INCOME GENERATION SCHEMES FOR THE URBAN POOR

Donnacadh Hurley

DEVELOPMENT GUIDELINES No.4

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Development Guidelines, No. 4
(Series Editor: Brian Pratt)

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Published July 1990

British Library Cataloguing in Publication Data

Hurley, Donnacadh
Income generation schemes for the urban poor. (Development Guidelines)
1. Developing countries. Urban regions. Poverty relief.
I. Title II. Series
362.5'8'091724

ISBN 0 85598 101 6
ISBN 0 85598 102 4 pbk

Published by Oxfam, 274 Banbury Road, Oxford OX2 7DZ
Designed by Oxfam Design Studio 341 DMH 90
Printed by Oxfam Print Unit
Typeset in 11 point Garamond

This book converted to digital file in 2010

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Preface

This book is the result of a research project undertaken by Oxfam to examine some of the many issues raised by our own and other agencies' income generation interventions in urban areas of the Third World. This area of development work is one in need of considerable study and thought as approaches to it are very varied (even contradictory) and the issues it raises are complex and of great importance to those trying to assist poor people in their initiatives against poverty. We have found that experience of income generation interventions has been very mixed, and has too often been, in some respects, an experience of failure.

This book is aimed at people who design and implement income generation interventions in non-governmental organisations, in grassroots co-operatives and other groups, in funding agencies and in government departments. It is one of a series of 'Development Guidelines' published by Oxfam and intended for people working in various fields of development. Although the emphasis is on general principles, aiming to engage readers in a process of reflection, at the same time we have given considerable attention to practical detail and methods and there is an annotated bibliography that includes manuals on the technical aspects of income generation, such as business and group organisation, financial management, training and credit schemes. We have tried to keep the book as short as possible and to write it in a style accessible to readers without formal training in business or economics.

This topic is one which is riven with controversies and we have tried to treat these in an open and evaluative manner, in an attempt to make them clearer and explain their relevance in decision making. The use of the terms 'intervention' and 'interveners' are deliberate; development agencies involved in income generation intervene in an already existing situation, of poor people trying to obtain a livelihood, and do so by assisting the initiatives of poor people, for example by helping them to improve existing skills or join together to increase their economic and political power. The aim should be to ensure that the initiatives will eventually be self-sustaining and economically viable.

The research that forms the basis of this book involved visits by Donnacadh Hurley to agencies and income generation interventions in India, Kenya and Ethiopia; similar visits by Brian Pratt to Sudan and Egypt; commissioned work by Teobaldo Pinzas on income generation interventions in Peru, Bolivia and Chile; initial background research work in Oxfam House by Rosamund Oddie; information supplied by Mira

Savara; document and information searches by June Stephen and Joan Turner in the Oxfam library; a day workshop on 'Urban work in Africa', organised by Donnacadh Hurley and Steve Duke, and comments given on the original manuscript by many people especially, Malcolm Harper, Trevor Bottomley, Rosemary Thorpe, Linda Mayoux and Han de Groot, amongst others.

We are grateful to the Leverhulme Trust who gave generous financial support for the research for this manual. Special thanks must, of course, go to participants and interveners alike in all the countries visited who gave up time to discuss and evaluate their work with researchers, show them around and offer much warm hospitality.

NOTE: We have opted for the term 'Third World' to describe the countries in which Oxfam works, because although this terminology is in itself unsatisfactory, it is in our view, slightly preferable to 'developing' or 'underdeveloped'. Its use does not imply either a blurring of the differences between individual countries or an acceptance of a divided rather than an interdependent world. We hope readers will understand that we use it as a short way of referring to countries which have certain important features in common.

Introduction

There is considerable confusion amongst development workers concerning the term 'income generation'. It is used to describe initiatives as diverse as women's awareness-raising groups, small business promotion schemes, co-operative shops, job-creation schemes, sewing circles and youth training programmes. It also appears that, in a very large number of cases, income generation is not the primary objective of the initiative.

At a different level, confusion arises because many people associate income generating programmes with a particular development ideology. In many cases, individuals and organisations involved in income generation interventions view poverty as a consequence of an individual's lack of capital or training, and equate achieving better income with 'development'. This approach often implies an emphasis on the deficiencies of poor people rather than the economic and social system under which they live, and is at the heart of many small-scale local income generation interventions and more highly capitalised development schemes. On the other hand, those who see the poor as being at the sharp end of a system of political economy founded on unfair exploitation often reject strategies which try to increase incomes at an individual level without paying attention to the powerful processes causing poverty.

This book takes the view that income generation interventions are indeed inadequate as a total development strategy because they fail to address the most fundamental causes of poverty. Rather, income generation interventions are mechanisms that can be used as tools, to contribute towards development in appropriate situations. They represent only one aspect of development work, one set of tools among many, and their use should not constitute an excuse to ignore socio-political aspects of poverty alleviation or the underlying causes of poverty.

There are countless factors in a society and its economy that work together to maintain poverty. Changes in such things as education and health care provision, legal and political systems and the global economic framework can all affect the ability of people to secure an income. Interventions in many spheres may directly or indirectly influence the income of individuals. From this stems much of the confusion in the use of the term 'income generation' mentioned above. This book defines income generation interventions as development interventions that intervene in the economic aspect of people's lives using economic tools. Such tools are usually small-scale, operating at the level of the community or individual business or co-operative, and may include such things as the provision of capital through grants or loans; savings and credit schemes; training or advice in skills or business management and other support services for small business such as assistance with marketing and the provision of temporary trained personnel.

Furthermore, this book emphasises that development agencies must take seriously the central economic objective of income generation interventions. The interrelationship of economic and social objectives must be carefully assessed in open discussion between interveners and participants and there must be sufficient flexibility to allow priorities to change over time. The importance of practical analysis, based on the impact of the intervention on the lives of participants and other poor people in the neighbourhood or community rather than on assumptions, preconceptions and ideological preferences of interveners is emphasised. The complexity of poverty and the power of the forces underlying it are stressed and interveners advised that assisting people to improve their incomes in ways that are eventually sustainable without outside support is not easy. Interveners must critically assess their own ability and preparedness to support income generation in this difficult context and either put resources into acquiring or developing the requisite skills and experience or decide that income generation is not the field in which they can give most effective assistance.

This book is primarily concerned with income generation in the context of urban poverty although much of the debate and advice and many of the points are equally relevant in rural areas and indeed several rural examples have been used. The focus is urban because we felt that most previous work has focussed on rural poverty and income generating activities, and there is still a lack of experience amongst development agencies of working with the urban poor, despite the growing needs and size of the urbanised populace.

There has been a traditional tension between formal, national economic planners, who often disregard the contribution of people in the informal sector to the national economy. A great deal of emphasis has been placed on the parasitic nature of the informal sector; as people do not pay tax, the sector is accused of not contributing to the national economy so it is classed as not being productive. This thinking has also provided the impetus for programmes which see the challenge as being merely to create 'employment opportunities' without recognising the real contribution of the informal sector to prosperity. (Socialist regimes, for example, often create jobs and incomes without necessarily increasing production or productivity; hence the risks of centrally planned economies which may neglect economic factors, leading to low productivity.) Whereas there is increasing evidence that the informal sector is often crucial to the health of the formal sector by, for example, the production of components for assembly, the use of outworkers by large companies, etc. Even in Japan there is considerable evidence of what would appear to be hi-tech industries being supported by large numbers of women and children outworkers. There are many other ways in which the informal sector contributes considerably to national economies as well as to the survival of large numbers of people.

The book is in four sections. Section I is concerned with the two parties to the intervention relationship, the urban poor and those who intervene with them on their behalf. Section II considers various issues which arise in the context of income generation. Section III contains specific recommendations for interveners wishing to actively pursue income generation initiatives, and looks at the need for economic appraisals and appropriate financial management techniques. The final Section considers various options open to interveners and offers suggestions for a variety of ways of facilitating income generation. The points made in each section are summarised as a list of conclusions at the end of that section. There is an annotated bibliography giving suggestions for further reading.

PART I

POVERTY AND INTERVENTIONS

I.1 Introduction

Income generation interventions involve a relationship between two types of people: those who are the intended beneficiaries and those who as individuals or as organisations try to assist them to improve their incomes.

Part I.2 looks at the lives and problems of the urban poor. If the aim is to target the poorest, their position and needs must be fully understood by interveners. There are many different factors operating to keep poor people poor.

Part I.3 looks at the other people in this relationship, those who are trying to work with the urban poor through income generation interventions: the 'interveners'. There are of course many different people in this category ranging from large foreign donor agencies to local individuals. They can exert substantial influence on the whole development relationship ranging from the basic objectives of a programme to the day-to-day running of a business. This section will look at the rationale behind income generation interventions by looking at interveners' objectives and motivations. A major cause of the problems occurring in income generation interventions is that beneficiaries and interveners often have different or confused objectives and agendas.

I.2 The urban poor

For many recent migrants, the Third World city appears a place of hope and opportunity. In reality, however, the 'good life' of this image is achieved by only a tiny minority; for the vast majority of its inhabitants the city is the scene of an exhausting daily struggle for survival. Lack of dynamism in the national economies of Third World countries means there are few economic opportunities, while innumerable barriers such as caste, skin colour, gender, or lack of education, capital or connections obstruct the efforts of the urban poor to break out of poverty.

This harsh struggle remains largely hidden from outsiders, especially from the rich, whose understanding of the lives of the poor is very often vague and limited by stereotypes. Outsiders may use various prejudices, such as racism, sexism, class or caste bias to justify their own relative wealth and the degree to which this depends on the poverty of the poor. At the same time there are many factors which help to obscure the reality of poverty. The deliberate physical separation of rich and poor people under apartheid is a calculated and obvious example but there are others that are less calculated but equally insidious. Outsiders glimpse only briefly the shanties and slums on the wastelands or outskirts of their cities and pass quickly in their cars the beggars and homeless in the streets. Should they find their way to the backstreets they rarely see inside the rooms where women and children often work in abusive labour systems of sweated labour shops, brothels or piece work in the home. Furthermore, abject poverty forces many people to work in illegal activities or under illegal conditions so that it is in the interests of employers, and often the poor themselves, to keep out of sight.

Those working for development agencies, usually 'outsiders' when it comes to poverty in a particular Third World city, are rarely wholly free from ill-informed and prejudiced assumptions in their understanding of the lives of the poor. If they wish to help Third World city dwellers in the struggle for basic survival, development workers first need to recognise and challenge their own perceptions of urban life, and of poor people, in order to begin to understand the reality and complexity of urban poverty. The following sections give some pointers to assist in this learning process.

I.2.i **Characteristics of urban poverty**

Urban poverty is a growing phenomenon. It is growing as a consequence of rapid urbanisation, particularly in Third World countries where urban populations have been increasing at about twice the rate of national populations. The UN predicts an average urban population increase of about 4% per annum for these countries for the next 20 years; in other words, the population of the cities of almost all Third World countries will at least double by the year 2005. The ability of the economies of most of these countries to support this population and to improve the living standards of the poor is highly questionable. Throughout the world the shantytowns, the barrios, the numbers of homeless and severely deprived people are also growing, in most cases even more rapidly than the total urban population. Brutal poverty is and probably will be the reality of the lives of most Third World city dwellers, at least for the foreseeable future.

In many cases it is now natural increase (i.e. people born in the urban area) which is the main source of population growth in the urban areas of Third World countries, not in-migration. This means that the argument for concentration on rural poverty alleviation to reduce urban migration is today less relevant. Urban poverty will probably continue to exist, regardless of any improvement in rural living standards.

For intervening agencies, looking at poverty from the outside, it may be useful to pick out some of the characteristics of poverty that are most helpful in identifying the poor people they hope to assist. These characteristics can be grouped under three headings:

Housing

The most visible indicator of poverty in the city is the poor quality of people's homes and neighbourhoods. In recent years the increase in the numbers of people living in shantytowns, slums, overcrowded or insanitary housing or simply on the streets has been staggering and, as provision of good quality housing lags ever-further behind growing needs, the future does not look promising.

However, the fact that people are living in poor housing conditions should never be taken in itself as an indicator of absolute poverty. In Oxfam's experience shantytowns can contain a wide variety of living standards and complex systems of exploitation, while poor households may easily go unnoticed when scattered within what appear to be better housing areas.

For instance, Oxfam has been involved in a development programme for a community of rubbish collectors, sorters and recyclers who live near a large dump in Cairo. Tenure on their homes is insecure and, partly because of this, people invest little in housing improvement. This tends to hide substantial differences in living standards within the community, particularly between those who own the donkeys and carts for collecting rubbish and those who hire them to use; and also between those few households within the community who own the small waste recycling businesses and the many who provide them with waste materials. In short, homogenous housing can hide wide variations in the wealth of inhabitants and, for many reasons, poor people often give improvement to housing low priority when consulted on their needs.

Employment and income

Income level and type and conditions of employment are obviously useful criteria with which to identify poverty, yet published data on employment and incomes rarely reveals as much as it promises. Statistics offices in Third World countries often use economic classification systems originally devised for industrialised countries, where almost all workers, including those self-employed, are registered with the government. These systems assume that able people of working age who are not formally registered as working are unemployed or in full-time education. This effectively excludes from the statistics all workers in unregistered employment, who may form a very large proportion of urban workers. Very many poor people in the cities of the Third World are unable to find jobs which are registered with the authorities. With no effective social security system, unemployment is not an option and people have to find unregistered employment, uncounted in the statistics. Most poor households need all their members to be earning to meet even basic needs.

Although many of the urban poor earn their income in unregistered concerns, in what is generally known as the 'informal sector', it is important to realise that not all the people who work in the informal sector are poor. Income differentiation within the sector is substantial and those who own capital and employ people, but do not register their business or comply with labour regulations, are often rich by any standards. Research in Francophone Africa has shown the marked difference in earnings within the informal sector, with entrepreneurs earning several times as much as their employees (Amis, P, "African Development and Urban Change", paper presented at SOAS, London at a Workshop on new Urban Poor in Africa in October 1988). Work in Kenya has demonstrated the importance of the difference within the informal sector between an 'intermediate sector' capable of capital accumulation and an essentially undynamic sector in which people are mainly concerned with survival (also from the paper given by Amis). In a book by Hernando de Soto (*El Otro Sendero*, Instituto Libertad y Domocracia, Peru 1986), groups as different as owners of unregistered buses and shoe-shine boys are included in the informal sector.

It is also worth noting that the common assumption that those in the urban informal sector are somehow 'better off' than the rural poor is a misconception which both denies the heterogeneity of the people who are poor in urban areas and ignores the significant deterioration in the position of the urban poor as a result of the current debt-induced macroeconomic crises in Third World countries.

Belinda Coote/Oxfam.

All family members need to bring in some income, however small, if a poor urban household is to survive. In Kingston, Jamaica, children can earn a little money by washing car windscreens.

Health
Health and nutrition data are often the best indicators of poverty, although they too have their limitations.

Although in comparison with rural areas cities are often better served with health facilities, the statistics of health provision hide the fact that many urban dwellers do not have access to these services. Poor people are often unable to pay the fees charged by clinics and hospitals or afford the transport costs to services located far from their neighbourhoods and planned without their needs being considered.

I.2.ii **Household incomes of the urban poor**

There are various levels from which to try to understand the nature of poverty in urban areas. One could start from the macro-perspective of economics and demography, or perhaps the level of particular sectors of the economy — street traders or small manufacturers, for example. To understand the perspective of the urban poor, it is best to view things from the most immediate socio-economic grouping — the household.

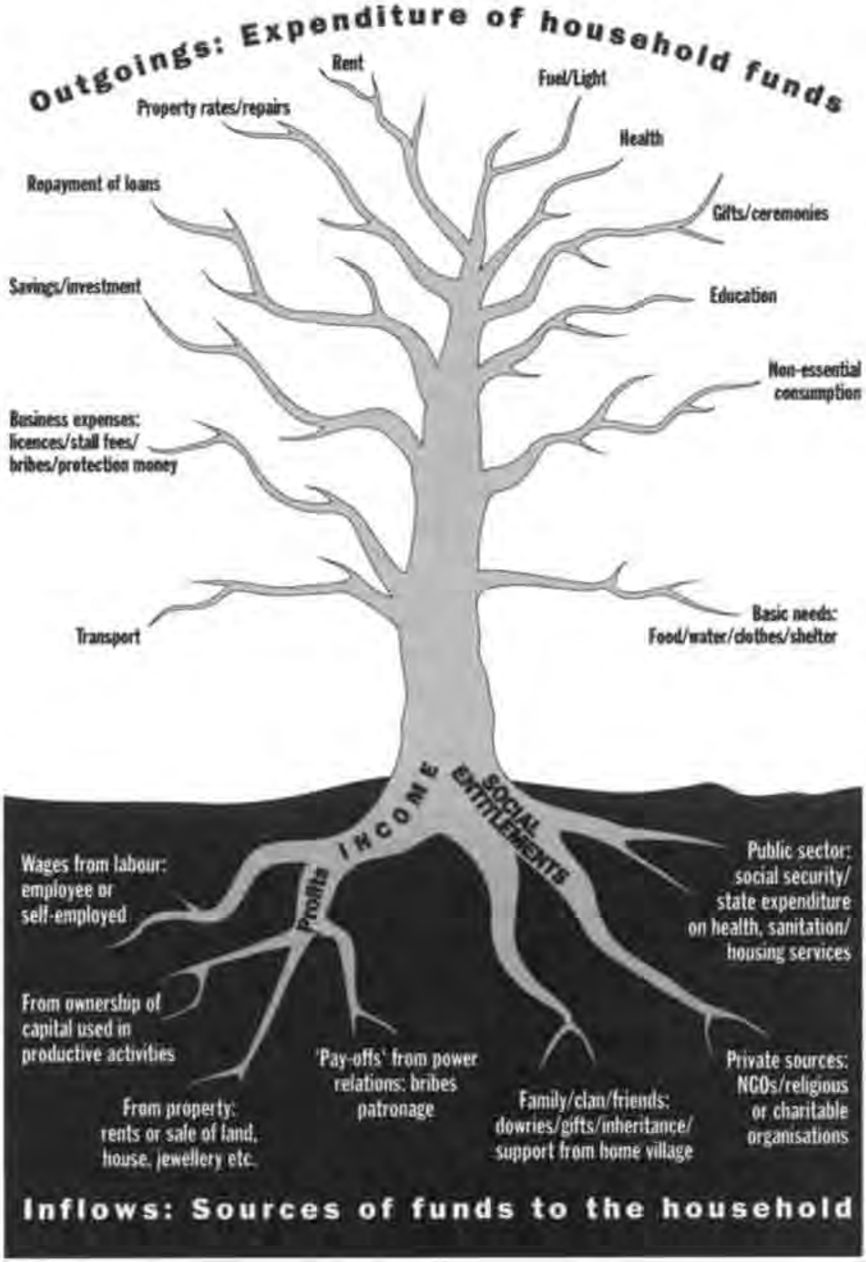
The concept of a household is rather different from the concept of the nuclear family which westerners regard as 'normal'. Households are essentially social structures which can range in size from one individual to a large extended family. The key characteristic of the household is the intensity of the social and economic interrelationships, in particular the economic interdependence of the members. The members of a household depend on each other and organise together to provide the necessities for personal survival. The household is a support structure, and where there is more than one member it is generally but not always based on either marriage or blood ties. Examples include: the nuclear family, women with dependents without substantial male or other family support, children without sufficient parental support, social outcasts such as some disabled and mentally ill people, single unsupported migrants, single sex groups of migrants from the same area or clan and siblings or friends who live together.

Urban households meet their basic needs through social entitlements to goods and services and through making their own incomes. The diagram opposite shows what is meant by this. This book will concentrate on income generation as a development tool, yet it should be remembered that there are many ways in which interventions can improve overall livelihoods through enhancing social entitlements.

Social entitlements come from:

—social ties i.e. extended families, tribal or clan links, friends and

Household Economy as a Tree



neighbours. Examples include dowries and the support migrants receive from their kin in rural areas.
—the public sector. Examples include social welfare transfers, general state expenditure on public services (sanitation, water supply, housing, health services), special poverty or relief expenditures.
—other private sources i.e. NGOs, charitable or religious organisations.
Incomes come in the form of:
—wages from labour as an employee or in self-employment;
—profits from the ownership of capital or assets used in productive activities (renting out a rickshaw, running a small business);
—rents in the normal sense from property such as houses;
—pay-offs from certain power relations (policemen and other state officials take bribes and obtain privileges in addition to their salaries). Private sector employees may acquire 'income' through power relations which are not directly economic such as the use of patronage in powerful institutions and political parties.

Whatever the availability of entitlements from the state or other sources, it is of central importance to most poor people that they earn their own income. In comparison with rural areas the urban economy presents a greater variety of sources of income, which for the urban poor can be broadly divided into wage employment and self-employment.

Wage employment covers people formally registered as employees but frequently working for very low wages and in poor conditions, for example building labourers, cigarette makers and some clothing workers. It also includes unregistered people, in informal employment, such as domestic workers, employees of unregistered petty traders or manufacturers and child workers, all of whom are open to appalling exploitation. They may have little or no job security, and few alternative job options in intensely competitive labour markets, or be 'bound' to their employers, perhaps through debt. They often have little hope of achieving acceptable, let alone legal, working conditions or wages.

A large and growing category of wage earners in the informal sector is that of homeworkers, people who receive often partially made-up goods for assembly at home, which may involve skilled or unskilled work. Dressmaking and tailoring, toy assembly and cigarette making are some examples of homework where little equipment is involved, while, increasingly, even small metal-working and more complicated machine assembly are being farmed out to workshops in peoples' homes. This sub-assembly and home processing is attractive to employers because it involves low overheads (people use their own lighting, heating, water, etc.) and a fragmented and often passive workforce, made up primarily of women and children, prepared to work long hours for very low pay, often strictly supervised by husbands or parents.

It is important to remember that many informally employed people, especially children and homeworkers, are working in illegal activities or conditions. The direct efforts of employers to conceal their activity are often complemented by official collusion or neglect and the employees become both difficult to locate and even more difficult to assist.

Poor people not employed by others may be generating income in many ways, formal or informal, that can be grouped under the heading self-employment. Examples include: ownership of small businesses and co-ownership of co-operatives in the service sector (petty trading, rubbish collection and recycling, personal services like hair cutting, shoe shining and prostitution), and in small-scale manufacturing or repair work. Some of these people may be employers, often of others in their household, and many, despite vigorous efforts, operate extremely close to the margins of viability, just managing to scrape enough weekly profit to survive.

The diverse nature of the urban economy and the inability of most households to survive on one person's income mean that most households have various sources of income and members tend not to work in the same activity. Thus, while one member of a poor household may have a formal sector job most of the other members will work in informal jobs or perhaps in a small unregistered business run by the household. Where there is no formal sector job or high-yielding informal sector business the household is generally more vulnerable and dependent on a variety of sources of low income, tightly organised among the household members for the most effective use of their time and resources. This can be a useful way to spread risks but has considerable implications for income generation interventions. If the survival strategy of the household is not properly understood, attempts to establish a new job or arrange training for one member of the household may fail because the importance of that person's earnings to the household has been underestimated. This frequently happens where interveners try to assist women or children and ignore the crucial income generation or basic survival activities they are already engaged in.

I.2.iii **Causes of urban poverty**

There are many things which prevent poor people from attaining a better standard of living. It is not simply the general low productivity level of the economy which creates and sustains severe poverty; there are also powerful processes making certain people weaker than others in the struggle for a livelihood, both within and beyond the limits of the household.

If intervening agencies attempt to alleviate poverty by helping people to improve their incomes it is vital that they have an accurate understanding of the processes working continuously to prevent such improvement. This book will not attempt to go into an exhaustive analysis of the factors which act as barriers to the poor but it may be useful to highlight some of them.

Undeveloped human capital

For people born into poor households, the development of skills and experience to improve their chances of successful income generation (often called 'human capital') is likely to be difficult. The better-off usually receive a useful level of formal education and may be trained in particular skills, such as typing, handicrafts, carpentry or agricultural techniques. They will often also learn a good deal about income generation from their home surroundings. For example, people who grow up in families who operate a family business and are encouraged to participate may develop an ability to manage and organise economic activities as well as acquiring good communications skills.

For a child born into a very poor household, access to a school place is rare. Even if this is achieved there may be insufficient income to buy books or provide adequate lighting for study at home, and often little effective support from overworked and often uneducated parents. A few years' schooling is usually the most that will be possible before the immediate needs of the household require the child to stop studying and contribute to the household income or work in the home, perhaps looking after other children to enable other members of the household to work for money. The child, with only a very basic education, will have no option but to find a low skilled and low status job where there will be little opportunity to develop marketable skills or experience. The situation could be exacerbated by illness, to which poor people are particularly vulnerable, which can further undermine the development of the child's income earning potential. The final outcome of these processes will be a young adult with very little marketable skill or experience, competing in a labour market for low skilled people that is saturated and therefore yields only a low income.

