

# Microenterprise Development In A Changing World

## U.S. Agency for International Development Microenterprise Results Reporting for 2000



Photo by Wally Kroeker of the Mennonite Economic Development Associates/Mozambique

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By Catherine Neill, Weidemann Associates, Inc. under the direction of  
Elizabeth Hunt, USAID Supervisor for MRR, and Katharine McKee, Director  
USAID/EGAT/MD

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# ACRONYMS

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ACDI/VOCA	Agricultural Cooperative Development International/Volunteers in Overseas Cooperation and Assistance
ACP	Acción Comunitaria del Perú
AERA	Accelerating Economic Recovery for Asia (USAID)
AFE	Action for Enterprise
AIMS	Assessing the Impacts of Microenterprise Services
ANE	Asia and the Near East Region (USAID)
BDS	Business Development Services
BHR	Bureau for Humanitarian Response
BRI	Bank Rakyat Indonesia
CACEDRF	Central America and Caribbean Emergency Disaster Recovery Fund
CORE	Child Survival Collaborations and Resources Group
CRS	Catholic Relief Services
DA	Development Assistance
DAI	Development Alternatives, Inc.
DCA	Development Credit Authority
DCHA	Democracy, Conflict and Humanitarian Assistance (USAID)
DCS	Office of Development Credit (USAID)
DdG	Dialogo de Gestiones
E&E	Europe & Eurasia Region (USAID)
EGAT	Economic Growth, Agriculture and Trade (USAID)
ESF	Economic Support Funds
FOMIR	Programa de Fortalecimiento de Las Microfinanzas Rurales
FSA	Freedom Support Act
FY	Fiscal Year
GDA	Global Development Alliance
GH	Global Health (USAID)
HIID	Harvard Institute for International Development
IGP	Implementation Grant Program
KCLF	Kazakhstan Community Loan Fund
LAC	Latin America and Caribbean Region (USAID)
M-CAP	Masvingo Credit Against Poverty
MBP	Microenterprise Best Practices

MEDA	Mennonite Economic Development Associates
MFI	Microfinance Institution
MIP	Microenterprise Innovations Project
MRR	Microenterprise Results Reporting
NGO	Nongovernmental Organization
NOA	New Obligating Authority
PRIME	Program for Innovation in Microenterprise
PVC	Office of Private and Voluntary Cooperation (USAID)
PVO	Private Voluntary Organization
SADRF	Southern Africa Disaster Reconstruction Fund
SAI	Special Assistance Initiative
SEED	Support for Eastern European Democracy
SEEP	Small Enterprise Education and Promotion
USAID	United States Agency for International Development
VITA	Volunteers in Technical Assistance
WOCCU	World Council of Credit Unions

# EXECUTIVE SUMMARY

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The United States Agency for International Development (USAID) annual report, “Microenterprise Development in a Changing World,” presents the results of its microenterprise development support in fiscal year (FY) 2000. As this year’s report was being compiled, the events of September 11, 2001 placed the Agency’s efforts to support the entrepreneurial initiatives of the world’s poorest households in a new context. U.S. financial markets took a downturn as confidence in the future was shaken. Even deep cuts in interest rates failed to rally Wall Street in the weeks after the deadly attacks on the World Trade Center in New York. Americans’ job security, already feeling the effects of a slowdown in the information technology industry, was further eroded as businesses dependent on travel and tourism laid off workers. For most Americans, the economic impact of these changes is likely to be temporary, cushioned by insurance, and other safety nets afforded by a large, wealthy, and stable economy. For many Americans, the experience of uncertainty and risk introduced by the attacks was a taste of what millions of people around the world experience as a part of their daily lives.

For most poor people in developing countries, uncertainty and risk are facts of life well beyond their control. Poor weather can threaten crops and livestock and limit a family’s agricultural production. Natural disasters can destroy poor communities and all their economic activities. An economic downturn caused by a drop in world prices for a major export crop, such as coffee, ripples through a society, affecting the livelihood of its poorest members; these individuals have no insurance and no government support to fall back on. Ill health, perhaps due

to HIV/AIDS, can affect the family breadwinner and cause the whole family to suffer.

USAID’s microenterprise development programs address the vulnerability of poor households around the world through support to microfinance, business development services (BDS), and policy advocacy. Microfinance has helped millions of poor families and microentrepreneurs manage risk and adjust to difficult environmental events.

USAID has also increasingly promoted BDS to help microentrepreneurs realize greater returns, especially in rural areas. Many initiatives are underway to test sustainable business services that link poor entrepreneurs to better markets and boost their productivity.

USAID continues to place high value on establishing an appropriate policy and regulatory environment for microenterprise development. USAID recognizes that sound government leadership is essential to create the stability that supports entrepreneurial investment and steady accumulation of assets and wealth.

Microenterprise development is a key component of USAID’s strategy for economic development and poverty reduction. While assisting households to meet basic needs and protect themselves against shocks, microenterprise programs also help build stronger and more stable communities, encourage civil society, and promote gender equity.

During the past 20 years, USAID has consistently led all bilateral donors in its funding of microenterprise programs. USAID is now working with more than 700 microenterprise

institutions worldwide. Many more receive indirect support through USAID grantees and partners that provide technical assistance or funds to local organizations. Of the 88 countries in which USAID worked in FY 2000, at least 58 have active microenterprise programs.

Through a variety of channels and at different levels, USAID programs in FY 2000 helped microentrepreneurs address the many challenges they face and reduce their vulnerability to events beyond their control. USAID's leadership is shaping an environment to help poor people plan for and realize their dreams in a changing world.

Highlights of USAID microenterprise development programs in FY 2000 include:

- **Sustaining a significant financing commitment:** By providing \$164 million worldwide to strengthen the microenterprise sector, the Agency surpassed the \$155 million level authorized by the U.S. Congress in the Microenterprise for Self-Reliance Act of 2000. Currently, USAID anticipates meeting the targets for FYs 2001 and 2002.
- **Reaching the poorest and most vulnerable:** The annual survey of partner institutions indicates that half of all microenterprise funding was devoted to meeting the needs of very poor microentrepreneurs.
  - More than 2.1 million clients had loans through other USAID-assisted programs. Of these clients, 70 percent were women. Two-thirds of the loans held by partner and grantee institutions were in sizes typically demanded by poor clients, or poverty loans. The institutions had combined portfolios of \$867 million. The average loan balance for all loans was \$401.
  - A record 2.7 million borrowers received loans from a single partner institution, the Bank Rakyat Indonesia (BRI), with an outstanding portfolio of \$893 million and average loan size of \$329.
  - BRI had 25 million savings clients with total savings deposits of \$2.0 billion; average individual deposits were \$78. USAID-assisted institutions, other than BRI, had over 3 million savings clients with combined savings deposits of \$533 million. Average savings per client increased by 50 percent from \$113 in 1999 to \$169 in 2000.
- **Broadening the range of services available to the poor:** Almost two-thirds of USAID's total funding was directed to providing financial services, principally for credit and savings institutions. Recognizing an increasing demand for other financial products, however, USAID extended support to insurance and payment services. Support to stimulate entrepreneurs' access to BDS boosted incomes through improved product development and design, technology transfer services, access to improved or lower cost inputs, business and skill training, advice, and information services.
- **More than 250,000 microenterprise clients benefited from USAID assistance to BDS programs.** Through these programs microentrepreneurs received services, such as market research, marketing assistance, new product development and testing, technology transfers, and business counseling. These services enabled them to maximize credit benefits from microfinance services. USAID-assisted BDS programs encouraged private sector support and delivery of services to build a solid base for expanding the scale and sustainability of BDS to microentrepreneurs.

- **Leveling the playing field for the most disadvantaged enterprises:** A number of partner organizations engaged in policy research and advocacy focused on helping to develop and institute appropriate microfinance laws and regulations. USAID-supported institutions also addressed business regulation and licensing, foreign trade, nongovernmental organization (NGO) regulation, and equitable access to services. The number of microentrepreneurs benefiting from such policy changes far exceeds the number assisted directly through microenterprise institutions.

USAID is justifiably proud of its leadership in the microenterprise sector and the support that its programs provide to millions of poor families around the world. The Agency recognizes the important commitments that its partner organizations are making. The fact remains, however, that millions of poor families and microentrepreneurs still live economically precarious lives. The challenge in these changing times is to reduce the vulnerability of the more than 2 billion people who live on less than \$2 a day. Through the empowering value of microfinance and successful microenterprise development, USAID is helping to meet this challenge.

# I. INTRODUCTION

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For most poor people in developing countries, uncertainty and risk are facts of life, often well beyond their control. Poor weather can threaten the productivity of crops and livestock, and thus the basis of family survival. An economic downturn engendered by a drop in world prices for a major export crop, such as coffee, ripples throughout a society and poor producers have no insurance, no government support to fall back on. Ill health, perhaps related to HIV/AIDS, affects the family's breadwinners and the whole family suffers.

Microenterprise activities—the small businesses of the poor—help households cushion themselves against unexpected crises. Income from microenterprises generates small amounts of savings, while providing for essentials such as food, clothing, medical care, and school fees. Microentrepreneurs throughout the world have long adapted to unstable circumstances. They have shown remarkable resilience in the face of natural and man-made disasters. Even in refugee camps, people living under conditions of extreme duress find a way to undertake microenterprise activities.

Microenterprise institutions are the vanguard of support to vulnerable households around the world. Financial services, especially safe and reliable savings and loans, are often critical for those who need access to capital when an unexpected event occurs, such as a family member's death or a flood that ruins crops. BDS help microentrepreneurs improve production and break major constraints that limit the amount of income generated through micro-businesses. Such services are offered on a wider scale and in greater variety than ever before, thanks to the support of USAID and other donors.



Photo courtesy of Grameen Bank/Bangladesh.

*A client of the Grameen Village Phone project.*

Microenterprise development is a key component of USAID's strategy for economic development and poverty reduction. While assisting households to meet basic needs and protect themselves against shocks, microenterprise programs also help build stronger and more stable communities, encourage civil society, and promote gender equity. USAID is now taking further steps to strengthen and promote the microenterprise sector as a reliable path toward improved incomes, assets, and security for poor households.

This report summarizes the Agency's support to the microenterprise sector in FY 2000. USAID continues to be a leader in this sector. Its programs provide support to millions of poor families around the world. USAID also recognizes the important commitments of its

partners. This report highlights USAID's institutional partners' services that have helped millions of clients respond to business opportunities and reduce their vulnerability to change and uncertainty. Nevertheless, there are millions of poor families and microentrepreneurs who live economically precarious lives. The empowering value of microfinance and successful microenterprise development can help meet these individuals find greater stability in a changing world.

Each year, the USAID annual microenterprise results report highlights key developments and successful institutional partners in microenterprise development. USAID works with such a large number of organizations that it cannot mention every one. The annual report highlights a few institutions, such as FINCA, that are implementing innovative approaches to assist microentrepreneurs. Each institution has made a difference in the market where it does business, and each has contributed to the tremendous dynamism in the microenterprise development field.

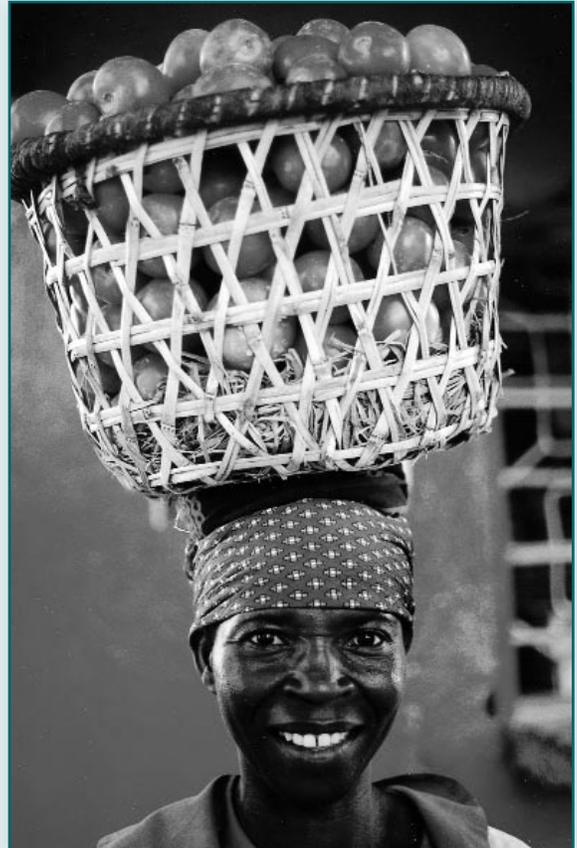


Photo by Mary Plummer of FINCA International.

