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To: Ray Offenheiser, Kevin Healy, Sheldon Annis, Peter Hakim

Re: Comments on Flora proposal to evaluate rural consumer stores in Colombia

Following are some immediate reactions, sloppily written up, on the Flora proposal.

1. The proposal seems too wide-ranging and unfocused, at least in terms of the kinds of key concerns of the IAF in making decisions to support consumer stores. With such a wide-ranging proposal (and so many person-months), it concerns me that you will get a little bit of everything and not enough about any particular thing to be conclusive. Also, a few major items of interest are missing--such as the nature and value of the benefits of stores, and their distribution. I would suggest that you decide on three or four questions of importance to you--an illustrative list follows--and instruct the evaluator to look into these areas. It is important to place this kind of tight rein on the evaluator in terms of concreteness and breadth of the subject; otherwise you run the risk of not getting useful results.

A possible list of important topics would be: (a) What is the price differential between coop stores and private stores in the area?[1] This subject is central to the claim that coop stores bring important income benefits to members and non-members in the form of lower prices, or newly available goods. (b) Quantify the benefits of the store's lower prices and relate them to project costs. What is the distribution of benefits among rich and poor, members and non-members? (c) Is the store covering its costs and/or making a profit, or does it require constant subsidy? If it is making a profit, are the profits being used to subsidize other activities? What are the benefit distributions or "spillover" characteristics of these other activities? (d) What is the sequence by which stores learn to overcome the classic problems of underpricing, inadequate bookkeeping and management skills, lax credit policies? Do the failed

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[1] This requires some analytical understanding and investigation of whether a zero differential reflects a new lower equilibrium price as a result of the coop store's existence--a difficult question to get at without constructing pre- and post-coop price indices corrected for inflation. A proxy approach to this question is (a) to interview private storeowners about the extent to which they have had to cut their margins after the coop store's introduction in the community; and (b) to calculate the coop store's share of sales in the community (if the share is low, then the coop store may have little impact on current prices, and thus a unitary price may reflect the "old" equilibrium price; if the share is high, a unitary price may well reflect a lower equilibrium than would be the case if the store were not present--only if the coop store, however, is not imitating private merchants in its price-setting, which will also have to be verified by evaluators).

stores represent a stage in a sequence of movement toward better-grounded, and/or more socially significant activities? Determine whether there are patterns across stores in these sequences. These four subjects in themselves, though much more limited than the proposal, would require a substantial comparative evaluation effort, if you want to get the kinds of results you need to help you make decisions on stores in the future. (See further relevant comment in item No. 5.)

2. I am concerned about the "participatory" aspect of the proposed evaluation, for three reasons: (a) the "participatory" approach seems to combine two different tasks (prematurely, I think)--the collecting and analyzing of information, from which a set of conclusions will be drawn, and the communication of those conclusions to the coops (which is described by the evaluator, inaccurately in my view, as "participatory"). Before commenting on this problem, I state my second cause for concern: (b) what the evaluator describes as "participatory evaluation" seems more to me like "prescription," rather than participation or evaluation. That is, the evaluator will organize group discussions, the result of which is <u>supposed</u> to be that the coops will see that they should be charging higher interest rates or higher prices, or earning "better" profit margins, etc. Though we as donors and evaluators may agree that this would be best, this is certainly not a "participatory" venture, because we know what we want the outcome to be. Finally, (c) much of the work to

be done in such an evaluation involves the interviewing of private merchants in communities where there are consumer stores; this is a delicate task, and does not lend itself to the involvement of coop leaders and members, as the evaluator proposes to do. Because of resentments between coop stores and private merchants--or the contemptuous view that the former hold of the latter (and often vice versa)--the use of the coop persons to interview the private storeowners is not advisable and would produce, at best, biased results.

I do not agree with the combining of the evaluation and the participatory or prescriptive task because it is not really clear, at the beginning of such an evaluation, whether one wants to recommend that stores charge differently or do things differently.[1] One can only have some ideas about this after completing the evaluation. (More on this in item No. 3.) The "participatory" aspect, then, has a "training" sense to it, and does not seem appropriate in a

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[1] Some stores, for example, may have made a policy decision to subsidize prices, and find that they can subsidize the costs of this decision from another activity; or, the political environment for charging the "right" prices may result only from the coop wanting badly to do something in addition to the consumer store, and financing it with the store's profit, which will not exist unless the "right" policies are followed. Only under these conditions, perhaps, will the coop be willing to raise prices or be tighter about credit. This means that the "knowledge" about costs, prices and losses that arises from a participatory session will not necessarily have any impact at all, because the political variables, rather than knowledge of costs, are determining the decisions about prices.

process before it yields conclusions. I would think the IAF would want to think specifically about the training question, and how directly the IAF (or its contract evaluators) should play a role in it, before bringing it through the back door by calling it participatory evaluation.