Girls from poor families have even less opportunity than their brothers of developing marketable skills. Boys are more often sent to school and will stay there for longer. They are encouraged to develop better skills of communication because they are expected to aim towards relatively more

Walter Holt/Oxfam

Young street trader, Bangladesh. Children often have to work rather than go to school, as the immediate need for money is so pressing in a poor household. The failure to develop human capital, in terms of educational attainment, is a powerful factor in the persistence of poverty.

lucrative jobs. In many societies girls are actively discouraged from doing these things, yet paradoxically may still be expected to bring income into the household. Later in life, women may find themselves heads of households after the death or desertion of their husbands. The well-being of their children will then depend on their ability to secure an income for the household. Female-headed households, particularly where there are small children, are amongst the poorest and most disadvantaged in any community.

Lack of physical capital

The more usual use of the word 'capital' is in describing things such as tools, machinery, premises for production and, of course, money. Most property which can be turned into productive use, even if only to act as collateral on a loan, can be regarded as capital. Lack of access to capital in any form makes it extremely difficult to overcome barriers to making a better living.

Poor households invariably have very little or no capital and therefore poor children (particularly female ones) do not inherit capital to invest in productive enterprises. With no significant social entitlements, they are left to rely on their labour alone to generate income. The failure to develop human capital, described above, usually restricts them to very poorly paid employment or self-employment in the less lucrative areas of business. Low income in turn forces people to concentrate on 'consumption expenditure' i.e. food and other necessities, and not on saving and investment, perpetuating the lack of household capital.

However, despite their low incomes, poor people, and especially poor women, when given the opportunity tend to save or invest a higher proportion of their incomes than better-off people. Contrary to the view of poor people as unable to deal successfully with money, evidence shows that when it is possible to save and to invest income, even if only in small amounts, poor people will do so.

Poor people are also likely to be careful users of any funds that they do have. Use of credit facilities therefore offers a potentially successful route for poor households out of the trap of lack of capital. However, formal lending institutions are mostly unwilling or unable to lend to very poor people. The transaction costs (vetting and processing loan applications) and the lack of collateral are given as the main reasons for this, as well as regulations concerning maximum interest rates which make small-scale lending uneconomic and lead to the vast gaps between controlled rates (at maybe 5%) and the moneylenders' rates (often 50-100% or more). For many poor people, borrowing from private moneylenders is the only source of credit, a custom well developed in almost all Asian and Latin American countries but less so in Sub-Saharan Africa. The high rates of interest charged by these moneylenders mean there is little chance of the borrower accumulating capital as a result of his or her economic activities. In some circumstances the interest rates may be too high for the borrowers ever to pay off the loans and they thus fall into a state of permanent indebtedness. (See Section IV.4.iv for a detailed discussion of credit provision.)

However, where schemes have been established in which small amounts of credit can be obtained without significant collateral they have shown the ability of poor people to use credit very effectively. This is particularly true of poor women who, in various savings and credit schemes throughout the world, have proved themselves to be excellent users and repayers of such funds. The Grameen Bank in Bangladesh is one of the most outstanding examples of a bank specialising in making credit available to poor people. This bank now lends to several hundred thousand people, most of whom are women. The amounts of money involved are often tiny but the loans are almost all serviced perfectly (the Bank's aggregate repayment rates are over 95%) showing that in the right circumstances poor people can be exceptionally responsible users of capital.

External restraints on the economic opportunities of poor people

Many processes are at work within the daily functioning of a Third World city to retain the power and opportunities for wealth generation in the hands of the rich, preventing poor people from accumulating capital or power. Some of the most powerful of these forces operate through control of access to particular income earning opportunities, such as markets, resources, or skills, within the harsh and highly competitive economies of these cities, and especially of their informal sectors. Observers unfamiliar with the intense economic competition in Third World cities are astonished to find that even most rubbish dumps, for example, have a fully-developed system of controlled access to areas and types of waste for scavengers and other users. 'Ease of entry' into the informal sector is an outsider's illusion. There are very few areas of economic activity which are not protected in one way or another, and if anything it may be easier to enter formal sector markets than informal ones.

One of the most powerful sources of constraint is government, which is generally centred in urban areas and thus able to exert closer control than it can in the countryside. While there are many ways in which governments and local authorities try, and often succeed, in helping the urban poor to make a better living, there are also many legal and illegal ways in which the influence of the government and its officials can be negative. Problems are often compounded by the fact that many Third World countries have inherited legislative structures from the colonial period, which usually assume the existence of a highly formal economy and are thus quite inappropriate to real needs. Local authorities may for example issue regulations to exclude street traders from certain areas, although this may prove quite unworkable as the traders are providing a service in heavy demand by the city's population at very reasonable cost. Regulations may also be issued requiring impossibly complex registration and accounting procedures for street traders, defining the lack of these 'illegal', and thus increasing the vulnerability of the poor to harassment and loss of income. Another area in which inappropriate legal barriers often hinder people's attempts to break out of poverty is in regulations for business licences which frequently require hygiene and other standards that poor producers simply cannot afford to meet.

In Addis Ababa a group of 26 women from very poor backgrounds were supported in the setting up of a restaurant. The women, generally the principle income earners of their households, were initially given a grant to acquire the building and a loan for working capital. The site was in a densely populated area of the city near a large army base and a market so that there was a strong demand for their service. They were highly organised in a co-operative fashion and were achieving reasonable incomes.

Unfortunately, the city health authorities, operating to quite strict regulations, paid some visits and felt that the latrine was too close to the kitchen. They threatened to close the restaurant unless the latrine was moved further away. The cost of carrying out this alteration would have been prohibitive. In this case only lobbying by influential connections prevented the strict interpretation of the rules which threatened to close the operation down.

However, the legal constraints on the income earning activities of the poor can be less punitive than the abuse of the power vested in government officials. Licenses for street traders are seldom obtained without bribes being paid to the relevant officials. Similarly, the exploitation of semi-legal and illegal activities, such as prostitution, alcohol making and selling, trading in certain goods especially currency, and the employment of children, offers opportunities for powerful (yet often underpaid) government employees to abuse the system and the poor. Even where state policies are designed to help the poor, there is considerable scope to influence the allocation of licenses, grants or loans. The poor and weak are invariably at a disadvantage when trying to gain access to these state benefits; and of course they have little or no influence in the formulation of government policies.

As well as the restrictions of officialdom there are other structures which constrain the access of the poor to economic opportunity. Groups of relatively powerful people within the economy of the city, or of a particular market or neighbourhood, create monopoly benefits for themselves by limiting access to certain markets or opportunities. Such groups may be based on economic activity, such as groups of producers, traders, middlemen and women, workers, or buyers of products, or based on other sorts of ties used for economic purposes. An example of this would be kinship networks used to both create and enforce control of markets, excluding people not a part of the group. The weaker members of society are rarely in a position to create such protective barriers for themselves and are usually the ones excluded from opportunity.

Controlled access to skills or professions is also an important barrier to poor people. In medieval Europe, craftsmens' guilds restrained access to their skills and trade by limiting apprenticeships. They maintained an artificial shortage of supply of their skills and curtailed the employment of non-members in their particular trade. Similarly today there is a tendency everywhere for labour organisations to restrict access to their sphere of operations. Where unions or professional associations gain strong bargaining positions they can limit access to their profession or to their workplace.

In many Third World cities street traders face an extortionate system of corruption and abuse. Every potential space for street trading is controlled by one group or another. These groups range from political parties through 'mafia' type gangs to groups of traders themselves. All of these receive regular payments from the traders on their patch. On top of this the city police extract their 'payments' and on top of this again comes the city council which controls the issuing of licences, also wide open to abuse. Some traders have to make up to three periodic payments for 'protection'.

Distribution within the household

Deeply ingrained cultural and social factors profoundly affect the way social entitlements and cash income are distributed within the household.

While many households are fairly evenly poor amongst the members, in other cases the way income is controlled within the group can leave certain individuals very much worse off than the more powerful members in the struggle for a share of the household income. Women, children (especially female children) and old, disabled or sick people are particulary liable to suffer this sort of discrimination. Many cultures encourage a low level of male responsibility, especially at the household level. (The situation for women is dealt with in more detail below, see I.2.iv.)

It is a major failing of much development work that an income generation intervention, although it increases the overall income of the household, may actually do more harm than good for certain individuals within that household. A common example of this is where the income is earned as the result of extra hard work by one household member but its use is controlled by another.

Near one of the largest cities in India there is a group of about 50 children (mainly girls between the ages of 8 and 16) registered in a co-operative that produces carpets for export. Their training and looms were sponsored by the government, after which the co-op was established with the help of a local intermediary organisation which took over its management. The co-op is a commercial success. The group produces high quality carpets and have regular sales outlets at prices which more than cover all immediate costs (although the costs of the intermediary's manager are not covered).

The income from the co-op is substantial and has been crucial to the survival of the community in recent years. The drought in the area during this period hit other sources of income hard and many families appear to have survived on the income from the co-operative alone. The impact of the co-op seems to have been generally good for the households involved, yet there are serious doubts about the effect it has had on the lives of the girls who work there. Some of their wages are put into savings accounts which are partly used to finance outings and other expenditure for them. However, they work a full day and thus do not go to school, while effective control of the money they earn is in the hands of their fathers and in some cases is used to finance the education of their brothers. The system keeps them in their homes working at their looms, and restricts their personal development; they are firmly in the control of their fathers, and patriarchal structures are reinforced.

Catastrophic events

As well as having to struggle against the factors which create and sustain the 'normal' level of urban poverty, poor people are particularly vulnerable to catastrophic events which may force them several steps further towards destitution. (For a discussion of vulnerability to disaster, see Maskery, A, *Disaster Mitigation: a community based approach, Development Guidelines 3*, Oxfam 1989.) A poor household's resources are stretched to provide for even basic needs and the strategy for survival is tightly planned to take advantage of the best of the meagre opportunities available. This leaves very little flexibility to deal with disruption and very few resources to cope with extra expenditure or needs.

Poor people are more vulnerable to illness, are less protected from physical dangers and suffer great stress and exhaustion from drudgery, hunger and worry. Relatively frequently then, individuals from poor households may, through ill-health, injury or disability become lower income earners than before, or cease to bring an income to the household at all. In addition, illness or death can mean extra bills for medical treatment or ceremonies and extra work for others to care for the affected person and cover the tasks that they used to do for the household.

The collapse of a key income earner's livelihood can also occur as a result of environmental disasters such as drought, hurricane or earthquake, or forced displacement due to conflict. It may also be caused by economic catastrophe such as general decline of an economy accelerated by processes of 'structural adjustment', which hit the poorest hardest; the closure of a big firm; the rapid decline of a major industry (e.g. the tin mining industry in Bolivia); or changes in the application of government regulations on street trading. Finally, personal economic disasters such as the loss of a job or the failure of a small business are causes of impoverishment to which the poor are vulnerable and for which they can make little provision.

I.2.iv **The situation for women**

The forces which create and sustain poverty are intensified for women because of their social position. This 'double burden' often makes women the poorest, most disadvantaged and vulnerable members of any society. In the urban areas of Third World countries very large numbers of women exist in such absolute poverty that even basic needs such as food and shelter are not met and there can be little question that a primary and immediate need, very often clearly expressed by the women themselves, is to acquire a better livelihood. As women are often at the bottom of the social hierarchy and have no social entitlements, they rarely have any option but to make their own income.

Unsupported women are clearly a significant group in this context, found in large numbers in the cities of Third World countries and often suffering extreme poverty. They may be migrants who came to the city alone or with children and the father of their children is either dead or has deserted them. Such women may be socially outcast for transgressing accepted codes of behaviour, limiting further their social entitlements and increasing dependence on their own income generation. The fact that they have to look after home and children, as well as facing discrimination in the job market, greatly limits their chances of finding secure, reasonably paid employment. It is estimated that 30% of households world wide are women-headed and this proportion increases to more than 50% in many Latin American cities. Certain cities have particularly high numbers of women-headed households, due for example to catastrophe (e.g. war, sudden displacement, or famine), or to longer-term economic or political conditions (e.g. the apartheid system in South Africa or where the economy is dependent on migrant labour).

Since the early 1980s large numbers of refugee Ethiopian, Eritrean and Tigrean women have arrived alone in the Sudanese capital of Khartoum, having fled war, political and religious oppression and famine. Many of their menfolk are fighting, others have been killed or imprisoned. In the chaos of war, hunger and fear, family members and friends lose contact with one another, scattered by air attacks, forced into hiding by invasions of towns or villages, escaping from raids by security police or setting off in different directions to try to find food. The journey to the border, often undertaken at night to avoid army attacks, is perilous and refugees face many problems travelling within Sudan. Even women with friends or relatives in Khartoum may not be able to make contact with them as so many refugees live in the city illegally and in fear of discovery. Women are in most cases wholly dependent on their own resources for income. Although many of them are well educated, their lack of work permits, inability to speak Arabic, and the harassment they face as refugees, limits options to mostly illegal activities such as prostitution, liquor brewing or food production, thus increasing their vulnerability to harassment and abuse.

The extreme poverty of women in urban areas represents one of the most challenging contexts for income generation interventions, particularly as for many women their income is crucial not only for their own survival but for that of their household. Contrary to the common preconception of outsiders, almost all poor urban women work for money. The misconception has probably developed because women's employment is often hidden from the eyes of outsiders, undertaken behind closed doors and in conditions so bad as to be illegal. There are very few jobs which women are trained or socially sanctioned to do, so they may often be doing what appears to outsiders to be 'domestic' work, such as washing and ironing. It is remarkable how many development programmes, especially employment creation schemes aimed at poverty alleviation, ignore or are unaware of the fact that most urban women have to, and do already, work for money.

Despite the crucial dependence of many households on women's income, women are far less likely than men to have been given the skills or education necessary for successful income generation, and the position of women in most societies is such as to greatly restrict their opportunities to earn a cash income. The almost universal primary responsibility of women for childcare reduces their work options and often forces them into homework, while they suffer far greater cultural restraints than men on what they are permitted to do. In some cultures it is unacceptable for them to leave the home at all (e.g. Islamic women in 'purdah'), let alone to work outside, although there are sometimes quite effective systems which enable Islamic women to earn money by work at home, for example to do laundry or prepare food, with others supplying the outside sales or supply links. In many cultures it is assumed that girls will marry and their role will then be to support a man who will be head of the household and the main income earner. They are therefore rarely equipped, in terms of education or training, to earn an income outside the home or to perform the role of major breadwinner.

Urban women earn income both through wage employment and self-employment. Women are employed in factories, shops and other workplaces and increasingly in their homes as homeworkers. As described earlier, homeworkers face many abuses and often severe exploitation. Many firms and middlemen and women are finding the absence of overheads and the fragmented powerlessness of these employees attractively profitable. However, homework can be advantageous to women if the conditions and terms of work are acceptable. It allows them to remain with their families and removes the need for childcare arrangements, as well as cutting travel costs.

Kite making is important business in the Indian city of Ahmedabad. Most of the kites are made in the homes of poor women. The trader brings the raw materials, pays a fixed sum per 1000 kites and sells them in the market at a healthy profit. In one household a woman and three of her children worked almost the entire day to earn about 10 Rupees (50p). They did this work in poor light and were 'supervised' by the husband and father, who dealt with the trader, controlled the money but did no work himself on the kites.

Poor women who are employed outside their own homes are concentrated in a variety of either low-skilled jobs or in types of employment where there is a surplus supply of their skill and therefore low wages are paid, such as domestic work, catering and shop work. Self-employed women are often more numerous in urban areas than rural and are a particularly important group of people to recognise and work with. Examples of common activities include: street food vending, rag rubbish picking, firewood gathering, beer making and handicrafts.

In general poor women at work tend to be unorganised, with low levels of control over capital, to have few or oversupplied skills, to work in gender-ascribed roles and to work in areas with low economic prospects. Although their situation is similar to that of poor urban men, it is often a good deal worse. (See Section II.6 for a discussion of income generation interventions targeting women.)

I.3 The interveners

The immediate initiative for most income earning activities comes from the actual people involved in earning the income. Most private businesses, ranging from street hawking to small manufacturing firms, are established by the participants after careful assessment of their own circumstances. Many co-operatives too, both service and producer, arise from genuine grassroots initiatives where poor people decide on this form of organisation after weighing up the economic factors of their situation and their ability to co-operate as a group. The ideas for economic activities are born out of their circumstances, however constrained, and are essentially their initiative. The type of production organisation is generally selected on practical and individualistic grounds from traditional models or from models borrowed from outside. In many Third World countries, however, there tends also to be a high level of conscious intervention by government and non-government agencies in the process of development,

A C Gonzáles/Oxfam

Food vendor, San Carlos, Nicaragua. Women often develop an aspect of their domestic role, as a way of earning income; for example, selling food, which may either be pre-cooked at home or, as here, prepared in the street.

not least in the field of income generation. It is this deliberate intervention that will be dealt with here.

Much of the thought which currently goes into income generation interventions is concerned with practical issues such as marketing, skill training or the organisation of a credit scheme. These activities are all crucially important and are dealt with in detail in Section IV. However, there is often much less consideration of more fundamental questions. In particular, interveners often fail to examine their own role in the development process with sufficient care. They rarely recognise with the necessary openness the nature of their relationship with the intended beneficiaries and often fail to think through the objectives of the intervention, or the process by which these are established, with sufficient clarity or depth. This is especially likely to be the case where the economic aims of the intervention are mixed with political, ideological or broader 'social' objectives. It is all too often this lack of clarity in objectives, or the insufficient involvement of the target population in their formulation, that lies at the root of the failure of many interventions.

I.3.i **Setting objectives**

It may seem simple to identify the objective of an income generation intervention, which is presumably 'to help to generate income'! Yet even a short reflection on almost any project or programme will show that there is both a multiplicity of objectives (some of which may be incompatible or inappropriate) and a lack of clarity about these objectives.

Oxfam recently held a workshop on income generation interventions. In one session the participants were asked to bring to mind three particular income generation interventions with which they were familiar, and then to recall their stated objectives. These were compiled into a long list.

This list revealed that in many cases the aim of 'generating income' was not solely or even primarily the objective of the work. There were many stated objectives which had little to do with income generation and others which could not possibly derive from a project aimed at generating income. In some cases people admitted to having objectives which were not explicitly shared by the intended beneficiaries of the scheme.

In general there was quite a deep level of confusion and a distinct lack of clarity in objectives. It was agreed that the general lack of enthusiasm for income generation interventions was in part due to

the initial vagueness as to aims and purposes. Furthermore, this lack of clarity in itself can be the cause of the failure of these interventions. The need to clarify objectives cannot be overstated.

Any intervention in peoples' income generation activities involves a relationship built around a particular balance of power between the two parties involved: interveners and intended beneficiaries. This will be the context in which objectives are established and will in most cases favour those who control the money and who possess superior communication skills: usually the interveners. In these circumstances donors, intermediaries and government officials often under-represent the objectives and thoughts of the 'participants' and take the initiative for the intervention.

Occasionally, a person or an organisation can become involved in income generation interventions for reasons of self-interest. Situations where the personal interests and priorities of the intervening organisations or individuals take precedence over the interests of the supposed beneficiaries are quite common. The minds of the interveners may be focused more on political or personal gain (both legal and illegal) than on the needs of the poor.

Frequently, although the initiative for an income generation venture may appear to come from the participants, in fact the intervening agency, often unconsciously and without direct pressure, has been the dominant influence. The funding power of interveners means that they may influence the 'initiatives' which the participants propose even before any direct contact is made, i.e. they can set the agenda. People seeking aid tend to tailor their requests to match the requirements of the people with the money, and submit loan or grant requests accordingly. An example of this is where an agency has a known preference for co-operative activities, which may influence groups to propose co-operatives more from a hope of securing funding than because of the economic and social logic of a co-op in their particular situation.

Nor is it only through the power that goes with funding that interveners can set the agenda. They often have superior communication skills and a better formal education than the participants, who are often poorly educated and have less confidence and ability to put their ideas into words, even if given the opportunity to do so.

However, if an intervention is to succeed in improving the livelihood of any group of poor people, it is of fundamental importance that it meets their priority needs as they see them, and therefore that the objectives of the project are defined in open dialogue with them and with their opinions given preference. It is crucial that interveners avoid imposing their objectives, but this should not be seen as excluding a useful discussion in which their ideas and viewpoints can be suggested to the beneficiaries. As the intervention progresses, it is likely that the objectives of both parties involved will change, partly as a result of working and sharing ideas together. The important thing is that dialogue concerning the objectives of the intervention is open and clear for each party at every stage. This requires frank recognition on the part of the interveners of the imbalances within their relationship with the intended beneficiaries, and clear thought on methods to counter such imbalances. Inequalities must be addressed early in the process of formulating objectives if the intervention is to reflect the purposes, aims and aspirations of the people it is intended to benefit. In addition, the general issue of representation can present many difficulties. How can interveners be sure that the people they talk to actually represent the opinions of the targeted group? Can interveners be sure that what the targeted beneficiaries say reflects their true feelings? This also requires careful and critical assessment.

Failing to take account of the basic objectives of the participants can create problems for any income generation intervention. In some cases income generation may not be the most pressing need nor the activity with the greatest potential reward for the intended beneficiaries. They may give priority to other things such as health, education or clean water because they offer more immediate returns and meet community needs more directly than income generation. Yet intervening agencies may still persist in offering support only for income generation, which will obviously result in poor co-operation and participation if plans go ahead.

The failure to use the participants' knowledge of their immediate economic environment may lead to the selection of an inappropriate type of income generation intervention. Poor people know a great deal not only about their immediate circumstances and the time and resources they are able to put into any new scheme but also about their economic environment and the myriad and complex constraints that may cause particular initiatives to fail. If given the space to think about and identify these circumstances and constraints they can provide vital information and ideas for establishing an intervention which will be viable and useful. They may be able to point out particular openings in the market or crucial problems which need to be addressed. Ignoring their knowledge and ideas must significantly reduce the chances of an initiative succeeding. Ignoring their potential to do things for themselves implies a m/paternalistic relationship which may well encourage a state of dependency.

I.3.ii **The form of the intervention: co-operatives versus private enterprise**

As well as ideas and assumptions about the lives of the urban poor, most interveners also have their own image of the way economic activity should be organised. It is vitally important that all such preconceptions are recognised and given careful scrutiny, otherwise they may be given inappropriate prominence because of the imbalance in power between participants and interveners described above, and are, in any case, likely to have a profound effect on the intervention.

The following sections identify common preconceptions with which interveners approach the effective organisation of economic activities. One of the most strongly argued debates in which interveners express their prejudices is between supporters of co-operatives, or social ownership of the means of production, and those who favour private ownership or capitalism. But in assessing these, and other approaches, it is important to assess the actual impact of the intervention on the lives of the poor. All too often, their objectives, knowledge and ideas are given insufficient weight when decisions relating to the form of the intervention are taken. What is needed is a more pragmatic approach to poverty alleviation that includes income generation interventions, but does not exclude other

I.3.iii **Interveners' images of the poor**

In many cases the type of production unit which the interveners think is best is related to their image of the people they are trying to help. Some interveners favour top-down job creation projects managed by non-participants, because they hold the view that the intended beneficiaries are incapable of undertaking their own income earning initiatives or of managing a group business, especially where this is relatively large and formalised. These images are often based on sexism ('women can't manage businesses'), or similar prejudices concerning class, race, caste or tribe. Another common assumption is that poor people are unemployed and thus need jobs. As pointed out previously, for the poor in Third World countries it is extremely difficult, if not impossible, to survive without some form of income earning activity. In many cases the activity which the intended beneficiaries of a project were already doing could have benefited greatly from appropriate direct intervention and support. The desire of the intended beneficiaries for secure employment often leads them to accept a job creation proposal instead of a more appropriate intervention, and their belief in the wisdom of the 'rich' and 'educated' intervener often lasts an incredibly long time.

Unfortunately, these images of the poor (and sometimes their own self-image) are reinforced by 'top down' interventions that give no training and do not allow participants to use their ideas or local knowledge. The inevitable 'formalisation' of economic activities (keeping detailed accounts, dealing with legal regulations, and marketing in unfamiliar markets) involved in the establishment of large group enterprises can entrench these images (see Part IV.2.ii for a full discussion of formalisation). The participants invariably lack the necessary management experience or skills at the start of a project and, if no training is provided, become dependent on outsiders to carry out these management tasks. Self-perpetuating dependency results from m/paternalistic attitudes on the part of interveners.

