U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Linking the Poor to Opportunity: The Microenterprise Development Initiative

Report

Microenterprise Results Reporting for 2001

The cover features a client of Pro Mujer Peru. With USAID funding, Pro Mujer International opened a third country program in Puno, Peru, successfully transferring credit and training methodology, policies and procedures, and lessons learned in Bolivia and Nicaragua to Pro Mujer Peru.

The Peru program has been a model start-up program for Pro Mujer, demonstrating efficiency in the preliminary start-up process, quality of services to its clients, responsible growth in portfolio, and a clear vision for the future of the program. The program started in April 2000 and has surpassed its first year targets. As of December 2001 they had 9,985 loans outstanding totaling $685,161.

Photograph: Geoffrey Chalmers

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Photo by Rohanna Mertens for ACCION.

Fatouma Djibril Issifou, a client of PADME in Benin, used her loan to buy vegetables in bulk.

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Submitted by Weidemann Associates, Inc.
To USAID/Bureau for Economic Growth, Agriculture, and Trade/
Office of Poverty Reduction/Microenterprise Development Division (USAID/EGAT/MD)

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Acronyms

ACDI/VOCA	Agricultural Cooperative Development International/Volunteers in Overseas Cooperation and Assistance
AFE	Action for Enterprise
AIMS	Assessing the Impacts of Microenterprise Services
ANE	Asia and the Near East Region (USAID)
ATA	Aid to Artisans
BDS	Business Development Services
BRI	Bank Rakyat Indonesia
CAMFA	Central Asian Microfinance Alliance
CAR	Central Asian Republics
CHF	Cooperative Housing Foundation
CPIP	Credit Policy Improvement Program
CRS	Catholic Relief Services
DA	Development Assistance
DCA	Development Credit Authority
DdG	Diálogo de Gestiones
E&E	Europe & Eurasia Region (USAID)
EGAT	Bureau of Economic Growth, Agriculture and Trade (USAID)
ESF	Economic Support Funds
FSA	Freedom Support Act
FY	Fiscal Year
GDP	Gross Domestic Product
IDE	International Development Enterprise
IRIS	Center for Institutional Reform and the Informal Sector
JOBS	Job Opportunities and Business Support
LAC	Latin America and Caribbean Region (USAID)
MBP	Microenterprise Best Practices
MFI	Microfinance Institution
MRR	Microenterprise Results Reporting
NGO	Non-governmental Organization
NOA	New Obligating Authority
ODC	Office of Development Credit (USAID)
OI	Opportunity International

PVC	Office of Private and Voluntary Cooperation (USAID)
PVO	Private Voluntary Organization
SAI	Special Assistance Initiative
SEED	Support for Eastern European Democracy
SEEP	Small Enterprise Education and Promotion Network
SEPA	Support Program for Artisanal Product Exports
SEWA	Self-Employed Women's Association
USAID	United States Agency for International Development
VITA	Volunteers in Technical Assistance
WEP	Women's Empowerment Program (PACT Nepal)
WOCCU	World Council of Credit Unions

Executive Summary

Global markets thrive on connectivity. Advanced communications and technologies move data, services, and information around the world for 24-hour operations. Transport and logistics management systems make it possible to spread manufacturing processes among multiple continents and connect producers and consumers in dense networks of trade. Financial systems transmit unprecedented volumes of savings, investments, and profits worldwide. Such integrated systems create enormous opportunities for producers and consumers who can access markets for a rich and varied supply of goods and services.

Unfortunately, most of the world's population cannot enjoy the benefits of this connectivity. The vast majority of microenterprises[1] — the informal businesses that are the predominant source of income and employment in most developing countries today[2] — are isolated from wider markets by poor infrastructure. They are therefore deprived of the information that would enable them to produce and market more effectively. Without these basics, these enterprises struggle to stay viable — and their owners often struggle to survive. This is particularly the case in remote rural areas.