3. I am concerned about the evaluator's faith in the calculation of profit margins, turnover rates, etc., in getting a reading on how the stores are doing, let alone in prescribing what changes they should make in price and credit policy. First, much of this information will be very difficult to get; even when it is available, it will require considerable time and money to put it into any meaningful order. If this is to be done, moreover, it should be done by someone with considerable experience at this kind of analysis and with interpreting the results--and with stores in this kind of environment, where receipts are often not kept, where there is often no record of inventory, etc. (I cannot tell if the evaluator or his proposed co-workers have this experience.) Given these difficulties of gathering data, the evaluator needs to be familiar with and rely on rough proxy measures of how a store is doing. If the store has a profit to distribute or reinvest at the end of the year, this may be one of the few certain signs that it is doing well--and nothing more may be necessary. The measures of how the store businesses are doing are dangerous not only because they can consume considerable evaluation time, but because

they can give a kind of misplaced specificity: a high volume of sales, for example, can be consistent with a business that runs at a loss, yet high sales volume is often taken as a sign of health; similarly, well-stocked shelves are often taken as a sign of a healthy business, but they can often mean an excess of slow-moving goods.

If an evaluator is to attempt to assess a store's profitability, he needs to be fairly well trained and experienced in these issues, and in the use of proxy measures. If he is not, it may be best to contract out that part to someone else; otherwise, much money can be spent on getting data that does not tell very much. Perhaps the evaluator should be questioned about his knowledge of the proxy measures, or how he would learn about them.[1] (More on this point in item No. 5.)

4. Given your concern for getting some general guidelines for your future decisionmaking about stores, I don't think it is a good idea to do the study in only one country. Even if you want to send one evaluator to each country, it may be best to first work out a set of issues and research methodology for the whole study with

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[1]The introduction of the proposal, setting the evaluation in terms of Weberian analysis and suggesting that this theme would be carried into the final product, also concerns me--because of its irrelevance to the concerns of the IAF, and the fact that it sets off a seeming lack of grounding in the small-scale-enterprise literature, which has much more of relevance on how to go about such an analysis, at least with respect to the IAF's concerns.

someone. Otherwise, you will not know to what extent your results are Colombia-specific.

5. A general observation on IAF evaluations that also applies to this one is that you rarely use economists. Obviously, sociologists and anthropologists can do better at some of the issues important to you--like participation, and the distribution of power resulting from your projects--but I think this is a clear case where an economist would be a first choice. (Again, narrowing the scope down to three or four basic points important to you makes this clearer.) I realize that there are more anthropologists and sociologists available who have done micro-fieldwork in the kinds of environments where your projects are located, but there are certainly more economists with this experience today than before. If they are not available for fieldwork, you might want to use them as "obligatory" consultants to you non-economist evaluators. Also, it might make more sense for the evaluator's Colombia counterpart to be a businessman or accountant with experience in stores--as was Medina in the Bolivian case--than a "social scientist" who will have neither the requisite skills in economic analysis nor the knowing of his way around a store.

6. One topic that the evaluator should be instructed to pay particular attention to is the comparison between successful and failed cases. It is important to document the sequence that led

to the success (was it preceded by "wrong" price and credit policies, graft, etc., and, if so, how was the transition made to better management?)--and to show the difference between the price, credit and other policies of the successful stores vs. the unsuccessful ones. This is one example of what I mean by saying that we really cannot know what we want to "prescribe" until the evaluation is over with--because what the comparative evaluation of the successful vs. the unsuccessful stores tells us may be completely different from what we expected. It is particularly important for the evaluator to understand how the sequences from bad to better were made, and what prompted them. Part of the surprise will no doubt be that the evaluator will find that some of the successful stores follow the policies that we consider "bad"--like "low prices," or slipshod recordkeeping. Such a finding will require the evaluator to look for other ways of describing the difference between the good and the bad stores.