*Sherida Mkama, mother of ten and FINCA/Tanzania client, sells her home-grown tomatoes to pay her children's school fees.*

## FINCA: Addressing Health Emergencies in Africa Through Village Banking

In 1992, as the toll of HIV/AIDS was growing larger in Africa, FINCA found that many of its village banking clients were caregivers either for those suffering from HIV/AIDS or for orphans whose parents had died from the disease. To reach these financially and emotionally strapped clients, FINCA began tailoring its microfinance model to address health emergencies. In Uganda, where working class families can spend up to 75 percent of their disposable income on health care, weekly meetings of village banking groups, comprised mostly of women, have become platforms for AIDS education. FINCA members have also qualified for group rates for health and life insurance. Currently serving more than 30,000 clients, FINCA Uganda has experimented with more flexible loan policies and repayment periods, higher loan amounts, and a new system for rewarding good clients. These programs helped FINCA Uganda grow its portfolio by 44 percent in 2000.

Courtesy of FINCA International

## II. TERMS OF THE TRADE

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### What are microenterprises?

Microenterprises are small, informally organized businesses that are owned and operated by the poor throughout the world. By USAID's definition, microenterprises include 10 or fewer employees, including unpaid family workers. Using the number of employees as a threshold, many profitable businesses in the developed world could be defined as microenterprises, but by limiting the scope to businesses where the owner/operator is poor, the focus shifts again to the most vulnerable households in higher-risk environments. In many countries, especially in Africa and Asia, the microenterprise sector constitutes the majority of the working population.<sup>1</sup> The sector's growth rate is also often higher than any other because of its ease of entry. Particularly during times of crisis or hardship related to conflict, natural disaster or recession, microenterprise activity increases as families seek new means of generating income to cope with these shocks.

USAID's evolving definition of microenterprise includes a wide range of agriculture-related activities, such as oil-seed processing, horticulture, vegetable canning, and dairy production. For fund accounting purposes within the Agency, support for staple crop production or basic farming activities is tracked independently of microenterprise. Recognizing the complex interaction between agriculture and off-farm activities in the rural household economy, USAID is actively engaged in dialogue with other donors and implementing partners on how best to address the needs of agricultural households. An example from PRISMA in Peru (see p. 7) demonstrates how, in practice,

support to microenterprise activities often contributes directly to the agricultural economy and the well-being of agrarian households.

### What is microenterprise development?

Microenterprise development refers to the programs and institutions that provide assistance to microenterprises and the households they support. The players or stakeholders within the microenterprise development field include the following:

- Owners/operators of the micro-businesses;
- Households around the world that depend on the income from these tiny businesses for survival;
- Organizations that assist microentrepreneurs to enhance their productivity and business returns through the provision of technical assistance, marketing, or other business related services;
- Non-profit and for-profit organizations that provide financial services directly to microentrepreneurs for business and consumer purposes;
- Organizations that facilitate the provision of business and financial services to microentrepreneurs, either by developing BDS markets or by providing technical assistance and financing to retail microfinance institutions;
- Technical experts who contribute to the field through research, program design and implementation, and documentation of field results;

<sup>1</sup> A 1998 survey of Zimbabwe found that informal small and micro entrepreneurs constituted 60 percent of working adults. This was an increase of 50 percent over what was found in a 1991 survey, prior to the current economic crisis.

- Private investors who have invested in the most successful and profitable microenterprise programs;
- Local and national governments that are working to create better policy and regulatory environments for microenterprises and the institutions that serve them; and
- Bilateral and multilateral donors that have committed financial resources to build capacity in microenterprise assistance organizations and advance best practices.

## What is microfinance?

Microfinance is the sub-field of microenterprise development that involves the provision of financial services to microentrepreneurs and their households. Financial services offered to microentrepreneurs include savings deposit services, loans, insurance, and transfer services. The list continues to grow as microfinance institutions develop new products in response to client demand.

### PRISMA: Microenterprise in the Agricultural Household Economy

PRISMA, a Peruvian NGO, initiated its Micro Credit Program, (PASA or Food Security Assistance Program), in 1995 after conducting a socio-economic study in six districts. The conclusion of this study was that new and long-term sources of income were needed to effectively address acute malnutrition for the households in those regions. The original program consisted of loans to individual farmers and small business operators and had little prospect for achieving self-sufficiency. In 1997, the program was redesigned to aim toward long-term program sustainability in accordance with USAID's microenterprise policy. Since that time, lending has been done through village banks and solidarity groups, based upon mutual guarantees.

In June 2001, the Micro Credit Unit had 35,563 active clients, an active portfolio of \$6.6 million, and an average loan size of \$186. PRISMA's operational sustainability now stands at 110 percent.<sup>2</sup> In the last four years, PRISMA has become a microfinance leader in Peru, recognized by international, private, and public sector organizations for its work with women and the poor. PRISMA's experience shows clearly that organizations willing to use innovative methods and technologies can reach the very poor and still achieve sustainability.

A PRISMA client, Adela Huayhua Palomino began her first loan cycle with a loan of 300 Peruvian soles (\$85). Her only guarantee was a small piece of land on which she cultivated a tiny crop of alfalfa. She made very little money and her family lived on the brink of starvation. With that first loan, she went into animal husbandry, buying sheep and other animals to herd. In her second cycle she received a loan of 600 Peruvian soles (\$170) that she used to increase her alfalfa crop and expand her herd. In her third cycle, Adela obtained a loan of 900 Peruvian soles (\$255), to further increase her production of alfalfa, which she now sells daily in the Huamanga city market. She also has two milk-producing cows that produce 18 liters of milk for sale daily.

<sup>2</sup> To calculate sustainability, the following was taken into account: income minus sales tax (18 percent)/operating costs, including the replacement of capital losses and bad debt provisions, in accordance with the policies of Peru's Superintendency of Banking and Insurance.

## What are poverty lending programs?

USAID has long emphasized the need to reach the poorest households through its development efforts. Many microfinance institutions develop strategic approaches that target the very poor. Program features that are appropriate for poorer clients may include group guarantees (as a substitute for traditional loan collateral) and very small loan sizes with frequent loan repayments. Savings services should be flexible, permitting clients to save as they can in very small amounts, and allow withdrawal without penalty when unexpected opportunities or emergencies arise. Loan size, while not an actual measure of the client's poverty status, has become the leading proxy indicator for estimating the extent of service to poorer clients. USAID and its microenterprise development partners use this proxy to gauge the poverty status of their microfinance clientele. Many programs also use other measures to direct services to poorer clients and assess their poverty and vulnerability.

In accordance with the Microenterprise for Self-Reliance and Anti-Corruption Act of 2000, at least 50 percent of all USAID resources devoted to microenterprise are to be aimed at very poor entrepreneurs. Poverty

loans were defined by region as those in amounts of:

- \$300 or less in Asia, the Near East, and Africa;
- \$400 or less in Latin America and the Caribbean; and
- \$1,000 or less in Eastern Europe and Eurasia.

USAID accounts for its allocation of resources to the poor through both microfinance and BDS programs. The percent of USAID funding to microfinance programs is prorated based on the proportion of the microfinance portfolio held in poverty loans. USAID funding to BDS programs is prorated based on the percentage of BDS clients with poverty loans.<sup>3</sup>

## What are business development services (BDS)?

BDS are offered to microentrepreneurs by a variety of organizations to help microentrepreneurs increase business returns, build capacity, or initiate new economic activities. BDS includes many services, such as marketing assistance, product development, business training, advisory or information services, assistance with productivity-enhancing technologies, and linkages to financial services.

<sup>3</sup> The loan to the BDS client could be from either the BDS provider or another lender.

# III. A FOUNDATION FOR THE FUTURE

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USAID has been the leading bilateral donor of funds and technical assistance to microenterprise development programs for the last 20 years. Since 1988, when USAID began formally tracking its microenterprise funding, USAID has committed over \$1.5 billion to support microenterprise development. USAID's contributions for the next two years are projected to exceed \$310 million. During the past 20 years, as the result of a major effort on the part of organizations and governments committed to assisting the world's poor, huge strides have been made in developing systems and methods suitable for the effective delivery of microenterprise services, particularly financial services.

## A. Microfinance in a Changing World

Today millions of men and women living in high-risk environments are able to take advantage of financial services provided by thousands of organizations. These organizations have shown they can perform small transactions, offering loans as small as \$5 and savings deposits as small as \$3, to huge numbers of people. While access to finance is not the 'magic bullet' for those living in poverty, it is one of the important ingredients of economic opportunity and security.

## Achieving Sustainability

Every year more microfinance institutions (MFIs) achieve the scale and effi-

ciency that are the basis for sustainable operations. The number of organizations providing safe and affordable financial services has expanded to the point that real competition has emerged in a number of countries. Competition between MFIs often benefits clients through better products, improved customer service, and lower interest rates. In countries such as Bangladesh, Bolivia and Uganda, where microfinance institutions have proliferated, competition has led to innovation and operational efficiency. To maintain market share and better serve customers, microfinance institutions must offer a range of flexible financial products in addition to working capital loans.

The demand for financial services by the poor continues to outpace supply. In some microfinance markets, such as Bolivia, the number of clients of microenterprise institutions even surpasses the number of clients in the commercial banking system. In Kyrgyzstan, for example, the loan portfolio in local currency of the eight leading MFIs is almost twice that of the commercial banks.



*Two clients of ACDI/VOCA's Kazakhstan Community Loan Fund (KCLF).*

Photo by Janice Stallard of KCLF.

In every region of the world, microfinance institutions have proven what was at one time mere speculation: Poor people are valuable clients of the financial institutions that serve them, and serving that niche can be financially viable. Not only are the poor good savers, they are good credit risks.

Extending the depth and scope of outreach are important for microfinance institutions that want to become sustainable. To achieve this, a number of U.S.-based private voluntary organizations (PVOs) have created large microfinance networks through which they reach significant numbers of clients. These include: ACCION International (463,000 clients); Care International (390,000 clients); Opportunity International (323,000 clients);

Catholic Relief Services (307,000 clients); Save the Children (87,000 clients), and the Grameen Trust (works with 89 institutions in 28 countries).

USAID has long emphasized the need for microfinance institutions to become financially independent, and, in fact, many have, already achieved financial sustainability. Financial independence means independence from ongoing subsidies. Many institutions have shown that they can achieve this efficiency level in their operations while maintaining a focus on poorer clients. Many institutions that are no longer reliant on donor subsidies have now crossed the threshold to access commercial sources of capital, including savings deposits from the general public.

## Kazakhstan Community Loan Funds Achieves Sustainability Without Losing Its Focus on the Poor

The Kazakhstan Community Loan Fund (KCLF), was founded in 1996 with funding from USAID and the Soros Foundation and technical assistance from ACDI/VOCA. From its inception, KCLF's goal has been to increase women's participation in the economy. In May 2001, KCLF had 3,500 active clients, of whom 81 percent were women. Average client loan size was \$258. Today, KCLF fully covers its operating costs through its interest income and fees, demonstrating that it is possible to achieve sustainability while working with very poor clients. Recently, KCLF added sub-sector-focused BDS services to its product line for clients desiring to build their businesses.<sup>4</sup>

Using the model of KCLF in Kazakhstan, ACDI/VOCA has recently undertaken microfinance activities in the Ferghana Valley of Tajikistan and Uzbekistan. By adapting proven methodologies to the operational environments in Tajikistan and Uzbekistan, ACDI/VOCA will establish two sustainable microfinance institutions that will create opportunities for income generation and employment throughout the area. The peer group methodology will also facilitate the notion that individuals can work together through solidarity groups to their mutual advantage. In an area of economic disruption, ethnic unrest and insecurity, the ability of groups to function in a mutually beneficial way is a significant step towards stability.

Courtesy of ACDI/VOCA.

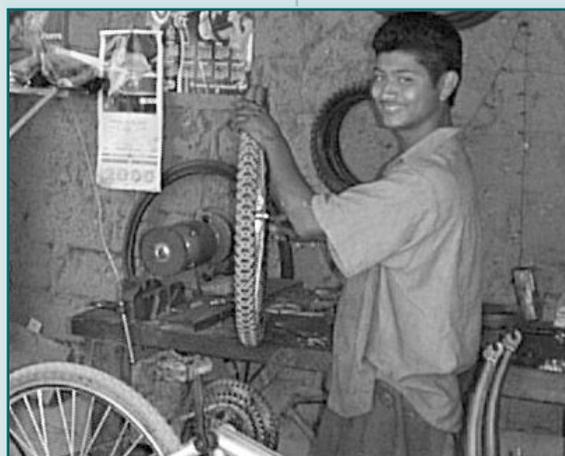
<sup>4</sup> Sub-sector approaches are those that work with businesses in an input and supply chain. The shoe sub-sector, for example, includes tanners, leather workers, shoemakers, wholesale shoe sellers, and retail shoe sellers.