Even microenterprises in urban areas are severely constrained by lack of formal business registration and title to premises, compromising their ability to grow and access formal financial markets with collateral. They are further constrained by poor public services — telephones, mail, water, sewage — that limit the use of technologies with the potential to improve product quality and extend market outreach. Private business service providers that could help connect microenterprises with essential tools and resources — like market intelligence, advertising, communications, and accounting skills — often pay scant attention to the needs of such tiny businesses. The result is that few of the benefits of increasing connectivity are felt by poor microentrepreneurs and their households.

The United States Agency for International Development (USAID) has been working over the past three decades to expand opportunities for hundreds of millions of people who rely on microenterprises in the informal sector for their livelihoods. USAID has invested in hundreds of private microenterprise development organizations around the world; organizations that are reshaping financial and business service markets to better serve poorer clients. Improved and expanded service to many more of the poor is needed so they may access varied sources of capital, information, inputs, technologies, and markets. By linking to these resources, poor entrepreneurs will be better able to seize opportunities they have not had and to create better lives for themselves and their families.

USAID's microenterprise development strategy must address two pressing challenges:

1 Microenterprises are defined by USAID as businesses with fewer than ten employees that are owned and operated by poor people.

2 For example, in Nigeria and Egypt 60-80% of GDP comes from the informal sector; in Morocco, Mexico, and Peru 40-60% of GDP is from the informal sector. See Schneider, Frederich and Dominik Enste, "Shadow Economies: Size, Causes, and Consequences, *Journal of Economic Literature*, Vol. XXXVIII (March 2000) p.80.

- To **link** microenterprises to greater opportunities for growth, which includes integrating them on more favorable terms into the formal economies of their countries and connecting them to expanded information and resource networks.
- To bring the benefits of microfinance and business development services to poorer people ("**reaching down**"), ensuring that the positive impacts of microenterprise development programs reach those in the most need.

USAID works in partnership with private voluntary organizations (PVOs), local nongovernmental organizations (NGOs) and other organizations to extend much-needed services to an expanding circle of underserved clients, especially women, the rural poor, and smallholder farm families. The track record of USAID and other donors proves that, despite the challenges of extending services to the poor, microenterprise development can be carried out effectively and sustainably, even while focusing on reaching poorer and more vulnerable clients.

Highlights of USAID support to the microenterprise development sector in FY 2001 include:

- **More than $155 million in financial support went to microenterprise development programs worldwide**. In FY 2001, USAID committed $158.7 million to microenterprise. USAID's average annual funding to microenterprise development over the last five years is $155 million.
- **Two-thirds (67%) of all USAID microenterprise funding was for financial services**. Assistance to microfinance institutions (MFIs) and microfinance networks took the form of funds for loan capital, operational expenses, technical assistance and institutional capacity building. Support also includes strengthening the financial infrastructure that will allow microfinance to flourish, for example, by building national practitioner networks, credit bureaus, credit ratings agencies, and sound regulatory and supervisory systems.
- **More than half of all USAID funding was directed to very poor entrepreneurs**. Thus, USAID met the target established in the Microenterprise for Self-Reliance Act of 2000 that at least 50 percent of all microenterprise development funds be directed to the very poor. Loan size serves as the proxy to estimate the poverty level of microenterprise clients.[3]
- **Many MFIs supported by USAID are now offering new and innovative services designed to meet the needs of poorer clients**. In addition to working capital and fixed asset loans for enterprises, many institutions now offer an array of products designed to help households build assets, reduce vulnerability, and invest in the future. USAID-supported institutions provide savings and deposit services, insurance, remittance and payment services, as well as loans tailored to farmers, housing, family emergencies, and school fees.
- **More than 5.6 million microentrepreneurs received loans through USAID-assisted microfinance institutions**. Of these, 2.8 million clients received loans through USAID-supported institutions, which had outstanding portfolios of

3 The Microenterprise for Self-Reliance Act of 2000 defined poverty loans, by region, as: $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 and its partners are beginning work on additional poverty measurement proxies for microenterprise clients.

