Rethinking the Approach to the Microenterprise Sector in Latin America

An Integrating Framework by Jaime Ortiz

Abstract: Unavoidable macroeconomic adjustment policies have exacerbated social inequalities in Latin America. As a result, electoral platforms have identified microenterprises as an alternative economic activity to help alleviate poverty. Pursuing an efficient microentrepreneurial base requires from governments a comprehensive package of both financing and training strategies. Conversely, microentrepreneurs require a better understanding of their activity in order to set forward arguments that will allow them to enhance their management practices. Government policies towards the microenterprise sector should create favorable conditions conducive to the establishment and operation of financial institutions as well as specialized nongovernmental organizations providing training and consulting. Within that framework, this article attempts to raise awareness of the managerial and policy implications of the interactions between financing and training in affecting microenterprise performance.

Introduction

Microenterprises are generally understood as the very small, informally organized, nonagricultural businesses operating in less-developed countries. Ten is the upper bound of employees used by several international organizations as a threshold to distinguish them from small enterprises (United Nations,
Microenterprises have widely been recognized as an engine of economic growth and a source of sustainable development. In Latin America, microenterprises are alternative or supplementary sources of income and employment (Pfeffermann, 2001). Microenterprise activities are seen as an effective means of relief for the most disadvantaged members of society. The contribution of microenterprises in generating employment, production, and value added is characterized by a high degree of flexibility in unstable economies. In some countries, trade and services from microenterprise and small enterprises contribute as much as 35% of the gross domestic product (Inter-American Development Bank, 1999).

As a result of its rising significance, the microenterprise sector is demanding a greater voice in shaping sectoral policies and assistance programs. There is a tendency among microenterprise advocacy groups, however, to neglect the fact that problem-solving strategies must take into consideration a combined financial and training perspective. Governments have responded to demands from the microenterprise sector with an array of unrelated policy instruments. This is equally true of interventionist approaches adopted by countries like Colombia where borrowers are required to undertake some training as a precondition for receiving financial assistance and more “laissez-faire” attempts undertaken by countries like Ecuador, where training assistance packages are paid fully by each beneficiary in order to reach program sustainability.

Brugger and Rajapatirana (1995) stress the importance of specific government policies and programs aimed to promote an efficient use of productive factors such as capital and entrepreneurial skills. The typical perspective is that a market-oriented policy setting offers ideal conditions for microbusiness cre-
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Stable fiscal and monetary policies have resulted in reasonable inflation and interest rates. By the same token, financial transparency has provided incentives as well as mechanisms to attract savings and channel them into productive investments (Gray and Gamser, 1994). Thus, macroeconomic reforms instituted in some Latin American countries have created a cradle of microentrepreneurs that is now more confident and eager to start new business initiatives. In this context, widespread promotion of microentrepreneurship is a grassroots oriented approach to reducing the social problems of poverty and unemployment. An added payoff is that microentrepreneurs constitute a class of inherently politically conservative and socially stabilizing citizens. However, global competition threatens this fledgling sector. Unless microentrepreneurs adopt a strategy for building their competitive resources, the continued viability of this sector will be threatened.

This article argues that successful promotion of the microenterprise sector requires the integration and linkage of technical training with financial assistance programs. It is also argued that any attempt to improve the quality of both lending and training services requires the identification of basic as well as more sophisticated managerial practices. Specialized nongovernmental organizations (NGO) must stimulate adoption of appropriate instruments to meet the combined demand for loans and microentrepreneurial training. In that context, policy instruments for strengthening microenterprises must combine and leverage the interactions between financing and training strategies.

This article explicitly considers some policy strategies to be taken into account by specialized NGOs and microentrepreneurs in order to defend the recommendations given. The first section identifies the basic problems faced by a number of Latin American countries when providing lending services to microenterprises. The following section justifies the importance of integrating financial and training issues. It concludes...
with a conceptual framework for implementing the recommendations offered. The last section summarizes the policy options available to governments in the way of “social investments” addressed to encourage the microenterprise activity.