I.3.iv **Ideologies and theories of development**

Within the range of preconceptions held by interveners are many different ideologies and theories of development which influence the types of productive activity they support. Examples are: capitalism, socialism, Christianity and Gandhian philosophy. Interveners should try to become aware of the fundamental assumptions they make in their approach to development work and how these assumptions or beliefs affect the income generation interventions they adopt, and, very importantly, their relationship and dialogue with the participants. It may be that interveners and participants share the same values and beliefs; but if not, each must be aware of and respect those of the other partner.

The issues of ownership and control of capital are always central to debates concerning approaches to development. Within the field of income generation these issues are part of the debate between interveners supporting co-operative ownership and those supporting private ownership, and variations of these models. The main arguments for these different forms of organisation are highlighted here to help readers to clarify their own position.

Growth promotion via private enterprise

There are numerous government and non-government agencies which try to encourage economic growth through private enterprise. For the urban poor there are targeted interventions sometimes called 'policies for the informal sector' or 'small business development schemes'. There is an underlying belief that encouraging and increasing economic activity will benefit the poor in a 'trickle down' fashion, mainly by creating jobs.

Sometimes these interventions are supposedly targeted at the poor and called 'poverty alleviation programmes'.

However, one of the key arguments against interventions supporting small business development is that they do little to alleviate the plight of the poor. Although such schemes may promote economic activity, the benefits do not reach the poor, even if this is one of the stated aims of the programme. The primary reason for this is that the delivery methods used in these schemes are weak. Poor people do not usually get access to the resources made available, such as credit or business advice, because they are involved in illegal or semi-legal activities, are not owners in their manufacturing concerns or have difficulties in dealing with formal aid processes. If they do gain access to credit, they may become trapped in an exploitative relationship. Most schemes do not take sufficient account of the social and economic differentiation within apparently homogenous communities, or of the barriers to the improvement of poor people's livelihoods described in I.2.iii. For all these reasons, resources are likely to find their way, directly or indirectly, to the most powerful people in the community. In many respects these growth-focused schemes are specifically designed to pick likely 'winners', and thus exclude the poor.

Because the agencies offering schemes for private enterprise fail to reach the poor, the mechanisms used in these interventions, such as credit or business advisory services, and even the jargon they use (profitability, commercial viability) are sometimes viewed as inappropriate or even harmful by those whose aim is poverty alleviation. Yet for those agencies who work with the poorest people, these development tools and concepts have great potential for use in income generation interventions that will effectively benefit the poor.

Promotion of co-operatives

Ideologies and approaches to development opposed to support for private enterprise very often focus on some form of co-operative organisation when dealing with income generation interventions. This may be for ideological reasons such as a commitment to socialism, or for other reasons, for example to encourage community organisation or offer protection and encouragement to vulnerable or exploited groups.

Agencies assisting groups with some form of co-operative production (as opposed to service) activity tend to have in common a broad desire to improve on the exploitative and abusive relations found in capitalist production units employing workers. Co-operatives of various forms are often seen as a solution to the twin problems of providing a livelihood and avoiding exploitation. Sometimes these aims are expressed in phrases such as 'creation of social ownership of the means of production' or 'egalitarian and socially conscious production'.

It is important to clarify what we mean by co-operatives and differentiate between producer co-ops and service co-ops. In producer co-ops the capital and land used by the group is collectively owned and worked. The production of the commodity, articles or service is carried out from inputs bought by the group and the product sold collectively. The organisation of the co-op should be such that there is a strong attempt at democratic decision-making, generally through regular committee meetings.

Service co-ops are different in that they generally represent groups of private producers, possibly including producer co-ops, and are set up to provide services and support to this group of producers, such as the bulk buying of inputs and bulk selling of outputs, often involving bulk storage. Some of the objectives of service co-ops are:

—to enable small-scale producers, consumers and traders to buy and sell with the same economies of scale and bargaining power as their larger competitors, or to process their produce to add value;

—to enable several individuals to share a resource such as tools, a building, transport facilities, etc.;

—to create a savings and credit association;

—to tackle various forms of exploitation. This could involve a marketing chain to circumvent an exploitative supplier, or traders' associations to oppose corrupt officials.

Service co-ops can also provide co-op shops, representative functions, advisory services and technical services. There is nothing fundamentally egalitarian or even democratic about the majority of service co-ops; their function is economic in character and they represent a group of private producers.

The record of support/service groups is varied, but there are some outstanding successes. In Europe and North America, the development of agricultural service co-ops has been one of the cornerstones of agricultural and indeed general economic development and there are many examples of contemporary Third World service co-ops which have been of great benefit to their members.

In many cases the initiative for producer co-ops comes from the participants themselves. However, there are often external influences on the decision to form a co-op. Government policy is particularly important. For example, in countries where a new socialist government comes to power there is often a major wave of support, both ideological and practical, for the establishment of co-ops. Government grants or loans, tax favouritism, preferential support services (e.g. laying on electricity), and general encouragement, combine to prompt the formation of co-ops. Less dramatically, certain governments (such as that of India) consistently offer support for co-ops.

NGOs, both local and international, through the power of their money and their influence over development thinking, play a similar role to that of government. Both practical inducements and ideological backing encourage people to start co-ops. Agencies do more than merely provide information on types of production structures available to people seeking ways forward; they can seriously bias the economic and organisational consideration necessary before a co-operative venture is embarked upon. The key question is how much do the interveners influence this process, and what is the impact of this influence on the lives of the poor?

In order to avoid having a harmful impact through the influence of their ideologies on the objectives and shape of the intervention, interveners must ask some searching questions. Are their objectives the same as those of the participants? If not, do they have the right to impose their ideas? Should they not respond more flexibly, drawing on practical experience of income generation interventions rather than imposing solutions which may be impractical, inappropriate or even contrary to the wishes of the participants?

In short, interveners must use more pragmatic means of deciding when to support co-operative production. When the openly-agreed primary aim is income generation, it is the potential for the economic activity to become commercially viable which should determine whether a co-operative is encouraged and supported or not. Support for private economic activities may be a more effective and viable form of income generation intervention and one which will benefit far more people.

CONCLUSIONS

1. The reality of urban poverty in Third World countries is complex and varied and rarely fits the perceptions or assumptions of outsiders. If interveners are to offer appropriate assistance to poor people struggling against poverty, they must first build a good understanding of the lives of those they aim to assist.

2. Identifying the poorest groups in an urban population is not always easy. Characteristics such as poor quality housing, informal sector employment or poor access to health care are useful, but if looked at in isolation often hide a wide variety of individual situations and apply to some people not actually classed as poor in that community.

3. Poor people in the towns and cities of the developing world earn their income in all sorts of ways. For example: in self or waged employment; within the formal or informal sector; at home or elsewhere; legally or illegally; with family members or not. Poor households usually depend on various sources of income organised to make the best use of household resources. The participants' situation must be clearly understood to establish the most useful intervention, with the least damaging opportunity costs.

4. The powerful forces, working both within and between household units, that make certain people weaker than others in the struggle for a livelihood, have crucial implications for interventions. They will affect the most appropriate type of design of intervention, the process of designing it, who benefits from it and the effect it has on the roles and social/economic position of different groups in the community e.g. men and women.

5. It is of fundamental importance to establish and prioritise the objectives of an intervention from the start, even though these may possibly change later on.

6. It is of equal importance that objectives are set in dialogue between participants and interveners, and that priority is given to the needs, aims and opinions of the participants as they see them. This often requires conscious efforts to counter the greater influence interveners have in the relationship, but is vital if the intervention is to address the most pressing needs of the participants — it may even be the case, for example, that income generation is not their priority need.

7. The whole process of the intervention, from establishing objectives through design and implementation, must be one of open and equal dialogue between participants and interveners. Opportunity must be given to both groups to put forward ideas, opinions and criticism throughout the

process to allow priorities, objectives and methods to develop and change over time. This will also help to ensure that participants see the intervention as relevant and encourage their full participation, will improve the intervention through their knowledge of local opportunities, markets and constraints and will counter the development of a paternalistic relationship between participants and interveners that undermines the participants' confidence and ability to think and act for themselves.

8. The preoccupations, assumptions and ideologies of the interveners must be assessed and challenged in the light of the reality of the participants' lives and of their objectives and opinions. Interventions must prioritise practical achievement of the objectives established with the participants, thus assisting poor people in their struggle against poverty.

Walter Holt/Oxfam

Shoe-making and repairing, in the street, in Bangladesh. Providing this sort of enterprise with business advice, or credit for tools or materials, is a form of intervention which enhances the potential of people's existing income-earning activities.

PART II

SOME KEY ISSUES IN INCOME GENERATION INTERVENTIONS

II.1 **Introduction**

Before beginning programmes that are intended to alleviate poverty by means of support for income generation initiatives, interveners need to give careful thought to their objectives and those of the people they wish to help. This part of the book discusses various issues which are relevant to income generation, including the importance of clarity about the aims of an intervention. The effect of an intervention on the lives of the participants and on the wider community should always be kept in mind. The primacy of the economic goal and what this means for interveners in terms of offering effective support, is stressed. The special problems and constraints when working with women are dealt with in the final section.

II.2 **Balancing economic and social objectives**

Income is not the only desirable goal, even for very poor people. Security and supportive social relationships within families, households and communities, are among the other goals that people strive for. There are many ways to try to attain them, and many forces that undermine such efforts. Poor people in urban areas face wide-ranging difficulties, with social, political and economic disadvantages interrelated to constrain efforts to improve lives and livelihoods. Income generation interventions, like other economic development activities, can strengthen social networks and organisation within a community as well as improve the individual circumstances of the participants. Within income generation interventions (basically economic interventions) there can also be direct social objectives, such as the building of unexploitative and just economic relations; the creation of satisfying work and the enhancement of the participants' assertiveness, self-confidence and skills, as well as mutual support and organisation, all of which may help reduce vulnerability to exploitation. In the wider context of the community, an income generation intervention can also have social goals such as strengthening representative structures and social and political organisation within the community, or other development initiatives.

However, when income generation is the primary objective this aim must be kept clearly in view and given due weight in decision-making. Often, a firm economic foundation is fundamental in securing both the economic and social goals of an intervention in a sustainable way. Yet to achieve sustainable increase in income is no easy matter particularly for poor people in cities and towns of Third World countries. It demands considerable time, effort, skill and money and involves significant opportunity costs for both participants and interveners. It is vital that economic objectivity is retained and that social objectives are not allowed to excuse poor economic planning or performance. However, there may well be contradictions here between the need to achieve economic success and the desire to avoid exploitative structures. Given the powerful forces which operate in the economy of Third World cities to sustain poverty and oppression, it may be difficult for a productive enterprise to be both economically viable and provide adequate rewards and acceptable conditions for those who work in it. Faced with this situation, many interveners turn to tackling the larger political and economic constraints which keep poor people poor, for example by directing their efforts to conscientisation, facilitating grassroots organisation and campaigning and lobbying activities.

However, many thousands of income generation interventions are established, aiming to achieve a firm economic footing and also contribute to the wider social benefit of the participants and their community. Interveners involved in income generation interventions must avoid the tendency to see their particular intervention in isolation, and must always be aware of the social and political context in which they are working. Attention given to the objective of generating extra income must be balanced by consideration of the social, political and economic impact the intervention has on the households, groups or communities from which the participants come. Just as important is the consideration of the impact on the participants in the venture and of the way the intervention affects the distribution of work, power and benefits between them.

Implications for the community

Even if income generation interventions successfully benefit their participants they may have negative economic effects on other poor people through the competition they generate locally. A private or community shop set up to create incomes for the owners/workers may undersell small local traders who will lose business and income. A new sewing group producing for the local market may reduce the demand for the work of local tailors. Training people in skills which are oversupplied pushes down wages for all workers in that sphere. A credit scheme may provide funds for numerous private ventures, say in selling grains, which could have the aggregate effect of increasing competition, so that prices and incomes fall.

In a group credit and savings scheme in Addis Ababa, many of the loans were going to women to set up small shops or street stalls to sell a limited range of staple foods. Through its familiarity with the local economy, the group recognised that it was helping to saturate the market and force down prices, affecting large numbers of stall holders throughout that area. They decided to restrict borrowing in this sector.

Most frequently the competition which faces new income generation initiatives is from people who are as poor as the participants in the scheme. Where the demand for the products or services of these people, including their labour, is not expanding an increase in competition will probably be harmful for them all. But where the competitors are larger businesses or local monopolies, increasing the ability of poor people to compete will probably have a beneficial redistributional effect. It is of crucial importance to understand and investigate the local markets to assess whether there will be a strong negative impact on other poor people. Two central questions that need to be addressed are:

— Is there an increasing or frustrated demand for the products, services or skills which are being encouraged?
— Who will be affected by increasing competition in particular markets?

Income generation initiatives may also have considerable impact on the social and political situation in the local area and on other development efforts which are taking place in the community. The danger of schemes which aim to make profits is that the very existence of such money can encourage corruption and abuse of funds by leading participants (or even by interveners). In addition, both the corruption and the money itself can foster divisions in the group or community and possibly disrupt the co-operation on which the other components of the development programme depend.

Income generation interventions can also exacerbate local divisions and antagonisms, and reinforce political and social inequalities — whether between ethnic, socio-economic, caste, religious, gender, age or any other groups. On the other hand, if organised appropriately they may strengthen co-operation and increase the power and resources of the weakest groups. It is particularly important to consider other processes or initiatives for development already established within the community that may be undermined or strengthened by an income generation intervention. It is vital that interveners and participants understand and take account of these and try to build on established structures, philosophies and methods of community organisation.

A community of farming households in a rural area of Costa Rica produced cocoa for export from small privately-owned plots of land. A co-operative organisation was established with the assistance of an intervening agency to increase the productivity of the land, and thus the income of each household. This was moderately successful. However several problems arose within the community as a result of this intervention. Previously, although formally held in the husband's name, household plots of land had been farmed by the whole family and women's work was as substantial as men's. The co-op was formally created out of the land held in the name of the men involved and they became responsible for planning farming activity throughout the year. The women's previous lack of formal ownership of land was compounded and they were further excluded from decision-making and control of farm produce or income although they continued to contribute their labour. The co-op also caused disruption to community organisation as farmers became divided between those inside the co-op and those outside and the rows and jealousies that arose seriously undermined the previous strength of the Peasant Association. Many feel now that an intervention could have been formulated that strengthened the Peasant Association, improved household production and recognised women's productive responsibilities instead of cutting across community organisation and undermining women's role and efforts to gain access to decision-making.

This is a rural example but many parallels can be drawn with interventions in urban areas where, for example, inequalities within households or household enterprises have been exacerbated or community organisations have been undermined as a result of careless planning of the intervention without regard for its wider social implications.

A major consideration must always be the number of people the intervention will benefit — how far its influence will spread within the community. It may be that a venture involving only a small group of people, however much it may assist them, may at the same time generate so much antagonism within the community, as well as undermine other groups and organisations, that its net effect will be negative. In such circumstances it might be wiser to use the resources to assist larger numbers of smaller ventures. An interesting decision was made in the example below where, instead of setting up a bakery with perhaps eight women working full-time, a rota system was established whereby about 80 women each work for a few days every few weeks. In this way a large number of women and their households benefited from the intervention, and it strengthened rather than undermined the health, childcare and other community initiatives already established.

In the mining town of Potosi in Bolivia, the collapse of the international tin price and the consequent closure of the State and co-operative tin mines brought economic crisis. People from the large number of households dependent on mining had suddenly to find other means of making an income. Many people left the town, and for those who remained, survival became a matter of subsisting on earnings from a series of temporary, irregular and unskilled jobs. In response to their worsening situation, a group of people, mainly women, from former mining families, got together and started a small bakery. The women each worked there for a few days every few weeks. For them, working in the bakery was an important complement to other survival strategies. They negotiated the work rota between them so that other economic or household activities could be fitted in. Each worker in the bakery had to be capable of dealing with the money and daily accounts; many women were faced with the task of acquiring basic literacy and numeracy as well as learning the skills of dealing with the public and participating in a co-operative organisation. Gaining these skills took time and effort for the women and necessitated a subsidy from the interveners, but the

abilities and confidence the women acquired have clearly benefited other community activities, such as the health centre and creche which had been set up in the area some time previously, with support from UNICEF. Women from the bakery were actively involved in a vaccination campaign and in efforts to put pressure on the town authorities to provide sanitation and other services. They also established a vegetable garden, to supply the creche and provide extra income from the sale of produce.

The bakery, through its extended shift system, benefited many households in the community by improving household incomes and enabling the women to make more use of the creche and health centre. However, these community activities had already been started, and women were working together, before the bakery was introduced; the income generation activity strengthened community organisation and activity which already existed.

Implications for the participants

The organisation of the intervention in terms of who, within the venture, has decision-making power, and the allocation of work, responsibilities and benefits, is of crucial importance if the venture is to avoid replicating or reinforcing the exploitative and discriminatory relations that impoverish and marginalise poor people outside the intervention. Social objectives need not be seen as conflicting with an intervention's economic objectives, or vice versa, for instead they can be mutually reinforcing. There are several important considerations here.

The potential for abuse and corruption in an intervention creating profit has been pointed out. It is imperative that those who have financial control are made accountable to the others within the intervention and, if necessary, to the community. This requires not only a good system of accounting and accountability but also all the participants to have a good understanding of the system, to have been involved in establishing it and to have the power, confidence and opportunity to challenge possible abuses. This is one of the major themes of Part III of this book and the issues are dealt with in considerable detail there.

It is often argued that the promotion of small, private enterprises can lead to the further exploitation of the employees of those enterprises. A sudden increase in the volume of production and sales may encourage managers to push workers harder. This becomes a strong argument for more participative, less hierarchical forms of management. However, many of the poorest people do not have employees whom they could exploit and a central issue then becomes the ability of interveners to reach this target group, and not to be satisfied with interventions that benefit business-people who employing a few workers, may become exploitative entrepreneurs. However, even if interveners are working with the small enterprises of the poorest people, the possibility of exploitation is still an issue. In a small enterprise whose participants are all members of the same household, the potential for exploitation is often particularly important. There is a danger that the less powerful household members, usually women and children, may be forced to work harder and for longer hours, as a result of income earning opportunities controlled by the dominant head of the household. It is essential for interveners to understand and take account of the balance of power and distribution of resources in the enterprise, especially if it is a family business.

The social benefits which participants may receive from an income generation intervention should not be overlooked. This book puts great emphasis on the eventual achievement by the participants of sustainable improved incomes, independent of outside support, in order to maximise and maintain both the economic and social gains for the participants. Income generation interventions can have considerable success in increasing participants' skills and understanding, both technical and personal, in building self-confidence and encouraging mutual support. This can significantly strengthen other development initiatives already in progress. Also, as has already been pointed out, the harsh economic context in which urban income generation interventions are undertaken diminishes their chances of economic success. Social organisation encouraged and built up in an income generation project may prove a vital supporting and strengthening mechanism in the attainment of economic viability. It may also constitute the positive achievement that remains if the venture fails economically, and give the people involved some support in coping with this failure.

On the other hand, economic failure can undermine any social organisation that may have been achieved through the income generation intervention, and this points again to the importance of considering both economic and social factors and their interrelation. What is of vital importance in setting and prioritising the objectives of any particular intervention is to consider the practical effect of the intervention on the lives of the participants and on the wider community, and to recognise that objectives may change over time. It is also important to remember that, while income generation interventions can significantly strengthen development initiatives within the community, as in the case of the bakery mentioned above, where women acquired skills and confidence that

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Sometimes the whole family will be involved in the same income-earning activity. This is a rural example, from Perambalar, India, where the family's sole source of income is the sale of necklaces and other hand-made crafts.

enabled them to take full part in the health programme and community association, in many cases the foundation for social organisation has been laid previously in other ways. Particular income generation interventions may not be the most appropriate setting in which to initiate social organisation.

II.2.ii **Income generation as entry point**

Income generation is sometimes used merely as an entry point, to enable outside agencies to gain access to certain target groups in order to carry out a different type of development activity, often one prioritised by the agency. The stated desire of the participants to generate income is used to establish a relationship with them in which other objectives can be pursued. Generating income may be retained as an objective of the intervention but is relegated in importance compared to the interveners' priority activity. These range from health or education services to directly political initiatives and may be prioritised with or without the knowledge of the participants.

There are several potentially serious problems with using income generation as an entry point intervention. Because economically sustainable income generation is not the central objective of these interventions it is rarely achieved, as it invariably requires great effort and hard decisions. The interveners in such situations seldom ensure that they are psychologically or organisationally prepared for income generation, and they often lack the appropriate experience or skills. The directing of the productive activity towards commercial viability is not given sufficient attention, at least until the draining of the donor's funds becomes such a burden that the intervention is either abandoned or reformed, with all the attendant difficulties. Alternatively, interveners acquire subsidies (particularly easy to obtain in urban areas) for the income generation project from funding agencies and sacrifice the aim of independent, sustainable income generation.

When income generation interventions are undertaken as entry points, without the explicit knowledge of the participants, not only have the participants in some way been cheated, there are also all the problems mentioned previously arising out of insufficient involvement of participants in setting objectives. The participants' almost inevitable dissatisfaction at not achieving their stated goal may also undermine the spirit of co-operation in the whole operation, and thus the achievement of the interveners' priority objectives (especially where these relate to community organisation).

There are some situations in which it may be appropriate for an agency to use income generation interventions as entry points to overcome initial external pressures. Examples would be to allow women, whose husbands refuse to allow them to leave the house, access to health or contraceptive services, and children, whose parents do not wish them to stop working, access to education. It is crucial however, to determine the strength of the demand for income generation in relation to the other goals of the intervention. Where the participants express a strong desire for income generation, any other objectives will have to take second place.

II.2.iii **Income generation as a minor economic goal: service provision**

The objectives of a particular income generation intervention may in fact be the consumption of the product of the economic activity, not the generation of income. The provision of water supplies or communal showers, for example, or a community shop, may incidentally create some jobs but the main aim is to provide a service for the community. In this situation the funders' desire to provide the service can undermine the concern for sustainable commercial viability, leaving the project less likely to achieve financial independence. This raises issues related to the sustainability of aid itself.

There is a crucial difference between income generation projects and other forms of intervention. There are very few situations where it is justifiable, after a reasonable period of aid, to continue subsidising an income generation activity. If income generation is viewed as being a job-creation service which funders provide, as opposed to support for commercially viable activity, then the whole income generation intervention process is fundamentally flawed. We shall discuss this crucial issue of economic sustainability further in Part II.3. As for the provision of aid to other forms of development activity, not designed to be commercially viable, this is part of a debate amongst development practitioners which is outside the scope of this book.

II.2.iv **Income generation for fundraising**

Many intermediary agencies without a secure source of income for their operations may wish to generate their own income. To do this they set up 'income generation projects' to provide income for the institution. These are perhaps more usefully described as fundraising projects. If these fundraising efforts are to have a good chance of success the principles outlined in Parts II and III for income generation initiatives must be followed.

In addition, there is also the issue of the transference of the funds generated by the project to the intermediary. There is a danger that an intermediary agency can undercapitalise their fundraising activity by not having strict and carefully considered methods for transferring funds or profits from the business to the main agency. In order to maintain the fundraising source, the extraction of funds from the production unit should be forbidden until after the end of the financial year, and the group should then extract only an amount which leaves sufficient profit to be ploughed back into the production unit to sustain it for the next year.

It is also important that the operations of the fundraising activity and the other activities of the organisation are kept separate. In particular, managerial effort and responsibility must be clearly demarcated between the fundraising activity and the work of the main organisation.

II.3 The nature of the economic goal: profits and wages

In Part II.1 the importance of commitment to the objective of generating income when undertaking an income generation intervention has been stressed. Here we look more closely at what generating income really means.

Participants in income generation activities earn income either by being employed (as employees or through their own small businesses) or by having rights to the profits of a business (as owners or members of a co-operative for example). Therefore income generation interventions can only raise participants' incomes by increasing their profits or the returns from their labour.

Profits

'Profit' is regarded by some people as a dirty word, usually because of its association with 'capitalist exploitation'. Yet even the most anti-capitalist co-operatives must earn profits. It is not sufficient for a productive activity to break even, because it will need some investment from its own resources (i.e. retained profits) merely to maintain its level of activity. An economic activity that does not make a profit will either run down or become dependent on subsidies.

Profit is a concept that is often misunderstood. It is most simply defined for a productive venture as: total costs subtracted from total sales for a particular period of time. The clearest way to explain costs, and thus the concept of profit, is in accounting terms.

The accounting idea of profits is easy to see by looking at a 'profit and loss' statement. This is a calculation of the profit or loss which a business makes in a particular period of time; or in other words, the sales income of the business minus the cost of what was sold and all the expenses of the operation. It is made up from three basic pieces of information obtained from records which businesses above a certain size should keep. (See Part III for more information about book-keeping.) These are: Sales, the Costs of the Goods Sold (COGS) and Expenses.

