprise is the resort of those who are too poor or otherwise disadvantaged to obtain other employment, or to farm their own land because they have none, it is not unreasonable to assume that money is what they lack. Informal sources of capital are well known for their monopolistic and extortionate behaviour: experience in a number of countries, as documented by the PISCES studies and others, shows that modest interventions in capital supply, with a minimum of associated assistance or supervision, can achieve remarkable results and can even eventually become self-sustaining enterprises in their own right.

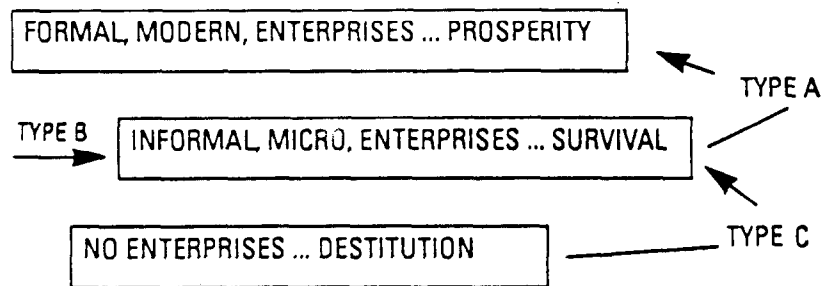
If there are resources available which are for some reason tied to technical assistance, rather than to credit, it may be that the most effective way to use them is to provide imaginative and intensive training for government officials, at every level, in order further to accelerate the growing trend towards tolerance of microenterprise. Much has already been achieved in this area, as a result of many different influences. It has in many countries become increasingly difficult in a physical sense to continue with a policy of oppression, and popular opinion has some effect, even on undemocratic regimes.

Public utterances and clauses in development plans are not always matched by actions, however, and much remains to be done. It is easy to over-simplify the issues, and effective training can play a part in identifying and resolving the various dilemmas that face any official, at any level, who wants to make a

practical contribution to liberalization: since most owners of micro-enterprises agree that their main need is to be left alone to make their living as they can, the best way of satisfying this need may be to train and otherwise assist the authorities who can make this possible.

Three types of objectives

The terms 'formal' and 'informal' are notoriously contentious and sometimes even misleading, but it may be useful to apply such a framework to the enterprise sector and those who participate in it, as a way of classifying the objectives of assistance programmes. The hierarchy of sectors and types of programmes may, very simplistically, be illustrated as follows:



The objectives of training and assistance programmes for people in micro-enterprises may then loosely be classified as follows:

- A those programmes which aim to enable their participants to move 'up' from the informal, micro sector to the modern sector;
- B those programmes which aim to enable their participants to operate more effectively and profitably within the informal, micro sector, but not actually to become formalized;
- C those programmes aimed at participants who are at the 'bottom' of the informal sector, or are dependent on charity or other forms of non-earned income, and which attempt to 'lift' them into the informal sector.

Type A programmes

These typically include topics such as the following:

- 1 training in bookkeeping and accounts, both for better management and also to satisfy taxation authorities and credit institutions;
- 2 information about product and workplace standards;
- 3 information about procedures for employing others in a formalized way;
- 4 training and assistance in obtaining credit from banks and other financial institutions;
- 5 introductions to larger formal marketing outlets and suppliers;

- 6 training in the selection and use of modern equipment;
- 7 access to better premises, training in modern methods of sales promotion and marketing.

Such programmes, which are fundamentally designed to help people operate more effectively in a modern commercial environment, may or may not be effective; they are, however, better described as a form of release from the informal, micro sector rather than a way in which people can be helped to operate better within it. They are mainly oriented towards skills and information, and are relatively easy for formal institutions to provide, since they cover formal aspects of business and involve no more than simpler versions of traditional programmes which are already offered to modern sector trainees.

Such assistance programmes usually include a range of services, with privileged access to scarce resources such as subsidized credit, premises or raw materials. They can, therefore, only be offered to a small proportion of the vast numbers of people who might want to formalize their businesses, and their timing and location often mean that microenterprise operators are effectively debarred from participation in any case.