$918 million and average loan size of $317. Another 2.8 million borrowers received loans through a single institution, the Bank Rakyat Indonesia (BRI)[4] with an outstanding portfolio of $963 million and average loan size of $345.

- **The clients of the vast majority of USAID-assisted microfinance institutions were women and the very poor**. Of the clients of all USAID-assisted institutions excluding BRI, more than two-thirds (73%) were women. More than two-thirds (69%) of these loans were also in amounts defined as poverty loans. While BRI's clients are predominately male (16% women), more than half received poverty loans (51%).
- **More than 30 million savers benefited from USAID assistance to ensure that the poor have access to safe and reliable savings services**. BRI held savings for 27 million clients, with accumulated savings of $2.15 billion, or $79 per client. Another 3.5 million savers had savings valued at $425 million in other USAID-assisted institutions, with average individual savings of $121.
- **More than one-half of all the MFIs with USAID support were either operationally or fully sustainable**. USAID's commitment to building sustainable services for the poor is reflected in the number of institutions that are making steady progress toward the goal of covering all their operational expenses, including the cost of the funds.
- **More than 800,000 microenterprises benefited from USAID support to business development services (BDS) programs**. The vast majority (80%) of BDS clients live in rural areas where access to markets is extremely limited. USAID-supported BDS programs are helping to link poor microentrepreneurs to growing markets; increase productivity through new technologies; offer appropriate and affordable services for poorer enterprises; and build sustainable and competitive business service markets.
- **USAID provided $13.1 million to institutions that do policy advocacy and reform on behalf of microentrepreneurs and microenterprise institutions**. Of this amount, $5.9 million supported policy reforms that improve the business environment for microenterprises, in areas such as business registration and licensing, trade policy, and cooperative regulation. Another $7.2 million went for policy and regulatory reform in the financial sector that benefited microfinance institutions and their clients.

USAID's microenterprise support is helping to link microentrepreneurs and microenterprise institutions to many more opportunities for growth and expansion. As programs expand and achieve sustained impact, the world benefits from the increased growth and economic stability of the microenterprises owned and operated by the poor. This trend serves to expand economic opportunity and mitigate extreme poverty, which contributes to political instability, conflict, and the intractability of such problems as rapid population growth, the spread of infectious diseases, drug trafficking, and environmental degradation. Linking microenterprises to opportunity is helping to build stronger, more vibrant economies and societies while giving hope to millions of poor households throughout the world.

4 Bank Rakyat Indonesia (BRI) currently has a cooperative agreement with USAID to promote increased efficiency and competitiveness of BRI units and to facilitate economic recovery by expanding services to the microenterprise sector. Funding to BRI in FY2000 was $300,000. No additional funding was provided in FY2001.

LINKING THE POOR TO OPPORTUNITY


Photo courtesy of CHF International.

In Azerbaijan, CHF's BDS programs help clients access new markets.

In a world where markets thrive on connectivity, most of the world's population can neither participate in nor enjoy the benefits of the integration of markets and commercial activity. In most developing and emerging market economies, the microenterprise sector constitutes a high proportion of economic activity for poor households. The vast majority of microenterprises — the informal businesses that are the predominant source of income and employment in most developing countries today (see, for example, box on page 5) — are isolated from wider markets by poor infrastructure, and deprived of the information that would provide for more efficient production and marketing. Without these basics, these enterprises struggle to stay viable — and their owners often struggle to survive. This is particularly the case in remote, rural areas.

Even microenterprises in urban areas are severely constrained by lack of formal business registration and title to premises, compromising their ability to grow and access formal financial markets with collateral. They are further constrained by poor public services — telephones, mail, water, sewage — that limit the use of technologies with the potential to improve product quality and extend market outreach. Private business service providers that could help connect microenterprises with essential tools and resources, like market intel-

What are Microenterprises?