SALES minus COGS	=	GROSS MARGIN
GROSS MARGIN minus EXPENSES	=	NET PROFIT

— SALES should include cash and credit sales, i.e. money owed to the producer from purchases.

— COST OF GOODS SOLD is not necessarily the same as the amount that was spent on purchasing stock during the period, because the amount held in stock may not be the same at the beginning and end of the period. COGS must be calculated in the following way:

Starting Stock plus Costs of Purchases minus Ending Stock = COGS

— EXPENSES include wages, rent, transport, and all other items which cost money but are not directly sold to a customer. There are two particular expenses which are often not recorded as expenses yet should be. These are interest on loans and depreciation allowances.

Interest payments are an expense, since essentially they represent the cost of using the money lent. Loan repayments, however, should not be regarded as an expense any more than a loan when first received is regarded as income.

All production units have some capital assets such as tools and machinery, buildings or transport equipment. The cost of these is an expense of production. An asset may actually be paid for in the period under review. However, the whole purchase cost cannot be counted as an expense for that period because the asset will last for many periods. It is therefore necessary to work out what proportion of each asset is 'used up' in each period. This amount is known as 'depreciation'. If, for example, a vehicle lasts six years, then each year one-sixth of its cost can be written off as depreciation, and accounted for as one of the year's expenses.

A profit and loss statement is an important, if not essential, indicator for operations large enough to necessitate formal accounting systems. It is obviously too cumbersome and time consuming for very small businesses (Part III will discuss when a system of book-keeping and accounts is necessary), yet the logic behind it, even in these cases, is extremely important for both interveners and participants to appreciate.

Another important concept that is frequently overlooked is that of opportunity costs. These should not be included in a profit and loss statement but have broad and practical implications for interventions aimed at raising peoples' income earning capacity and should be considered very seriously. Opportunity costs are the returns foregone by choosing to use economic resources such as time, labour or capital in a particular economic activity instead of in other activities. The return which the other activities would have yielded is the opportunity cost.

The main asset or resource of very poor people is their labour. The use of this labour in a particular income generation activity may yield a return e.g. a wage, but it is crucial to ask the question 'what would they have earned otherwise?' This is particularly important when a new job for a poor person is created. As discussed in Part 1, many outsiders falsely perceive poor people in urban communities to be unemployed, and thus underestimate the opportunity costs to those people of the newly created jobs.

Returns from labour

Skill training is a common form of income generation intervention aimed at improving returns from labour. It is more than an extension of education, being explicitly aimed at preparing people for economic activity. The crucial question for those who support skill training initiatives with the aim of enhancing peoples' income earning capacity is whether or not training in this skill will actually help the trainees increase their income. Many training organisations only question the usefulness of their training when they realise that their graduates are not finding jobs or making use of their skills in a productive way. (Training is also discussed in Part IV.)

In Rwanda, NGO-supported government schemes train large numbers of male school-leavers in basic carpentry. After being trained the boys can find nobody who will employ them and there is very little demand for the furniture products they are equipped to make. In this case, an overstocked and intensely competitive market has been created in which, as would be expected, those few who are

lucky enough to find work discover that the returns for their labour are extremely low due to the excess supply of people with their skill.

II.3.i Sustainability and dependence on aid

There is continuing debate in development circles about the sustainability of aid and on how long donors can or should sustain their subsidies or funding for programmes. The emphasis here is on the different, but linked, question of the sustainability, i.e. continuing viability, of an economic activity. A central aim of an intervention that has prioritised income generation in its objectives should be that the economic activity will eventually be able to survive completely independently of aid or subsidy in any form. Otherwise, the intervention will remain a welfare hand-out, leaving the participants dependent on the interveners and vulnerable to the cessation of aid. This undermines them both economically and socially.

People who support economic activities often fail to recognise that this support may constitute a subsidy to the activity. A subsidy can be defined as anything which artificially increases the returns from the sale of goods or services or reduces the cost of their production. The provision of free or cheap capital, paying salaries for the management of a project, free training or advisory services, or the free use of an intervener's time as an adviser, trainer or fundraiser are all ways in which interveners can effectively subsidise an economic activity. This kind of subsidy is often ignored or underestimated, yet is a crucial consideration for interveners who wish to extend their activities and for income generation schemes aiming at independent economic viability.

In Ahmedabad, India, a co-op was established with the support of a local NGO. This support has continued with varying intensity for almost ten years. The NGO's project officer with responsibility for the co-op spends most of her time working with them, trying to arrange market outlets, helping to develop and maintain a book-keeping and accounts system, assisting with management decisions and looking for funders. The substantial costs of the project officer's time and overheads are born by the NGO and constitute a considerable subsidy to the co-op.

There are two ways of looking at situations such as that in the example above. The first is from the NGO's perspective, which is that this project is a drain on its resources. This often leads the NGO to consider the sustainability of its aid to the project, and even to contemplate withdrawal of support, for the demands of this project may limit their ability to support other interventions. From the point of view of the co-op the subsidy may, if not very carefully costed and thought out, significantly weaken their potential to achieve long-term, independent viability. The salary and other costs of the project officer's work in Ahmedabad represent a substantial proportion of the co-op's turnover, and amount to more than its current operating 'profits'. The officer aims to assist the participants in developing their own management skills but this is not happening. The unacknowledged subsidy and the security it gives seem to have removed the incentive for the co-op to tackle commercial difficulties critical for its survival as an independent producer. Some progress has been made in ten years of support but independence from aid is still not seriously envisaged.

Of course the avowed purpose of most interventions is to give some sort of free support to poor people. It is crucial however to give the appropriate type of support (given the intervention's objectives) for the appropriate time period, recognising that the priorities of an intervention may change over time and that resources are limited. It may be that the subsidised activity, for example training in assertiveness, literacy or accounting, will not immediately increase the profits of the intervention, but will do so eventually through more effective working. On the other hand, a subsidy may be given in order to achieve social goals that will not assist income generation; and this may actually delay sustainable economic independence by using resources that would otherwise be committed to improving economic performance. Interveners and participants must discuss the purpose of the subsidy, how long it can be maintained and whether it assists the achievement of economic objectives. If economically viable income generation has been defined as the priority aim of an intervention then a subsidy that delays progress towards this goal must be very carefully assessed and probably discontinued.

Having agreed on the objectives of a subsidy, a time limit must be set in which these objectives are to be achieved. If this deadline has not been met, the objectives must be reviewed and whether to continue the subsidy or not critically assessed. Subsidies should preferably be costed and reflected in the accounts, so that expenses are realistically calculated and false optimism concerning the viability of the business avoided.

In some cases, subsidies are continued because the desire to provide an 'income' to the participants overrides any effort to work towards long-term, viable income generation. The intervention then becomes nothing more than a disguised channel of welfare, rendering participants dependent on the interveners for their income. This can undermine the control people have over their own lives, reduce self-confidence and discourage efforts towards economic viability, and finally leave the people involved and their economic activity even more vulnerable when the intervener eventually withdraws support.

In Addis Ababa a women's leather-working co-op illustrates many of the features of an economic activity that has been excessively sheltered and insufficiently geared towards economic viability. The women were offered fixed salaries, free premises, free training, free materials and an externally paid manageress, yet the co-op was not commercially successful because there was no serious attempt, by management or participants, to aim for genuine profitability. For example, instead of working to develop their own skills, an extremely expensive leather-cutting machine was provided (by an aid donor of course!) to 'solve' the problem of low quality finish.

In the final analysis this project is simply a drain on a wide range of aid resources. The intervention has done very little to improve the women's skills, whether manual, managerial or organisational, and if aid was withdrawn the women would be little better able to earn a sustainable income than they were originally. Distributing the money used to pay the direct costs of this operation in the form of welfare hand-outs instead, would have provided the women with more cash, with considerably less effort and opportunity cost. Clearly the situation has only been made possible by the large amounts of 'soft' aid available from foreign donor agencies.

The setting of time limits on support to economic activities is one of the major discussion points in interventions. Each case will be different and attention should be focused on assessing what sort of support individual income generation programmes need to become viable in the long term, followed by appraisal of progress in this direction. If an agency is not capable of undertaking this sort of assessment then it should develop the ability to do so, or avoid funding income generation interventions altogether (see Part II.4). It is always important to be realistic and honest with intermediaries and participants concerning the sustainability of funding. Time limits are necessary, but they must be based on reasonable appraisals, carried out together with the participants, of individual programmes.

The existence of many willing donor agencies (often with large and open cheque books!) can be a problem in this context; when aid recipients, particularly intermediaries, become skilled at acquiring funding they can become lax in their efforts to encourage economic activities to become viable and sustainable. It becomes easier to obtain aid than to make profits.

II.3.ii **Reasonable expectations**

It is quite common for interveners to have excessive expectations of the improvement in income that will result from an income generation intervention. Even a marginal improvement in the income of extremely poor people can be of immense significance to them. Not taking this objective seriously is very often the basis of failure to achieve it.

It is also common for interveners to have high expectations of business success, and to take this for granted as easily attainable. If, for example, one considers that in Britain only 50% of all new small businesses survive for two years, then one's expectations for the success of new ventures in the often more competitive and 'cut-throat' economic environment of Third World countries may be modified. Expecting every venture to be eventually successful can also lead to interveners continuing to support projects which are unlikely ever to become viable. Economic reality is such that success, in terms of a sustainable increase in income, cannot always be guaranteed no matter how well the intervention is organised. By adopting unrealistic goals which they encourage participants to share, interveners risk, when expectations are not fulfilled, finding themselves in a relationship based on guilt, and feeling that it is their responsibility to continue to provide an income to the participants.

II.3.iii **Professionalism and compassion**

When the compassion of interveners becomes pity, a relationship of charity rather than more objective support for self-help tends to arise which hinders attempts to achieve increased, sustainable incomes.

This sort of relationship can sometimes evolve during a history of contact between the interveners and the participants. The interveners often appear as people who give things away freely, such as relief food and other necessities to people in emergencies, or equipment and resources to education and health projects in less dramatic circumstances. Any income generating intervention built on such a relationship risks being seen in the same welfare light.

Such attitudes ignore the reality of the market place and the power structures which create and sustain poverty. It is not the responsibility of interveners to provide an income for poor urban households — that is their own responsibility. What interveners can do is to try to reduce the constraints on poor people's efforts, and to help them enhance their ability to attain a better livelihood. In the end the poor must depend on their own efforts to survive, and development interventions must contribute to the success of their struggle in the long term. Ultimately, professional development work should aim to reduce dependence on charity.

A small group of women in Calcutta are involved in an income generating programme, providing a catering service to a school. Several of the participants are in distressing personal situations, and one of the members of the group in particular is suffering great hardship. Her husband used to part-own a small kiosk, but lost his share through being cheated by his former partner. He has become severely depressed and no longer works, but expects her to look after him. They have two daughters, one of whom they were managing to put through school to become a secretary. This daughter recently became severely ill and will at best be able to work part-time in the future. The small income that the woman earns as part of the group is of great significance in the survival of the whole family. The group hopes to expand the catering business in order to improve their incomes.

They are being organised by a middle class woman who has devoted all her time to establishing a self-sustaining economic concern. It would be all too easy to let the immediate needs and severe problems of the participants override longer-term goals, but the group has decided to retain its key objectives of viability and independence from aid. What they need is not sympathy or pity, nor even necessarily money, but sound advice and assistance on how to achieve their goal (see Part III and Part IV for more on these issues).

Because poor women face so many interrelated problems, income generating schemes targeting women frequently face the dilemma of welfare versus self-reliance. In many of these schemes there is a relationship between the interveners and the beneficiaries which has been built up before the scheme was initiated. The relationships may be formed in the course of programmes concerned with emergency feeding, health and family planning, primary, secondary or adult education, or women's groups, and is often based on a welfare approach. Such an approach, coupled with perceptions of women as unable to cope successfully with income earning, may well result in an intervention which serves to reinforce the difficulties women face rather than challenging them.

II.4 **Preparing to support income generation**

People involved in income generation interventions include those working as managers, advisers or trainers, and those providing less interventionist support such as credit or business services. All of them have a significant influence, yet many have little knowledge or experience of the economic reality facing those they try to help. They tend to be trained in various social sciences and have experience in social, educational and health work but seldom in business management or economics. This is one of the main problems in developing useful income generation initiatives.

In addition, many of the individuals and groups are comparatively new to this field and rarely have experience of different types of income generation interventions. In short, a high percentage of the people who have become involved in income generation are lacking in appropriate skills or experience. One way of overcoming problems of inexperience or lack of expertise in income generation interventions is very obvious: to avoid becoming involved with them! If the distinctive competence of an organisation really lies in other areas of work, very considerable changes are likely to be required if useful support is to be given to income generation.

If it has decided to proceed with income generation interventions despite a lack of hard experience, an organisation must have a clear idea of its capabilities — to understand both what it does not know and what it needs to know. This will mean preparing in three ways:

— institutionally, focusing on monitoring and evaluation processes and on institutional learning;
— by personnel development, including both formal and informal training;
— by contracting in outside help, knowing how to do it and who to use.

Institutional preparedness

The process of institutional learning requires a conscious effort to ask questions about the objectives of interventions, the effectiveness with which these objectives are being achieved, how this could be improved and the organisation's ability to respond to the conclusions of such deliberations. At the heart of this is the necessity for positive self-criticism.

An organisation must carefully monitor its work and gather information relevant not only to the success of the current project but also to an improvement in the organisation's work in the future. Learning from experience can be crucial in the development of appropriate interventions. For example, vocational training schemes should carry out follow-up assessments of the relevance of the training to the trainees, and their subsequent success in the labour market. Credit schemes should measure the impact the loan has had on the enterprise, asking: Did it stimulate business and profits? How did repayment work out? How effectively were capital funds recycled in a revolving loan scheme? and so on. Genuine feedback processes are a crucial part of any organisation. Depending on the exact nature and scale of an intervention, and how close the relationship between intervener and target group, simple ways to appraise progress by monitoring, evaluation and feedback are possible.

Learning from other organisations is also important. It is astonishing how many organisations are busy 're-inventing the wheel'. Credit and savings schemes, including revolving loan funds, are a good example of a form of intervention of which there is abundant experience, often in the same area of a country, yet the interaction between those with experience and those starting new programmes is minimal.

There can be quite serious constraints on organisational learning. Even when an organisation has good critical feedback on the effectiveness of its work, it may find response difficult. For instance, small organisations are often dependent on one or two key people who may be highly talented and charismatic, but poor at delegating responsibility, and who find it difficult to admit to and learn from what they may see as 'personal' failures, and who have little interest in building up the abilities of other staff. Even in large international organisations people find it hard to distinguish between professional recognition of weaknesses, or mistakes in approaches to work, and personal criticism. Personal interests and relationships often obstruct an organisation's attempts at self-criticism and learning from mistakes. It is essential to foster an atmosphere of openness and a willingness to learn, and also improve mechanisms for communicating and discussing critical ideas.

The explicit recognition on the part of the more influential members of the need to be open to positive criticism can go a long way to bringing this about, but often particular stimuli are needed to encourage it. Specific periods set aside for meetings, perhaps outside the office, to review in a relatively unstructured way the operation of the group may help. Using outsiders less influenced by the personal relations within the group can also stimulate self-appraisal.

An Indian NGO which had been operating in urban areas for over 15 years had drifted into a way of working which, for the intended beneficiaries, was ineffective. The project officers were involved with a few projects each and rarely communicated with each other; their thinking about the groups they had been supporting (or propping up), in some cases for as long as 12 years, was stale. They had not discussed the fact that the costs of their labour and overheads for some interventions were higher than the amounts of income these activities were generating, yet the groups involved were showing no signs of becoming any more independent or profitable. When an external facilitator was asked to review some of these projects, serious questions about the effectiveness of the NGO were raised and the President of the organisation took this opportunity to stimulate a heated debate about the state of the NGO. This had the effect of rekindling a self-critical spirit in the group.

Personnel development

Many interveners ignore the fact that development of their own and intermediary organisations' personnel can contribute even more to development processes than physical capital investments. Attention to training and improving people's skills and managerial abilities can be very effective but requires a long-term perspective.

At present 'training' is a fashionable answer to many development problems. However, where there are weaknesses in performance it should not automatically be assumed that this is the consequence of a lack of training. The actual cause might be some other fault in the organisation — a deficiency in method, organisation, equipment, work system, procedures or morale, for example. It is obviously important to identify the cause before trying to remedy it.

Where the weakness in an organisation is due to lack of training, the objectives of any training implemented must reflect actual identified (not assumed) needs. Interveners frequently omit to ask how relevant the particular training is to the needs of the job, or even to establish clearly what the needs of the job actually are.

The ability to understand the workings of a business improves with experience and it is possible to build this up by on-the-job learning. For instance, if someone with management responsibility has to meet buyers of goods produced by the group, the person who is learning marketing procedures should attend the meetings and gradually be integrated into the discussions and decision-making. Formal training for staff is also useful.

Accounting is an area which often causes major stumbling blocks for group projects, and staff from intermediary organisations have difficulties in explaining simple principles of book-keeping to participants. Time and finance must be made available for a planned learning process, entailing both formal training and informal learning. Placing people in similar organisations to gain experience or perhaps learning-by-doing from temporary hired specialists are valuable ways of developing skills and understanding.

Contracting advice and other services

It is essential to ensure that consultants brought in to advise on income generation initiatives have genuine, appropriate experience of work with the type of business being assisted, and not simply academic qualifications. The apparently obvious idea of talking to local business people in the same line, or hiring their services for a short period, is rarely considered. Such people may not be able to write the kind of reports donors usually receive from consultants, but they are likely to be able to make recommendations appropriate to the local economic environment — something which outside 'experts' are not always good at! (See Section III.2.3 for more on this topic.)

II.5 The development of participant responsibility and initiative: real participation

Poor people are usually rich in initiative. In spite of considerable disadvantages, they still manage to create some sort of income out of very few resources. The most effective income generation interventions place responsibility for economic decisions with the participants and thus give them the means to develop initiatives and to put their experience and knowledge of the complex economy of their area into practice. This contrasts with projects and programmes where the intervener sets the agenda and retains control, smothering initiative, confidence and independence.

The Grameen Bank in Bangladesh has established a credit and savings structure which places the responsibility for the success or failure of the loan and the economic venture it supports unequivocally on the shoulders of the participant. The use of funds is generally for activities familiar to the participants, often simply replacing existing sources of credit, on better terms, for activities already being undertaken. There are also many new economic initiatives. The system of giving loans to a group of borrowers in rotation i.e. some people have to wait until other group members have repaid loans before getting their chance of a loan, leads to careful assessment by the whole group of the likely success of the individual ventures. Where bigger investments take place there is more advice and appraisal available from people who have received careful training; these are generally local people, either full-time employees of the Bank or part-time near-voluntary assistants.

The Self Help Handicraft Association in Calcutta is an example of a group which has placed the idea of participant responsibility at the heart of their very successful co-operative. Two particular aspects of their approach exemplify this: firstly, they have established that the quality of their produce (mainly clothing) is determined by the standard of their work at every level and have set up a system of quality control which is clearly understood by all the 40 or so members; secondly, they have themselves taken on managerial responsibility after an initial period under the managerial control of a donor agency. Their experience with this first donor agency was not economically successful. Recognising this failure, they handed over responsibility for control to another NGO, a local intermediary which endorsed the participants' aim of independence. The role of this new intermediary in management was initially quite substantial (and is still important in the area of marketing) but the gradual take-over of managerial responsibilities by the participants is nearing completion. The group is economically viable and essentially self-managed.

In both the examples above, the responsibility placed on the participants not only helped to develop more effective participation in the activities but actually contributed to the economic success of the various ventures involved. With this in mind interveners must ask how they can encourage participants to take responsibility for their own economic ventures, and devise appropriate ways of supporting them. However, the advantages of such an approach go further than the economic success of the venture. There are significant benefits in more general development terms for both the interveners and the participants. The interveners gain by the release of their own resources for other programmes; the participants gain a sense of personal and community empowerment, develop wider organisational skills, and avoid dependency on interveners.

II.6 Income generation interventions with women

If the ultimate goal of an intervention is the empowerment of women, it must be recognised that this is a complex issue, affected by many different factors. As the diagram shows there are many points in the cycle of women's poverty where intervention can be effective. Enhancing women's income earning capacity, particularly when the women are controlling the economic activity or where they have higher value in the labour market (therefore better bargaining power), can be of great significance. Genuine economic independence is, for many poor women, central to their empowerment. If women participants state that income generation is a priority objective this must be given priority in resource allocation so that adequate time, effort and money can be given to this task.

In North-East Brazil a women's co-operative producing woven rugs was initiated by a middle-class woman. The aim was to use the waste material from a textile factory some miles from the participants' homes but neither the interveners nor the participants had much, if any, business experience. The objectives of the project were strongly imbued with the aim of women's empowerment.

After several years of basic business problems — low sales, stockpiling, high costs, considerable need for subsidies — the enterprise was still far from becoming economically viable. Particular problems arose from inadequate management by 'expert' outsiders who did not take the steps necessary to prepare themselves to offer useful support to the economic side of the venture, and who, after considerable initial efforts became discouraged by continuing economic failure. Funding for the project may now no longer be available from the donor aid agency and the relationship between the interveners and the participants has soured.

The women themselves still feel a sense of empowerment. Their incomes have not risen, their workload has gone up, but most still retain a positive attitude. Some of them can drive the truck, some have overcome opposition from their husbands over selling in distant

marketplaces, and all express a general sense of strength derived from working with each other. The question arises as to how much better the results might have been if the project was economically more successful; if, for example, the interveners had started with a realistic assessment of the problems which had to be faced, and if they had equipped themselves to lay a solid economic foundation for the group.

Income generation interventions for women tend either to accept women's social position as unchangeable, ignore this issue altogether, and have narrow objectives of simply providing incomes; or at the other extreme, to have very ambitious expectations of transforming women's lives. Inappropriate expectations stem from a misunderstanding of the complex and powerful forces working against poor women and it is vital to make the effort to learn about these forces in depth. Women must be enabled to identify their priority needs through a process of participative consultation and, together with the interveners, seek a realistic way towards meeting those needs.

Low expectations

The low expectations of some interveners are often based on an acceptance of women's social position and a p/maternalistic image of women as having little potential in society except in the roles traditionally ascribed to them. The main criticism of this approach is that control and management by outsiders, often men, does little or nothing to tackle the underlying causes of the women's lack of power and status. By not helping women to develop managerial, technical or organisational skills and by not tackling more fundamental gender issues through, for example, awareness raising, these programmes confirm and entrench existing biases against poor women.

Vocational training institutions can often be criticised for the same reason, tending to channel young women towards skills which fit the stereotype of a married woman whose income earning activities are supplementary to her husband's. The need for women to earn significant incomes in their own right is too often ignored. Thus, instead of institutions geared towards developing marketable skills, we find innumerable training centres for young women which not only concentrate on traditional home-centred skills, but take little account of the actual demand for those skills and thus their likely potential for providing an income. The central motivation behind these projects may even be to 'keep young women busy', or to 'give them useful skills when they are married'. Traditional women's skills, such as sewing or cooking, can certainly be lucrative in some circumstances but it is the awareness of these circumstances which is important. In short, if the training is not consciously aimed at enhancing income then it is only by accident that it will do so.

High expectations

On the other hand, expectations of women's income generation interventions may be ludicrously high. A rapid transformation of the lives of the women participants is a not uncommon objective, the aim being to overcome in a short period both the poverty and the gender-based discriminations which women face. However, overturning centuries of social and economic bias, especially when deeply engrained in the thinking of the women themselves, is unlikely to be achieved quickly. Moreover, excessive expectations can undermine the achievement of more limited objectives which could then have built up security and confidence from which to launch more far-reaching changes.

Simply because the problems women have to face are so acute, interveners are sometimes tempted to try and make income generation interventions carry a bigger load than they can possibly bear while still remaining viable. Poor women are often seriously lacking in skills with which to compete in the labour market, and in management and organisational skills, as well as facing other personal gender-related difficulties such as a lack of confidence or assertiveness and isolation. Training can have a significant role, both in increasing the effective working of the venture and thus the economical returns, and in strengthening the confidence, skills, understanding and mutual support of the women. However, effective training, even for a few of the participants, is usually a slow and costly process. In a successful women's producer group in Calcutta, for instance, it took several years to train someone who was initially innumerate to become a book-keeper.