**Problem Identification**

International lending organizations have carried out extensive technical assistance programs supporting the microenterprise sector. However, inadequate technical assistance services seem to be the most serious obstacle for strengthening the microenterprise sector in Latin America. Of note, in the most advanced countries such as Brazil and Chile, the intensity and effectiveness of past microenterprise business assistance models seems to have lost momentum (United Nations, 1997). Recent evaluations of lending programs to microenterprises emphasize the mistake of having minimized and/or omitted training needs when financial assistance initiatives are undertaken (Inter-American Development Bank, 1999).

Latin American economies are characterized by ongoing privatization processes, incipient industrialization levels, and market-oriented institution building. Within that scenario, successful microentrepreneurship is only possible if training mechanisms are developed and offered by institutions already dealing with the microenterprise sector (Gray and Gamser, 1994). Specialized NGOs are the kind of institutions willing to respond to the training needs of the microenterprise. Broadly speaking, they are professionally managed, self-sustained institutions fully capable of instilling comprehensive management training methods in microentrepreneurs (OECD, 1995). Specialized NGOs focus on effectively enhancing the technical acumen of microentrepreneurs, as a precondition for gaining access to financial services. Therefore, they must be considered an essential part of a thorough implementation plan to create cost-effective and self-sustained microentrepreneurs capable of competing more effectively.
However, the role and credibility of NGOs as specialized, nonpublic technical entities need to be strengthened, mainly because financing programs have performed poorly in the past, and because of a natural distrust from commercial banks of new lending programs (Ortiz, 1996). In fact, it is not surprising to find some banks reluctant to be targeted as main actors for channeling funds toward microentrepreneurs (Otero and Rhyne, 1994). Therefore, a go-slow approach deferring institutional assistance would jeopardize the success of future lending programs regardless of the financial instruments designed to spread microlending (Gadway, 1991).

**Justification**

There is some empirical evidence that assistance programs that simultaneously apply financial and training programs disproportionately increase the success of technical assistance programs addressed to microentrepreneurs (United Nations, 1997). This shows that when training needs are addressed, microentrepreneurs can achieve significantly greater resource allocation efficiency. Ortiz (1996) concludes that training programs not only need to be understandable to microentrepreneurs but also relevant to their specific business problems. The implication is that any lending initiative must necessarily be associated with training in topics related to basic managerial skills for the activities for which financing is needed. As an example, a firm wanting to export branded instead of bulk Chilean wine should be assessed for its brand marketing skills as part of the financial evaluation process, and proactive training and counseling would be included in the marketing assistance package.

Thus, technically sound assistance programs should allow business training NGOs to develop an array of training programs for microentrepreneurs that will ultimately improve the quality of their clients' business decisions. A complicating factor is the relative weakness of financial markets in Latin America. This in effect eliminates options that are customar-
ily available in developed nations. Despite financial sector liberalization, venture capital for funding technology-based high risk and high return endeavors is unavailable in most Latin American countries (Behind America’s story, 1997). Since microenterprises are still perceived to be riskier than medium and large firms, joint ventures in the form of strategic alliances, licensing agreements, or franchises remain relatively unavailable to venture capitalists (OECD, 1995). In essence, microenterprises in Latin America are greenfield, stand-alone projects without protective umbrellas to which their counterparts in developed nations can turn. This means that guaranteed lending programs channeled through the banking sector are the most realistic avenue.

Governments therefore need to step into the arena to help build up linkages among nongovernmental training organizations and lending institutions. A number of those specialized lending institutions in Latin America should capture past experiences to come up with training packages to revitalize the current situation. There is some evidence provided by Gadway (1991) that commercial banks would multiply their services to microenterprises if appropriate incentives were in place to further reduce risk through training activities. Conventional wisdom prioritizes the capacity of financial institutions to capture savings that may be directed to investments with high private and social returns.

