

**SWP 49/91 "A NEW ROLE FOR DEVELOPMENT AGENCIES:
NON-GOVERNMENT ORGANISATIONS AND
ENTERPRISE DEVELOPMENT"**

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**A NEW ROLE FOR DEVELOPMENT AGENCIES:
NGOs AND ENTERPRISE DEVELOPMENT**

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Over the last decade both governments and international agencies have gradually come to recognize the contribution NGOs make to micro-level development efforts in the Third World. While the majority of NGOs involved in this work are private voluntary agencies with a strong socially orientated community based approach to development, there is evidence to suggest that an increasing number of such agencies are becoming involved in promoting profit-oriented small-scale enterprises and similar income generating activities. In light of the traditionally humanitarian non-profit mandate and culture of these agencies this paper attempts to explore their changing role in local development, and their increased involvement in private sector development.

Non-Government Organizations

Non-Government Organization (NGO) is the common nomenclature used by international development agencies to cover "third sector" organizations such as non-profit agencies, charities, private voluntary organizations, or philanthropic societies. The major characteristics of NGOs are that they have been established by individuals or groups of other NGOs, not by governments; they should have non-government legal status in their country of registration and be independent of governmental or inter-governmental bodies; be non-profit making; and have a voluntary membership.

Definitions of NGOs vary considerably, thus the International Council of Voluntary Agencies (ICVA) distinguishes voluntary agencies from other NGOs by their humanitarian objectives and their source of financing. Alternatively USAID identifies NGOs as Private Voluntary Organizations (PVOs) which are "non-profit organizations which receive some portion of their annual revenue from the private sector... and receive voluntary contributions or money or staff time or in kind support from the general public". Inherent in these western perceptions is that NGOs are free from direct government interference, while in the Third World it is common for governments, with their different political and social traditions, to be more closely involved in the legal registration and running of NGOs, as well as the appointment of board members.

One can also distinguish between NGOs by sector (health, education, agriculture, etc.), by target group (women, disabled, refugees, etc.), by focus (emergency relief or developmental programmes), whether they are secular or religious, or whether they are an indigenous agency or a branch of an international NGO. Whatever definition is applied it is clear that NGOs have established themselves as major players in the development process. Indigenous agencies are taking an increasing proportion of bilateral aid funding, and in 1985 an estimated US\$ 4.8 billion had been transferred to international NGOs operating in the Third World (Borghese, 1988). The range of work in which such agencies are involved is reflected in the OECD Directory of NGOs, which has had to use nearly one thousand different classifications in order to identify the different activities in which NGOs are involved (OECD, 1981).

The growing involvement of NGOs in promoting SSE is a consequence of the way the state in many developing countries has retreated from its dominant position in the development process in the face of financial necessity, aid donor pressure and electoral demand. New strategies have had to be adopted in order to fill the gap left by the state and still maintain levels of economic activity. The local business community is expected to play an increasingly dynamic role in this process, and income generating small businesses have a key role in mobilizing local resources, creating appropriate employment and generating new opportunities.

Small-Scale Enterprise

The growth of the small-scale enterprise sector is inextricably linked with the development process, if only because of the very high proportion of such small businesses found in developing economies. Not only do these businesses provide range of goods and services, but they make a significant contribution to national development. Their economic contribution includes employment creation, wealth generation, increased output, mobilization of local resources and adaptation of technologies. Their social contribution includes a reduction of poverty, the provision of goods and services appropriate to local needs, and a greater degree of local ownership and control leading to balanced development. While the political benefits are a product of the way wealth, opportunity, and power are redistributed through the community because of the diversified ownership base inherent in this sector.

The small-scale enterprises (SSE) that NGOs are involved with are commonly non-farm income generating micro-enterprises. The current interest in these self-sufficient income generating small businesses comes from a recognition of both the economic and societal benefits of such ventures. Collectively such small enterprises generate a range of opportunities previously unavailable in many communities. They create new employment and wealth, and are potential agents for future economic growth and balanced development even in the most disadvantaged communities. Recent studies have highlighted the role of such small enterprises in providing employment, income, and productive outlets for many of the disadvantaged and marginal sections of both rural and urban communities (Liedholm & Mead: 1987, or De Soto: 1988). Furthermore, small businesses can effectively provide basic services in rural or marginal urban communities, which in the past had been inefficiently and uneconomically provided by the public sector. These services include education, transport, refuse collection, health services and even public latrines (Harper: 1984).