## Katalysis Partnership Organizations Help Microentrepreneurs Grow Their Businesses

The Katalysis Partnership is a regional network that reaches 91,000 clients through 11 Central American microfinance institutions. The 11 institutions provide small loans to poor microentrepreneurs, 72 percent of whom are women. Some partners also provide savings, insurance, housing loans, loans for community infrastructure projects, and BDS. A U.S.-based partner, Katalysis, and a Honduras regional field office support network members with technical assistance and loan capital. The network allows for efficient transfer of methodologies, technologies, and new products and services.

One year ago, Mario Cibilla, a 21-year-old bike repairman, became a client of FUNDENUSE, Katalysis' partner in Ocotal, a poor region of Nicaragua. He has received four loans since then. He repaid the first loan for 2000 Cordobas (\$160) on time and repaid subsequent loans ahead of schedule; his current loan of 10,000 Cordobas (\$800) is nearly repaid. What has he done with these loans? First, he built a small repair shed for his business with a roof. Then he purchased some basic bike repair equipment, and now he carries a small inventory of bike parts and add-ons. Slowly he is building his business and increasing his family's economic security.

While long-term sustainability is critical, USAID has, in tandem, promoted program expansion so that more of the world's poor can benefit from financial services. Where some institutions continually turn to donors for assistance to expand operations, other organizations are able to self-finance their expansion by implementing improved economies of scale. Credit unions, which mobilize savings from members, have been particularly effective in self-financing growth. The credit union movement continues to thrive, reaching large numbers of microentrepreneurs throughout Eastern Europe, Latin America, Asia, and Africa. In FY 2000, USAID assisted WOCCU's programs in Ecuador (746,000 clients), Bolivia (255,000 clients), the Philippines (132,000 clients), Kenya (118,000 clients), and Romania (109,000 clients).



*Mario Cibilla in the bike shop he built and stocked with four loans from FUNDENUSE.*

### Commercialization of Microfinance

The greater extension by banks and other commercial institutions into microfinance markets is

Courtesy of Katalysis.

Photo by Margaret Diener of Katalysis North South Partnership.

changing the complexion of microfinance.<sup>5</sup> Not long ago, commercial banks seemed completely indifferent to microenterprises, yet today, many commercial actors have opened special micro-lending windows, particularly in Latin America. In the early 1990s, when donors sought to promote bank involvement in microenterprise lending, USAID and other donors provided portfolio loan guarantees and concessional funds as an incentive to the banks. Today, as these commercial actors explore new markets, they draw on their own resources to fund these new programs, assuming 100 percent of the credit risk.

By and large, the commercial bank programs are reaching microenterprises that are more

established, although it is not uncommon to see loans under \$500 given to poorer entrepreneurs. While some banks have encountered difficulty in incorporating a microfinance product, many others appear committed to making the adjustments necessary to work with microentrepreneurs. In this changing environment, donor support for bank ‘downscaling’ has begun to shift from financial incentives to technical support. USAID has actively supported technical assistance to banks in Ecuador, El Salvador, Guatemala, Haiti, Honduras, Kenya, Jordan, the Philippines, and West Bank/Gaza.

## Microenterprise Development and HIV/AIDS

As a part of its Assessing the Impact of Microenterprise Services (AIMS) research agenda,<sup>6</sup> USAID has taken the lead in helping microenterprise practitioners understand the effects of HIV/AIDS on microfinance institutions, their clients, and communities.<sup>7</sup> USAID/Zimbabwe has long supported Zambuko Trust, an Opportunity International affiliate with over 10,000 clients. An AIMS assessment<sup>8</sup> found that Zambuko’s financial programs have had a positive impact on extremely poor households when savings were started before a crisis situation such as an illness or death in the client’s family. Long-standing program members experienced the greatest benefit, including stability in net revenues and assets and greater client self-esteem. A greater proportion of male children of Zambuko clients remained in school, when compared with children of non-clients.

An important fact was underscored in this research: loans are a burden during crises. Loans are an added financial obligation in times of economic uncertainty. This highlights the need for appropriate savings products, loan insurance, or other safeguards against family crisis. Another important lesson was the need for business support strategies for teenage children and older relatives of clients with HIV/AIDS to enable those left behind to step into new economic roles after a breadwinner dies.

- 5 See Liza Valenzuela, “Getting the Recipe Right: The Experience of Commercial Bank Downscalers in Microfinance,” September 2001.
- 6 The AIMS Project is implemented by Management Systems International in partnership with the Harvard Institution for International Development (HIID), the University of Missouri, and the Small Enterprise Education and Promotion (SEEP) Network.
- 7 Research on HIV/AIDS and microenterprise development was also undertaken through the Microenterprise Best Practices (MBP) agenda, implemented by Development Alternatives, Inc. (DAI), ACCION International, FINCA, HIID, International Management and Communications Corporation (IMCC), Ohio State University Rural Finance Program, Opportunity International, and the SEEP Network.
- 8 “The Relationship Between Microfinance and Households Coping with Illness and Death in Zimbabwe: An Exploratory Study,” Horizons Project, Washington, D.C., July 2001. This activity was co-funded by the Office of Microenterprise Development under the AIMS Project and the Office of Health under the Horizons Project.

## Challenges Ahead

Despite the notable gains in microfinance in recent years, the road ahead is still challenging. The numbers of microentrepreneurs without access to reliable, attractive financial services far exceeds those with access to services. Other important challenges are:

- To reach deeper into poor communities and create opportunities for those with very limited resources to expand household income and security;
- To keep services relevant to poorer and more vulnerable clients, which requires a good understanding of household strategies for managing risk;
- To develop new products especially savings and a wider range of loan products including those that are more flexible and appropriate for poorer households;
- To make financial services more available to the rural poor, many of whom are engaged primarily in agro-related activities;
- To improve how microfinance institutions help clients cope with crises while managing their own risks;
- To support more institutions to reach a level of sustainable operations; and

- To tap into more private capital (including client savings) to expand microfinance, instead of relying so heavily on donor funding.

## B. Business Development Services in a Changing World

Recent BDS improvements have benefited many microentrepreneurs. Initiatives to expand the provision of business services to poor producers in the handicrafts sector, for example, have generated tens of millions of dollars in increased export sales, helping disad-



*Olida Bermúdez, a client of Fundación Mario Santo Domingo.*

Photo by Robin Ratcliffe of ACCION International.

## DdG Training Triples Client Base and Boosts Income

When Olida Bermudez first came to Fundación Mario Santo Domingo, she was working from home, supporting her four children by sewing school uniforms and children's party dresses. It was tough going. Olida's sewing machine was in need of repair and most of her profits went to buying new material. A \$50 loan was enough to fix her sewing machine and spark production, but she still had trouble attracting customers. After attending DdG classes in product quality and presentation, customer service, and advertising two years ago, Olida took what she learned to heart. She improved her displays, distributed flyers, and painted a colorful sign on her house to attract customers. Today, Olida's client base has tripled, and she teaches workshops in making patterns and employs several local women.

Courtesy of ACCION International.

vantaged artisans tap markets far more lucrative than those closer to home. A number of microfinance institutions have partnered with BDS providers to introduce BDS to their clients as a way to stimulate further growth and productivity. Other encouraging developments include a greater emphasis on cost recovery and innovative methods for widening BDS markets to reach more microentrepreneurs.

### ACCION's 'Dialogo de Gestiones' Provides Demand-Driven BDS Training

ACCION International is a US-based microfinance PVO that has collaborated with partners in developing countries to provide BDS to microentrepreneurs. In FY 2000, USAID provided ACCION with a grant to scale up its "Dialogo de Gestiones" (DdG) or "Dialogue of Managers" client-training curriculum through its partner, Fundacion Mario Santo Domingo, in Colombia. This demand-driven curriculum, aimed at increasing business performance and enhancing the capability of microentrepreneurs to access business credit, is provided on a fee basis only. In the second half of 1999, ACCION's partner trained 7,340 microentrepreneurs, 74 percent of whom were women. DdG demonstrated that training can be provided to large numbers of microentrepreneurs on a sustainable basis. Today, 17 institutions in 14 countries offer DdG classes.

### Action for Enterprise in Mali Links Craft Producers with Export Markets

Action for Enterprise, a U.S. PVO, received a FY 2000 grant from USAID to further its activities in the crafts sector of Mali. AFE helps



Photo courtesy of Action for Enterprise

*A group of Malian producers of mudcloth in Action for Enterprise's microenterprise export promotion program, Support Program for Artisanal Product Exports (SEPA).*

microentrepreneurs increase production for the export market, thereby increasing revenues. In addition to providing services directly, AFE is developing local BDS providers' capacity, so that they will be able to provide BDS to local microenterprises after the program has ended.

Using a sub-sector approach, AFE initially determined the constraints on crafts producers in Mali, which included few linkages with international buyers, limited new product development, and irregularities in quality. To help the crafts producers compete internationally, AFE promoted market access services, linking local exporters—who buy from microentrepreneurs—to US importers in the home accessories industry, which offers higher returns than the handicrafts market. AFE also offers technical assistance in product design and quality control and advocacy services to improve the regulatory environment for exports. The results have been noteworthy: since February 2000, producer sales have increased by 100 percent; exporter sales have increased by 70 percent. AFE has worked with a handful of importers and exporters, and 400 micro businesses. Another 2,000 small and

microenterprises have benefited from increased sales and exports.

Increasingly, USAID-supported BDS programs are developing BDS markets, rather than just supporting direct BDS providers. Through this strategy, USAID-supported BDS programs are making it easier for private

providers to enter into the lowest end of the BDS market and be responsive to the needs and demands of poor microenterprise customers. The BDS programs are also ensuring the relevance of services provided, improving scale of outreach through multiple providers in the market, and enhancing BDS sustainability over the long run.

# IV. How USAID SUPPORTS MICROENTERPRISE DEVELOPMENT

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USAID's strategy to achieve broad-based economic growth includes a strong, vibrant microenterprise sector. USAID's country programs reflect wider developments in the microenterprise field and demonstrate how the Agency is addressing the challenges caused by unpredictable and difficult circumstances around the world.

USAID supports service provision to microentrepreneurs through organizations that offer an array of financial services and BDS. In addition, USAID promotes policies to improve the enabling environment for poor entrepreneurs and the institutions that serve them. A regulatory environment conducive to enterprise growth is an essential building block for microenterprise development.

USAID support flows through both its field missions and central offices in Washington, D.C. USAID is organized under four development pillars:

- Economic Growth, Agriculture and Trade (EGAT);
- Global Health (GH);
- Democracy, Conflict and Humanitarian Assistance (DCHA); and
- The Global Development Alliance (GDA).

Each USAID Mission develops a strategic plan for accomplishing country level objectives that reflect USAID's six development objectives. The development objectives are to:

- Encourage economic growth and agricultural development;
- Strengthen democracy and good governance;

- Build human capacity through education and training;
- Stabilize world population and protect human health;
- Protect the environment for long-term sustainability; and
- Promote humanitarian assistance.

Microenterprise assistance activities are programmed under one or more of these objectives. Of the 88 countries in which USAID worked in FY 2000, at least 58 have active microenterprise programs.

## A. USAID Field Missions

In the past 20 years, many USAID Mission microenterprise programs have evolved from small isolated efforts to build capacity of individual institutions to broad integrated programs that address the problems that microentrepreneurs and their households face. Below are some examples of USAID Mission programs that have evolved over time in response to difficult economic, political, and social conditions.

### Zimbabwe

USAID/Zimbabwe has made substantial investments in the microenterprise sector since 1994. The Mission has worked to expand the access of microentrepreneurs to capital and high-impact BDS. In addition, USAID/Zimbabwe helped to coordinate the efforts of other donors engaged in the microenterprise sector through the Zimbabwean Consortium of Microfinance Donors. Up to this point, the



Photo by Carol Stigger of Opportunity International.

*Fortunate, a client of Zambuko Trust, received a loan of \$200 to buy a sewing machine with which she began a career in dressmaking.*

USAID Mission has helped to build institutional capacity in the microfinance sector by providing loan capital and funds for technical assistance to a number of MFIs, including Zambuko Trust, the Self-Help Development Foundation, Phakama Development Company, Masvingo Credit Against Poverty (M-CAP), and the Zimbabwe Women's Financial Trust. Collectively, these organizations reach tens of thousands of clients through their savings and loan programs.

Building on this foundation, the Mission has implemented a new strategy to respond to Zimbabwe's troubled economy and spiraling rural poverty. Recent Mission funding will support outreach by microfinance programs to rural and peri-urban areas that have not been served.

As a complement to its microfinance activities and to further extend its outreach to the poor, the Mission designed a program to build the capacity of local business associations and groups engaged in collective business activities. Throughout Zimbabwe, there are many collective business groups engaged in agri-business activities, such as vegetable and fruit distribu-

tion, dairy farming, cattle feeding, fishing, and wild-produce gathering. Other groups are organized around eco-tourism activities, sewing and crafts production, and other activities.

The Mission is also seeking to mitigate the economic impact of HIV/AIDS on orphans and others affected by the disease, in a country where one in four people between the ages of 15 and 45 has HIV and some 624,000 children under the age of 15 have lost one or both parents to the disease. Program services to provide training,

business skills, and microfinance services to affected communities are funded under the Mission's new strategic objective.