A Snapshot of Selected Nations

Uruguay’s experience in strengthening microenterprises through microlending and training is noteworthy. Microenterprises represent about 84% of all private enterprises and provide jobs to 33% of the economically active population (Urrutia, 1997). Privatization attempts undertaken since the early 80s were seen as the main objective of an overall economic strategy, instead of a comprehensive economic policy reform leading to a more efficient and strong private sector. As a result, the National Office of Micro and Small Enterprises was created.
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by a law decree to anticipate imbalances in long-term development of the microenterprise sector. Its purpose was to plan, coordinate, and execute promotional and development activities for micro and small enterprises. An Honorary Committee made up of representatives of seven prominent interest groups and/or economic sectors had an advisory role in supporting, informing, and promoting technical change throughout the micro and small business sector. Special emphasis was given to ensure that technical assistance programs would be jointly directed to support both local lending institutions and specialized training organizations. Urrutia (1997) holds the view that the aim was to build up synergistic relationships of commercial banks and NGOs to successfully enhance microenterprise development. However, the true challenge for the Uruguayan institutional strengthening program rests on whether, at the end of the day, technical assistance was focused on the distinct needs of each microentrepreneur. This would allow financial institutions and nongovernmental training organizations to substantially improve specific financing agreements, credit restructuring, and distribution of financial spreads.

In Brazil, the Serviço Brasileiro do Apoio às Micro e Pequenas Empresas (SEBRAE) is the most significant technical institution in charge of encouraging entrepreneurial activity and developing supporting programs and projects. Its aim is to work in an innovative and practical fashion to facilitate a sustainable evolution of micro and small enterprises. SEBRAE was created in 1990 along with the national confederation of industries from all productive areas. In recent years, however, it has weakened its links with main research and development agencies. It has become a massive bureaucratic organization, and its efficiency and effectiveness has been seriously undermined. Despite being private and autonomous, SEBRAE has redirected its goals and objectives to financial aspects of microenterprise activity. Its attempt to achieve nationwide technical coverage has been diluted as it has moved away from training (SEBRAE, 1999).
Chile deals with microenterprises from another highly distinctive bureaucratic angle. The administrative and regulatory procedures of the state agency Corporación de Fomento de la Producción (CORFO) excludes nongovernmental organizations altogether as channels of public sector support except in the limited role of suppliers of a specific type of technical assistance as determined by CORFO. Initially, a CORFO team works directly with the microenterprise sector to identify its need for productivity and quality improvements. Then, a working plan is developed which must explicitly incorporate new productive processes aimed at efficiency gains and/or quality increases. Finally, CORFO itself lends micro and small businesses up to 50% of the cost of technical assistance requested to hire individual consultants or consultancy firms that have previously been registered (CORFO, 1999). Financial intermediaries are left out of the picture as CORFO only funnels financial resources through private commercial banks. Under such a decoupled mechanism CORFO fails to address the much broader complexity in which microenterprises operate. Likewise technical assistance NGOs act merely as subcontractors and have no real input in defining training needs.

By the late 70s, the Colombian industry had exhausted its capability to create enough jobs to absorb a growing urban labor force. It took some time for the government to acknowledge the importance of the microenterprise sector in terms of industrial restructuring and labor productivity. The absence of a legal framework, scarce financial resources, and a lukewarm commitment were the initial hurdles to developing the microenterprise activity. In 1984, the Ministry of Economic Development along with the National Planning Department launched a comprehensive set of policies and programs addressing the needs of the microentrepreneurial sector. Direct technical assistance and financial support provided under favorable conditions have both allowed microentrepreneurs to fund business start-ups, expansion, equipment purchases, or working capital. This government-sponsored package still prevails and
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has successfully positioned itself mainly through credit promotion, entrepreneurial enhancement, grassroots organization, and marketing training (Guerra de Mesa, 1996).