SSEs also play an integral role in local communities, and being small and adaptable can operate in markets in which larger firms could not profitably survive. They can effectively cater for the needs of the local market by providing goods and services appropriate to the local consumer, and can mobilize and use local resources more effectively than do larger operations. Thus, for example, they can avoid the economic inefficiencies and structural inflexibility of larger firms, and are more likely to use local materials, scrap or agricultural production, and draw on the talents of the local labour force. Furthermore, depending on the technology involved, small businesses are recognized as being a far more cost-effective job creator than large-scale businesses. Not only do they employ proportionately more people per unit invested, but in so doing are more likely to employ local or indigenous labour with limited education. Thus a pool of skilled or semi-skilled workers is established which in turn can be drawn on as a basis for future economic expansion (Neck & Nelson, 1987, and Little, 1988).

Aid agencies and governments have recognized the wider benefits of a viable indigenous business sector, and look towards SSEs to help create employment and promote local economic growth. Whereas NGOs see a flourishing small business sector as a vehicle to mobilize local resources and redistribute wealth and opportunity

throughout the community. This in turn promotes economic independence, and encourages a degree of social mobility. The consequent shift in the balance of power locally is often more compatible with the more dynamic egalitarian societies favoured by NGOs.

The expectation that a viable SSE sector could be a vehicle for more equitable development and act as alternative to violence is well exemplified in the way SSE programmes are being introduced in communities where one section of the community is obviously politically and economically disadvantaged. Thus NGOs, such as Cooperation for Development, are establishing a range of SSE credit programmes and support services in politically dislocated communities in Southern Africa (Mozambique, Angola, etc) or the Middle East (the West Bank, Jordan, Lebanon, etc). The rationale being that such communities will gain sufficient economic clout through their control of the small business sector that in time they will gain the necessary political and economic power to control their own political destiny. One measure of the validity of this contention is the way a number of regimes actively discriminate against the small business community and attempt to restrict its growth through regulatory controls (Bromley, 1985).

In conclusion, the SSE sector should not merely be seen as a part of the cash market economy, but also as an essential part of everyday life with a particular role to play in social, political and economic development. SSEs provide new opportunities for both the individual and the community in general, and as Schumacher concluded "in small-scale enterprise, private ownership is natural fruitful and just" (Schumacher, 1974). The multiplier effect of the SSE sector is unquantifiable; but because of the employment created, the technologies applied, the markets opened and the products supplies, it is increasingly recognized that a healthy, viable small business sector is a prerequisite for equitable growth and balanced development.

NGOs and SSEs

Donor agencies have long been conscious of the failure of government sponsored enterprise agencies in providing relevant, cost-efficient support for SSE, especially in rural areas and marginal urban communities. In the past government efforts to promote SSE have been expensive, bureaucratic and relatively ineffective. The situation was aggravated in that governments have traditionally been suspicious of the small business sector, and legislation has generally favoured larger concerns. Consequently over the last decade donor agencies have increasingly turned to NGOs to supplement existing programmes and initiate new innovative approaches to enterprise development, including micro-loan schemes and rural enterprise programmes. NGOs are seen as being particularly effective in this role because of their flexibility and cost-efficiency, their contacts in the local community and freedom from government control. This donor agency interest is well exemplified by ODA's newly established Small Enterprise Development Fund which is intended to "assist private sector non-profit organizations concerned with the promotion of small enterprises in developing countries."

Thus in communities with little entrepreneurial heritage or involvement in the small business sector aid advisers and policy makers see NGOs as appropriate mechanisms with which to promote SSEs. NGOs provide a wide range of services including: the provision of credit, management and business skills training, entrepreneurship development programmes, extension and advisory services, technical assistance, market information and linkages, legal support and policy lobbying. In general most NGOs concentrate on handicraft and agro-based activities; although it appears that there are no particular type of business that are excluded from receiving

NGO support as long as they are morally acceptable (the OECD Directory shows that NGOs are involved in everything from hotels to pharmaceuticals).

Although for many years mission organizations have been directly involved in income generating, employment creating ventures to provide work for their parishioners and sustain their own educational work, NGO involvement in the promotion of small business is a relatively recent phenomena. This shift in focus raises difficult issues for those working in NGOs, partly because of their limited skill base in this field, but more pertinently because advising on how to run viable profit-orientated businesses is tangentially at odds with their traditional role as welfare providers and community developers. It was with these concerns in mind, and in light of the on-going debate as to the efficacy of NGOs in the area of enterprise development that this study was initiated.

On one hand evidence suggests that NGOs are an appropriate vehicle with which to promote SSEs, while on the other hand a number of researchers have questioned whether NGOs have any particular advantage over banks or government sponsored enterprise agencies when working with such small businesses.