## Armenia

In Armenia, USAID has had the considerable challenge of trying to stabilize a weak economy that was rocked by a political crisis following the 1999 assassination of the prime minister and a number of other officials. Since 1995, USAID/Armenia has been engaged in activities to assist firms in growing sectors that have the potential to increase employment. The Mission has also worked to promote organizations that provide assistance to microentrepreneurs. The Mission's microfinance activities focus primarily on lending to microenterprises, but also include legal and regulatory reform and sub-sector interventions to support microenterprises.

USAID is providing \$1 million to MDF Kamurj, for example, a new MFI that is organized as a local foundation and developed from the merged operations of Save the Children and Catholic Relief Services (CRS) microfi-



Photo by Susan Warner of Save the Children.

*A Palestinian refugee in the MicroFund for Women Program, Save the Children/Jordan.*

nance projects. The merger arose from both organizations' need to address organizational challenges in the Armenian microfinance market. By combining the technical and monetary resources of these two international organizations, they have consolidated overhead expenses and achieved better economies of scale for service delivery. At the end of 2000, MDF Kamurj had over 4,200 active clients, all of whom are women. Its portfolio value was \$415,000, with an average loan size of \$99. MDF Kamurj has already attained operational sustainability and is close to being fully financially sustainable.

Another microfinance institution supported by the Mission, FINCA Armenia, also provides group lending, with approximately 65 percent of its loans going to women entrepreneurs. At the end of 2000, this program had over 1,600 clients with an average loan size of \$255 and a portfolio value of \$183,000.

## Jordan

USAID/Jordan employs a comprehensive approach to microfinance that facilitates development of an entire industry rather than a number of individual organizations. Since early 1998, USAID has committed approximately \$30 million to the development of many industry components including:

- Four retail MFIs: Microfund for Women, Jordan Micro Credit Company, Ahli Microfinancing Company, and Jordan Access to Credit Project;
- A credit information bureau to stimulate Jordan's entire economy by facilitating the provision of lender, retailer and wholesaler credit;
- A comprehensive technical assistance program to address the needs of all of a sustainable microfinance industry;
- The Microfinance Association of Jordan to deliver microfinance training, undertake advocacy for the industry, and provide a discussion forum for industry issues;
- A new product development program that is designed to enable the microfinance institutions to better serve their clients while increasing their revenues; and,
- A strategic sector assessment that examines Jordan's microenterprise and microfinance sectors and makes recommendations to frame future national policy.

By December 2000, Jordan's four microfinance institutions had nearly 17,500 borrowers, 79 percent of whom were women. All four institutions are expected to be operationally sustainable by December 2001 and financially sustainable by December 2002. Due to rapid loan portfolio growth, USAID is planning ahead to ensure that these four institutions continue to grow. To facilitate the loan capital provision at commercial interest rates, USAID is capitalizing a wholesale funding facility that a

commercial bank will manage on a fee-for-service basis. The funding facility's capital will collateralize guarantees issued by the facility manager in support of credit lines that the MFIs have obtained from local commercial banks. When the MFIs have developed strong credit histories with the commercial banks, the guarantees will no longer be necessary and at that time, the microfinance institutions will graduate from dependence on the facility and receive as capital contributions their pro-rata shares of the facility's capital.

## El Salvador

Over the last five years, USAID/El Salvador has strengthened financial institutions to increase and ensure that financial services reach rural areas. The Mission's support to microfinance comes under the Mission's first strategic objective, "Expanded Access and Economic Opportunities for Rural Families," and contributes to its goal of poverty reduction, enabling rural poor households to have economic alternatives for improving household income.

The Mission has concentrated on a few institutions ("market leaders") that have shown the potential to become financially viable and helped them expand coverage. Assistance has included technical advice, training, equipment, and funds for loan capital. Two recently completed activities are support to the credit union movement through CRECER and a new microfinance institution, ENLACE.

- The CRECER project led to impressive improvements in savings mobilization over five years (1996-2000). The project supported a 345 percent growth in savings in 13 credit unions. CRECER also contributed to the expansion of operations and improved financial practices by credit unions.

- The Micro 2000 Project, which ended in December 2000, successfully created the microfinance institution, ENLACE. At the project's end, ENLACE had four branches that worked with very poor microentrepreneurs and served 10,457 clients, 81 percent of whom are women. Average loan size for all clients was \$132. Despite its outreach to poor clients, however, ENLACE was 94 percent financially self-sufficient and 118 percent operationally sustainable.

Microfinancing activities in El Salvador are currently at an expansion or competition stage. Institutions are widely concerned with reaching sustainability, new commercial actors, risk management, urban market saturation, new market development, leadership/governance, and client satisfaction. USAID/El Salvador now works with 11 microfinance institutions that serve rural communities, including non-governmental institutions, credit unions, a licensed financial institution, and commercial banks.

In addition to its microfinance activities, under FOMIR<sup>9</sup> the Mission supports the Barents Group's technical assistance to the Superintendency of the Financial System. The technical assistance covers the review of regulations and information technology used in policy implementation that governs non-banking financial institutions.

The Mission responded quickly after January and February 2001 earthquakes and drew on USAID's Development Credit Authority to obtain temporary assistance for Financiera Calpiá, while the institution restructured and refinanced the portion of its portfolio affected by the quakes (see page 29).

9 FOMIR is the "Programa de Fortalecimiento de Las Microfinanzas Rurales"; DAI manages FOMIR.

## B. USAID Central Offices

Through USAID/Washington, the Agency supplements field technical capacity and advances research agendas, in addition to managing a number of grant and credit programs. In the EGAT Bureau,<sup>10</sup> the Office of Microenterprise Development and the Office of Development Credit have played key roles in providing assistance to the microenterprise sector. In the DCHA Bureau,<sup>11</sup> the Office of Private and Voluntary Cooperation (PVC) has consistently supported microenterprise activities through its Matching Grant program; the Food for Peace Office has been a steady funding source for microenterprise through its food security program under PL 480.

### Office of Microenterprise Development

Since 1995, the Office of Microenterprise Development has managed the Microenterprise Innovations Project (MIP), which has provided a range of technical, financial, and research services to the microenterprise community. The major project components were:

- The Implementation Grant Program, a grant facility to promote innovation and expansion in financial and business development services fields;
- The Program for Innovation in Microenterprise (PRIME) Fund, for “mainstreaming” best practices throughout the Agency by co-financing microenterprise projects that USAID Missions designed and managed;

- Microenterprise Best Practices (MBP), action research to strengthen the knowledge base, microenterprise development practices, publications, a grant facility, and extensive dissemination activities;
- AIMS, a research agenda to measure the impacts of microenterprise programs and develop practitioner tools for client assessment and market research; and,
- Technical assistance to USAID Missions through the MicroServe contracting vehicle to provide a range of short-term technical services and training to USAID Missions and practitioners.<sup>12</sup>

During this period, USAID funding advanced a research agenda that shed light on important trends and developments in microfinance, including commercialization, management tools, new product development, managing risks and emergencies, regulation and supervision, and rural finance. In addition, MBP research addressed key development issues in the business development field, such as methodologies for assessing BDS markets, the effectiveness of vouchers, intervention strategies to develop BDS markets, and business linkages.

Microenterprise practitioners have valued USAID’s leadership in the AIMS initiative, studying the impacts of microenterprise services on microentrepreneurs, households, and communities. In the last five years, AIMS has provided technical assistance in all areas of client assessment, including impact assessment to USAID Missions and their development

<sup>10</sup> Formerly the Global Bureau.

<sup>11</sup> Formerly the Bureau for Humanitarian Response (BHR).

<sup>12</sup> MicroServe was implemented by two contracting groups: Chemonics International, Inc., with Agricultural Cooperative Development International (ACDI), Association for the Development of Microenterprises, Inc. (ADEMI), and CARANA Corporation; and Weidemann Associates, Inc., with ATMA International, CARANA Corporation, Deloitte Touche Tohmatsu IIA Group, Development Associates, Inc., Sterling International, and Winrock International.

## Leveraging Funds for Microenterprise In Uganda

In FY 2000, USAID/Uganda identified four sectors where credit was in short supply and where they would have high economic impact per dollar placed. The sectors were agriculture, agribusiness, grain wholesalers, and fisheries. Through USAID's Office of Development Credit, a partial guarantee was made to seven of Uganda's top financial institutions<sup>15</sup> to reduce risk as they increased lending to the four sectors. Wholesale lending to NGOs and MFIs that on-lend to micro, small and medium-sized enterprises is also planned under this facility. Borrowers should benefit from the increased competition among the banks. Potentially, this facility could leverage up to \$300 million in both short-term and longer-term loans.

partners, because these organizations have limited resources to undertake this research on their own.<sup>13</sup> The practitioner-led client assessment tools developed through AIMS and in conjunction with leading microenterprise institutions were widely disseminated and are now being used by many institutions to improve services. In addition, AIMS conducted longitudinal research in three regions to better understand the ways in which microenterprise services affect poor households.<sup>14</sup> This research has contributed much to the new client-focused agenda. It is guiding microenterprise institutions in their efforts to design appropriate products and services and improve delivery systems.

### Office of Development Credit

The Development Credit Authority (DCA) is a general authority that permits USAID to offer credit assistance (direct loans or loan guarantees) for any development purpose of the Foreign Assistance Act. USAID's Office of Development Credit is now assisting field missions to use this authority to further their ini-

tiatives. In FY 2000, for example, FinComun, a microfinance institution in Mexico City, received a loan portfolio guarantee under DCA to expand microfinance services.

The Office of Development Credit also offers portable guarantees to microfinance institutions to facilitate loan access from domestic and international commercial lenders. All USAID guarantees are risk sharing and cover up to 50 percent of the loss of principal in the event of default.

Other credit instruments available to support microfinance institutions include:

- Guarantees to banks for on-lending to microfinance institutions;
- Wholesale guarantees to a group of microfinance institutions;
- Bond guarantees to reduce the risk of issuing and buying an organization's bonds; and,
- Bond guarantees for a special purpose vehicle for microfinance in which banks would invest.

13 Impact assessments were performed in Bangladesh, Honduras, India, Jamaica, Kenya, Peru, Philippines, Poland, Uganda, and Zimbabwe.

14 These studies are available online at the AIMS Publication section of [www.mip.org](http://www.mip.org).

15 These are Citibank Uganda, Standard Chartered Bank Uganda, Stanbic Bank Uganda, Barclays Bank Uganda, Allied Bank International, Centenary Rural Development Bank, and Nile Bank.

These mechanisms are ways that USAID assists microfinance institutions to link to commercial markets. Such approaches are creating additional opportunities for institutions that are ready to transition to capital sources beyond donor grants.

## Office of Private and Voluntary Cooperation

The PVC Office's Matching Grant Program has a long and successful history of assisting U.S.-based PVOs and their local partners to strengthen their ability to achieve sustainable service delivery in a number of key areas critical to USAID interests, including microenterprise development. PVC grants have been effective in fostering innovative approaches and building the management and technical systems that have allowed a growing number of PVOs to become major forces in development assistance.

PVC grants provide funding for both PVO headquarters' and their local partners' institutional development. This has been an important factor in the PVOs' growth. PVC recognized that strengthening management and technical support systems at the headquarters and field levels results in more effective and sustainable country program service delivery.

The Matching Grant Program also played an instrumental role in assisting PVOs to develop microenterprise programs. For example, CRS initially used Matching Grant funds to develop its headquarter's microfinance technical unit and to initiate pilot microfinance programs in five countries. CRS is now using PVC funds to reach greater scale and outreach, develop formal financial institutions, establish regional microfinance learning centers, and implement a network-wide accreditation system. With the accreditation system,

the microfinance unit has once again taken the lead on an initiative with implications for the organization as a whole. Other CRS technical units are beginning to adopt the same methodology, i.e., to develop standardized evaluation tools and move towards accreditation.

Two PVC-supported PVO networks, the SEEP Network and the Child Survival Collaborations and Resources (CORE) Group, recently formed a joint task force to investigate cross-sectoral programming in HIV/AIDS and microenterprise development. The joint task force will examine how the microenterprise and health sectors can form strategic alliances to effectively address evolving development priorities in the face of the HIV/AIDS crisis.



*Teodora Acuña Jesús, a Mibanco client, at her shop in Lima, Peru.*

Photo by Rohanna Mertens of ACCION International.

## Office of Food For Peace

Under Titles II and III of the Agricultural Trade Development and Assistance Act of 1954 (Public Law 480 as amended), agricultural commodities are donated to the least developed countries. The revenue generated by the sale of such commodities has been used for economic development. Among the uses prescribed for local sales proceeds are activities that promote increased access to food through programs

designed to boost employment and income, such as microenterprise development programs. In accordance with USAID-approved implementation plans, a number of Title II cooperative sponsors have applied funds toward microenterprise development.