Many such programmes are targeted at particular groups which are felt, for political or other reasons, to be unusually deserving, such as the educated unemployed, or retiring civil servants or military personnel; they should, perhaps, not really be included in any consideration of assistance for microenterprise, since they are designed to help people graduate from microenterprise, rather than to help them be more successful within the same general scale of activity.

Type B programmes

Programmes of the second type, which are designed to help people do better within the informal or micro sector, are less common, less easy to design and less likely to succeed. Outsiders, from the formal world of government, official assistance agencies and voluntary organizations are, or should be, humbled by the ingenuity and persistence of the operators of microenterprises. Management has been defined as 'making the best use of scarce resources'; it would be difficult to find a better way of describing the day-to-day activities of microbusiness people, who often turn their capital over once a day or more, who make raw materials out of what others have discarded, who find market niches in the most obscure corners and construct machinery and tools of amazing ingenuity and economy.

An assistance programme of this type, other than one providing credit, would have to include topics such as:

- 1 new ideas for using unfamiliar scrap materials;
- 2 improved methods of working capital management;
- 3 better ways of avoiding regulations and finding more profitable locations;
- 4 methods of identifying consumer needs and satisfying them.

It is hard to see how assistance which would achieve these and similar objectives could possibly be provided, particularly by a formal assistance agency; it would probably not achieve the objectives, and even if it did, it is doubtful that any external agency could provide such help as effectively, or as economically, as the informal networks on which microentrepreneurs rely.

The ultimate measure of evaluation for any assistance project should perhaps be the question, 'would the money spent on the project have been of greater benefit to the "beneficiaries" if they had been given the money, and allowed to spend it as they chose?' Microentrepreneurs are above all good at making the best use of their resources, and it is difficult to see how any outsider could make better decisions than they could. External intervention may be necessary to help them get themselves out of the informal sector, to a 'higher' level, but if the objective is to improve their lot within it, they are the best judge of how this might be done.

Credit is of course the way by which people can be helped to improve their lot by using money as they see fit; the most successful credit programmes for microenterprise are not those which are heavily supported by training and supervision, and which demand extensive feasibility studies which often deprive borrowers of the flexibility that is one of their main advantages. Technical assistance of this type is usually expensive and counterproductive; a minimalist approach to credit, such as that adopted in the ACORD programme in Port Sudan, the Rural Enterprise Assistance programme in Kaolack, Senegal, or the revolving loan fund in Kalingalinga, Lusaka, may be less attractive to trainers and consultants, because of its simplicity, but is more likely to be effective and economical.

If technical assistance to help people rise above microenterprise is not really assistance for microenterprise itself at all, and assistance other than minimalist credit is of little value to those within the sector, is there any role for technical assistance in relation to microenterprise, except as a small adjunct to credit?

Type C programmes

There only remain programmes with objectives of type C, which are designed to help people enter the world of microenterprise, rather than to do better within it, or to leave it. Given the fact that the informal sector is in a sense the last resort, for those who cannot find formal employment and cannot live off the land, it might be thought that there were very few people who were so unfortunate as to be below the lowest; if microentrepreneurship is the refuge of desperation for the marginal, are there any potential beneficiaries for technical assistance with type C objectives?

There are in fact large numbers of such people, who might be called sub-marginal and who are at the fringes of the informal sector, or not even part of it at all. They are, in most cases, genuinely 'the poorest of the poor', towards whom assistance agencies are repeatedly exhorted to direct their activities.

They are difficult to reach, and to help once they are reached, but the humanitarian and sometimes political reasons for trying to help them mean that the benefit side of the cost benefit calculation may be less rigorously estimated than for people who are already in the mainstream, even of the informal sector.

These people include refugees, the disabled, ex-offenders, women (in some societies) and minority or occasionally majority communities who have for some reason been excluded from the economic mainstream. The informal sector has been described as the marginal sector, but the term may be misleading when those who are said to be marginal in fact far outnumber those who are central. Possibly the informal sector is the centre, numerically at any rate, and the real marginals are these disadvantaged groups.