Ecuador, on the other hand, has begun to deal with the microentrepreneurial sector from a highly distinctive ideological angle. Over time, it has emphasized the role of the market in shaping the allocation of financial and nonfinancial resources within an inherently complex bureaucratic framework (Placencia, 1999). In effect, the institutional and organizational support from the government is viewed as being specific and temporary in nature. An inefficient bureaucratic network and lack of readily available public resources were both skipped by the majority of commercial banks. Currently, microlending is almost exclusively provided by the latter. As risk management institutions, commercial banks only extend credit to microentrepreneurs providing evidence of both collateral and training. NGOs act as intermediaries between commercial banks and microenterprises by providing several forms of technical assistance. They offer training and information services at fees that closely reflect their delivery costs, in part, as a condition imposed by the international financial community. Results in terms of microenterprise competitiveness and growth remain uncertain, especially because Ecuador still continues restructuring its economy by making deep reforms in the financial and banking sectors.

A more holistic approach to tackle the lack of management training among microentrepreneurs is surely needed. Figure 1 presents the social, legal, economic, political, and technological environment that shapes the general framework for identifying technical assistance policies directed to the microenterprise sector. Following Krueger and Brazeal (1994) as well as Walsta and Korilsky (1996), a crucial decision process takes place within the private sector. Namely, financial and training institutions must get together to identify problems and needs faced by the microenterprise community. Feasible
financial and training strategies should then be defined and, subsequently, provided.

Implementation: Toward More Effective Integrated Support Programs

The contrast between what has been reviewed and the success of the Association of Industrialists from the Perugia Province in Italy (ASSINDUSTRIA) in implementing micro and small entrepreneurial programs may serve here as a leading example. Steered by a powerful entrepreneurial force, ASSINDUSTRIA services a vast army of potential and existing microentrepreneurs. First, it firmly assists, protects, and represents their
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interests from a social, legal, economic, and political point of view. Second, it actively encourages those microenterprise initiatives that improve competitiveness. Finally, it takes the lead in promoting both the formal and informal entrepreneurial and professional education of its associates. Using a comprehensive approach to understand the ultimate interests and priorities of its clientele, ASSINDUSTRIA provides specific industrial subsector information to improve microenterprise performance. It periodically releases the updated market, financial, and technological research findings of its staff members and other associates. Specific technical assistance is provided to its constituency in areas such as manufacturing, logistics, and consumer behavior. The results obtained from this exclusively private federation model are impressive. It is claimed that more than 75% of its members have successfully been able to handle their investment decisions when their loan requests have been accompanied with specifically tailored training programs (ASSINDUSTRIA, 1999).

Rather than one-shot deals, as with CORFO, or disarticulated approaches, as with SEBRAE, training programs should be offered on a continuous, tailored basis to earn credibility and sustainability. The programs should be client driven. An assortment of educational tools for a wide range of needs is essential for microenterprises to gain a competitive edge. Events must be fully customized to address the interests and expectations of microentrepreneurs in different sectors or experiencing different needs. Ideally, business training NGOs, not governmental bureaucratic entities, should be in charge of coordinating seminars, workshops, and conferences offered by the instructors being hired. Thus, it becomes necessary to prepare subjects, contents, methodologies, coverage, and costs of specific training programs (Freudenthal, 1996).

Financial institutions with the help of supervisors will focus on the most promising financial services. Loan managers should be able to identify the economic activities to be funded while a training team prepares management training modules.
The advisory team will accomplish the loan objectives based on clearly stated terms of reference. It should be understood that those terms of reference may be adjusted and complemented based on the characteristics of participating institutions.

From the supply side of training, it is necessary to consolidate a roster of microenterprise instructors and/or consultants in areas relevant to the formulation and implementation of business development programs. They would offer seminars, workshops and courses and develop training events. Conversely, on the demand side for training, a database of microentrepreneurs classified by name, address, sex, educational level, type of economic activity, assets, terms, and loan sizes is needed to undertake an exhaustive analysis of the eligibility conditions for training. The support of NGOs leaders in the creation, expansion, and strengthening of training services

**Figure 2**

**Proposed Training Module Progression**

1. Building Basic Skills
2. Developing Management Skills
3. Solving Production and Operating Problems
4. Modernization and Expansion
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to a growing microenterprise community envisions, but is not limited to, the sequence of modules shown in Figure 2.