In FY 2000, local currency derived from PL 480 commodities supported microenterprise development in Ghana, Kenya, Guatemala, and Peru (see box on PRISMA on page 7).

### Peru's MiBANCO Offers Microloans to Microentrepreneurs

In 1991, a fire destroyed one of the busiest outdoor markets in Lima, Peru. With it went Teodora Acuna's livelihood—the three food stands that she had worked 20 years to create. Not easily deterred, Teodora saved to buy another stand. But without the resources to stock her shelves as she had before, she was often forced to send her customers to other vendors. One day, the customer she was turning away offered a solution: a microloan. He was a loan officer at ACCION's local microlending affiliate, Acción Comunitaria del Perú (ACP).

ACCION founded ACP in 1969 as an organization focused on development projects ranging from housing construction to education programs. But it became clear that, to dramatically reduce local poverty, ACP needed to support small informal businesses—like Teodora's stands—that employed 60 percent of Lima's workers.

Sixteen years later, ACP's microlending program served 36,000 clients and was rapidly outgrowing available lending capital. In 1998, ACCION, ACP, and Peruvian authorities collaborated to create a new microlending bank, Mibanco, or "my bank," Peru's first commercial bank dedicated to microenterprise. Today, Mibanco is one of the most successful microlenders in Latin America. By early 2001, it was serving over 65,000 borrowers.

Courtesy of ACCION International.

# V. MICROENTERPRISE FUNDING IN FY 2000

In FY 2000, USAID contributed \$164.3 million to microenterprise development programs, a 7 percent increase in funding over the \$153.5 million that USAID programmed in 1999.

As in 1999, Development Assistance (DA) funds constituted half of the total for microenterprise development. Within the DA account, two special funds, Accelerating Economic Recovery for Asia (AERA) and the Southern Africa Disaster Reconstruction Fund (SADRF) were applied to microenterprise programs in Indonesia and Mozambique, respectively.

In Honduras, monies from a separately appropriated account, the Central America and Caribbean Emergency Disaster Recovery Fund (CACEDRF) were directed to microenterprise activities.

The use of Economic Support Funds (ESF), authorized through the U.S. Department of State, to support microenterprise decreased by 40 percent in FY 2000 over FY 1999. This resulted from reduced funding by USAID/Egypt, which typically contributes large sums annually to ongoing microenterprise activities. Subsequent years' funding will

**Table 1. Sources of USAID Funds for Microenterprise by Appropriation Account, 1991-2000 (US\$ millions)**

Fund	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
DA <sup>1</sup>	40.2	61.3	51.6	89.2	93.3	72.9	83.3	79.9	75.3	84.5
AERA										2.0
SADRF										1.5
Total DA										88.0
ESF	43.2	34.4	20.8	31.6	22.9	16.1	24.5	27.2	32.9	19.5
FSA						5.4	20.6	14.3	12.8	30.2
SEED/SAI <sup>2</sup>						4.7	24.8	4.6	12.0	9.0
CACEDRF									3.2	8.0
CSD/HIV <sup>3</sup>										0.8
Local Currency	30.2	30.6	23.6	16.6	17.3	12.2	11.8	12.4	17.3	8.8
<b>Total</b>	<b>113.6</b>	<b>126.3</b>	<b>96.0</b>	<b>137.4</b>	<b>133.5</b>	<b>111.4</b>	<b>165.0</b>	<b>138.4</b>	<b>153.5</b>	<b>164.3</b>

<sup>1</sup> Development Assistance Funds include the Development Fund for Africa.

<sup>2</sup> Funds appropriated under the Support for Eastern European Democracy (SEED) Act; also includes funds appropriated under Special Assistance Initiatives (SAI).

<sup>3</sup> CSD/HIV funds are from the Child Survival and HIV/AIDS account.

**Table 2. FY 2000 Funding by Region of Use**  
(US\$ millions)

	Financial Programs		Non-Financial Programs		Total	
	Amount	Percent	Amount	Percent	Amount	Percent
Africa	\$26.5	61%	\$17.3	39%	\$43.8	27%
Asia/Near East	\$18.0	74%	\$6.3	26%	\$24.3	15%
Europe/ Eurasia	\$21.6	54%	\$18.5	46%	\$40.1	24%
Latin America/ Caribbean	\$31.2	73%	\$11.7	27%	\$42.8	26%
Worldwide	\$10.1	77%	\$3.1	23%	\$13.2	8%
<b>Total</b>	<b>\$107.4</b>	<b>65%</b>	<b>\$56.9</b>	<b>35%</b>	<b>\$164.3</b>	<b>100%</b>

reflect USAID/Egypt's new project cycle to promote microentrepreneurs through a range of microfinance and BDS institutions.

In FY 2000, there was a large increase (136% over FY 1999 funding) in Freedom Support Act (FSA) funds for microenterprise. The FSA account is USAID's funding source for programs in Russia, Ukraine, the Caucasus, and the Central Asian Republics. FY 2000 FSA funding reflects large contributions to microenterprise programs across the region: \$7 million in Azerbaijan, \$5.2 million in Russia, \$4.7 million in Ukraine, \$3.5 million in Georgia, and \$3 million in Kazakhstan.

Local currency used for microenterprise (from the monetization of Title II funds under PL 480) was down by 47 percent in FY 2000 (\$9 million from \$17 million in 1999). Early estimates indicate that microenterprise funding from Title II will return to roughly \$12 million in FY 2001 and 2002.

As shown in Table 2, funds programmed by USAID's central bureaus are allocated to the region of the funded activity. In FY 2000, 65 percent of total USAID funding went to finan-

cial services programs (for loan capital, operational expenses, technical assistance, or microfinance policy work). The remaining 35 percent supported business development programs or policy advocacy on issues affecting microentrepreneurs.

Of the two-thirds of total funding applied to microfinance, \$2.4 million or 2 percent went for financial policy reform or for reforming or instituting laws and regulations affecting microfinance institutions. There was \$5.3 million in general microenterprise policy advocacy funding in 2000 (9% of non-financial funding, 3% of total funding).

Total funding to Africa has increased steadily over the past five years and was 62 percent higher in 2000 than it was in 1996 (\$43.8 million in 2000 vs. \$27.1 million in 1996). Within that total, microfinance program funding rose from \$19 million in 1999 to \$26.5 million in 2000, a 40 percent increase. Unlike previous years, where BDS program funding in Africa exceeded microfinance funding, in FY 2000, the proportions for microfinance and BDS in Africa paralleled the proportions for the Agency as a whole.

**Table 3. Uses of FY 2000 Funding by USAID Bureau (US\$ millions)**

	Financial Programs		Non-Financial Programs		Total	
	Amount	Percent	Amount	Percent	Amount	Percent
Africa Bureau	\$20.9	56%	\$16.2	44%	\$37.1	22.6%
Asia/Near East Bureau	\$16.3	73%	\$6.0	27%	\$22.3	13.6%
Europe/Eurasia Bureau	\$17.8	50%	\$17.5	50%	\$35.3	21.5%
Latin America/Caribbean Bureau	\$26.5	73%	\$10.0	27%	\$36.5	22.2%
Central Bureaus	\$25.9	78%	\$7.2	22%	\$33.1	20.1%
<b>Total</b>	<b>\$107.4</b>	<b>65%</b>	<b>\$56.9</b>	<b>35%</b>	<b>\$164.3</b>	<b>100%</b>

Table 3 presents the same data as in Table 2, only from the viewpoint of the funding source in the Agency rather than the destination of funds. The Bureaus for Africa, Europe and Eurasia, and Latin America and the Caribbean provided roughly equal amounts to microenterprise programs. The Bureau for Asia and the Near East was the only source showing a significant drop (down \$13 million or 37%) from the prior year, once again related to the reduced funding by USAID/Egypt.

The Microenterprise for Self-Reliance and International Anti-Corruption Act of 2000 set a new target for the Agency, requiring that at least 50 percent of all USAID funding, including that provided to institutions engaged in business support services and policy work, go to the poor or directly benefit them. In prior years, the Agency's target was that 50 percent of funding for financial programs should be devoted to poverty loan clients. This year's survey of microenterprise institutions also asked

**Table 4. Percentage of USAID Funds Committed to Poverty Lending in 2000**

	Total Microenterprise Funding (US\$ millions)	Percent of Financial Funding for Poverty Lending	Percent of Non-Financial Funding for Poverty Loan Clients	Percent of Total Funding for Poverty Lending
Africa	\$37.1	93%	9%	56%
Asia/Near East	\$22.3	50%	87%	60%
Europe/Eurasia	\$35.3	50%	1%	26%
Latin America	\$36.5	73%	38%	63%
Central Bureaus	\$33.1	70%	27%	61%
<b>Total all Bureaus</b>	<b>\$164.3</b>	<b>66%</b>	<b>28%</b>	<b>53%</b>

BDS practitioners to report on the percentage of clients with poverty loans. BDS funds were attributed to very poor clients based on the proportion of BDS clients with poverty loans from any source. The data contained in Table 4 represents the tabulation from those institutions reporting FY 2000 data.

As in prior years, microfinance institutions reported on the percentage of their portfolio held in loans equivalent to poverty loan sizes. Based on the new regional limits established in the Microenterprise Act, institutions reported on loan sizes of \$300 or below in Africa, Asia, and the Near East; \$400 or less in Latin

America and the Caribbean; and \$1000 or less in Europe and Eurasia.

By these definitions, two-thirds (66%) of FY 2000 funding to financial institutions was channeled to the very poor through microfinance institutions. In addition, more than a quarter (28%) of BDS funding was channeled to very poor clients, based on BDS institutional reports. **Combining the funding amounts for both financial and non-financial purposes, 53 percent of total funding was directed to institutions whose clientele are very poor, meeting the poverty target included in the Microenterprise for Self-Reliance Act.**

# ADDRESSING VULNERABILITY: REBUILDING AFTER

The greatest stumbling block to economic well-being for most of the world's poor continues to be the setbacks they endure because of their vulnerability to a range of societal and household events. These include drought and food shortages; ethnic, religious, or political conflicts; natural disasters, such as earthquakes and landslides; fluctuations in financial systems; and health crises, such as HIV/AIDS and malaria. Without a social safety net to protect them during these times, microentrepreneurs must weather the storms as best they can. Such events also pose major challenges for microenterprise practitioners who must be able to adjust their operations to respond rapidly and effectively to their clients.

Two themes that extend across many USAID programs are “rebuilding after violent conflict” and “disaster response.” Opportunity International’s programs in the Balkans offer an example of USAID’s efforts in war-ravaged areas. *Financiera Calpiá*, a credit institution in El Salvador that was particularly hard hit by natural disasters, was able to weather crisis with USAID assistance.

## Opportunity International: Building Economic Security In The Balkans Through Microfinance

Since creating *Nachala Foundation* in Bulgaria in 1993, Opportunity International, in partnership with USAID, has played a leading role in developing the microfinance industry in Eastern Europe by establishing *IZVOR* in Romania (1995), *Inicjatywa Mikro* in Poland (1996), *Možnosti* in Macedonia (1996), *NOA*

in Croatia (1996), *PSHM* in Albania (1998) and *Microcredit Montenegro* (1999). Opportunity began operations in Russia in 1993 and now serves microentrepreneurs through a nationally registered fund, *FORA*, with a distribution network of five regional branches. In addition to establishing twelve MFIs, Opportunity played a leading role in establishing the *MicroFinance Centre for Central and Eastern Europe* and the *New Independent States* in Warsaw, Poland to provide technical support and training to MFIs throughout Europe.

In May 2000, the National Bank of Macedonia awarded *Možnosti*, an NGO, a license to create the *Možnosti Savings House*.<sup>16</sup> Beginning in late 2000, it began to conduct lending, savings and deposit programs. Within a year, the Savings House hopes to receive a full banking license, which is a major step on the road to long-term sustainability. The license will permit the Savings House to mobilize savings deposits for loan provision, so it can expand its operations much more quickly.

Opportunity International’s most recent investment in Central Europe is in Serbia, where United Nations data indicate there has been a severe decline in the economy in the past decade. An estimated 33 percent of the population lives under the poverty line and the unemployment rate is at least 35 percent. To survive economically, many have been forced



<sup>16</sup> A savings house is similar to a savings and loan institution.

# VIOLENT CONFLICT AND DISASTER RESPONSE

to generate income in the informal economy. Unofficial statistics indicate that 70 percent of the Serbian economy now operates in the informal sector. As with other Eastern European countries in market transition, Serbia's banking system has been ill-equipped to serve the needs of small and micro businesses.