Microenterprises are small, often informally organized businesses that are owned and operated by poor and very poor entrepreneurs. USAID defines a microenterprise as one that comprises 10 or fewer employees, including unpaid family workers, in which the owner/operator of the enterprise (the "microentrepreneur") is considered poor. By limiting its definition of microenterprises to those whose owner/operators are poor, USAID ensures that the focus of its efforts remains on the most vulnerable households in higher-risk environments.

ligence, advertising, communications, and accounting skills, often pay scant attention to the needs of such tiny businesses.

The importance of microenterprises to the income and welfare of poor households can hardly be overstated. Families use microenterprise earnings for essentials such as food, clothing, medical care, school fees, to build up savings, or as a cushion against sudden shocks. Such benefits to the poor, particularly improvements in health and education, contribute powerfully to several Millennium Development Goals, the measurable targets set by world leaders to combat poverty, hunger, disease, illiteracy, environmental degradation, and discrimination against women.

Microenterprises, which largely belong to the informal sector, also constitute a significant part of the overall economy in many nations. Given the impressive contribution to employment (as well as GDP) of microenterprises in many developing economies, even moderate increases in microenterprise income can have significant effects on a country's prosperity. Similarly, given their share of economic activity, productivity and employment gains achieved by these tiny firms can contribute as much to economic growth as can larger firms.

Yet, the full potential of this sector — in both poverty reduction and economic growth — cannot be realized as long as households are confined to using underdeveloped markets and producing simple products with rudimentary technologies for sale to equally poor consumers. Neither can the sector contribute to the growth and dynamism of the economy until their principle constraints are removed. One very promising avenue to boost the incomes of tens of millions of poor households around the world is to break their economic isolation — by linking them to the formal financial sector, and by linking their microenterprises to higher-value markets, better technologies, and essential information and knowledge. Furthermore, emerging evidence

Importance of the Informal Sector

Every economy has an informal sector, a "shadow" economy that does not figure into official calculations. The tiny firms and self-employed individuals in this sector are not registered. Typically, their operations are below the radar screen of taxing authorities and other regulators. Their access to publicly-supported services is often minimal or non-existent. In poor countries the informal sector, which is comprised primarily of microenterprises, contributes significantly to the overall economy.

- In Nigeria, Egypt, and the Philippines the shadow economy is estimated to be about 70% as large as the reported GDP.
- In Morocco, Mexico, and Peru the informal sector is estimated to be 50% as large as reported GDP.

From Schneider, Frederich and Dominik Enste, "Shadow Economies: Size Causes and Consequences, *Journal of Economic Literature*, Vol. XXXVIII (March 2000) p.80.

shows that even very poor households benefit from market linkage activities, especially if programs are designed and implemented proactively with their circumstances in mind.

For 40 years, the U.S. Agency for International Development (USAID) has led our nation's efforts to help improve the lives of poor people around the world. Microenterprise development has played a key role in the gains made on this front. For the past two decades, USAID has been the leading bilateral donor in this field.

By creating more effective markets and linking poor entrepreneurs to resources and markets that work for them, USAID is helping to address the ways microentrepreneurs have been marginalized from economic growth.

USAID's Microenterprise Development Strategy — The New Challenges

Despite the impressive achievements and successes of the past 40 years, the microenterprise development field is at a challenging crossroads. USAID is committed to pursuing a strategy in the coming years that reflects the most pressing needs of the microenterprise development field. This strategy, which will be pursued throughout USAID's three "pillars" (microfinance, business development services, and enabling environment), focuses on two broad priorities:

- First, to link microenterprises to greater opportunities for growth, which includes integrating them on more favorable terms into the formal economies of their countries and connecting them to expanded information and resource networks.
- Second, to bring the benefits of microfinance and business development services to poorer enterprises and households ("reaching down").

USAID's investments in the coming years will test diverse approaches, helping microenterprise development programs innovate and adapt to more successfully meet the needs of the poorest microentrepreneurs. (For examples, refer to the insert on "Reaching Further Down Market," page 22.)