USAID sponsored studies into the work of SSE-promoting NGOs have indicated that the local small business community had directly benefited from their intervention (Kilby & D'Zmura, 1985; Ashe, 1985; Hunt, 1985, etc); moreover it has been suggested that the reasons for NGO's comparative advantage in this area is because of their:

- a). cost-efficiency and flexibility.
- b). capacity to induce trust among the local community, particularly because of their neutrality and commitment to development.
- c). ability to collaborate successfully with the local community, and work at grassroots level to mobilize human resources.
- d). willingness and capability to specialize in areas of particular competences rather than trying to perform the role of a multipurpose development agency.
- e). being less subject to political controls than traditional public development institutions and their ability to act as a bridge between the community and the government.
- f). willingness to take risks and start new experimental projects. (USAID, 1985)

But despite these apparent advantages it is also clear that NGOs, with their limited resources and lack of exposure to business practices, lack the necessarily skilled staff and technical competences to work effectively with the small business community. Research suggests that they suffer from potentially high per-beneficiary costs, and their non-profit welfarist ethos often means they focus on the poor rather than the viable and the profitable, consequently their programmes are rarely sustainable or replicable. For example Tendler, in her evaluation of Ford Foundation sponsored programmes, questioned whether NGOs could ever successfully provide a comprehensive range of cost-effective support services to large numbers of small businesses. She also questioned the replicability of the outstanding agencies in this field. She found they were untypical of NGOs generally, both in size and approach, and that they had benefitted considerably from having strong, charismatic leadership who had good contacts with the establishment and the political elite (Tendler, 1989).

While most researchers have commented on the strong commitment of NGO staff to the community ideal (e.g Poulton & Harris, 1988), others have highlighted the dilemma this poses for NGOs involved in SSE promotion. Hailey and Harper noted that most NGO staff have traditionally had a background in one of the caring professions, and joined such agencies to help the poor and the disadvantaged. Few have any business experience and many may in fact harbour anti-business sentiments.

They tend to see income generating activity as an additional welfare support measure for the community, and as a consequence support is targeted to the neediest, rather than those who could be expected to make best use of it (Hailey & Harper, 1989).

This raises fundamental questions about the role of NGOs in enterprise promotion; particularly in that, as a general rule, successful enterprise development programmes focus on those most likely to succeed, and are therefore selective as to whom they will provide credit or support. This causes very real dilemmas for agency staff who are committed to work with the disadvantaged and those in need. They see little point in focusing their energies and time in helping an advantaged group, who by virtue of their age, sex, education, or innate talents are likely to succeed anyway.

Furthermore, agency workers prefer to help communal enterprises that involve community groups rather than those established by individuals. A review of American NGOs involved in this field suggest that 60 percent of non-training assistance to SSEs is channelled to such collectively-owned businesses (ACVAFS, 1982). With this preference for cooperative or group enterprises, and the expectation that they should benefit the community as a whole, it appears that vaguely defined developmental considerations and non-measurable social goals often dictate agency thinking. Agency staff thus appeared to be more interested in the societal benefits of any venture, than its inherent long-term viability.

The character of SSE-promoting NGOs

Members of the ICVA were surveyed by post in an attempt to assess their degree of involvement in SSE promotion, and to identify the characteristics and organizational culture of those NGOs successfully involved in promoting viable income generating activities and profitable small businesses. Over three-quarters of this sample were international NGOs with headquarters located in the developed world. In order to compare the attitudes and values of the staff of NGOs based in such international headquarters with those of locally-based staff directly involved in running SSE promotion programmes; seven Kenya-based NGOs were studied in depth, as were thirty-nine of their client SSEs. This sample of obviously successful SSE-promoting NGOs had been identified by expert nomination without any reference to ICVA membership, and included Toto Home Industries, Kenya Womens Finance Trust, Kenya Rural Enterprise Program and the National Christian Council of Kenya.

This sample of both international and locally-based NGOs gives an insight to the perceptions and culture of NGOs involved in SSE promotion; particularly as it was apparent that there was a marked difference in the perspective of the staff employed by Kenya-based NGOs and those in international NGOs. The staff of the locally-based NGOs, most of whom had regular contact with their client base, had adopted a more "business orientated" approach than those in international NGOs as represented by the ICVA sample. Instead the staff of international NGOs demonstrated a preference for projects that supported collectively-owned, community based ventures, rather than what they saw as exploitative labour-hiring small businesses.