Training for skill development can be costly in two ways: firstly in the direct costs of funding people as trainees and trainers, and secondly in terms of the impact on the business efficiency of the operation, at least initially. Overemphasising management by participants early in a new venture may undermine the potential of the venture to become viable. When going about this process of training and involving participants in management it is helpful to separate in the interveners' minds (and in the accounts books) the objectives of profitability and personnel development. The costs of training or 'awareness raising' should be separated out from other costs and if possible funded from either

John Ogle/Oxfam

Tilaknagar Association for People's Development brought women together to set up a community health scheme and discuss the issues facing women and to press for government entitlements. The women themselves thought of starting an income generation programme; one of their activities is preparing pickles. Here, members of the group weigh pickles for sale.

earmarked funding or from profits, so that costs of personnel development are clear and progress towards economic viability can be realistically assessed.

Broader social goals such as awareness raising, confidence building, and training in skills such as literacy and accounting, may be incorporated into the objectives of the income generation intervention both for social reasons and because the economic performance of the venture will be enhanced in the long term. The participant women will work much more effectively, understanding the reasons for the systems they work and able to develop the venture usefully, if they have been encouraged to develop their skills and self-confidence. However, care must be taken that the priority given to achieving economic viability is not downgraded or neglected in favour of other aims. There must be continuing consideration of the priorities of the intervention in free and open discussions between participants and interveners.

If women wish first and foremost to increase their income, then putting time and money into other objectives that may only marginally assist income generation is questionable. It is very easy to claim when an enterprise is failing commercially that the losses are justifiable because the process is building up skills or fulfilling some social objective. When a venture fails to achieve their goal of increased income, the effect on the participants is damaging and demoralising. They have committed their time and effort (the opportunity costs of which may have been considerable) to improve their incomes, and failure is likely to have a far more profound effect on them than on the foreign donor agency, NGO intermediary, or salaried project manager.

A foreign NGO development agency funded a women's group in Tanzania to set up a co-operative shop. At the time, Tanzania was undergoing acute economic stress in the wake of an IMF 'adjustment' programme, a factor one would expect to have been taken into account by the agency if it had made a proper economic appraisal of the project. The shop was unable to obtain the goods it had intended to sell, and was destined to inevitable failure. The foreign NGO's representative, a local woman, felt this was of little importance, as the women now had 'an understanding of the effects of the IMF and international economics on Tanzania'. The feelings of the women themselves about the failure of the project have unfortunately gone unrecorded!

How and where to intervene

As we have stressed, the forces working against poor women in developing countries are both complex and powerful. Alleviation of poverty by way of welfare hand-outs does little to help in the long run, particularly when such support cannot be guaranteed by most developing country governments. It is better to give assistance to women to help them become capable of securing a reliable income by their own efforts. The question is how best to break into the cycle of poverty to support such a process?

The table overleaf shows many of the types of interventions aimed at empowering women, and highlights (*) those aimed directly at increasing women's incomes. Incomes can also be improved by actions not in the economic sphere, such as health and family planning services for women or creches for their young children, which can enhance their ability to work. Organising to campaign or lobby to attain legal rights or access to state services can also be an effective way of indirectly increasing incomes.

These other activities can be a very valuable complement to income generation interventions. The Self Employed Women's Association in Ahmedabad in India, for example, combines a bank for poor women with lobbying and trade union activities. The provision of creche facilities for full-time working mothers can be of enormous benefit, as can the creation of an emotionally supportive environment, especially for women who have suffered abuse or severe emotional problems.

In income generating interventions with women it is crucial to consider who spends the income generated, and who bears the costs. Often women themselves do not control their own income; husbands, fathers or even pimps take all or a large part of it and do not use it to the woman's, or even the household's benefit. The costs involved in taking a new job for a woman with dependents may be substantial. In the worst situations a woman may have major costs and few or no benefits. Interveners should remember that women may be being pressurised into working and be gaining little for themselves or their dependents by doing so. There are ways to overcome this but none of them are particularly easy. For example, saving systems could be established which women can draw on only for important expenditures such as health and education needs, social occasions (funerals, weddings, celebrations), or bulk food buying, or incomes might be given in kind. Generally such situations will also require direct action, including awareness raising and support to women trying to retain control of their income.

WOMEN AND THE CYCLE OF POVERTY

Barriers to empowerment...	**Interventions**
Sexually ascribed roles from birth ...	equal education, awareness raising
No access to capital...	*changing bank credit and savings systems**, changing control of assets and inheritance laws, *setting up credit and savings systems*, job creation projects**
No access to economic skills/experience...	*market oriented and appropriate training**, advanced education for women, awareness raising, exposure to outsider relations and responsibility in economic sphere, *business and co-op advice/support systems (technology, etc.)**
Biases in social relations...	countering sexual harassment and physical brutality in and outside the home, changing government and other institutions' approaches to women, changing the dowry system
Biases in political and economic relations...	challenging market place restrictions, helping women to cope with sexual bias in marketing, challenging unequal economic relations up to the international level (trades unions, pressure groups and political movements, etc.), *group and co-op production and services to producers**
Economic dependence on men/marriage...	women's support groups, creches, alleviating domestic chores (water gathering, stoves, etc.)
Poverty, illness, high fertility...	health services, family planning, welfare, *income generation projects**,

And a new cycle of poverty..........................

* *income generation interventions*

(This diagram is not intended as a complete analysis of women and development but it indicates many of the types of interventions which attempt to break into the cycle of poverty. While some of these could be characterised as income generation interventions, many others have a more indirect and secondary effect on poverty alleviation.)

CONCLUSIONS

1. Most interventions have both economic and social objectives, and these must be carefully balanced. Where income generation is an agreed objective it must be given clear commitment and sufficient resources for it is not easy to achieve, especially for poor people in Third World cities. Social objectives should not be allowed to excuse poor economic thinking. It is vital to discuss openly with participants the interrelation of social and economic objectives, and to give prominence to participants' priorities. Objectives may change over time and this should be recognised.

2. Careful attention must be given to the implications an income generation intervention may have for the community. Ventures established where the market for the service or product is not expanding may push down prices for all local producers. It is vital to understand the local market and who will be affected by increasing competition; it may be other poor people. Divisions and inequalities within local society may be exacerbated, and this may undermine other development projects. However, interventions may strengthen existing community organisation.

3. Interventions may sometimes cause increased pressure on employees or household workers and may reinforce existing inequalities of work, power and benefits between the people involved.

4. Systems of accountability in group operations are crucial, and participants must have the ability, confidence and opportunity to challenge management decisions. Interventions can help participants to develop skills, self-confidence and awareness, although these aims must be carefully balanced with that of income generation. Social organisation developed within the venture can strengthen progress towards economic viability and may remain as a benefit if the venture fails economically; however, income generation interventions may not be the best context in which to start to build a strong base for social organisation, while economic failure may also undermine any social achievements that have been made.

5. Income generation may be used as an entry point, to overcome external, social pressures in order to gain access to a group of participants and then prioritise a different objective. This should only be done in consultation with the participants, and if they prioritise income generation, attention should not be diverted from this aim.

6. When the primary objective of an income generation initiative is to provide a service, the aim should be a sustainable service, that does not depend for its continuance on interveners' resources.

7. When income generation initiatives are introduced as fundraisers for

other activities, it is important that the venture is not undercapitalised and the operations of fundraisers and spender kept separate, especially managerial responsibilities.

8. Interventions can only raise participants' incomes by increasing their profits or the returns from their labour. Profitability is essential if a venture is to be viable. Accounts are important tools to analyse the profitability of a venture, although small groups may not need to produce full accounts. Opportunity costs are the costs foregone by choosing to use economic resources in one way rather than another. The main resource of poor people is usually their labour and it is crucial when introducing an income generation initiative to consider what other activities this labour might have been employed for, and the economic and other benefits foregone from these.

9. The economic activity should aim to become independent of outside assistance, thus freeing the participants from vulnerability to aid cuts and the interveners' resources for new interventions. Subsidy, direct or indirect, must be recognised as such. Objectives and time limits must be agreed for any subsidy, and strictly assessed and reviewed.

10. Interventions often underestimate the difficulties in achieving a sustainable increase in income for participants. They therefore give this objective insufficient effort and resources. Realistic appraisals of new ventures are vital, as are the skills and experience with which to carry them out.

11. Income generation interventions must support the efforts poor people make to earn an income, not take responsibility for providing it. Where interveners and participants first come into contact through welfare programmes, in emergencies or otherwise, there is a danger that subsequent interventions will be seen in the same welfare light and a relationship of dependence develop.

12. Many interveners involved in income generation are seriously lacking in appropriate skills or experience. Organisations must prepare themselves accordingly or decide not to become involved with income generation. This means preparing institutionally, to monitor and evaluate interventions against objectives and to establish mechanisms for positive self-criticism; by personnel development through formal or informal training; and by contracting in outsiders with appropriate skills and experience.

13. Participants in an intervention should be give a large degree of responsibility for the success or failure of the venture. Allowing them to use their initiative, ideas and knowledge of the local markets and community can contribute to the economic success of the venture and it

also encourages independence and self-confidence.

14. Enhancing women's income earning capacity, especially where they control the economic activity, is for many women central to their empowerment. Income generation interventions with women have to face all the problems discussed above but the social and economic position of women, and outsiders' perceptions of them, mean that the problems are often greater than those facing income generation interventions with men. Expectations in womens' income generation interventions may be set too low, if interveners assume women have little potential in society except in roles traditionally ascribed to them. It is often assumed women will be supported by men and the need for women to generate an adequate independent income is not recognised. Expectations may also be set too high.

Because the problems that women have to face are so acute and varied it is particularly difficult to balance social and economic aims. Women are often seriously lacking in technical, managerial and personal skills with which to compete in labour market and developing these skills takes time and money. Women must be fully involved in decision-making and setting objectives so that an intervention will address their primary needs. Opportunity costs are often significant for women; their existing work, both inside and outside the household, is often undervalued. The social implications of the intervention are very important; women may not have control over the money they earn. Womens' empowerment has many aspects and income generation interventions are only one among many ways to support women, but if gaining a better income is a priority for them, to neglect that objective is to fail them.

PART III

GUIDELINES ON BUSINESS ORGANISATION

III.1 Introduction

If interveners are to give effective assistance to people working to overcome urban poverty, it is essential to challenge with them the powerful social forces which create and sustain inequality. However, it is not enough simply to look outwards. Both interveners and participants need to look critically at the strengths and weaknesses of their own organisations, and to avoid the temptation to blame lack of success solely on the power of external forces. To achieve a sustainable increase in income for the participants is by no means an easy task. Effective interventions require concentrated attention to good economic organisation and practice, but many interveners underestimate the importance of this. This chapter focuses on some of the essential elements of good economic practice and discusses some basic business and organisational principles relevant to all activities aiming for income generation, whatever their size. It stresses the importance of careful economic appraisals for new investments and advises that a market orientation for the goods or services being produced or traded is nearly always the most appropriate emphasis for such appraisals. In Part III.3 several principles of management are presented, and in Part III.4 book-keeping and financial accounting.

Part III is relevant both to people directly involved in running the economic activities and to those less directly involved who provide specific support such as credit, skill training or funding. Funders, for example, must understand the needs of a production unit in order to decide appropriately on a particular grant request. The predisposition of funding organisations to fund visible, tangible things often invites requests for money for capital goods and equipment without adequate appraisal of needs. Trainers, too, must appreciate business and group organisation in order to provide the most appropriate training.

III.2 Appraising new income generation investments: feasibility studies

Many income generation interventions support new investments in economic activities. All new investments, from the single street trader who considers a new business selling mangoes, to the new capital-intensive group project which employs 30 people, need some sort of economic feasibility appraisal, whether this is formal or informal. Essentially, this entails looking in some detail at the component parts of the question: will the goods or services produced or traded sell at a reasonable profit?

Answering this question, especially in highly competitive and easily disrupted markets, means speculating about a future which cannot be predicted perfectly. However, appropriate feasibility appraisals of the proposed new venture can significantly narrow the margins of error and ensure a better chance of successful income generation. All too often when economic problems beset a venture, their roots are found in bad decisions made early on in the planning stage. The role of interveners must therefore be to insist on an appropriate initial appraisal and to assist in this by giving or funding appropriate advice and training.

A woman thinking of selling mangoes from a road side calculated that buying 100 mangoes from the wholesaler at 1 rupee each and selling at 1.25 rupees each would make a gross profit of 25 rupees, if they are all sold in one day. If she borrowed 100 rupees from a local moneylender at 5% daily interest, her profit would fall to 20 rupees. Experience tells her that on some days she may not be able to sell all the mangoes — perhaps the police or municipal authorities may move her on or the weather may be bad — so she risks lower profits because two-day-old mangoes may not sell at 1.25 rupees. She may thus make only a small profit from a long day's work at the side of the road. However, after looking at the options available to her this may well be the best one — she has in effect appraised the investment and although such appraisal is informal, it is nonetheless important, and in fact generally effective. Help with such assessments can be extremely useful, and is often built in to interventions such as rotating group loan schemes that encourage people to work on appraisals together.

III.2.i **Failure to carry out feasibility appraisals**

Attempts, by interveners or participants, to appraise the potential profitability of a new economic activity or investment are often superficial, too hasty, or even non-existent. There are many reasons for this. Very often participants do not concern themselves with the potential profitability of a new venture because they are not included in decision-making or given any responsibility. Participants in employment creation schemes, for example, have little reason to ask about profitability, except in terms of the long-term sustainability of the project, as they are rarely given the opportunity, or the necessary information, to be involved in planning the activity. They tend to assume that it is essentially a welfare scheme and that the interveners have a responsibility to pay their wages, almost regardless of profits. In comparison, where there is a strong and genuine group initiative, the profitability of the economic activity will be the concern of all the members. Similarly, credit schemes giving clear indication that loans must be repaid encourage borrowers to take responsibility for their initiative and therefore to consider seriously whether they are likely to earn a profit from the use of the money and to appraise and plan their venture carefully.

Interveners also often fail to undertake adequate appraisals of new ventures. Time is frequently cited as a major constraint (with displaced persons or refugees for example), while many interveners simply do not have the experience or knowledge of business and commerce to undertake useful appraisals of the investment's potential viability. There are, however, some quick and simple ways of infusing an intervention with market analysis, and training the staff of the organisation to undertake informal appraisals will enable them to ask the right questions. However, where objectives are confused and profitability and eventual viable independence are not the primary aim, careful economic appraisal will not be encouraged.

Many economic projects begin in 'emergency relief' situations. Whether in times of widespread economic disaster or when a small group of people suffer particular set-backs (e.g. a factory closure), many interveners find themselves entering into part relief, part income generation interventions. These interventions often explicitly accept a high level of subsidy or a barely hidden welfare intent. This may be justifiable at the time, but in all such interventions there comes a point when the emergency circumstances end and the programme must either be dropped or put on to an economically

viable footing. Otherwise, there is a risk of excessive dependence on charity. It is at this juncture that economic feasibility must be appraised.

III.2.ii **The need for a market approach**

When undertaking an economic appraisal of a proposed investment it is essential to assess not only the internal organisation of the activity but also the markets in which it will operate. This means looking closely at the relevant input and output markets and adjusting the economic activity in order to make better profits. Too many initiatives attempt to fit square ideas into round markets instead of seeking a hole in the market and shaping a production idea around available skills and materials to match it. It is inevitable that the profitability and viability of all economic activities will be determined by the nature of the existing markets. It is therefore essential to take this into account when initiating a new investment.

Failure to undertake market-oriented economic appraisals prior to new investment can result in the initiation of a venture which has little chance of economic viability. In many interventions, thought is only given to sales after the key decisions about production have been made. Very often the group then fails to find a suitable outlet giving a reasonable profit because their product is not suited to the market — perhaps the price is too high, the quality too low or the design or colour wrong. Many evaluations of income generation projects have found this pattern. A study of rural women's income generation projects in Pakistan, for example, highlighted the lack of a 'marketing approach' as the central cause of the poor performance of the projects assessed: 'Projects which did not realistically face up to the economic market factors surrounding them inevitably failed to provide rural women with better incomes'.

III.2.iii **Assessing other market constraints**

The suitability of the particular product or service to the available markets is not the only aspect of marketing that must be given attention in an appraisal. It is also vital to look at non-economic forms of market constraint, as these can seriously effect economic performance. For poor people in urban areas, markets, or more precisely the people controlling them, are not 'fair'. Both 'traditional' social and economic relations, such as women's lack of access to markets or caste restrictions on access to certain jobs, as well as more temporary systems of power linked to government legislation, bureaucratic influence and direct control of economic activities, are used to exploit poor people and constrain their initiatives. A market approach to appraisal helps to identify such non-economic constraints which may otherwise go unrecognised.

Such non-economic constraints are often very significant in intermediary markets. Income earning activities generally involve a chain of markets from the producer of the raw material to the final consumer. Urban ventures generally have few links with the producer of the raw material inputs and are almost always involved with an intermediary middleman or woman. Most very poor people, except some providers of services and small traders, will also have to sell to a link in the marketing chain. These intermediaries and their markets play a very important, but much debated, role in income generation. To some they are exploiters of the poor who control access to vital inputs or markets, while others see them as an important link in the economic system, who deserve returns for their investments. There is an element of truth in both views. Where there is exploitation it is often based largely on access to capital, to transport or storage facilities, but crucially the ability to exploit market relations is based on access to other forms of power.

There are several ways to decrease the influence of these constraints on income generating activities, for example by organising for bulk buying operations or trying to change government policy or social and economic relations. Support for groups of people with common interests (the self-employed, unions, traders' associations, etc.) in organising themselves to pursue such goals is often useful. It is important to understand that in urban areas, groups may be more effective if organised around economic interests rather than geographically. Whereas in rural areas the community, centred in one location, is the basis of the rural economy, in urban areas this is not usually the case, and groups made up of people in the same line of business but living in different parts of the town may be the most appropriate social network.

However, attempts to decrease the impact of unfair constraints on the economic initiatives of poor people must also be realistically appraised. It often costs more to market a product than to make it, even without several excessive 'cuts' taken by intermediaries in the marketing chain. Oxfam Trading, for example, reckons that on average the selling price of a product is seldom less than four times as much as the producer is paid, due to marketing costs such as packaging, labelling, storage, documentation, transport, customs and clearing charges, distribution to shops, shop costs and taxation. This ratio might be less if markets were closer to production sites but is in fact no higher than standard figures for commercial firms. Marketing costs and schemes to cut these must always be carefully appraised, for in some circumstances new 'non-exploitative' market chains may cost more than the old chain of middlemen!

Failure to undertake adequate market-based appraisal may well result in difficulty in securing consistent commercial sales, whether because the product is unsuited to the local market and the unit unable to adjust production to this market, or because the participants are being hampered in their selling by legal or illegal constraints. Such sales problems are often 'solved' by the interveners creating artificial markets, mobilising personal contacts to hold bazaars, fetes, and finding other charitable sales outlets, extending even to foreign friends carrying home goods in tiny quantities to sell in rich countries!

Charitable selling occurs when people establish non-commercial sales outlets for goods and services which depend on the goodwill of the buyers and not on economic considerations. The establishment of professional Alternative Trading Organisations which provide export outlets, mainly for handicrafts, while sustaining a commercial base is one of the better outcomes of attempts to create charitable markets for produce. In general there are two major questions about charitable selling:

The first is whether it is in the long-term interests of the producers to be dependent on charity. The key point is that while a 'soft' market may be useful to support a new venture in the short run and in 'relief' circumstances, it may well not encourage the independence of the participants or their venture in the long term. Charitable outlets must, like other forms of subsidy, be used with care and with a view to establishing more commercially viable outlets in the future. Such outlets may be useful while training is carried out or products developed to suit commercial markets — in order to support a venture while it improves its capacity for commercial viability and thus independent operation.

The second question is equally important: whether the considerable time, energy and money that interveners put into these marketing channels is an effective use of development resources. Many interveners underestimate the value of their own time and effort, and much of this low-return work could be avoided if there was more attention paid initially to marketing the products and designing them to fit the market.

III.2.iv **Guidelines on undertaking an economic appraisal of a new income generation investment**

Undertaking an economic appraisal of a new investment involves posing and attempting to answer some specific questions. In many cases the questions are obvious and what is essential is to ensure that the time and resources necessary to undertake a thorough economic appraisal are set aside, and that the venture remains sufficiently flexible and open to change to respond effectively to the findings of such an appraisal.

This section presents some of the most important issues to consider when appraising income generation interventions.

Who should do the appraisal?

For small private businesses it is nearly always best for the participants to undertake the appraisal themselves, although they will often be usefully assisted by a 'business animation' process that encourages them to ask the right questions about their business and to arrive at practical answers. This approach stresses in situ, on-the-job training, animation, extension and follow-up and tries to minimise classroom teaching.

For group projects involving a significant investment it may be necessary to hire someone to assist with or carry out the appraisal. Appropriate experience is essential, enabling the person to ask relevant questions and point out the likely problem areas for the venture. An outsider's opinion may act as a useful complement to insider efforts. It is important to ensure that the objectives both of the appraisal and of the venture itself are clear.

In urban areas there are nearly always people available with some degree of relevant experience, although searching them out may involve some effort. Professional consultants are often useful, but only those who have practical experience with smaller-scale economic development projects. Others, with experience of larger, more commercial businesses, tend to make formal appraisals following a formula designed for Western businesses and are often unable to offer much practical assistance in the very different context of small-scale ventures in Third World urban areas.

Also of great potential for assisting with appraisals are people involved in the same business, either as project activists or commercially. Strangely, the idea of asking such people to appraise new business proposals is one few interveners consider, yet local business people are likely to have the most detailed commercial knowledge of the area or sector. For example, a scheme to establish a grinding mill would benefit greatly from the experience of one of the many commercial mills commonly found in urban areas, to help with questions such as: Which type of machine is best? Is it easy to repair? Are spare parts available? Which grains or spices are easiest to obtain? What are the available outlets and their conditions, including price? All potentially vital questions for the viability of the venture, and easily answered by people already in the business.

In this connection, it is important for funders to develop grant application appraisal systems that are sensitive and practical. Some groups are adept at preparing proposals, yet weak when it comes to economic appraisal. They regard appraisal more as a means of getting money from donors than as a way of working towards long-term market viability. If funders rely on inadequate systems of appraisal based only on the forms submitted to them, they may underrate groups less able to fill in forms but whose proposals have actually been thoroughly planned and appraised. Complicated grant application forms are likely to result in funds being allocated on the basis of the ability to fill in complex forms rather than on need or potential for success. It is vital that practical appraisal of economic feasibility is given priority by both participants and interveners.

Appraising input and output markets

Central to the success of a market-oriented economic appraisal is a clear and detailed assessment of the markets from which inputs are bought and into which outputs are sold.

Inputs

Most economic activities need material inputs. The trader needs to buy from the producer or the wholesaler, the handicraft maker must gather the bamboo reeds, and so on. The initiation of new business ventures requires an appraisal of inputs from many angles. These are some of the key questions to be asked concerning inputs:

—Are there suitable supplies available, of the right quality and quantity?

—Are there seasonal variations in supply? How would these affect the business?

—Who are the likely suppliers? Have they a good reputation with other buyers?

—What prices will they charge, and what other payment conditions will they impose? Will the prices and conditions they quote actually be honoured? Again, it is advisable to ask existing users.

—What about input credit terms? It is often possible to improve the terms under which inputs are acquired, in particular to obtain supplies on different types of suppliers' credit. Longer and easier terms of credit can be an important source of liquidity or working capital in any business, but

group projects rarely take full advantage of this possibility.
—Is it better to buy alone or to combine with other buyers to obtain better terms and/or logistical advantages?

In many cases, particularly where the investment is in a familiar area, these questions can be answered without great effort. However, even people familiar with input markets may benefit from a close look at existing relationships with suppliers with an eye to possible improvements. People often accept customary supplier relations without bothering to ask whether better sources are available.

Outputs

The potential output market for a product is probably the most important, and the most neglected, issue for economic appraisal. The relationship with potential buyers is fundamental to profitable selling and a rigorous appraisal of customers is essential for all business enterprises. Some general questions applicable to most new ventures are:
—Who will the buyers/customers be? This is a question requiring clear and definite answers before any new investment is undertaken. Will it be the final user of the good or service or a middleman/woman? What are they prepared to pay?
—Will the only market be the local one or will there be an attempt to reach distant, even foreign, markets?
— If sales need to be actively promoted, what techniques will be used?
—What are the transport and distribution implications? What will the method of transport chosen imply for costs, and for timing of delivery of goods? If it is decided to provide transport, the real costs of this, including maintenance, labour and depreciation, must be measured.
—Are the likely buyers reliable or have they let people down in the past? Do they pay promptly? What about credit notes for larger deals? These questions can reveal a lot about the prospective customers, especially middlemen. It may be that the market is so unreliable, in a context where participants have so little power or security, that the best intervention policy is to shelve the proposed investment and consider another.
—Is there a possibility of different sales outlets? Normally the type of outlet will be determined by the type of product or service but it may be worthwhile to check for alternatives. Finding a viable selling outlet can pose serious problems for small businesses in the urban context.