In FY 2000, USAID provided funding for a new microfinance facility in Serbia that Opportunity International would operate, starting in the Vojvodina Region with its main office in Novi Sad. Opportunity Serbia was initially registered as an NGO foundation. Its target group is the poorest of the economically active; they will be eligible to receive loans through solidarity groups.<sup>17</sup>

## Financiera Calpiá: USAID Guarantees Bring Stability After Another Big Quake

Due to its location in El Salvador, a country that is regularly affected by natural disasters, Financiera Calpiá has had to overcome several large external shocks in its history. In some sense, the financial institution owes its existence to one such shock because its origins date back to a major earthquake in the late 1980s, when a special credit service was started by a group of small and microentrepreneurs. In 1995, Financiera Calpiá became the first formal financial intermediary in El Salvador with a focus on small and microenterprises. Apart



Courtesy of Financiera Calpiá.

*A client of Financiera Calpiá.*

from continuing to develop its credit activities, Calpiá, now regulated, introduced savings facilities for its clients.

By late 2000, Calpiá had several credit and savings products in its national branch network of 13 outlets. Calpiá mobilized more than \$14 million in savings held in 40,000 individual accounts. Then, in early 2001, Calpiá and its clients were hit hard once again by earthquakes that caused extensive structural damage and threatened the institution with heavy losses through loan defaults. To help the institution maintain solvency, USAID's Office of Development Credit provided a guarantee to reduce the amount of money Calpiá was required to set aside as loan loss provisions. Then Calpiá began to restructure and refinance performing loans that were affected by the earthquakes and to lengthen repayment terms where necessary. This immediate response to Calpiá's crisis protected the institution and its clients.

Recently, Calpiá received technical assistance through Frontier Finance, supported by the Office of Microenterprise Development and FOMIR, a USAID/El Salvador activity.

<sup>17</sup> Solidarity groups are small groups of 3 to 5 people who jointly guarantee each other's loans. Typically members of the group are well-known to each other.

# VI. MICROENTERPRISE INSTITUTIONS

## A. Microfinance

USAID’s contributions to microfinance institutions have consisted of loan capital, support for operational expenses, staff training, new product development, and new program initiatives. All microfinance practitioners with active USAID agreements in FY 2000 were asked to provide data on their financial activities at year-end whether or not they received additional funding in FY 2000. Of these, 282 reported data for their 2000 fiscal year. Almost three-quarters provided data in both 1999 and 2000.

Many institutions have multi-year USAID agreements that are evaluated annually against performance indicators. Typically, institutions that are not performing well do not remain in USAID’s portfolio for long. Grants made through central offices to organizations with strong track records generally run for three to five years with annual or semi-annual review

targets built into their agreements. Over time, mature institutions may graduate from USAID assistance, though USAID sometimes provides short-term targeted innovation assistance to strong institutions. In the case of both weak institutions whose funding is terminated and mature ones that graduate, they disappear from the Microenterprise Results Reporting (MRR) reporting set because institutions are tracked only for the term during which their USAID agreement is active. Hence, it is not possible to capture the long-term effect of USAID assistance. To do so would require longitudinal research with a set of institutions that may no longer have active USAID agreements.

BRI exemplifies a mature institution that received FY 2000 USAID funds for special projects. BRI is a large government bank with extensive outreach to the microenterprise sector. To include BRI’s data in the summary tables would overwhelm the remainder of USAID’s

**Table 5. Clients of Lending Institutions in 1999 and 2000 (USAID’s Active Portfolio)<sup>18</sup>**

	Total Clients 2000 (‘000s)	Total Clients 1999 (‘000s)	Percent Change from 1999 <sup>1</sup>
Africa	315.3	250.5	26%
Asia/ Near East	625.5	821.4	-24%
Europe/Eurasia	88.7	101.6	-13%
Latin America	148.5	70.4	111%
<b>Total</b>	<b>2,164.4</b>	<b>2,019.6</b>	<b>7%</b>

<sup>1</sup> While BRI provided data on its program for both years, it is excluded from the summary tables in both years.

<sup>18</sup> The number of loans is used as a proxy for the number of clients. Many microfinance institutions track only loans, not clients. It is still uncommon for an individual to have more than one loan outstanding with the same institution.

portfolio; instead, it is discussed separately. At year's end, BRI's Micro Division had 2.7 million borrowers with an outstanding portfolio of \$893 million and an average loan size of \$329. BRI's savings program is especially noteworthy, however, with 25 million savers and total savings of \$2 billion or average savings of \$78. These numbers suggest the tremendous value placed by the poor on savings services that are safe, convenient, and well-designed.

There has been 7 percent growth since 1999 in the number of clients served through USAID-assisted programs (see Table 5). All regions, with the exception of ANE, reported considerable growth in the numbers of clients reached. The change in the Asian numbers is mainly attributable to a shift in the universe of institutions reporting, from a few larger institutions to a number of younger, smaller ones.<sup>19</sup>

In the Europe & Eurasia (E&E) region, a number of microfinance programs were initiated with USAID support in the last few years (See examples on pp. 17 and 28).

The amount of outstanding portfolio grew by almost one-third (30%) in 2000, after a slight dip in 1999. As in prior years, loan portfolio value in the LAC region constitutes two-thirds of the total portfolio of USAID-assisted institutions, excluding BRI. Where average loan size in 1999 was \$330, it rose slightly to \$401 in 2000.<sup>20</sup>

Women in the developing world shoulder much of the responsibility for providing for their households, particularly in the care of children. Income earned from microenterprises becomes the essential means for meeting basic needs like food, shelter, medicine, and children's education. Because women were so thoroughly excluded from formal financial systems in the past, USAID has long placed priority on assisting microfinance institutions to design programs that provide women greater access.

As shown in Table 6, the percentage of women clients in USAID-supported microfinance institutions is high for all regions with the

**Table 6. Average Loan Balance and Percentage of Women Clients in 2000 (USAID's Active Portfolio)**

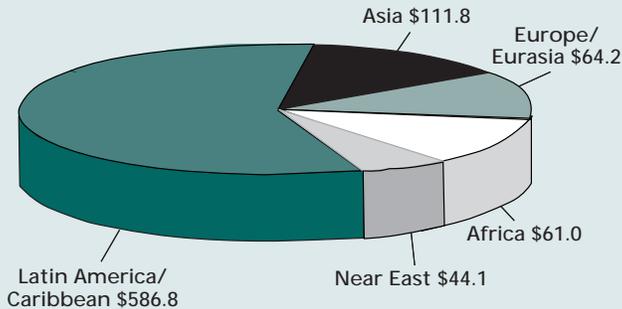
	Average Balance (US\$)	Percentage of Women Clients %
Africa	193	72
Asia <sup>1</sup>	179	87
Near East	498	27
Europe/Eurasia	432	54
Latin America/Caribbean	595	65
<b>Total</b>	<b>401</b>	<b>70</b>

<sup>1</sup> BRI, not included in this table, has 23% women clients.

<sup>19</sup> The two largest individual reporters in last year's portfolio (excepting BRI), Palli Karma Sahajak Foundation in Bangladesh and the Women's Development Federation in Sri Lanka, with 220,000 and 116,000 clients, respectively, did not have active agreements in 2000.

<sup>20</sup> Institutions report on the total amount of loan balances outstanding at the end of their fiscal year and the related number of loans. Average loan balance is a proxy for loan size.

**Figure 1. Amount of Portfolio for Lending Institutions in 2000 (Millions of US Dollars)**



exception of the Near East. Many USAID-assisted programs, such as the Kazakhstan Community Loan Fund, work almost exclusively with women. In the Near East, as in parts of Asia, like Indonesia, cultural traditions limiting women’s role in the marketplace also affect their participation in microfinance institutions.

Average loan size is also slightly higher in the Near East, second only to the LAC region. A number of the countries of the Near East are more developed and have higher per capita GDPs suggesting greater comparability with

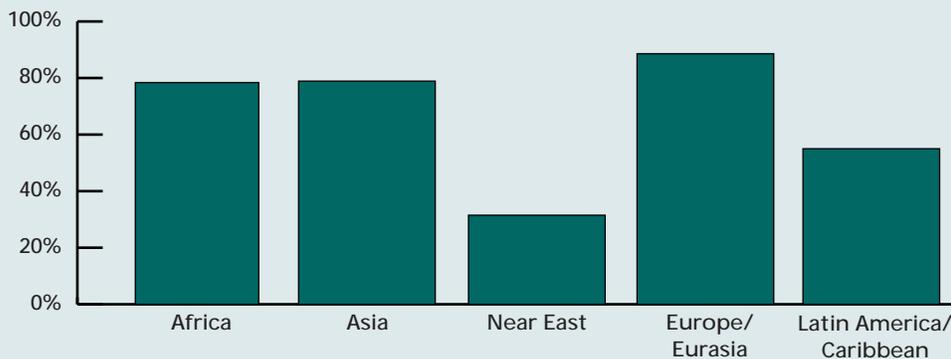
the transitional economies of Eastern Europe than with the developing world.

As in prior years, Asian institutions hold the smallest loans. Microfinance institutions in the E&E region are now holding more loans with smaller loan balances than institutions in either the Near East or LAC regions. As noted earlier, a number of the microfinance programs in the E&E region have

recently been established with USAID funding, hence are younger than those found in either the Near East or LAC. These newer investments initiated poverty lending programs, such as village or community banks where the group manages its loans to members. Village bank loans to group members tend to be much smaller than loan programs to individuals. USAID’s earlier investments in the region were primarily to individual loan programs.

Figure 2 shows the high percentage of total loans that are poverty loans in all regions

**Figure 2. Percentage of Clients with Poverty Loans in 2000**



except the Near East.<sup>21</sup> It is notable that USAID-supported institutions in the E&E region hold such a high percentage of poverty loans. The average loan balance for all microenterprise loans in the E&E region, \$430, is significantly lower than the amount designated by the U.S. Congress for poverty loans (\$1000) in that region.

Building financial assets is an important step toward achieving long-term security for poor households around the world. Cash savings are a way of reducing risk and vulnerability in times of crisis. Recognizing this, USAID emphasizes the need for safe and reliable savings mechanisms suitable for the poor.

The average savings deposit held per client by USAID-supported microfinance institutions increased from \$113 in 1999 to \$169 in 2000, an increase of 50 percent (see Table 7). The Caisse d'Epargne de Madagascar (the National Savings Bank of Madagascar), which has received USAID support for several years, increased its savings clientele by 9 percent from 517,000 individuals in 1999 to 573,000 in 2000.

Depositors' average savings there also grew to \$54 in 2000 from \$44 in 1999. Other large USAID-supported savings programs are the World Council of Credit Unions (WOCCU) programs in Ecuador, Bolivia, the Philippines, Kenya, and Romania.<sup>22</sup>

In addition to USAID's emphasis on outreach to the poor, the Agency has sought to encourage strategies that impact rural areas. Throughout the world, the poorest entrepreneurs and their households are located in rural areas, so these objectives converge. The challenges of outreach to rural areas are numerous, however. Poor infrastructure constrains microentrepreneurs who need access to finance and markets. For microfinance programs that use group guarantees, one disadvantage of serving rural customers is that the distance between group members discourages regular meetings, which have proved essential to good repayment.<sup>23</sup>

Data in Figure 3 suggest that most of the USAID-supported institutions have a greater proportion of their clients in urban and peri-

**Table 7. Number of Savers and Savings Amounts in 2000**

Region	Savings Members ('000s)	Savings Amounts (US\$ millions)	Average Savings Account (US\$)
Africa	952.7	\$105.2	\$110
Asia/ Near East	792.8	\$67.7	\$85
Europe/Eurasia	3.2	\$0.2	\$56
Latin America/ Caribbean	147.9	\$12.2	\$83
Total	1,258.5	\$348.2	\$277
	3,155.1	\$533.5	\$169

21 As noted above, poverty loans are defined differently by region: \$300 or less in Africa, Asia and the Near East, \$400 or less in Latin America and the Caribbean, and \$1,000 or less in Europe and Eurasia.

22 Each WOCCU program represents the activities of a number of local credit unions; Ecuador has 22 affiliated credit unions; Bolivia, 15 credit unions; Kenya, 16 credit unions; and Romania, 23 individual credit unions.

23 Challenges associated with rural finance have been researched under the MBP project, managed by the Office of Microenterprise Development.