The training program suggested here is centered around four core modules. It touches on key managerial areas affecting microenterprise competitiveness. Essentially, the training program focuses on creating products or services for changing market conditions, identifying investment opportunities, and turning them into actual business. These modules are adaptable to the specific needs of microentrepreneurs. They cover a wide range of topics such as the business environment, information technologies, managerial techniques, and international trade and finance. One of these, for instance, discusses the role of political institutions in advocating the needs of the microentrepreneurial sector. A better understanding of the policymaking process is important as it helps microentrepreneurs to lobby for initiatives and reforms that will favor them. The success of each module relies heavily on the presence of a body of highly competent instructors and/or consultants as well as strongly motivated microentrepreneurs. By the end of the training program, microentrepreneurs should be able to successfully put into practice the acquired knowledge and managerial skills. These modules and their corresponding submodules are:

1. **Building Basic Skills**: This module should be considered the first step leading microentrepreneurs to perform more effectively in society and, ultimately, increase microentrepreneurs’ incomes and assets. It should introduce the practice of identifying, leveraging, and creating microenterprise opportunities. Understanding the economy becomes imperative as the marketplace becomes increasingly complex and competitive. This module would concentrate on the following specific topics:

   • Functioning of the social and legal environment
   • Interactions between politics and economics decisions
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- Financial and cost accounting
- Market research and marketing concepts

2. Developing Management Skills: This type of module should make microentrepreneurs aware of the powers and limitations of different types and uses of information systems. At this level, microentrepreneurs should internalize basic principles aimed at raising their overall management skills. Personnel and labor relations also need to be covered to understand the microenterprise organization. Key issues under this module would be represented by:

- Business plan preparation
- Planning and production control
- Human resources administration
- Leadership and motivation

3. Solving Production and Operating Problems: This module should offer more advanced elements of microenterprise management focusing on the critical factors of successful business operations. Its primary goal is to instill the concepts and importance of innovation for successful productivity gains. The operational contents for this module would be:

- Creativity and innovation
- Productivity assessment
- Programming information systems
- Information technology, Internet, and E-commerce

4. Modernization and Expansion: This module should sharpen the previously acquired skills and experiences of the microentrepreneurs. This final step aims at reaching financial sustainability and further adherence to standard management practices. Managerial processes and decision-making techniques must be available to those eager to explore more advanced topics. This module would be characterized by the following subjects:
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- Total quality management
- Investment decisions
- International trade
- International financing

Some degree of generality and standardization in the training modules above is immediately acknowledged. However, the existing literature on micro and small enterprises repeatedly cites them. These topics represent the broadest assortment of subject areas from which a streamline customization can be accomplished to the specific needs of individual countries and economic sectors. The implementation of those training modules should be the NGOs’ responsibility. Those organizations should arrange training events in such a way that by participating along with their financial entity counterparts, both microentrepreneurs and lenders can work synergistically. Activities from the financial services side should also include direct support to microentrepreneurs through specific agreements with NGOs to diversify the management advice required. Nongovernmental training entities must receive logistic support in the form of equipment, communications, and publications in order to guarantee a smooth implementation. Since the needs of microentrepreneurs are so varied, NGOs should also become better at recruiting, evaluating, and compensating instructors and/or consultants. In a similar fashion, local financial institutions should (1) be entrusted with the names of the nongovernmental training organizations involved in the implementation of the technical assistance programs, (2) receive present reports according to the established terms of reference, and (3) incorporate suggestions and recommendations made by the international lending organization.