Selling directly to the end user means having some sort of outlet like a stall or a shop, instead of selling to a trader. Control of this outlet and its costs are critical issues to a small trader/producer. Is street-selling permitted? Are there legal or illegal restrictions? Is a licence needed, and

Joe Saxton/Oxfam

A wide variety of goods are on sale in this street market in Sucre, Bolivia. In some towns, poor people face many constraints, both legal and illegal, to street selling. Interveners need to be aware of the problems and make a realistic assessment of market conditions.

if so, what are the actual difficulties in getting one — is it necessary to pay 'illegal' costs? What will be the real costs of operating the outlet, in time and money terms? When considering some types of charitable market channels, the drawbacks mentioned previously should be remembered and reasonable estimates made for the likely time and effort involved.

—Can the participants sell in the market? When appraising new investments, it is vital to look at all the possible constraints on the participants' ability to sell their product. Poor people are often handicapped by a lack of confidence, formal education and communications skills, but they may also experience overt market place discrimination. Social and cultural attitudes, for example to caste, religion, skin colour or gender, can put severe constraints on the ways in which poor people can sell their goods or services. It is important to remember that being 'local' does not necessarily mean that a person has easy access to, or even a good knowledge of, local markets. Many women, whose range of activities has been culturally restricted, for example, know little of their local markets or of the task of actually selling.

— Will the price available on the market secure a reasonable profit?

This is a crucial question. If careful and realistic costing suggests a selling price less than the identified market price then all is well, a profit should be made. However, this is always worth checking as techniques of costing are not simple. Apart from the difficulties of predicting costs there is a common tendency seriously to underestimate them.

The fact that it benefits all concerned to be as honest as possible in the costing process cannot be overstressed, for it is this process that identifies the main problems threatening future economic viability. There is such flexibility in many costing processes that wishful thinking by participants or interveners may obscure such findings. If a projected cost for the economic activity is too high for the market then, obviously, action must be taken to lessen the projected costs. There may be several responses:

—tackling or circumventing 'unfair' relations in the market chain, perhaps by organising service co-ops or self-employed associations;

—tackling or circumventing other inequalities in the market, such as the issue of licences or the existence of monopolies;

—changing the type of economic activity or intervention;

—making the economic activity more efficient by cutting costs or reorganising production, although this may have unacceptable social consequences (for example, a wages 'squeeze' might result in starvation wages for workers in order that the venture succeed in the market);

—improving quality or upgrading the product;
—developing better markets through marketing promotions, and seeking other outlets including alternative trading organisations.

Appraisal of management abilities, manual skills, capital and technology

When a market-based appraisal of a new investment is being undertaken, vital areas for attention include:

— management abilities and understanding of business of all those involved in the intervention. This includes the ability to organise production, financial control and marketing.

— manual skill levels. This is one element of appraisals and funding requests which is rarely ignored. The provision of a skill trainer is one of the easiest and most conventional ways of offering assistance to income generation activities. However, skill training can prove totally ineffective in assisting people to improve their incomes unless a clear assessment is made of the exact skills needed, whether suitable trainers are available, and how the trainees will best be motivated to take the training seriously. (See part IV.2.ii. on the issue of incentives, and Part IV.3 on training.)

— capital and technology needs. Most funding proposals concentrate on the capital needs of a new investment. Ideally this should be integrated with other aspects of the appraisal, particularly the appraisal of markets. Some questions which need to be asked are: Will the machine/equipment/building be familiar in the locality? Has it a proven record in similar conditions? Are spare parts available? How will it be maintained? (These questions are best answered by people with first-hand experience of using the equipment, not by those trying to sell it!)

Appraisal of group organisation

When a group project, perhaps a co-op, is being considered it is not only the economic aspects which must be directly appraised. Clearly, the dynamics of the group can have a major bearing on the overall success of the investment, in economic and other terms. Given that it is possible to influence the development of this dynamic, then an appraisal from this perspective could lead to action on many levels. (See Part IV for a more detailed discussion of this.)

Appraisal of small ventures

Small ventures rarely require formal appraisal but it is vital that informal appraisal is carried out following the basic principles described above. People with small enterprises tend to be involved in activities relatively familiar to them and to have considerable local knowledge. However, this knowledge may not include all aspects of the local situation relevant to the particular venture, nor the basic principles of business. Thus it is important to help them appreciate the idea of profitability, and then to encourage the development of appraisal techniques. Many interventions already do this, often linking appraisal to loans. Appraisals range in practice from visits to individual enterprises by extension workers to discuss the venture, possibly with questionnaires to be completed for assessment by the interveners, to organised group appraisal sessions.

III.2.v **A market approach to continuous assessment of a business**

A market approach is not only necessary at the beginning of an investment. Throughout the life of any economic enterprise there must be a continuous process of information feedback from the markets, from customers and buyers about the quality and design of the goods or services sold, to the production unit, and responsive change in the production unit to maintain profitability. This adjustment process of planning production in relation to changing outside markets is vital to ensure the survival of the initiative.

It is important to emphasise that without success in the market, i.e. without profits, it will be impossible to maintain incomes. Once this is accepted and participants recognise the link between the quality of their work and its suitability to the market, and the consequent profitability of their enterprise, then the incentive to develop and sustain the standard of their work in relation to market demands will be strengthened. They will have adopted, in a sense, a market approach to their work.

III.3 **The management of economic activities**

In its broadest sense, the management of an economic activity is a process of making and implementing decisions about the use of resources available to the activity. The people who make these decisions may be called managers, but of course management decisions are taken daily by all small business people. When a poor street trader is selling out her stock earlier in the day than usual she may wish to buy more from the wholesaler to maximise her sales. This is a business management decision. Similarly, the management of a clothes-making co-op may decide to borrow to invest in a new sewing machine. This will require consideration of costs and likely benefits, and is also a management decision.

There are various principles and techniques of business management which can be used to help this decision-making process. However, some interveners have negative attitudes towards these. It is therefore necessary to make the case for the use of business management principles and techniques as tools for economic development, for they are always useful irrespective of the political or cultural environment or the broader objectives of the venture.

Most business principles and techniques have been developed in Western capitalist societies. In the context of small economic ventures in the developing world, often with very different underlying philosophies, it is right to question their relevance. There are two central issues within this question:

— The argument is often put that management is essentially a system of control by managers of workers — it is the application of the exploitative power of proprietors and managers over workers. The issue then becomes: why should interveners promote the use of such principles and techniques when the objective is to avoid exploitation of poor people?

— The second issue is on a practical rather than ideological level. Assuming that business management techniques are acceptable then it might be asked whether the actual techniques and ideas are useful to very small-scale economic activities in Third World countries, and if so, are there effective ways to disseminate these ideas and techniques?

These two issues will be dealt with separately.

III.3.i **Management as a system of controlling workers**

The workplace is often portrayed as an arena of conflict, where management competes with workers to gain for the shareholders or owners of the business as large a part of the value created by the workers as possible. Management is seen as a process of organising the efficient exploitation of workers, and managers try to keep control of decision-making and of conditions of employment, including wages. In industrialised countries this almost open-conflict model of the relationship between workers and management has been a dominant one.

However, more subtle methods of organising and motivating workers are gaining prominence. Previously, workers were motivated by pressures such as piece-rate payment or intensive monitoring by managers, but emphasis is now increasingly on positive incentives, such as profit-based bonuses and company-provided services. Companies aim to give workers a sense of belonging and a positive corporate identity as part of a team in which pulling together benefits all members.

However, the underlying emphasis is still very much on the profitability and commercial growth of the company; it is simply that positive methods to motivate workers are seen as a more efficient way of achieving these ends. Important decisions are still controlled by the owners and managers, and consultation of workers is real but confined to limited areas.

Many people who criticise either of these management styles confuse the way in which power is used by managers with the need for a process of management. All economic activities need decisions to be made about the use of the available resources. In rejecting the use and abuse of power implicit in these styles of management, there is a tendency also to reject the insights and techniques they can offer to any economic venture.

Structures of decision-making within economic ventures can be organised in different ways. Daily responsibility for management decisions may be collective or otherwise, but when the venture reaches a certain size, depending on its specific nature and structure, this responsibility will have to be delegated in some way to groups or individuals within the group. This is for practical reasons, but may also be advisable because of the different levels of experience and skills of the people involved.

Furthermore, it is usually necessary to have a division of labour within the production unit because this is the most effective way to use the different attributes people bring to the unit and to develop skills and work proficiency. Rotation of staff in key management positions in income generation interventions is rarely an option, for it is often hard to find even one person capable of taking on a management role. Forcing a group to adopt rotational systems of control could have a bad effect on productive efficiency.

If the management process necessitates some concentration of decision-making power within the production unit, then it is the use of this power that is the crucial issue. In traditional, privately-owned businesses this power was used to create profits and more power for the owners and managers, and work and workers organised to this end, by coercion or cajolement. Producer groups with a different vision of the way in which work should be organised require mechanisms by which the people with management responsibilities are made accountable to the other participants for their decisions.

Criticism of capitalist values often tempts people to 'throw the baby out with the bathwater', rejecting management techniques developed in capitalist structures without seeing the relevance and logic many of these can have when adapted for enterprises organised along different lines. To ensure the achievement of non-economic, 'social' objectives, management techniques must be integrated into a system of effective participatory control.

III.3.ii **The relevance of management principles and techniques to small businesses in Third World countries**

A commonly-held perception amongst interveners is that the resource most needed by poor people in urban areas is capital, by analogy with rural areas where the chief resource need is seen as land. However, it is not only access to this vital resource that matters. As in rural areas, where people who get land of their own for the first time need a whole range of complementary inputs such as transport, storage facilities, equipment and training, capital in urban areas must be complemented with training, premises, licenses, etc. if it is to be effectively used. It is the ability of the participants and the people working directly with them to use and manage capital effectively which is the most crucial factor. Of course there are some situations where the simple provision of capital, particularly through credit, can be effective, but the easy option of channelling money to poor people without serious consideration of their ability to use it must be avoided at all costs. Through appraisal of participants' ability to use capital, many weaknesses in business management can be identified and addressed directly, thus strengthening the enterprise.

A small group of about 15 women in Ahmedabad, India, were organised by a local women's action group into a producer group making textile goods. From the start, their inexperience in business brought major problems. They began production without really testing the market, so that when they tried to sell their products, their prices were not acceptable to commercial buyers. The quality of finish was not very good, partly because participants were receiving fixed wages and did not see any link between these wages and sales. Their attempt to enter the market directly by way of street-trading caused problems with their husbands who disapproved of their selling on the street, and was greatly hampered by the control of prime sales points by a variety of groups, gangs and government officials. These women clearly suffered setbacks from conditions 'beyond their control', but if they had received advice and assistance in planning and managing their venture from the start they might well have avoided some of these pitfalls.

The above is a good example of an income generation initiative which genuinely intended to become viable and independent, but in which the participants lacked any understanding of business and were not given appropriate advice. The failure to develop basic management skills in certain key individuals is the most significant missing element in this and many similar interventions. In urban areas in particular, where it is relatively easy to obtain funding, it is essential to concentrate on the effective use of capital, not just on its distribution. This means developing the management techniques and skills of the participants through training, advice and detailed discussion.

Although many business management skills are designed for specialists in comparatively large business structures, there are some basic ideas and techniques which, in suitable form, can be beneficial to even the smallest of the businesses of poor people. For example, the following techniques may be of considerable use:

— Stock control, possibly using very simple single entry book-keeping. In the case of a trader, instead of tying up working capital in slow-moving stock, it may be better to offload these items (perhaps by reducing the price) and then concentrate on higher turnover and more profitable stock.
— Appraising new investments.
— Learning how best to use credit, in both buying and selling.
— Training people to deal with financial institutions and other funding sources.
— Assessing prices of inputs and outputs and the possibility of forming seller or buyer organisations.
— Finding alternative outlets to traditional ones, and alternative suppliers of inputs.
— Evaluation of personal drawings versus savings for working capital or investment. Small businesses can reduce their working capital or investable funds by failing to control personal withdrawals from the business. Monitoring these withdrawals can lead to better planning. Similarly, unrecorded capital injections keeping an unviable business alive, need to be identified.

III.3.iii **Appropriate training in business management techniques**

Many programmes make strong efforts to adjust the textbooks and curricula of Western business training to the local economic environment. While this in itself is a step forward, the dependence on classroom teaching is often inappropriate. As one experienced writer says: 'The ability to identify, select and modify what is relevant in a general treatment of a subject and to apply it to a particular situation is very much a function of sophistication and education'. For poor people who are barely literate or numerate, the value of most classroom business training, based on a predetermined and general programme, is questionable.

These problems can be overcome, however, by providing practical training at the site of the trainee's business. Training should be demand-led, closely tailored to immediate practical needs and involving trainers familiar with the circumstances of the participants. In a sense this is no longer a training process but becomes the provision of advisory services or on-site business development.

The targeting of this process is the factor which distinguishes between small business promotion and poverty alleviation. Many of the government-run programmes designed to train business people in the informal sector of developing countries are aimed at enterprise or management development. The people targeted are private business people, rarely the poorest in their community, and generally men. Intermediary agencies are often better able to target the poorest people and introduce income generation initiatives which succeed in alleviating poverty. However, the process of targeting is by no means easy and needs much thought if the poorest people are to be reached.

III.4 **Financial management and accountancy procedures**

Many of the more serious problems of financial management that income generation interventions experience stem from issues surrounding the purpose and function of financial accounting. There are sources of training, advice and information on the practicalities of accounting systems in most urban areas of developing countries. It may well be difficult to transfer these skills to the people involved in income generation activities, but before tackling the problems of training and advice it is essential to assess clearly the functions an appropriate accounts system would fulfil, and the exact skills and systems required. Interveners may have a rather limited view of the role of accounting in income generation, so the first task is to identify the reasons for keeping records and accounts; otherwise, considerable time can be wasted in preparing accounts that serve little practical purpose.

III.4.i **Book-keeping and financial accounts**

Financial accounts are essentially records of important financial events, and book-keeping is the practice of recording these financial data systematically in permanent form. Accounting means compiling and comparing financial records to provide important information about the state of the business. Accounts can be kept in ways that are helpful for the management decisions of the particular business, yet are not as elaborate as the formal system of accounting which has become the norm in industrialised countries. This total system of integrated accounts generally centres on two sets of figures: a profit and loss statement and a balance sheet. From these and the records used to produce them, most of the important information necessary for financial management can be extracted. The main pieces of information which they contain are:
— details of all costs, both variable and fixed, which the business incurs, such as wages, raw materials, transport costs, and interest charges on loans;
— details of all income from both earned and unearned sources, such as returns from sales and grants;
— details of the value of all the assets and liabilities both short and long-term, including all credit operations (both creditors and debtors) and details of physical assets and their changing value.

In an integrated system all this information will be recorded for agreed periods of time. Compilation of the records will involve substantial costs in terms of time and expense. It is the balance of costs and benefits which interveners must appraise when promoting accounting in income generation interventions. (For more detailed treatment of accounting methods and financial management see references in the bibliography.)

III.4.ii **The uses of financial accounts**

There are four main uses for which book-keeping and accounts systems are developed in income generation interventions:

Monitoring donated funds
Donors giving funds to support income generation usually seek to monitor their use, asking at least for evidence of expenditure of disbursements and sometimes expecting a full set of accounts. Recipients of funds who prepare such accounts as reports on the 'progress' of the economic activity tend to spend a lot of time and effort on them and quite commonly pay more attention to impressing the donors than to the

creation of accounts useful for the management of their own venture. This is often encouraged by the donors' lack of appreciation of the usefulness of accounts as an aid to financial management and internal accountability.

For smaller loans and grants there are usually less onerous requirements from the donors. Repayment of loans can in itself act as a monitor of the use of funds and thus do away with the need for elaborate accounting.

There are obvious reasons for donors imposing some sort of accountability but to demand meticulous accounts can be a major burden to the participants. The monitoring function should emerge as a by-product of a process of appropriate and functional accounting.

Complying with government regulations

Governments often demand a set of accounts from productive enterprises. This is for two main purposes; firstly, for taxation of profit-oriented businesses, and secondly in order to promote or regulate the growth of private businesses and producer groups. Governments also need to have accounts submitted to them in order to monitor foreign aid fund inflows, and check up on groups entitled to tax exemptions or other government concessions and support. A government auditor's check on a producer group's accounts can also ensure that there is no corruption or abuse of position within the group.

These accounting requirements combined with other government regulations can be a significant reason for many groups undergoing a formalisation process (see Part IV), and for their dependence on trained outsiders. The highly detailed accounts required may form the foundation of a useful financial control system but tend in practice to be over-elaborate and, more importantly, designed for a monitoring function rather than for effective financial management or internal accountability. Poor people's efforts to comply with these official regulations often involve substantial costs for little practical benefit.

Internal accountability

Accounts also assist the internal process of accountability in groups and in private businesses with employees. A clear set of accounts can show members or employees whether funds have been used honestly and effectively, while cash books, stock books, etc. provide day-to-day monitoring of stocks, cash and other assets to avoid theft and corruption. However, the main problem with internal accountability is the gulf between the people preparing the accounts and the often illiterate and semi-numerate participants. There is little point in a good set of accounts at the end of a financial period if participants or their representatives do not have the ability to interpret them, or the assertiveness or power to question them. Thus making managers accountable will largely depend on the development of skills and confidence of non-managers, and of a structure whereby participants are given a real opportunity to contribute to, and challenge, the making of important decisions.

In Addis Ababa there is a restaurant run by a co-operative of about 25 women who are largely illiterate and semi-numerate. At any one time there are at least 12 women working in the restaurant. With so many working in the business it is difficult to establish a system of book-keeping and handling of money to help them plan, as well as assuring honesty and internal accountability, yet they have devised a very effective system, based on the use of coloured plastic chips. Each chip represents an amount of money and a customer first pays for chips at a cash desk, then goes to the counter and receives food items in exchange for chips. The chips are placed in a locked box. This box is opened at the end of the day with the assistance of an outside accountant and witnessed by a few of the women. The tally of the chips should of course equal the amount of money taken and the amount is recorded in the appropriate cash book. The purchases are similarly recorded with more than one of the women witnessing both the payment and the registering of it in the books. Stock-taking is done regularly and roughly related to the cash balances to ensure pilfering does not occur. While the coloured chips are useful, it is the fact that all members are involved in and responsible for the financial controls that lies at the centre of their success. The system still depends on some outside support but the women are well aware of the various transactions and the logic of their system of record keeping and financial control.

Financial management

Learning the principles of accountancy can provide the foundation of a better understanding of financial management, and thus assist in making management decisions. If economic ventures are to become independent of interveners, well-kept accounts and a good understanding of accountancy on the part of at least some of the participants are essential. Both the weaknesses and potential of businesses can be identified by a good system of accounts. But training in keeping accounts will not automatically lead to better financial management. Participants may learn the techniques without learning the skills needed to interpret the accounts or to apply the information these provide to the running of the business.

Even more important than a knowledge of accountancy methods is the practical understanding of cost/revenue balance and the use of financial information.

Financial accounts should not be an end in themselves but provide precise information which can be used to assist financial management. It is quite possible to run businesses, even relatively large ones, with written records but without a total system of accounts, if people have good business experience and ability. Only when the information needed to make financial management decisions becomes too complex, will a complete accounting system become necessary. Many interveners insist on a balance sheet being produced, the costs of which are borne by the participants. The imposition of accounts structures from outside the group may not only be unhelpful but a major burden to their operation.

The Carvajal Foundation in Colombia, in one of its programmes to support small businesses, organised a system of accounts training based on classroom teaching and individual counselling for a group of local business people. The participants were presented with a specially designed accounts system with which they were all familiar at the end of the training period. They all received help to install and use the system within their own businesses. The trainees were seeking loans which were linked to the training programme. Despite all this initially successful work over 50% of the trainees given loans were found to have abandoned the accounting system after one year. Even with extensive efforts to encourage the keeping of accounts, the system was still regarded by many of the business people as insufficiently useful for them to be worth their while to sustain it. When the external incentive of the loan was removed, an even higher proportion of them abandoned the accounting system.

Financial accounting frequently brings little benefit to an enterprise in terms of improved financial management or internal accountability, even though weaknesses in these two areas are often central to the failure of economic ventures. The lack of business experience of many interveners means that even when they encourage the keeping of accounts for the benefit of the economic activity, they lack sufficient understanding of financial management and the principles of accounting to ensure the accounts are useful for management and accountability.

In a women's producer group in Calcutta the combination of government and donor requirements, and the participants' relatively

naive belief in the benefits of accounting, has led to a most unfortunate situation. They have received large amounts of funds but almost no advice or training in how to manage them. They spend substantial amounts of time keeping detailed accounts but do not really understand their function. This results in inadequate financial information and serious confusion about the management of the business. For example, even from the incomplete account books it is clear that by spreading the spending of donated funds over a longer period of time they would avoid artificially boosting 'profits' and thus tax liability. This situation, and many other questionable aspects of the financial management of this group, are veiled by aid money. A small portion of the donor funds allocated to providing appropriate training and advice would be of major benefit to the group.

In income generation group projects there is often a failure to appreciate the usefulness of financial accounts. This problem can be largely overcome by a greater focus on development of the skills of the people involved. The identification of management and organisational weaknesses within income generation activities tends to occur only when the activity is in trouble, despite the fact that it is precisely such weaknesses, especially in financial management, that cause so many income generation interventions to fail. It is vital that these issues are tackled early in the life of an intervention and provision of training, advice and support by interveners can be a very effective contribution.

In Calcutta, for example, a group of women with very little previous income generation experience have after several years, established a commercially viable operation. The group was given carefully designed training and advice (particularly on marketing and accounting) from the key intermediary. This involved a considerable commitment of time and money, but the result was that the group eventually took over full control of the business, and they now have strong financial management using a full accounting system, with general business principles well appreciated by the whole group. This allows for participatory decision-making on the major issues. Their experience shows that a careful effort to develop such a system, including the element of internal accountability, can overcome limited or non-existent previous experience.

CONCLUSIONS

1. Both interveners and participants must look critically at the strengths and weaknesses of their own organisations and income generation efforts, avoiding the temptation to blame external difficulties for failure.

2. All new investments, of whatever size, need an economic feasibility appraisal early in the planning stage. This may be formal or informal but must be market-oriented, as the profitability and viability of any economic activity will be affected by the input and output markets in which it exists. Appraisals must determine whether or not the goods or services produced or traded will sell at a reasonable profit and production must be adjusted to the market.

3. A market-oriented appraisal must look not only at economic factors affecting viability but also social and cultural factors, which may seriously constrain sales and/or increase costs and are often of particular significance in intermediary markets. Attempts to overcome such constraints must also be realistically costed.

4. Charitable selling that depends on the goodwill of the buyers is a form of subsidy and should be used carefully so as to encourage the development of independent commercial outlets in the long term. Interveners may be able to use the time and resources they put into such selling for other forms of support of more use to the participants.

5. Guidelines on undertaking an economic appraisal:

i. For small businesses it is usually best for the participants to do the appraisal. Where this is not possible, an outsider will be needed with relevant experience of small initiatives in Third World urban areas, either a consultant or business person from the relevant sector.

ii. Input and output markets must be carefully appraised and the various options realistically costed. Potential buyers in particular must be assessed for reliability, conditions and prices. It benefits all concerned in the venture to be as honest as possible in the costing process.

iii. Appraisals must also assess management abilities, manual skills and capital/technology needs, and the organisation and dynamics in the case of a group initiative.

6. A continuing process of market assessment is necessary to adjust production to changes in the market. Participants must recognise the links between the quality of their work, its suitability to the market and the profitability of the venture.

7. Management is a process of making and implementing decisions about the use of resources available to an activity. Although management systems can be used to coerce or cajole workers, economic ventures

where exploitation of workers is to be avoided, cannot neglect management issues. Attention to management is necessary to set up well-organised structures of decision-making, optimum division of labour and rigorous accountability, in order to achieve both economic and social goals.

8. Poor people in Third World countries may need not only capital, but training and advice for the most effective use of that capital.

9. Business management techniques and principles developed for large productive enterprises in industrialised countries can, in a suitable form, be very useful to even the smallest businesses of poor people in Third World urban areas.

10. Appropriate training in business management techniques may take place in a classroom setting, with adapted textbooks and curricula, or be more practical and given at the site of the business. Training must be demand-led and tailored to the practical needs and available time of the trainees.