Figure 3. Percentage of Clients in Rural Settings, 2000

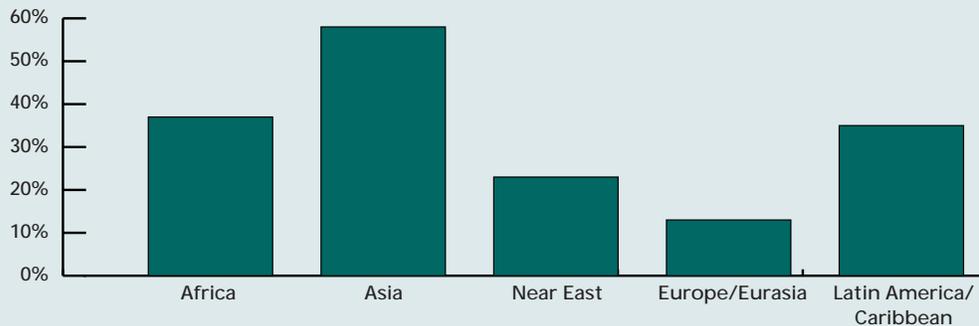


Table 8. Average Repayment and Loan Loss Rates, 2000

Region	Repayment Percent	Loan Loss Percent
Africa	98.4%	0.9%
Asia/ Near East	97.2%	0.9%
Europe/Eurasia	96.2%	1.4%
Latin America/Caribbean	97.7%	1.6%
Worldwide	92.0%	1.1%

urban areas. While efforts to reach rural areas are supported through many USAID offices, the number of clients reached through these activities is still considerably less than the number of urban clients who use microfinance services.

As noted earlier, USAID monitors the annual performance of the microfinance institutions with which it has active agreements. Data on repayment and loan losses are shown in Table 8. These standard indicators are used in microfinance to monitor financial performance.<sup>24</sup>

USAID continues to support institutions that are making progress towards long-term sus-

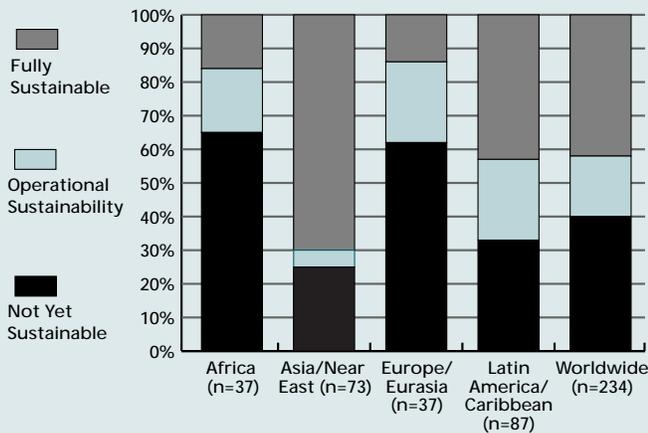
tainability independent of donor subsidy. As more institutions are able to achieve this self-sufficiency level by tapping into private or commercial sources of capital, the field widens and creates opportunities for more new players. USAID offices track sustainability indicators as an important measure of institutional development.<sup>25</sup>

**As shown in Figure 4, almost two-thirds of USAID-assisted institutions reporting for FY 2000 are either operationally or fully sustainable, an impressive achievement.** It is encouraging that the younger MFIs in the Africa and E&E regions are also making strides

<sup>24</sup> Loan repayment is calculated based on the amount of portfolio reported to be in arrears for 90 days or more. Loan loss rates show the percent of portfolio that must be written off because of delinquent loans.

<sup>25</sup> Operational sustainability describes an institution that produces adequate income to cover all operational expenses, including loan loss. Full financial sustainability describes an institution that is able to cover operational expenses, the cost of funds, and inflation.

**Figure 4. Sustainability of USAID-Supported Institutions, 2000**



toward sustainability: more than one-third in each region is either operationally or fully sustainable.

## B. Business Development Services

Considerable progress has been made to strengthen business services to microentrepreneurs in the last year. USAID has been instrumental in promoting innovative approaches to BDS with the potential for long-lasting effect.

Of the institutions with active USAID funding agreements, 66 provided data on their BDS operations (see Table 9). Of these, 75 percent (50) provided BDS services directly to clients; 47 percent (31) acted as BDS facilitators, working to build BDS provider capacity and link microentrepreneurs to direct BDS providers; 15 served in both roles. All the providers and facilitators offered a range of services to clients.

Most direct service providers offered marketing assistance:

- 78 percent did market research,

- 74 percent assisted entrepreneurs by linking them to markets,
- 70 percent assisted entrepreneurs by buying or selling products.

Of the BDS institutions working directly with microentrepreneurs:

- 76 percent provided management training
- 68 percent offered technical or skills training.

Of these providers, 62 percent assisted their clients by linking them to financial intermediaries. More than half (52%) charged their clients for services.

The vast majority of clients of BDS providers assisted by USAID are located in rural areas. Nearly half (49 percent) report that they are engaged primarily in agricultural activities; another 28 percent are involved in agribusiness.

Of the institutions engaged in facilitating BDS, most (23) were engaged in capacity building of BDS providers; 22 did monitoring and evaluation of BDS; 21 assisted in disseminating best practice; 20 identified new opportunities or products or are assisting in opening new markets for microentrepreneurs; 19 provided information on demand for BDS; and 18 built awareness among clients of the benefits of BDS services. Over half of the institutions engaged in BDS facilitation recovered some of their costs through fees, margins on goods sold, or other means.

## C. Policy Advocacy and Reform

President Akaev of the Kyrgyz Republic, recently stated:

**Table 9. Clients of USAID-Supported BDS Programs (n=65)**

	Number of Micro Clients	Percent Women	Percent Rural	Percent Below Poverty Line <sup>1</sup>	Percent Very Poor <sup>2</sup>
Africa	61,649	51%	94%	63%	17%
Asia/ Near East	141,955	94%	91%	50%	18%
Europe/Eurasia	11,336	14%	12%	28%	3%
Latin America	24,861	64%	31%	14%	19%
Total	15,008	53%	67%	68%	37%
	254,809	75%	81%	50%	18%

<sup>1</sup> Organizations were asked to report how many of their clients were below their country's poverty line.

<sup>2</sup> Organizations were asked to report how many of their clients were very poor, defined as having less than half the income designated as the poverty line for that country.

“With the help of microfinancing and social mobilization, we will be able to expand real possibilities for the poor layers of the population. I would like to note that direct governmental support will not be fully able to solve problems of poverty; society and individual citizens must learn to help themselves. The state should undertake the creation of favorable conditions in which all members of society have equal possibilities to improve their own lives.”

USAID has promoted policy reforms as a critical part of its integrated strategy of support to the microenterprise sector. USAID Missions and USAID/Washington seek to address disparities experienced by microentrepreneurs in the marketplace, where they are often severely disadvantaged in comparison to larger businesses.<sup>26</sup> USAID also supports work on the policies that affect how microfinance institutions do business, especially those that help to establish appropriate frameworks for the supervision and regulation of financial institutions serving the poor.

USAID recognizes that microentrepreneurs and microfinance institutions must adapt to a variety of different political and economic systems. Despite the overwhelming consensus on best practices in the provision of microfinance services, there is still not a consensus on what constitutes the ‘best’ microfinance legal and regulatory environment. Within that context, USAID’s approach has been to encourage multiple institutional models, adequate financial returns, innovation in product design and service delivery, and competition among providers.

USAID’s efforts to deregulate interest rates are important in assisting MFIs in becoming self-sustaining. In the past, many developing countries had policies limiting the interest rates that financial institutions were allowed to charge. Such policies had the effect of preventing MFIs from charging rates that adequately covered their transaction costs with microentrepreneurs. In effect, they rationed capital and limited access to financial services. As a result, many MFIs were not able to expand services

<sup>26</sup> Policy biases in agricultural policy, foreign trade, capital and labor markets, taxes, and business regulation and licensing are key areas affecting microentrepreneurs.

without added assistance from donors. As these policies have changed, however, many institutions have demonstrated tremendous resourcefulness and capacity to reach more clients through sustainable operations.

In Europe and Eurasia, a region where much attention has been placed on advocating for a positive regulatory environment, USAID is promoting independent business associations that work on behalf of microentrepreneurs. Across the globe, USAID has supported other approaches, including support:

- To national networks (such as ZACCI in Zimbabwe and GHAMFIN in Ghana) that advocate for national regulatory reforms;
- To Centers for Microfinance (in Uganda, Nepal, and Poland) that promote best practices by microfinance institutions and advocate at the policy level on behalf of microfinance institutions in the region;
- To the World Council of Credit Unions for the purpose of promoting legal and regulatory changes to encourage the growth of credit unions throughout the world;
- To the SEEP Network for capacity-building activities with international PVOs and national NGO networks that result in increased advocacy on behalf of the microenterprise sector;
- For convening high-level discussions with central banks to convey the case for regulation friendly to microfinance; and,
- For technical assistance to help financial authorities better regulate and supervise microfinance institutions and operations, (for example, technical assistance to Bolivia's Superintendency of Banks).

Conferences organized with USAID support, such as a recent policy forum that focused on the independent states of the former Soviet Union, are helping to facilitate discussions on how best to encourage a positive policy environment. Delegations of practitioners, policy makers, and regulators convened to analyze the state of microfinance in their countries, assess the adequacy of the regulatory and legal environments, and develop action plans for achieving improvements. Follow-up includes work on new or improved laws in Armenia, Kazakhstan, and the Kyrgyz Republic.

# VII. MICROENTERPRISE DEVELOPMENT FOR A CHANGING WORLD

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This report has highlighted many examples of USAID support that have helped microentrepreneurs and their households address a range of unpredictable and complex events affecting their lives and well-being. For most of the world's population, the uncertainty and risk associated with catastrophic events are factors they always keep in mind. But for those living in poverty, these risks are much more threatening and difficult to manage.

Strengthening the microenterprise sector is an important part of USAID's strategy to build economic security for those at the lowest income levels. It has also been a strategy for building civil society where people have been excluded from both economic and political processes. Institutions and programs offering women opportunities to contribute economically to their households and communities have given hope to hundreds of thousands of people who had little before.

USAID is committed to a far-reaching microenterprise development agenda. Its goal is to promote microenterprise development that will further expand access to microenterprise services for more and more of the world's poor. As it seeks to carry this agenda forward, USAID's key challenges include:

**Reaching microentrepreneurs in hard-to-reach areas:** Poor infrastructure makes it difficult, if not impossible, for rural clients to access outlet markets for their products, stay abreast of market trends and new technologies, and gain access to financial services. Many BDS services provided by USAID-supported institutions address the needs of rural clients, but these programs are still quite limited in scale and scope. Many microfinance institutions are

extending their outreach to rural areas, but these efforts are relatively new and not yet widespread. The challenges associated with lending for agriculture are also an impediment to expanded financial services in rural areas.

**Understanding and meeting clients' needs:**

The USAID-funded AIMS research has collected useful knowledge on how microentrepreneurs and their households manage in the face of constant insecurity. More research and experimentation is needed to better support those who live on the margins of survival. Such knowledge will assist microfinance institutions in new product development. And it will help BDS providers address some of the more challenging issues that constrain microenterprise growth.

**Rethinking the private sector's role:** Greater competition for limited donor funds has reinforced the necessity of involving the private sector as a source of ideas, technologies, expertise, and investment capital. Microfinance institutions are exploring ways to expand operations with private equity and investment. Business-like BDS providers and facilitators are introducing ways for microenterprises to achieve increased efficiency and productivity. USAID is rethinking ways to work with private companies that target hard to reach areas. USAID's Office of Development Credit, for example, working in conjunction with the Global Development Alliance, is implementing private sector strategies that encourage growth by microfinance institutions.

By addressing these challenges, USAID will help more of the world's poor to find and keep their footing on unstable ground.