International lending organizations have consistently shown a strong commitment to microenterprise enhancement in developing and transitional economies. They have had a crucial role in creating partnerships with national agencies that
encourage local entrepreneurship, promote self-employment, and help local economies to realize a sustainable development. Examples of international lending organizations harbored under the United Nations system are the Inter-American Development Bank, the World Bank, and the United Nations Development Program. They have developed the capacity to carry out their mission by effectively assisting policymakers in designing and setting up microenterprise programs. It seems logical then to capitalize on their substantial field experience accrued in the microenterprise sector over the years. Besides, capital shortages faced by most less-developed countries prevent, in most cases, establishing microenterprise programs without the involvement of these international financial and technical entities.

The strategic aspects of both technical training and management advisory programs need to be monitored by an executive board. It would consist of managers well qualified by virtue of their academic background, professional expertise, and business skills coming from both commercial banks and specialized NGOs. The executive board will offer through careful deliberation suitable and practical solutions to address problems encountered. For instance, it may suggest a systematic approach to identifying training needs, optimizing financial portfolio diversification, or streamlining of lending requirements. It will also recommend immediate adjustments when follow-up procedures indicate unaccomplished goals. On a quarterly basis, the executive board will inform the international lending organization about the advances and obstacles of each financing and training program. On the financial side, its report would include detailed information on disbursements, numbers, and type of characteristics and beneficiaries as well as programmed and accomplished events. On the training side, its report would include indicators such as the number of seminars, workshops, courses, and training events offered; the number of attendees; the or subjects and/or disciplines covered.
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The presence of an executive board is even more compelling in cases when international lending organizations are not involved in formulating and implementing a microenterprise program. Its mission is to tighten cooperation among specialized NGOs and commercial banks in order to spur microentrepreneurship. The idea is to emphasize networking and promote capital raising and marketing activities among participating entities. An executive board of that sort will seek out business partnering involving relationships with academic institutions and research and development centers. These agreements will complement the microenterprise program with resources and technologies it would otherwise lack. The strategic and operational directions given by the executive board will also add value to the microenterprise program carried out by specialized NGOs and commercial banks.

Monitoring is an essential step of the implementation. The purpose of monitoring is to verify compliance with the terms agreed to by the borrowing institution with the international lending organization. Before technical assistance programs end, the international lending organization will advise its counterparts in designing an ex-post evaluation methodology. Such an input will prove useful in order to improve the design and implementation of future technical assistance programs. In turn, it will allow measurement of the effects and impacts of financial institutions and nongovernmental training entities on the microentrepreneurs themselves.

Conclusions

Deregulation and liberalization processes undertaken by several Latin American governments call for specific policy options aimed at strengthening their microenterprise sector. Countries which have maintained positive attitudes towards this sector have experienced less severe social problems (OECD, 1995). Public support for the microenterprise activity results in stronger and more dynamic private sectors capable of meeting the challenges of a globalized economy. A competitive
economic environment based on microentrepreneurs requires better management practices and the adoption of increasingly efficient technological processes. It becomes imperative that Latin American countries restructure both financial and nonfinancial assistance programs to capture in a meaningful manner the heterogeneity of microentrepreneurs.

Government policies towards the microenterprise sector should create favorable conditions conducive to the establishment and operation of financial institutions as well as specialized NGOs providing training and consulting. Microentrepreneurs would have access to more profitable market segments if their financial needs and training requirements were jointly addressed by governments. Within that context, microentrepreneurs need to adopt best practice innovative management programs. Sustainable transfer of knowledge by specialized NGOs will certainly facilitate increases in production capability and competitiveness. Efficiently administered financial resources of both national and international origin will also help to reduce the risks involved in carrying out microenterprise activities.

An alternative strategy would be to offer financing and training services through preexisting networks of lending and high-learning institutions in those Latin American countries where the social, legal, economic, political, and technological environment permits. Under such a scheme, microlending units of commercial banks along with academically competent business service providers could be replicated to provide financial assistance and training program opportunities to current and prospective microentrepreneurs. Such a policy option requires further development in terms of country selection, model appropriateness, and/or implementation advising. This issue falls, however, beyond the scope of this article and is left for further research.
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Notes

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