11. Financial accounts are records of financial events. An integrated system of accounts is made up of a profit and loss statement and a balance sheet, detailing all costs, income, assets and liabilities. These accounts are costly to compile, in terms of time, money and effort, and their benefit must be carefully appraised against these costs.

12. There are four main uses of accounting systems for income generation interventions:

i. monitoring donated funds
ii. complying with government regulations
iii. internal accountability
iv. financial management.

Elaborate accounting systems for i. and ii. may be very costly and lead to dependence on trained 'outsiders'. Interveners should have sufficient understanding of financial procedures to ensure that the system of accounting is appropriate, cost-effective and used to the maximum benefit of the enterprise in terms of iii. and iv. Training may be needed in financial accounting for managers, and all participants need some understanding of accounts to ensure managers are properly accountable. A system of accounting should facilitate financial management and increase efficiency.

PART IV

GENERAL GUIDELINES FOR INTERVENERS

IV.1 **Introduction**

Interveners wishing to help poor people to increase their incomes often think in terms of initiating group productive ventures. However, this is by no means the only way of encouraging income generation initiatives. In Part I, the need for interveners to clarify objectives and be aware of preconceptions and prejudices was stressed and the advantages and disadvantages of setting up productive co-operatives were discussed. In this section, some of the practical problems that occur when a new group venture is started, or small ventures expanded, are looked at in detail. Many of the problems arising are associated with an increase in size. In IV.3, the alternative of supporting existing small enterprises is considered. The final section looks at some of the ways of facilitating income generation, short of actually initiating and managing productive enterprises. Offering advice and providing direct services, training and credit are all valuable ways in which interveners can help many kinds of income generation initiatives.

IV.2 **Issues in supporting group initiatives for income generation**

Historically, the record of co-operative producer groups set up to provide incomes for poor people in Third World countries is not good, at least in terms of their economic viability and thus survival. The general picture is that they tend to either fail and collapse economically or to continue but only with substantial subsidies. Most interveners will be able to cite examples. There are of course many successful ventures which are both viable and achieve stated social objectives, but the overall experience is not positive.

There are many reasons why producer groups do not succeed and interveners planning to set up new producer groups or expand the activities of existing groups should be aware of these. There are, of course, external factors outside the control of the group or the interveners supporting it. The difficulties of the economic situation in many Third World countries — high rates of inflation, economic recession, structural adjustment measures imposed by international lenders — have already been referred to, and clearly affect the microeconomic climate in which poor people try to obtain an income. However, there is a tendency to blame external, economic pressures for failures which are a result of internal weaknesses. The internal problems and challenges facing producer groups can be considered under two broad headings: problems of group dynamics and problems associated with increase in the size and complexity of the operation, which can also be described as a process of increasing formalisation.

IV.2.i **Group dynamics**

Strong group solidarity, often deriving from shared experiences of group members, is an important factor likely to lead to successful working. Thus people from similar socio-economic backgrounds or with similar life experiences are more likely to form a cohesive group.

The internal causes of groups' weaknesses can derive both from a failure of group dynamics and from ineffective economic management, which are clearly interdependent. The lack of any real involvement of participants in decision-making, ineffective mechanisms of control and accountability, the power of traditional hierarchies (men over women, elders over youth, caste, etc.) are but some of the contributory factors that may prevent the effective functioning of a producer group. These factors are also related to the management of the enterprise. This highlights the need for simultaneous development of both group structure and function and business organisation.

The importance of participation has been emphasised throughout this book. Interveners with a strong p/maternalistic attitude may not encourage participation of group members in management decisions. There are several reasons why participation is essential in producer groups; it can improve the functioning of the economic activity itself, ensure that the more powerful members do not abuse their power, build an atmosphere of trust between managers and others, increase a sense of commitment and responsibility on the part of all group members, and can contribute to the broader development of the participants in terms of practical and managerial skills and in social terms such as improved assertiveness, confidence and awareness.

For participation to be fully developed, attention must be given to accountability. If the managers are outsiders or traditional elites and have no close relationship with the other workers in the group, it can be difficult to establish true accountability. Elected committees do not always function well as control systems. The electoral committee system is open to abuse and control by more powerful and assertive members who elect the key officials and create the policies. Agencies may need to offer training and advice in developing participative structures; the long-term aim should be to teach the participants how to manage their own group. For all participants to share responsibility for financial control, they must be able to understand and question the financial information presented in the accounts. (See Part III on the use of financial accounts.) Ensuring accountability may involve committing time and resources to training for both managers and participants.

Defining peoples' tasks and responsibilities is essential for successful participation and must cover every role from manual worker to manager. There must be mechanisms for appraising peoples' attempts to carry out their allotted tasks and taking appropriate positive remedial action where necessary. The process should not be one of blame apportionment but a conscious, participative and open appraisal of the work being done. At all times the objectives of the group, including the desire to be economically viable, should be stressed and the link between quality of work, sales and thus incomes. The aim should be to develop an organisational culture which will encourage the individual to be the first to bring their problem to the attention of the group.

IV.2.ii **Increase in size of operation**

When a new group productive venture is begun in an urban area it will almost invariably have a volume of production and size of workforce which will bring the need for formal structures and relationships to be set up within the unit and with outside agencies and organisations. Similarly, any extension or aggregation of existing small initiatives is likely to involve a qualitative, as well as quantitative, change in social and economic relations which the participants must learn to cope with. The degree of formalisation necessary will differ according to the type of enterprise and the situation prevailing in the particular country where it is operating. It is mainly the size of an operation which can bring demands and difficulties of various kinds and interveners need to be aware of the practical problems they may be faced with when either they set up a new group venture or attempt to expand the scale of operations of an existing one.

The need for management and organisation skills

An enterprise which involves more than a handful of people brings the need to develop management and group organisation skills. Informal methods of management and organisation will have to give way to more formal systems and there will be a need to develop personnel management, accountancy, marketing and legal skills, for example, not necessary for small, informal operations. Most of the people who participate in the venture will have no background in this sort of management or indeed of organising producer groups. Either the participants themselves will need training, which will take time, or outsiders with the required skills will have to be brought in, which can create further problems (see below).

When group production ventures are organised along co-operative lines, it is important to remember that, while there is sometimes a tradition of group organisation amongst the participants, the formation of formal co-operatives in competitive urban economies may well be a new departure for them. The idea may take some time to become accepted and understood and the group structure developed to suit the particular situation.

Relations with the market

The establishment of a new restaurant, shop, handicraft business or new clothing production unit will necessitate building up formalised relations with suppliers and customers. When an existing small venture is expanded, existing informal relations with suppliers may prove inadequate for the increased scale of operations. New suppliers may have to be found and new, more formal arrangements negotiated. It may also be necessary to seek out new markets and customers to absorb the increase in production or services. Relations with the market will require careful consideration if exploitation is to be avoided, and the development of marketing skills is essential if the venture is to be profitable.

Establishing relationships and negotiating terms with suppliers of inputs (raw materials, electricity, transport) may require a lot of experience in and knowledge of particular markets. The sale of outputs also may require participants to develop new skills. When an intervention is designed to expand an existing venture, new sales outlets may be needed with may mean the participants entering into formal relations with local authorities for the first time. Reaching new customers, making agreements with buyers, getting good feedback from the market and responding to such feedback in terms of adjustments to production, make selling the most complex part of an operation. It may also be the most neglected area when new group ventures are begun. (See Section IV.4.ii. for further discussion of marketing.)

Relations with government and aid agencies

Setting up a new group venture or enlarging an existing one will often necessitate entering into formal relations with government both national and local relations. Regulations will vary in different countries, but registering for taxation and complying with rules to do with conditions of employment and health and hygiene will almost always be necessary. Some governments require audits of accounts, registration of groups and monitoring of foreign donor aid flows. These demands may be difficult to cope with, and groups may lack the contacts and influence which are often needed to deal with bureaucracy, in both its legitimate and illegal forms. In addition to all this, the demand by donor agencies for strict monitoring of their expenditure will require extensive accounting, perhaps beyond the ability of group members.

Interveners should be aware that the costs involved in satisfying all these demands may be considerable. Many studies have shown the disproportionate amount of time, effort and expense needed in many Third World countries for an enterprise to meet all its legal obligations. Complying with minimum wage legislation, paying local taxes and meeting all the other requirements can involve new enterprises in so much extra cost that their viability is threatened.

Dependence on outsiders

One very common outcome of the demands outlined above is a significant level of dependence on outsiders, generally on a few key individuals who are not group members in the true sense — they are not actually involved in the primary income generation activity themselves. These people may come to dominate the management of group production ventures. Managing, book-keeping, accounting and auditing, selling in the market, dealing with government and donors are some of the tasks which poor participants in group ventures are often unable to deal with, at least at the beginning. Outsiders may, of course, be people closely linked with or strongly 'on the side of' the poor but they are, by virtue of their superior experience and education, not as poor or vulnerable as the participants.

There is a tension between the development of participant control and responsibility and the continued dependence on outsiders. In many cases the participants cannot be in full control of the group venture from the start because they lack the experience and skills to make it work profitably. Interveners may face the dilemma of wishing to develop participant responsibility but not to take the attendant risk that the project might fail as a consequence. However, there are many ways to develop participant management and control, such as special training for management, on-the-job training and confidence-building processes; but commitment and effort is required if participants are to take full responsibility for the control of the enterprise.

The attitude of the participants must also be considered. Are they really preparing themselves for independence or do they perhaps see the *outside intervener as the provider of an income, instead of as someone* who is trying to help them help themselves? Do they have a reasonable estimate of when outside involvement will come to an end and the responsibility which will then fall on them? It is most important that participants should be aware from the outset that the intention is that they should eventually become fully responsible for managing the enterprise, and that they are prepared to accept the considerable extra demands this will put on them. Participants and interveners must share the same objective of eventual independence and self-management of the venture.

Payment and incentives

In any large, formal group enterprise, some system of payment of wages needs to be agreed. It may be necessary to consider incentive structures. A group can rarely depend only on the co-operative motivation of its participants, even in situations where there is a strong emotional or ideological impetus for co-operation. In most producer groups with poor participants, their primary motivation is to enhance their incomes. Linking people's work to their incomes may be necessary to encourage responsibility in achieving allotted tasks.

In group production units there are often problems with the system for determining incomes and distributing profits. The basic philosophy of the group will influence the choice of system, ranging from the egalitarian extreme of complete equality for everyone to the bizarre situation in aid-sponsored job creation projects where there are guaranteed salaries for the management (often paid directly by the donor agency) and competitive piece rates for employees.

There are two related questions which need to be asked when deciding on a payment system:

—Is it necessary to create a direct and close relationship between wages or salaries and performance?

—Or do all the members share a well-developed sense of responsibility to the group? Is there a strong collective dynamic which keeps social pressure on people to do their jobs as well as they can?

Group projects sometimes offer a guaranteed wage to the participants or employees, at least at the start of the project. The danger then is that there may be insufficient attention to quality, even among the managers, because wages are not linked to sales. It can take a long time before the lack of sales begins to cause pressure for change. Piece rates and close supervision may then have to be introduced in order to raise standards. Incentive systems are not entirely negative and may indeed by welcomed by the participants; what is of the utmost importance is to make sure everyone understands the reasons for the chosen system. The most successful groups recognise that a fair system of rewards to workers at all levels is essential. Regular consultation on matters directly concerning the participants, as well as on more strategic issues, is vital.

There may be strong reasons for using incentive structures for managers—marginal bonuses on profit performance, for example. Motivation for managers is a major issue which cannot be lightly ignored in group ventures. This is especially important where the manager is a hired outsider with little or no personal connections with the participants. Interveners must be aware that incentives based on economic performance can lead to the worst aspects of aggressive management and try to balance the need for incentive structures against the primary objectives of the group.

IV.3 **Working with very small or individual enterprises**

As an alternative to working with large groups, interveners may wish to consider the possibility of helping very small or individual enterprises. These smaller economic initiatives do not usually need the same degree of formalisation as group ventures. They are normally initiatives which derive from the poor themselves and are responses to immediate and familiar circumstances. The responsibility for the success or failure of the initiative is usually taken on directly by the participant. Examples include a wide range of activities common in Third World cities, from rubbish picking and recycling through street hawking to small manufacturing units. In most cases people invest their own funds or take a loan themselves. Control of the venture stays in the hands of the participant. This is possible because formal skills and experience are not required. This is in marked contrast to the situation facing most group enterprises, as described in the previous section.

As stressed in Part I.1 almost every member of a very poor household in urban areas is actually doing something to make an income. No matter how low the returns, there is generally some task which can be carried out which will bring income into the household. If interveners wish to help people to improve their income-earning ability then they need to consider the possibility of supporting these existing activities in order to enhance the incomes derived from them. It seems strange that interveners do not look more closely at what people are already doing; they may subscribe to the common myth that the poor are unemployed. There are two elements to this myth. On the one hand, there is the image that the poor are actually just lazing around all day and on the other, the idea that the sort of work that they are doing is not 'proper' work, what they need is a 'good secure job'. Even when interveners do realise that the work that poor people are doing is bringing in some income, there is often the feeling that a job in a fixed place with a regular income would be preferable.

Some interveners are already biased in favour of producer co-operatives and this reduces the attention they pay to the possibility of small initiatives growing out of existing income generating activities. As outsiders, they have little idea of the nature of the market and the forces within it which constrain poor people. They may prefer to adopt comfortably familiar 'solutions' such as group production schemes and vocational training, rather than take on the more time-consuming and difficult process of investigating and trying to improve what is already being done by the poor themselves. Yet the experiences of certain non-government agencies show that supporting the small existing initiatives of poor people can be very successful.

The Self Employed Women's Association in Ahmedabad is an excellent example of an organisation which tackles the problems of making a better livelihood from many angles. Some of these include what can be called income generation interventions. SEWA is structured to allow close contact with poor women and to identify their economic problems. Many of these women are working in traditional areas in which there is severe competition, such as rag

A C Gonzales/Oxfam

Picking over and recycling rubbish is a common activity in many Third World cities, and one on which many people depend for their living. This rubbish dump is on the outskirts of Guatemala City.

picking, street selling and clothes production but SEWA has also been able to help its members diversify into new areas of work. They have come up with a variety of support mechanisms, including: appropriate credit facilities through their own women-run and fully independent bank; lobbying for support from the government; trade union organisation and fostering co-operative groups. SEWA fully realises that responses to identified needs to improve incomes clearly do not stop at income generation interventions, but must also tackle cultural and social as well as political or bureaucratic constraints when this is appropriate.

The organisational structure of SEWA is based on the trade union model, but SEWA does not carry out the trade union function of representing the interests of its members in negotiations with an employer. The women with whom SEWA works are predominantly self-employed in a variety of different enterprises, but they have broad areas of concern in common; SEWA is effective in both providing services for its members and in representing their interests to local authorities and government agencies.

Annapurna Mahila Mandal is an organisation which focuses on the needs of a specific group of women workers. Based in Bombay, it has 8,000 members who earn their livelihood by providing lunches for factory workers. The food is prepared in the women's homes, and sent out in lunch boxes to the factory. The women are work in isolation and are therefore vulnerable to exploitation. The AAM has helped to establish basic ground rules for the catering operation and thus increase the security of individual members. AAM also supplies services, including credit through its own bank and a bulk purchasing service for the more common foods which helps reduce the women's costs, and provides training in food preparation. Some members have been assisted in forming cooperative groups to offer catering facilities to offices and institutions.

In the urban areas of Peru, Bolivia and Chile there is now a strong trend amongst non-government intermediaries towards support for small, often individual, economic activities and an increasing reliance on the initiative and direct responsibility of the intended beneficiaries. Agencies offer a variety of different support packages but they are frequently centred on making credit easily accessible and include business start-up advice and training schemes.

In general support to existing activities implies less interference with the survival strategies of poor households. It can help to solve the problem of opportunity costs (see Part II.2), leaves responsibility in the hands of participants, costs a lot less to the interveners and is more likely to enhance income earning efforts in a sustainable way. It has also been argued that support for individual income generation enterprises is actually an effective means of building up community solidarity. The very poorest are often unable to participate in community activities because they are too concerned with their precarious day-to-day survival to have the time or energy for such involvement. By helping poor people to improve their incomes, interveners are also strengthening the community both by easing the pressures of the daily fight for survival and by encouraging the development of the self-confidence required before people feel able to participate actively in community activities.

Of course in many cases the possibilities for improving existing activities are limited or non-existent and totally new initiatives are necessary. Displaced people, people in excessively competitive markets, people pushed out of jobs or markets due to economic or other reasons, unemployed people, migrants, disabled people, newly widowed/separated women, are all likely to be in need of new ventures. But this does not always imply a need for new producer group ventures. Many people have the capacity to create their own initiatives out of seemingly impossible situations. In a book by the Rolfes and Harper (*Refugee Enterprise: it can be done*, (1987), London, IT Publications), the authors give plenty of instances of successful individual initiatives among refugees, without any capital of their own, who were given loans to start small businesses.

It is not always easy to find the best way of helping existing survival strategies. SEWA were working with group of women who were paper pickers, gathering pieces of paper and rags off the streets and selling them. SEWA tried various ways of getting larger amounts of waste, mainly from local textile mills, but with only partial success. Even with good supplies from these sources they still could not help many of the estimated 20,000 paper pickers, so they tried to initiate co-operatives in different areas of work. One of these, the Saundarya Cleaning Co-operative has been very successful in providing part-time employment for about 200 members. Both the wide experience of SEWA and the social cohesion amongst the women participants contributed to the success of this programme.

IV.4 Supporting income generation

Whether interveners decide to target producer groups or individuals, there are several practical ways of assisting income generation initiatives short of taking on a direct organisational, promotional role. To reduce the direct dependence of people on outsiders and to widen the scope and scale of their intervention, agencies have sought to provide services which support the creation and functioning of small scale enterprises without controlling their development and management. The services offered fall into four main areas: advisory services, direct services, training and credit.

IV.4.i Advisory services

The provision of advice to small enterprises can be an important source of assistance to individuals and groups trying to develop their business. However, it is important to be sure that those giving advice are qualified to do so and have sufficient experience of the needs and potential of small businesses to be of help to their clients. Interveners should be clear where the borderline between giving advice and taking on more direct, managerial responsibilities lies; otherwise, they may find themselves in a position whereby the participants have become totally dependent on the adviser, who has taken on more and more responsibility for decision-making. Advisory services are often linked with training services and credit schemes, so that the most appropriate 'package' of services can be offered in particular cases.

The following are two ways in which advisory services are often provided:

Responsive centres
It is possible to be entirely responsive to clients, and wait until the client seeks advice before responding. This rather passive approach can only really work if the advice centre is well-known and takes the trouble to market its services through various networks.

Extension officers
Extension officers, who can go directly into the homes or workplaces of the target group, can be a very effective channel of advice and information. This is particularly important where clients are less able to leave their workplace or home to attend courses. For example, in many cultures it is difficult for women to leave their homes, because of cultural pressures or childcare needs, and in these cases, the only way of offering

advice to them in a culturally acceptable manner is for (usually female) extension officers to talk to them in their own homes. Advice can be highly specific and related to the particular problems of individuals; the only problem being that such schemes are very expensive to promote, in terms of the number of people who can be reached by each salaried worker. However, their success rate is extremely high.

IV.4.ii **Direct services**

Besides offering advice, interveners can become more actively involved by offering direct services to groups and individuals in order to enhance income earning initiatives.

Marketing
Producer groups and smaller producers often complain that marketing is one of the most difficult areas of their operations. Producers may have to sell from their homes or workplaces or on the street. Many people working in the informal sector are primarily involved in direct selling. Marketing becomes much more of a problem where people are producing something which is not for local consumption; for example, goods produced for tourists, furniture for a middle-class clientele or handicrafts for export. Agencies can be very helpful in advising producers on marketing strategy, or may even consider setting up their own marketing organisation. Many poor people are grossly exploited by middlemen or women and often sell well below the market rate because they are so desperate for money for survival. Alternative marketing organisations set up by agencies can make a great difference to the lives of small producers by paying a fair price for the products.

Agencies considering a marketing initiative must be aware of the need for considerable working capital if they are to be successful. They must be able to pay their producers promptly, because poor people cannot afford to wait for payment as their reserves are so small and they need the income for their own survival as well as for the purchase of raw materials. Many alternative marketing agencies have under-estimated the amount of capital they will require to be able to pay their producers on receipt of goods and carry stocks while awaiting sales. (See Part III for further discussion of marketing.)

SASHA, based in Calcutta, provides a whole range of marketing related support to producers of handcrafted goods, including clothing. They draw on a pool of people with commercial and design

experience and organise marketing channels for the producers' goods. A major part of the work is based on this professional advice but in addition they assist groups to organise their production to meet both local and international demand. Economic viability is always a prime objective for SASHA; they do not avoid the hard realities of competitive markets but seek the best terms for their clients within a realistic view of what is possible. Thus SASHA seeks economic sustainability and to encourage each group of producers to assume full responsibility for its own operations.

On a commercial basis, SASHA helps by opening marketing channels locally and abroad, as well as selling through their own impressive shop. They seek to make contacts between producers and buyers as well as assist with the details of shipping, exporting, financing, etc. In particular, they aim to speed up payments to alleviate the cash flow problems of small producers. By maintaining their competitiveness and the quality of produce they are able to ensure a significant and beneficial impact on producer groups.

Agencies should not attempt to provide marketing advice unless they are confident they have the experience required. It is actually doing a disservice to producers to encourage them to provide products without first making sure of a market in which to sell those goods. There are many examples of marketing centres building up unsaleable stocks and encouraging producers to go on producing things for which there is no demand. Many alternative trading organisations have collapsed because they failed to take account of the harsh realities of the market. Export markets may look promising but can be very volatile because of the vagaries of fashion, as well as demanding in terms of quality, quantity, delivery dates and packaging. It is probably wiser to develop the local market first and only consider exporting as a secondary option. Oxfam Trading provides advice to handicraft groups through its producer assistance programme which stresses the need to investigate the local market fully before considering export markets.

Oxfam Trading runs a programme called BRIDGE which acts as an alternative marketing organisation selling handcrafts in the UK. Its buyers contact producer groups throughout the world and offer access to the UK market. Sales in the UK are through the chain of over 800 Oxfam shops and directly to the public through a mail order catalogue. Certain products are also sold to other agencies for resale. Obviously the buyers need to know what they can sell in the UK and

Peter McCullough/Oxfam

Oxfam Trading helps to support this workshop in Olongapo, Philippines, by buying cane furniture and baskets for sale in the UK. The workshop was set up to provide training and a source of income for people coming off drugs, by an organisation called Prevention and Rehabilitation of Drug Abusers (PREDA).

which of the different methods of selling are appropriate to different products and producer groups. For example, a group with a very small output would be advised not to sell through the mail order catalogue which is geared to mass sales. The BRIDGE programme, through its producer assistance service, is also able to ensure that producers understand the need for adequate packaging, legal requirements, the correct export licences, etc. Oxfam Trading provides an alternative marketing system designed to create income and employment for poor people but it does so within commercial principles, not by subsidising production, and so has remained economically viable for many years.

Alternative marketing agencies must be wary of disturbing the delicate balance of existing markets and thus destroying them. One such agency in Indonesia had set up a successful system for purchasing raw materials for a number of small woodworking producers who had found difficulty in buying timber as individuals. However, the agency decided to expand its marketing to the sale of the finished product. They failed to understand that the niche in the market occupied by the small producers was in supplying directly to households in small villages, whereas the larger companies were all based in provincial towns, and did not deliver in villages. By trying to market collectively, the agency lost the traditional, established market of the small producers but were unable to compete with the large, well-organised timber merchants.

Purchasing

Purchasing raw materials can be a difficulty for small producers, as in the example of the woodworkers given above. Interveners can assist in access to inputs either through the provision of credit (dealt with in Section IV.4.iv) or by organising collective or bulk buying. It is often easier to obtain commercial discounts and better access when products are in short supply, when buying in bulk rather than individually. Participants in collective purchasing schemes need to be closely consulted in the selection of inputs, and interveners should also be aware of the danger of setting up elaborate bureaucratic structures which result in uneconomic overheads. Many service co-operatives have been set up in order to help small producers to become more economically viable by making advantageous agreements with suppliers of inputs.