Unlike people who are already well integrated into the informal sector, members of these disadvantaged groups would be unlikely to be able to make effective use of money alone to become self-sufficient. They lack the connections, the skills and sometimes the self-confidence and it is sometimes possible for technical assistance to fill the gaps. It is clearly better to try to help these sub-marginal groups to enter the informal sector, rather than encouraging them to leapfrog this sector, and go straight into formal business. Attempts of this sort usually end up as agency-run projects, nominally run by the refugees, disabled or other target groups, but actually owned and managed by the assistance agency. This may be as far as some people can ever go, particularly the severely disabled, but there are many examples of programmes which have helped very disadvantaged people to become genuinely independent microentrepreneurs, holding their own in the informal sector.

These usually succeed because they are based on a clear understanding of what it is that is stopping members of the particular group from starting and successfully maintaining their own enterprises. Successful programmes do not scratch where it does not itch: they provide the help that is needed, and allow their participants to do the things they can do without help. There are in fact many programmes which have successfully helped apparently helpless people to become self-sufficient.

The physically handicapped need above all the skill to practise a trade. A number of physical rehabilitation centres and orthopaedic hospitals, in India, the Philippines and elsewhere, provide basic training in skills such as watchmaking, sewing or carpentry to cured leprosy patients, polio victims or others who through disease, accident or congenital disability are less physically able than the majority of the population. Some such people are able to start their own microenterprise with this assistance alone. In India, such institutions do not usually need to provide finance, since there are many specialized lending institutions; all that is needed is introductions and access. Elsewhere, the rehabilitation institution itself may have to provide finance.

Some handicapped people, particularly those who have suffered from birth, have become accustomed to being treated as perpetual dependents, or

even as objects of family shame. In these cases, it may be necessary to provide the sort of psychological rebuilding treatment which is often, generally unnecessarily, included in entrepreneurship development programmes for the able-bodied. Such treatment is generally better provided on an individual basis, through sensitive counselling and extensive post-training support, to ease the shock of entry into the 'real world'.

Refugees are another sadly very numerous group who are submarginal, and who may need more than money to enable them to get on to the bottom rung of the enterprise ladder. Some need technical skills, since they may have been nomads and must now settle in a fixed urban or rural location in their new homes, and others may need language training. The majority, unless they have migrated across artificial frontiers and are re-settled in the same ethnic community from which they have come, need some substitute for the informal networks which are the means whereby microentrepreneurs gain access to markets, supplies, premises and so on. Such links are very difficult for an external assistance agency to provide, but there have been some successes.

In Somalia, local business people were paid by an assistance project to train refugees in appropriate local skills. This not only ensured that the skills and the training were in fact relevant to the local resources, but it also provided a means whereby the trainee refugees could start to make contacts in the business where they were being trained, in preparation for starting on their own, rather than being protected within a training institution. It was remarkable how willing the Somali business people were to offer this type of training, although they were helping to create large numbers of new competitors.

It is obviously in society's interest to try to help ex-offenders to find alternative, legal ways of earning a living. They are often disqualified by their past records from obtaining formal employment, even if jobs are available, and their ability to recognize and grasp opportunities is a good basis for self-employment in the informal sector. Their existing skills may or may not be appropriate for legal enterprise, and they almost certainly lack access to the networks of marketing, supply, premises and so on.

The Don Bosco self-employment programme in Liluah, Calcutta, has had some success with young men who have been rescued from the community of several hundred people who eke out a living at Howrah station by begging, stealing, unofficial portering and so on. Many of them have been there since they were six or seven years old, many are addicted to a variety of drugs and they are probably as genuinely marginal a group as could be found anywhere.