## SUMMARY OF USAID MICROENTERPRISE FUNDING BY COUNTRY, 1991-2000 US\$ '000's

REGION	COUNTRY	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
<b>Africa (AFR)</b>											
	Benin							1,835	1,040	1,397	1,109
	Botswana	451	627	158							
	Burkina Faso	110	150								
	Burundi	1,020	2,171			543					
	Chad	270	258	1,635	10						
	Eritrea						200	200			
	Ethiopia					330	34		1,049	1,683	600
	Gambia	37	100	298	10		276				
	Ghana	250	1,050	505			2,584	4,515	4,448	6,322	6,000
	Guinea		4,054	1,409	2,210	2,210	500	401	73	1,300	600
	Guinea-Bissau	40	1,370		1,855		2,575	2,033			
	Kenya	1,608	1,084	270	1,650		2,000	2,904	1,717	2,629	943
	Madagascar	685	801		550		229	260		225	
	Malawi	5,482	3,466	1,953						340	230
	Mali	3,346	4,329	175	8,251	1,160	148	417	809	3,131	2,265
	Mozambique	450	750	180	630		3,373	2,370	2,802	0	1,932
	Namibia			280	320	410	712	241			
	Niger			2,795	3		715			0	
	Nigeria										
	RCSA							400			200
	REDSO/EA			260							
	Senegal	932	7,040	7,850	3,520	450	932	364	2,500	2,778	12,916
	South Africa			3,021		8,016	3,781	3,308	4,005	50	1,000
	Swaziland	1,879	3,327								
	Tanzania				1,558	1,478			200	950	2,000
	Togo	1,292	1,141								
	Uganda	2,328	2,330	3,358	2,582	2,416	3,044	5,481	5,162	4,752	2,540
	Zambia	570	153		500		600	1,000	616	1,500	1,869
	Zimbabwe	720	603	5,500	425		350	35		200	2,940
	Regional Programs		491	100			800				
	<b>AFR Subtotal</b>	<b>21,470</b>	<b>35,295</b>	<b>29,747</b>	<b>24,074</b>	<b>17,013</b>	<b>22,853</b>	<b>25,764</b>	<b>24,421</b>	<b>27,257</b>	<b>37,144</b>
<b>Asia/Near East (ANE)</b>											
	Bangladesh		1,500	250	650	1,165	5,670	8,639	7,663	3,388	2,000
	Cambodia			112	462	2,398				1,281	750
	Egypt	24,892	35,554	11,000	17,376	16,020	10,000	15,000	15,000	15,000	0
	India							428		250	
	Indonesia	1,867	2,590		679	2,200		747	866	1,000	4,186

REGION	COUNTRY	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
	Jordan			1,031	100		500	2,792	3,539	5,739	7,655
	Lebanon					2,045		1,000	1,000	2,100	866
	Morocco			210		1,500	3,600	1,450	990	2,000	1,250
	Nepal	840	1,980	2,260	1,950	1,200	50	1,170	1,855	500	1,500
	Pakistan	3,417	3,134								
	Philippines	23,866	4,820	2,666		4,802	8,411	3,000	2,746	900	1,000
	South Pacific	2,336	564								
	Sri Lanka	1,353	2,873	1,292	482	549	769	200			
	Yemen	821	658								
	West Bank/Gaza						1,888	2,499	3,311	501	3,133
<b>ANE Subtotal</b>		<b>59,392</b>	<b>53,673</b>	<b>18,821</b>	<b>21,699</b>	<b>31,879</b>	<b>30,888</b>	<b>36,925</b>	<b>36,970</b>	<b>32,659</b>	<b>22,340</b>

#### Europe and Eurasia (EE)

	Albania				2,240	2,200	225	1,000	1,000	1,500	950
	Armenia						553	2,150			
	Azerbaijan						991	4,200			6,961
	Bulgaria				1,564	1,400	771	132	524	1,450	1,266
	Caucasus							6,940	2,000		
	Central/Eastern Europe			2,614					200		
	Croatia							500		500	
	Czech Republic				569	500					
	Estonia				224	150					
	Europe/Eurasia Region								1,000	200	
	Georgia				870		923	2,027		500	3,590
	Hungary				1,197	730			310		
	Kazakstan							244	1,377	1,975	3,045
	Kosovo										1,000
	Kyrgystan				6,200		487	2,878	1,177	1,826	999
	Latvia				224	430					
	Lithuania				560	600					
	Macedonia					2,500	950	900	500	2,000	1,056
	Moldova								60	180	200
	Montenegro									1,000	1,400
	Poland				7,756	4,976	1,693	19,088			
	Romania				896	500	1,405	3,200	2,050	4,547	1,758
	Russia				12,810	5,200	2,475	2,139	7,340	7,357	5,218
	Slovakia				896	500					
	Tajikistan									101	1,479
	Turkmenistan									356	638
	Ukraine				2,100	450			2,403	1,238	4,948
	Uzbekistan									40	583
<b>EE Subtotal</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>38,106</b>	<b>20,136</b>	<b>10,473</b>	<b>38,458</b>	<b>16,741</b>	<b>25,570</b>	<b>35,291</b>

#### Latin America and the Caribbean (LAC)

	Belize	342	266								
	Bolivia	1,442	2,136	3,548	5,532	7,652	1,775	1,800	3,230	1,200	1,700
	Caribbean Regional	1,021	1,005	1,000	4,610	600					
	Costa Rica	200	300	110	140	15					
	Dominican Republic			4,778	5,684	2,065	1,300	780		500	

REGION	COUNTRY	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
	Ecuador			200	250	945	1,094	796	945	758	
	El Salvador	11,863	11,882	9,898	19,120	7,788	2,478	3,214	3,800	2,990	2,918
	Guatemala			795		647	708	1,974	1,403	9,576	2,155
	Guyana			875	350	700		53		30	164
	Haiti			2,030	1,180	760	3,148	2,868	3,698	7,246	6,789
	Honduras	9,783	8,307	6,190		1,187	587	914		5,205	9,312
	Jamaica	356	745	946	743	696	442	389		640	1,074
	Mexico		65					200		147	550
	Nicaragua			627	101	1,744	448	1,222	1,440	2,817	1,021
	Peru	387	732	4,592	3,011	7,796	3,220	4,447	6,564	5,863	9,357
	Regional Programs							1,444			1,453
<b>LAC Subtotal</b>		<b>25,394</b>	<b>25,438</b>	<b>35,589</b>	<b>40,721</b>	<b>32,595</b>	<b>15,200</b>	<b>20,101</b>	<b>21,080</b>	<b>36,972</b>	<b>36,493</b>

### CENTRAL BUREAUS

#### Global

	Business Development								3,150	10,750	
	Develop.Credit	400	500	450				61	573	375	784
	Emerging Markets		4,136				2,800				
	Microenterprise	2,595	3,145	3,793	4,909	22,416	20,194	28,534	24,994	12,288	22,844
	Housing (RHUDO)						300				
	Women in Develop.	216	730				645				
<b>Global Subtotal</b>		<b>3,211</b>	<b>8,511</b>	<b>4,243</b>	<b>4,909</b>	<b>22,416</b>	<b>23,939</b>	<b>28,595</b>	<b>28,717</b>	<b>23,413</b>	<b>23,628</b>

#### Bureau for Humanitarian Response (BHR)

	Private & Volunt.	4,148	3,381	4,989	7,887	9,494	8,005	8,289	8,316	7,650	9,495
<b>BHR Subtotal</b>		<b>4,148</b>	<b>3,381</b>	<b>4,989</b>	<b>7,887</b>	<b>9,494</b>	<b>8,005</b>	<b>8,289</b>	<b>8,316</b>	<b>7,650</b>	<b>9,495</b>

#### SUBTOTAL

<b>Central Bureaus</b>		<b>7,359</b>	<b>11,892</b>	<b>9,232</b>	<b>12,796</b>	<b>31,910</b>	<b>31,944</b>	<b>36,884</b>	<b>37,033</b>	<b>31,063</b>	<b>33,123</b>
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<b>GRAND TOTAL</b>		<b>113,615</b>	<b>126,298</b>	<b>93,389</b>	<b>137,396</b>	<b>133,533</b>	<b>111,358</b>	<b>158,132</b>	<b>136,245</b>	<b>153,521</b>	<b>164,391</b>
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# ANNEX B: MICROENTERPRISE RESULTS REPORTING METHODOLOGY

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**M**icroenterprise Results Reporting (MRR) tracks the microenterprise support activities of USAID. MRR is implemented by Weidemann Associates, Inc. through a contract with the Barents Group of KPMG Consulting and is managed by USAID's Office of Microenterprise Development.<sup>27</sup>

This is the fifth annual report that MRR has produced. All prior annual reports are available online at [www.mrreporting.org](http://www.mrreporting.org) and also at [www.mip.org](http://www.mip.org), the official website of the Office of Microenterprise Development. This report will be available on the same websites in early 2002.

Funding data reported in this year's report are from USAID FY 2000, which extends from September 1999 until October 2000. Funding data was collected from USAID field missions and the central bureau offices that control the Agency's budget. USAID and contract staff enter this data into a secured online database. Data for the preceding fiscal year are reported in each annual report. Planned funding to microenterprise programs in upcoming years is also tracked.

Implementing institutions with active USAID funding agreements in the reporting year provide the institutional data. Institutions add data online directly into MRR's interactive database. USAID field missions, institutions, and other sources provide contact information, which MRR updates annually. In some cases, umbrella

institutions that channel funds or technical assistance to implementing organizations have provided data for the institutions they support. Because USAID's funding often precedes new program implementation by several months, reporting for a particular fiscal year may not capture all the eventual program uses for that year's funding.

USAID supports microenterprise development through multiple layers of delivery mechanisms. Frequently, USAID field missions set up a broad, multi-faceted activity to accomplish a strategic objective. An institutional contractor may then be hired to manage this activity, which may include setting up grants or subcontracts to a number of small local institutions or subcontractors. The grantees or subcontractors may work directly with microentrepreneurs or with organizations, as in the case of BDS facilitators. This approach maximizes the effectiveness of USAID assistance by putting funds in the hands of expert managers and service providers and by building institutions that will be strong and solid enough to be independent and permanent providers of services. It does, however, make the tracking process complex.

While the data reported in this report cannot be verified directly through audited financial statements, MRR follows a set of steps designed to cross-check the data received to ensure accuracy and reliability. For those institutions that have reported over several years, longitudinal data trends by individual institu-

<sup>27</sup> This report was prepared by Catherine Neill, with assistance from Carmen Varley and Ling Ling Phung, under the supervision of Elizabeth Hunt, in the Office of Microenterprise Development, and Katharine McKee, Director of the Office of Microenterprise Development. The report is funded under the USAID-funded MicroServe Indefinite Quantity Contract Nos. PCE-0406-1-00-6012-00, PCE-1-00-96-90012-00 and USAID Contract No. PCE-1-00-98-00012-00, Task Order No. 06, with the Barents Group of KPMG Consulting, LLC, under Subcontract No. AID-99-1-00012-000-0029, Technical Assistance Order #3 with Weidemann Associates, Inc.

**Table 10. USAID's Microenterprise Survey Respondents, 2000**

Types	Microfinance Survey	Business Development Survey	Policy Survey	Total
Banks <sup>1</sup>	37	-	-	37
Business Associations	5	4	2	11
Consulting Firms	-	1	3	4
Cooperatives/ Credit Unions	43	3	1	47
For-Profits/ Finance Companies	4	4	-	8
Government Agencies	-	-	1	1
NGOs	136	27	1	164
Non-Bank Financial Institutions	22	1	-	23
PVOs	35	22	2	59
Research	-	4	3	7
<b>Total</b>	<b>282</b>	<b>66</b>	<b>13</b>	<b>361</b>

<sup>1</sup> This includes 17 rural banks located in the Philippines. These small rural organizations function more as village banks than as commercial banking facilities, as commonly understood in most countries.

tions are monitored for consistency of reporting. In addition, in as many cases as possible, MRR seeks to verify reported data from one or more additional sources, including the PVO headquarters for field-based affiliates, and the USAID field or central office monitoring the grant or agreement.

Each year more institutions put data systems in place that make it possible for them to track their results more accurately. Improvements in field operations have a direct effect on what MRR is able to report on institutional results. As FY 2000 was the first year that BDS grantees were asked to report on the poverty loan status of their clients, reporting in subse-

quent years will likely improve in quality and quantity as more institutions incorporate this request into their management information systems.

## 2000 Institutional Data

In 2000, 282 microfinance institutions responded to the MRR survey. Only 42 (15%) received funds in 2000; the remainder had ongoing USAID agreements. Of the 66 organizations that provided data on their business development services, 24 (36%) received funding in 2000. Of the 13 policy advocacy organizations that provided information, nine were funded in 2000.

Table 11. Microenterprise Activities Funded in 2000

	Financial		Financial Policy		Non-Financial Activities		Non-Financial Policy		Total Obligations	
	Amount US\$ (000's)	Number	Amount US\$ (000's)	Number	Amount US\$ (000's)	Number	Amount US\$ (000's)	Number	Amount US\$ (000's)	Number
Banks	1,988	14	0	-	574	1	0	-	2,562	15
Business Associations	300	2	0	-	3,570	5	433	1	4,303	8
Consulting	23,277	12	648	3	920	3	1,821	7	26,666	25
Cooperatives & Credit Unions	5,894	23	0	-	4,757	6	500	1	11,151	30
For-Profits/ Finance Companies	1,958	4	1,099	2	1,263	3	1,099	2	5,419	11
Government Agencies	0	-	0	-	1,500	1	0	-	1,500	1
NGOs	23,729	35	0	-	4,736	20	355	2	28,820	57
Non-Bank Financial Institution	4,885	9	0	-	415	1	0	-	5,300	10
PVOs	28,116	48	578	3	20,952	45	650	3	50,296	99
Research	750	2	0	-	3,893	7	80	1	4,723	10
USAID <sup>1</sup>	13,164	15	50	1	6,705	15	166	3	20,085	34
Other <sup>2</sup>	983	3	2	1	2,375	8	206	2	3,566	14
<b>Total</b>	<b>105,044</b>	<b>167</b>	<b>2,377</b>	<b>10</b>	<b>51,660</b>	<b>115</b>	<b>5,310</b>	<b>22</b>	<b>164,391</b>	<b>314</b>

1 This includes Mission projects that have not yet committed funds to particular institutions, Mission support activities on behalf of microenterprises, and technical assistance and support activities of the Office of Microenterprise Development.

2 This includes institutions that do not fit into other categories, such as the International Finance Corporation and the Enterprise Funds in Europe and Eurasia.



Notes

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