IV.4.iii Training

There are several different kinds of training in which interveners may want to become involved. By training is meant a more formal and structured transfer of knowledge and skills, although, of course, advisory services mentioned above also involve a transfer of knowledge. One of the major problems regarding training has been the failure to match training to the needs of small businesses and poor people. In addition, if training is subsidised, trainees may tend to undervalue it and undertake the training more from a desire to benefit from the loan or bursary offered, or with a false idea of the prestige of a qualification than because they will acquire a relevant skill. Interveners may see the provision of training as an easy option, requiring little from them in terms of evaluation and few sanctions for failure. But if the training provided is to be effective and useful, it must be appropriate to the technology and markets in which the trainees are working, training materials need to be consistent with the culture of the trainees, and, most important of all, trainers must have a good understanding and experience of the problems and needs of the trainees and of the value of the trainees' time, given the tight household survival strategies described in the first section of this book. People seek training when a skill is required to enable them to improve their work; they need a clear incentive if they are to become involved fully in learning new skills. Poor people will be aware of what the opportunity costs of training is to them, in terms of the income they are obliged to forego during training sessions and other costs such as transport and childcare provision.

Training provision can be considered under five main headings: basic skills, vocational training, apprenticeship, business management and organisational or group skills.

Training in basic skills

In many circumstances, basic skills training may be an essential first step before income generating activities can be developed. Illiteracy can often inhibit people from developing their small enterprises and a great many of the more glaring forms of exploitation take place because small producers who are unable to read or write are incapable of dealing directly with clients and have to rely on intermediaries. Similarly, written numeracy may be necessary before costs can be calculated and prices established for goods and services. Acquisition of or improvement in basic skills can be particularly important for poor women, as their educational level is often lower than that of men and this factor contributes to the low level of confidence of many women which further impedes their economic activities. In bilingual societies, where government business and commerce is carried out in an official language, women may be at a particular disadvantage if they have not acquired a fluency in that language.

Vocational or skill training

In many countries, vocational training is still carried out in large institutions, offering full time courses in technical subjects. Such courses are often inappropriate for poor people. If vocational training is to serve people engaged in small businesses, it must be planned in short course units and have a flexible approach to time so as to allow people to continue to work and earn their living. The large programme run by UCEP in Bangladesh is designed to serve working children and young people by adjusting timetables and courses to enable the participants to continue working while training. The Calcutta Social Project runs a school and training centre for young people who work on the largest rubbish dump in the city; the time of day, the season (to allow for the work of growing vegetables on the dump) and the deliveries of rubbish all influence the times at which classes are held. Where training is arranged in an appropriate manner, the demand for it is high. The other important factor is that it should be clearly relevant to enhanced employment or income generating activities. Training should be closely related to the local demand for the particular category of skills being developed. There is no point in training people in a skill if the market for it is already saturated.

Job stereotyping should also be avoided. For example, it is often assumed that women only do certain kinds of work, related to existing domestic activities such as cooking or sewing. Interveners should be wary of making assumptions of this nature, related to gender, disablement, racial or caste bias. Organisers of training programmes need to question their own attitudes and consider non-traditional skills and employment. This must always, of course, be in consultation with the trainees and related to existing or potential income generating possibilities.

Apprenticeship

The advantage of apprenticeship, one of the oldest ways of transferring employment-related skills, is that it is carried out at the place of work and clearly related to the needs and realities of the market. The disadvantage is that apprenticeship schemes may offer little real training and merely use young people as a source of cheap labour. Many agencies have provided services aimed at improving the training received by apprentices and encouraging employers to take them on. The sort of services offered include the provision of formal training, on a day release basis, or providing mobile workshops to take training to workplaces. Occasionally agencies have operated a placement service, vetting employers and arranging apprenticeships for young people. Other agencies assist successfully trained apprentices to set up in business on their own account. It is essential if this sort of initiative is to succeed that the apprentice receives in addition to the particular technical skills, training in business methods and financial accounting.

Business training

Some degree of business training will always be helpful in the context of income generation initiatives. The degree of training may range from simple accounting to more complex systems for projecting future costs and return on capital, depending on the size of the enterprise concerned. Business training may also include marketing and dealing with legal requirements such as hygiene regulations or export licences. Rather than attempting to cover a comprehensive range of skills initially, it is preferable that a series of training units are offered so that participants can gradually build up their business capability as their needs develop. A programme in Cali, Colombia, tried to ensure that the small producers who were being assisted received the appropriate level of training by visiting the individual enterprises and advising participants on the specific skills which would be useful for developing their particular business. Another scheme was linked with the supply of credit, and gave loans to participants in order that they could set up a small business, and offered continuous training in business methods — calculating costs, sales and profits. The best form of training is one closely linked to real experience of day-to-day work.

Organisation skills

Training in organisation skills for members of co-operatives and other groups has often been neglected, but there are many possibilities for successful interventions in this area. Offering appropriate training in effective ways of organising participative structures and methods would greatly increase the likelihood of group enterprises achieving success. All members of groups need to understand the rights and responsibilities of membership, and to be able to take part in co-operative decision-making by using information about the group's activities. In the case of a co-operative production unit, the need for all the members to receive some degree of business training so that they understand financial accounts in order to ensure managerial accountability, has already been referred to.

INPET, a Peruvian agency providing services to self-managed enterprises, ensured that the training they offered was appropriate by relating the training to an overall management plan prepared individually for each enterprise which detailed its investment, training and other requirements along with projections for production, sales, profits, etc.

The training strategy was designed to serve three levels within the enterprise. First, basic training was provided for all members regardless of their function, explaining their position as members of the enterprise, their legal obligations, the dynamics of participation, how the basic accounting system worked and how to understand financial accounts, all set within the context of their particular enterprise. The aim was to enable all members to participate fully in crucial management decisions. The second level of training was for the officers of the business, some of whom had often helped to set up the enterprise. Here, a differentiation was made between the function of elected officers and professional managers. Although elected officers may not have suitable qualities for running the business, it is important that they understand fully the accounts and finances of the enterprises so that they can check up on the performance of managerial staff. The third level of training was tailored very much to the specific skills required by managers. Those managers who were not members were made aware of their responsibilities of accountability to members. Courses were also given which were designed to upgrade the skills of staff in line with the needs of the enterprise.

IV.4.iv The provision of credit for income generation initiatives

The provision of credit is an obvious and direct way in which interveners can support income generation schemes. The limited access of the urban poor to capital is a major barrier to the development of their enterprises. People can (legally) acquire capital from only four sources; their own savings, loans, grants or inheritance/gifts. The two most obvious options for interveners are promoting credit schemes or giving grants. Of these the establishment and encouragement of credit schemes is nowadays an increasingly popular intervention and likely to be the more sustainable in the long run.

The provision of credit is one of the most effective ways of assisting poor people. It can enable them to escape from an exploitative relationship with a middleman or woman and increase their disposable income. In Nagpur, India, for example, a local NGO has successfully broken the complete monopoly previously operated by the owners of fleets of rickshaws by offering credit to rickshaw pullers to purchase vehicles for themselves instead of being obliged to pay an extortionate rental charge to the rickshaw owners. There are many other examples of people and groups being freed from exploitation by being offered access to credit on fair terms and thereby helped to increase their incomes.

There are a significant number of credit structures in existence in the Third World today which are proving successful at delivering appropriate credit to thousands of people. They have achieved the immediate goal of stimulating income generation and have established relatively cost-effective organisations reaching significant numbers of people. Many schemes use the principle of a revolving loan fund, where a sum of money is made available to a member of a group, and when he or she repays it, it is lent to another member. For interveners wishing to make credit available for income generation initiatives, some of the issues to be considered are dealt with below.

Attitudes to credit

Introducing successful credit schemes may involve changing people's attitudes to credit. The traditions and practices associated with credit vary in different communities. Before any programme is introduced it is essential to understand and evaluate the existing practices of poor people in relation to credit for investment purposes.

There may be no credit tradition, as in many parts of Africa, or a private and often extortionate moneylender or capital renting tradition, or, in certain areas, a 'credit handout' tradition, propagated by aid agencies and some government departments

Where there is no tradition of using credit for investment purposes it will be necessary to develop an understanding and acceptance of credit with participants. This will require, at least initially, relatively intensive work by interveners. Instead of relying on local participant control and operation of the credit structures it may be necessary to use paid personnel. Their work will in large part be to raise peoples' understanding and awareness of the usefulness of credit and credit organisations.

In Addis Ababa Redd Barna (Norwegian Save The Children Fund) and Oxfam are involved in the promotion of credit co-operatives. They are working with people who have limited experience of using credit for their productive activities. The co-operatives received much

of their initial impetus from the intervention agencies, but the firm intention is to move towards complete control by the members. The interveners had first to promote the basic idea and use of credit and build an understanding of how a revolving fund operated. This awareness-raising was integrated into the overall business appraisal process and training of officers for the cooperatives.

In communities where credit is already widely used and people understand the role of credit in their lives, and particularly its relation to their income generating activities, interveners will have little difficulty in gaining acceptance for schemes to make credit available on more favourable terms or provide credit for people without collateral. Most businesses in such communities use credit in one form or another for working capital, often on short term and flexible conditions. Many traders for example tend to borrow money to purchase and resell goods. They may be obliged to use a precarious one-day loan system with punitive interest rates which reflects the intensity of their poverty and vulnerability. The vast majority of small businesses among the urban poor only have access to credit at exploitative interest rates from private moneylenders. In these circumstances, interveners can act effectively by offering relatively easy access to credit, simple procedures, clear conditions for giving out and repayment of credit and documentation which can be easily understood by borrowers.

It is perhaps the third type of credit tradition, that of 'credit handouts', which is hardest to overcome. The poor can gain an image of the development and government agencies as welfare or charity organisations because many of these organisations have established credit systems without ever achieving or in many cases without even trying to achieve, reasonable repayment rates. Faced with such a tradition, agencies will have to make strenuous efforts to convince borrowers that loans are something to be repaid, not disguised grants, and a revolving loan fund is actually 'collective' money which can have long term benefits for everyone only if it is sustained by repayments. The specific inclusion and encouragement of savings can encourage a more realistic attitude on the part of borrowers.

Repayments and guarantees

Commercial banks ensure loans are repaid by the use of collateral security, when borrowers commit themselves to giving the bank some other asset in repayment of the loan if it proves impossible to repay in cash. Poor people have no assets to serve as collateral and this means they are usually unable to obtain credit from banks. From the perspective of the poor there are many difficulties in getting a loan from a normal bank even if collateral is not required. These include the time involved in often complex procedures, which may be intimidating and confusing to poorly literate people, and the costs of travel to the banks. Furthermore the conditions of credit are too inflexible for the poor. The time it takes to get a loan approved and the conditions of repayment are also problems.

If interveners wish to make credit available to poor people, there are ways of ensuring repayment without the use of collateral. One of the most effective is the system of community loans. Making a loan to a small group of people means that they not only assess carefully the viability of any initiative to be undertaken by any of the group members, but also that group pressure to repay is considerable because access to further credit is only obtainable if the entire group meets its obligations. It is an inexpensive system to administer as group members carry out much of the administration.

Another system for ensuring repayment is to set up a system of serial loans. This is where the borrower is offered a small loan initially, possibly less than was asked for, and access to larger amounts and future loans are made conditional on proper repayment. By offering close supervision and good advice, interveners can increase the likelihood that any income generating initiative for which credit is provided will be successful and therefore the loan will be repaid. An assessment of the feasibility of an initiative can be made a precondition for a loan and can prevent unrealistic enterprises being set up, only to fail.

Interveners can also act as bank guarantors and provide a capital sum to be deposited with a bank against default by small borrowers. This may be instrumental in persuading banks to lend to poor people who have no assets. Although there is a danger that such guarantee funds relieve banks of their normal risks or responsibilities, these funds have enabled otherwise inaccessible sources of credit to be opened up to small enterprises.

Interest rates

Very high rates of inflation i.e. over 50%, make it very difficult for any credit programme to set viable interest rates. In a situation where inflation is very high, the poor invariably suffer because their incomes fail to keep up with their expenditure. Because small businesses have great problems in adjusting to high inflation they are more likely to fall behind on loan repayments.

A credit programme will need to charge positive interest rates if it is to sustain the real value of its loan fund; this means that the interest rate will have to be higher than the rate of inflation. To sustain the overall operation of a credit programme without continuous subsidisation it will also be necessary to include an element to cover the administrative costs of the programme. In some countries it is not legal to charge interest, so a straight charge for administration will have to be made instead, in order to meet some of the costs of maintaining a loan fund. Failure to charge positive interest rates or to maintain loan repayments from borrowers will eventually lead to the credit fund being reduced in size, so that the capital available for re-lending will be depleted. Many credit funds have collapsed because they have become decapitalised, and the administrative costs have further depleted the capital as there was no profit being made to pay them. In situations of hyperinflation, extreme measures will be needed to sustain the real value of a loan fund. These could include a shortening of the repayment period (backed by significant penalties for late repayment) or an acceptance of subsidies from some funding source, justifiable in such 'emergency' situations.

Community control of credit

Successful community control of credit depends on the ability of the community to organise themselves to undertake the necessary tasks such as controlling the money involved, deciding who should get loans and who should not, and monitoring repayments. These can be onerous tasks for volunteers with limited experience. Failure of community controlled loan programmes can have serious effects on general community cohesion and development.

However, when it works well, community control of credit can have many advantages; it can reduce administration charges, improve the access of the community to the fund, assist in targeting funds to specific groups and contribute to the strengthening of community organisations. The nature of the 'community' involved in a credit scheme may vary; it may be a recognised legal entity, a self-selected group or a group specially created by an intervener in order to receive credit. It is important for interveners to define and understand the nature of the community, particularly the amount of control individual borrowers may have over the loan assigned to them. Otherwise, weaker members of a community may be exploited; for example, men might exploit a credit fund for women by misappropriating loans obtained by their wives.

A credit scheme was introduced for the community of rubbish collectors and sorters in Cairo referred to in Part I. The aim was to

assist the poorest in this group through enabling them to improve their recycling businesses. But the interveners failed to analyse the community sufficiently so were unaware of the high level of social differentiation within the group and the fact that certain powerful members of the community controlled the processes of rubbish collection, sorting and recycling. The members of the committee which was formed to administer the credit funds were in fact these powerful people. It is hardly surprising that most of the loans were then made to the small number of families already controlling the industry and community. Even worse, these families felt no obligation to repay the loans, as they were too powerful to be influenced by community pressure.

Although some of the loans were used for productive investment, this merely increased the levels of control of a few families and their domination of the industry; meanwhile, the original targeted beneficiaries were, if anything, even poorer and more exploited than before. A follow-up programme took much greater care to target the credit to poor women by the use of local women as promoters and by making smaller loans available, which were of less interest to the richer families, to groups of five women, who vetted the loans and took a group responsibility for ensuring repayment.

Size of loans

Traditionally, banks have regarded very small loans as uneconomic because the administrative costs involved are high in comparison to the profit made on the loan. But in terms of poverty alleviation, evidence shows that even very small loans can have a dramatic, transforming influence on the lives of poor people and in economic terms, the rate of return on such loans can be very high. In fact, this high rate of return clearly demonstrates the hunger for capital and the enormous potential for expanding the micro-enterprises of the very poor. In one study, it was found that loans of £100 produced gross incomes of £15 per day! A credit and savings scheme in Indonesia decided to charge themselves a high interest rate of 15% per month (at a time when inflation was 15% per year). Despite this, the members of the group were able to repay their loans very quickly and secure increased incomes from their tiny businesses such as chicken rearing, egg selling, resale of kerosene, etc. Interveners should not underestimate the positive impact of quite small sums, particularly in the informal sector and to individual enterprises.

Grants or loans?
Interveners may be faced with the choice of offering grants or loans to an income generation scheme. Without the pressure to repay, grants may encourage misuse or poor use of funds, the development of dependent attitudes and the stifling of initiative. Credit can also have negative effects as it may prove impossible to repay the loan as well as the interest while securing a reasonable income from the income generation initiative. Grants are most appropriate in circumstances where the capital amount is so large that the repayments of loans would be impossible. This is often why large grants are given to groups to establish production units which require expensive machinery or other inputs. However, the principle that a loan for production activities should at least generate enough income to service its repayment should not be forgotten. Time may be an important factor, because many new investments will face a period during which they cannot be expected to make profits. Attempting to service a large loan in this period may be seriously detrimental to the survival of the enterprise. The possibility of deferred servicing or other soft repayment conditions should be considered. Credit, where it is genuinely seen as requiring repayment, has the great advantage of forcing the participants to take responsibility for the funds and to consider the economic viability of the productive investment. Thus credit is almost always a more appropriate form of assistance to income generation activities than a non-repayable grant or subsidy.

Use of savings
Successful credit programmes are often tied closely to savings schemes. Savings can increase the amount of capital available to a group. Another significant advantage of savings systems is that they increase the independence of a group because the additional resources remain within their own control. Also, savings are obviously 'owned' by the group in the way that funds from an external source can never be. There are many indigenous systems of savings which can be built on by new savings schemes, although these traditional schemes are usually for consumption emergencies as well as investment.

In Indonesia, savings schemes are very common and popular. One such scheme in central Java helps small groups of people to form a savings group. Each group, usually of about 15 people, chooses exactly how they wish to proceed and what interest rate they will charge, whether lending will be on a rota basis, or matched to specific investment or consumption needs. The accumulated interest

is used to increase the group's capital. Saving is organised on a monthly basis; some of the poorer groups are helped by the loan of an initial small capital sum to get the scheme started. It is common for groups to lend from savings both to the individual members and also to collective enterprises set up by the group. From modest beginnings, these groups are able to build up significant amounts of money for disposal.

However, there are severe problems for savings groups where rates of inflation are very high. Even carefully invested savings may still fall in value, unless the rate of interest received from a bank or building society are well above inflation. Where savings are being used for investment in productive activities, as in the Indonesian case above, this may keep the value of the total savings in step with inflation. Unless inflation rates are very low, a savings scheme which keeps savings without investing them in some way will mean the savers are effectively losing money.

There are positive examples from many parts of the world which show that even very poor people can be enthusiastic and save where a scheme offers them a secure way of saving and where they can have ready access to these savings for their needs. Savings can increase the resources available to poor people and simple schemes can be run with minimal external intervention. However lacking in resources people appear to outsiders, their capacity to save and to use these savings profitably should never be underestimated.

IV.4.v **Offering an appropriate 'package'**

Although, for clarity, the various options open to interveners wishing to support income generation activities have been treated separately, it will have become clear that there is a close relationship between many of the supportive activities outlined above and that the most effective interventions involve a 'package' of services. Groups or individuals not only need credit, they need training and advice, if their income generation activities are to be effective.

In the small business programme operated in Port Sudan, some 27 Business Promoters offer an extension service to the clients in receipt of loans. In fact, no loan is awarded until one of the promoters has visited both the house and the workplace of the person applying for a loan. Each client works through a projected set of accounts to calculate how the loan will be used to improve their business, the

costs, projected sales and profits. A loan is only approved if it can be shown that it will increase income sufficiently to enable the loan to be repaid and still allow for a profit. Once the loan is approved, the business promoters regularly visit the clients with advice and to check whether the planned investment is going according to plan. Because the programme has set itself the target of working with the poorest members of the community, many of the businesses are initially very small, so the time invested by the promoters is considerable compared to the size of the enterprises being helped. The advantage is that the programme is able to help some very poor people, including a large number of women (who make up 45% of clients) who are assisted by women promoters (50% of the staff). In the Sudanese setting, it is unlikely that any other approach would be able to help so many women. The programme aims to continue to identify new clients amongst the poorer areas of the city and the promoters assist by continually visiting potential clients in the communities and trying to identify new opportunities for them to expand their incomes.

Based in Nairobi, Kenya, UNDUGU provides a business advisory service primarily to people who have passed through various skill training schemes and to people involved in a credit programme. Loan requests are carefully investigated and may entail extra training being undertaken as a prerequisite to a loan being approved. Thereafter the successful trainees and loan applicants have access to a flexible advisory service which is open to enquiries, can provide on-site visits and assist in problem solving. Again, the results are very positive and the advice of high quality, but it is an expensive system, which means the possibilities for expansion are limited.

Both the examples given above offer clients a flexible package of services which are tailored to meet individual needs. As groups develop or individuals expand their operations, their needs for services change. In the discussion about objectives in Section II, the importance not only of setting initial objectives in discussion with participants but also of keeping the flexibility necessary to adapt to changing objectives, was emphasised. Groups that begin as credit and savings groups may move on to provide help with social problems experienced by their members, and interveners should be aware of the possibilities of offering additional services such as health education, through groups that were originally mainly concerned with income generation. Associations of small traders, which began with

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Small traders, such as these market women in Burkina Faso, often have their own informal associations. Interveners can usefully work with such groups by, for example, promoting credit and savings schemes; but need to be flexible enough to respond to changing demands from participants.

the objectives of making loans available or sharing business advice and expertise, may become involved in setting up creches, negotiating with local authorities for fairer licensing systems or protection from exploitation, or lobbying for a water supply. Interveners must keep in close contact with the participants in any income generation initiative in order to be able to respond flexibly to the changing demands for services which may arise.

By working with existing organisations, either informal ones, such as a group of small traders, or more formally constituted membership organisations, interveners can greatly increase the effectiveness of their activities and reach large numbers of poor people. Organisations such as SEWA and AAM mentioned in Part IV.3, have great flexibility and often work at different levels simultaneously and offer a variety of services to their members. Because they are in close touch with, and answerable to their members, their activities are a response to the expressed needs of individuals. Such organisations can have a powerful effect in enabling poor people to take more control over their lives as well as enhance their income generating activities.

IV.5 Income generation in a wider context

Income generation interventions are only one of many ways of alleviating poverty. Interveners need to be aware of the wider context in hich they work. The problems and challenges faced by income generation initiatives in Third World countries have been stressed throughout this book, and interveners need not only to take full account of these but also measure carefully their own capabilities to deal with them, if they wish to assist poor people in this way. There are many other forms of intervention which can indirectly but effectively enhance poor people's ability to earn an income. For example, providing creche facilities is an underestimated but very significant welfare provision which can have a profound effect on the lives of poor women, freeing them from childcare responsibilities and enabling them to work to gain income. Improving health care facilities can have the indirect effect of increasing people's ability to work. Supporting trade unions can eventually lead to fairer wages for large numbers of people.

Income generation interventions should never be seen in isolation, but as part of a range of development activities, and interveners need to be aware of the total reality of the situation of the poor people with whom they are working. Improving income generating opportunities may be an essential part of the strategy of poverty alleviation, but this strategy must be devised in full consultation with poor people and correspond to their needs, and the capabilities of the interveners, if it is to be effective in improving their situation.

CONCLUSIONS

1. There are many external factors in the local and international economy which can make it difficult for an income generation intervention to succeed economically, but failure can also be due to internal weaknesses.

2. Group dynamics can affect a group's chances of success. Attention given to developing group structure and functioning can be as important as creating effective business management.

3. Participation of group members in decision-making can make for effective functioning, build trust, increase commitment and develop skills and confidence. Accountability of managers to others is fundamental. Defining responsibilities and appraising performance is an important aspect of participation.

4. The size of operation of a group productive enterprise can create problems; there may be a need for management and accountancy skills and marketing expertise. Groups above a certain size may have to relate formally with government departments and aid agencies and comply with various regulations. These demands for increased administrative formalities may be costly and may also result in a group becoming dependent on 'outsiders'.

5. The underlying philosophy of the group can influence the system of payment adopted. Incentives may have to be introduced to improve standards of work and productivity. Whatever system is chosen should be discussed with and understood by all participants.

6. As an alternative to working with producer groups, interveners should look carefully at the possibility of assisting with existing small enterprises. Responsibility for the control of the venture will rest with the person concerned. Helping individuals to improve what they are already doing to gain their own income involves less interference with survival strategies of poor households and is likely to lead to a more sustainable improvement in income earning capacity.

7. There are many other ways of facilitating income generating activities; offering advisory services or direct marketing or purchasing services can be of great value. However, alternative marketing organisations must be careful to remain cost-effective and market-oriented if they are to survive.

8. There are several different types of training (basic skills, vocational, apprenticeship, business and organisational) which interveners can offer to enhance income generating capacity. Training must be relevant and market-oriented and arranged with the needs of the trainees in mind.

9. The provision of credit is a direct and effective way of assisting income generation activities. It may be necessary to explain the use of credit if this is unfamiliar. It may be difficult for poor people to get loans from banks; interveners can assist by acting as guarantors. Offering community loans to groups of people, and setting up revolving loan funds are ways of making credit available for poor people. Loan funds must be maintained by ensuring repayment and covering depreciation caused by inflation. Very high rates of return even on small loans prove poor people are responsible borrowers. Credit can often be linked to savings; even very poor people can save if a secure scheme is set up which gives them ready access to credit.

10. These different ways of assisting income generation are often best offered as a package. Linking credit with training and advice in an appropriate way means it is used most effectively. Interveners should be responsive to the changing needs and priorities of participants.

11. Interveners should remember that assisting with income generation is only one of many development tools to alleviate poverty. There are other development initiatives which can have an indirect, beneficial effect on people's ability to generate income.

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