The Don Bosco programme puts them through a skills training course, and then some of them graduate to a converted house where they start individual one machine businesses. They remain in this 'nursery', paying a share of their incomes as rent, until they have repaid their equipment loans; one of the rooms in the house is given rent free to a middleman, who is a local trader

who finds the orders, arranges for finance, maintains quality control and generally plays the intermediary role. This role is often neglected by assistance programmes, because the traditional middleman is seen as exploitative and unnecessary. The lack of this type of connection is perhaps the most serious gap for these trainees, once they have acquired the necessary technical skills and the Don Bosco Fathers have appreciated this fact, and filled the gap.

Minority or even majority communities who are not felt to be properly represented in the economies of their countries are another group who may need technical assistance, not only capital, to enable them to start their own businesses. They may in fact have land or other assets which could be used to obtain capital; they may lack skills and connections to the network of enterprise, and their own and other people's view of their role in society may make it very difficult for them to succeed in business without extensive assistance.

There are often strong political reasons for helping these people to play a greater part in the economy, even if they are not suffering physical poverty as a result of their virtual exclusion from the non-farm economy, or, as with many tribal groups, they may be living in dire poverty, on marginal land, so that microenterprise provides a route to survival as well as self-respect.

There are many programmes to help such people; some offer a total package of support, and thus create the impression that the target population are quite incapable of doing business on their own. Others, where there is no political need to be seen to be offering generous assistance, but only the humanitarian motive to assist people as economically as possible, offer only what is needed and are both successful and economical.

Self-confidence and access to networks are here again the most important components, together with technical training, and many voluntary agencies, particularly those of local origin, operating on a community level, are themselves close to the informal sector and are able to help people to become integrated into it. Some forms of behavioural training may have a role to play for such marginal communities, although it is difficult to distinguish the impact of such types of training from the rest of the programmes.

Conclusion

Technical assistance, as opposed to credit, has a limited role to play in the microenterprise sector. Programmes which are intended to help people rise above the sector are not really our concern, and are in any case likely to be limited in their impact on those who remain in it.

Technical assistance for those who are already operating micro-enterprises, except for marginal groups on the bottom fringes, are also of limited value. There is very little that outsiders from a formal environment can do for those who are in the informal sector, and the numbers are so vast

that even if it was possible to run a cost-effective programme, it would only reach a very small proportion of the potential target group. Most people who operate microenterprises are already managing their limited resources rather well and it is difficult for any programme to achieve better results than could be achieved by the microentrepreneurs themselves, if they were to be given the resources used by the programme and allowed to use them as they wished.

There is a need to train government officials and others who so often harass microenterprise, and possibly to study in some depth the reasons why officials do this and to devise ways in which they can be motivated to act otherwise. This may be difficult and is certainly less dramatic than trying to work for microenterprises themselves, but will probably be of more lasting benefit to them.

Many microentrepreneurs do need credit, with as few strings as possible, and technical assistance has a very limited role in such credit programmes. Staff must be trained to operate efficiently and quickly, to recognize the merits of rigorous management and to respect the ability and self-respect of their clients. Effective evaluation systems must be designed and used, but these must not be sophisticated, since the long or even medium term goal must be for the lending programme to operate as a self-sustaining business enterprise itself; the main role of technical assistance, in fact, is to render itself redundant as rapidly as possible.

Members of sub-marginal groups such as refugees, the disabled or communities who have been excluded from the economic mainstream may need assistance not to rise above microenterprise, or to be more successful as existing microentrepreneurs, but simply to start microenterprises. These people may need technical skills training, which is probably best provided within existing microenterprise, linkages to informal networks, self-confidence and other support.

Technical assistance of this sort is very difficult to deliver, but can play a major part in alleviating suffering and giving genuinely poor people some chance to become independent. Small, locally funded and rigorously managed voluntary agencies appear to have the best chance of offering successful programmes of this type.

In general, technical assistance can do little for microenterprises, except for the sadly large numbers who wish to start some modest economic activity. Apart from these groups, the main need is to allow microentrepreneurs to operate with a minimum of interference, to provide them with access to credit on economic but not extortionate terms and to structure the economy so that as many microentrepreneurs as possible will be able and willing to formalize their operations, because the legitimate growth of economic enterprises is attractive for individuals and beneficial for society as a whole.