Two-thirds of the ICVA sample preferred working with collectively-owned SSEs and would continue to invest resources in such family or group based businesses, while only a quarter were prepared to support individualistic, labour-hiring businesses. Such businesses, which all indicators suggest are more profitable than communal businesses, were felt by the staff of international NGOs to exploit local labour and resources. They perceived collectively-owned businesses as being better able to serve the wider needs of the disadvantaged and the poor, and as a

consequence had ear-marked them for preferential support. A further indication of the rift between the attitudes of indigenous locally-based NGOs with those of international agencies was that of the small number of indigenous NGOs in the ICVA sample three-quarters were prepared to work with individualistic, labour-hiring businesses.

Furthermore, the survey of the ICVA membership supports the contention that although international NGOs claim to be involved in enterprise development work, relatively few actually allocate staff or resources to this work. For while three quarters of the respondents claimed to be engaged in SSE development, less than ten percent had allocated 20 percent or more of their total budget to any type of SSE promotion work, while half of the remainder only spent 5 percent or less of their total budget on such work.

In comparison the survey of the locally-based Kenyan NGOs suggested that they all enjoyed a number of common characteristics and shared organizational values. They shared what can loosely be called a "business orientated" culture; and amongst their senior staff there was a consensus of opinion as to overall policy goals and the values inherent in this culture. This "business orientated" culture was apparent in the following ways:

- a). clients were selected on potential viability and profitability, not for the communal good.
- b). preference was given to individualistic privately owned enterprises rather than collectively owned ventures.
- c). no grants were given, and the only credit available was charged out at realistic (market) interest rates
- d). tight repayment schedules were adhered and loan repayments enforced.

In an attempt to assess the direct benefits to local businesses resulting from the support of these "business orientated" NGOs some thirty-nine small Kenyan businesses which hired, or had the potential of hiring labour, were surveyed. The evidence indicated that since receiving support from their local NGO thirty-seven (94 percent) had increased sales turnover, thirty (77 percent) had increased their gross profit, and twelve (30 percent) had increased numbers employed. Furthermore, after applying Kilby and D'Zmura's model for assessing the wider socio-economic benefits of such SSEs, it was estimated that thirty-seven of the thirty-nine businesses had increased their contribution to the national economy since receiving NGO support. The success of such support measures demonstrates the benefits accruing from "business orientated" NGOs working directly with individualistic, labour-hiring enterprises.

Implications and Conclusion

Over the last decades bilateral and multilateral agencies have come to recognise the contribution NGOs make to socially oriented micro-level development efforts in the Third World. This comes at a time when there is growing awareness of the wider economic, social and political benefits accruing from a viable SSE sector. Government agencies and the traditional banking sector have faced considerable problems in their efforts to promote this sector in marginal urban communities and rural areas. Because of these delivery problems, and the relative success of NGOs in meeting the income generating needs of such communities, increasing pressure has been brought to bear by official development agencies for NGOs to become increasingly involved in income generating activities and SSE promotion.

This shift in emphasis raises dilemmas for NGOs who have little business experience and who traditionally have a humanitarian, non-profit mandate and culture. This paper has not only examined the reasons for the growing involvement of NGOs with the small business sector, but has attempted to identify the organizational characteristics and "culture" of those NGOs that appear best suited to promoting profitable labour-hiring businesses, while others continue to support collectively-owned income generating projects.

Donor agencies who attempt to encourage NGOs into SSE promotion work should recognize the impact of these distinct "cultures" and value systems before committing funds. The evidence suggests that the staff of locally-based NGOs who work directly with income generating SSEs have adopted a more "business orientated" culture, whereas the staff of international NGOs appear hesitant at promoting labour-hiring "exploitative" ventures. However the evidence does indicate that it should be possible to increase the number of NGOs willing to participate in SSE promotion if they could be persuaded of the wider social benefits of a thriving SSE sector. For example, the social cost/benefit analysis developed by Kilby and D'Zmura could be used as a valuable tool with which to convince NGO sceptics of the potential benefits of individualistic small businesses and the value of NGO enterprise support programmes.

The research also indicates that the attitude of senior staff, the decision making process and the organizational culture of the SSE-promoting NGO has a considerable influence on the effectiveness of such agencies. The evidence suggests that the successful SSE-promoting NGOs are those that have adopted a "business orientated" culture, and are prepared to be selective, give preference to individualist privately owned businesses rather than collectively owned ventures, and where necessary provide enforceable loans at realistic interest rates. Thus by implication a key conclusion inherent in this paper is that if an NGO's existing culture is antipathetic to such "business" values it should seriously review its involvement in promoting income generating activities and small-scale enterprise. If necessary the NGO should reject the blandishments of donor agencies, and concentrate instead on other aspects of community-based development which match its organizational culture.

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