Photo courtesy of Rebecca Janes for ACCION.

Aveladra Sabon Sajquill, client of ACCION affiliate Génesis in Guatemala.

The Three Pillars of USAID's Microenterprise Development Support

USAID is a world leader in pushing the frontiers of microenterprise development to build markets that work for the very poor, the rural poor, and women. To maximize the effectiveness of its funding, USAID supports the three building blocks for successful microenterprise development: microfinance, business development services, and policy and regulatory development.

Microfinance

How does USAID support microfinance?

USAID's support for microfinance focuses on two equally important objectives. The first of these is the **development and expansion of strong microfinance institutions** (MFIs) — those with effective governance structures and credible business plans to cover all operating expenses, including the cost of capital, through operating income within a reasonable time-frame. The second objective is the **promotion of client-responsive products and services** with the potential to reach more poor and very poor entrepreneurs, especially underserved populations such as the rural poor, women, and those in conflict or crisis situations.

In supporting strong MFIs and promoting innovations in services, USAID follows the four fundamentals of successful poverty alleviation programs:

- **Scaling up** to reach dramatically greater numbers of poor and very poor households;
- **Expanding the outreach** of micro-enterprise development to underserved households;
- **Improving the quality** of microenterprise services, making sure they add value to microenterprises and increase net income and security; and
- **Achieving impacts** that are sustainable over the long term.

What is Microfinance?

"Microfinance" refers to the provision of financial services to poor and very poor households. Microcredit is the most visible and well-known microfinance product. Other equally important financial services include savings and deposit services, insurance and remittance services. The list grows as microfinance institutions develop new products in response to client demand and increasing competition.

Does Microfinance Work?

Evidence from around the world (see, for example, publications from USAID's AIMS project, www.usaidmicro.org) strongly suggests that well-designed microfinance is an essential tool for helping poor households improve net income and cope with risk and vulnerability. Research has shown that access to appropriate credit products and a safe, convenient place to save have positive impacts on microenterprise households. Such services increase and diversify household income. Families are also able to build assets that may be needed as a cushion when they face natural disasters, or the death or disability of a breadwinner. In short, access to microfinance helps families to be proactive rather than reactive, to invest in their businesses when new opportunities arise, to put kids through school, to improve housing, and to plan for old age.

By Scaling Up Microfinance Programs

In its *World Development Indicators 2000*, the World Bank estimates that 1.2 billion people around the world live on less than $1 a day. It is estimated that the number of poor households worldwide who depend on income from microenterprise is in the hundreds of millions, yet it is likely that less than 10 percent of these potential clients actually have access to financial services. Thus, for USAID to make a significant contribution to poverty reduction, its partners must be capable of achieving significant scale of outreach — that is, reaching *large numbers* of the poor. Furthermore, building vibrant markets for financial services in the long term will require MFIs to reach sustainability through reaching large numbers of clients.

Photo courtesy of Opportunity International (OI).

Tekla Ngwerume used her loan from Zambuko Trust to buy material for her sewing business. Profits have been so good that she can better provide for her family. She has even been able to buy her own sewing machine.

CARD in the Philippines is an example of an MFI that has been able to scale up, with the support of USAID-Philippines, while holding to its objective to reach poor clients. Initiating activities to extend services to the rural poor in 1990, today CARD has 25 branches and serves more than 42,000 women clients, with an average loan size of US $94. Almost all of CARD's clients have income below the poverty line. About half belong to smallholder farm families. CARD offers a variety of loan products to its

AFRICAP Microfinance Fund

Microfinance is poised for rapid expansion in Africa, with increasing evidence of commercial potential in developing financial services to low-income communities. A number of leading MFIs in Africa are at a critical stage between grant funding and commercial capital and urgently need investment capital and management support.

Based on the success of ProFund in Latin America and increasing evidence of the potential for commercial microfinance in Africa, a number of donors and private institutions including USAID provided seed funding for the AFRICAP Microfinance Fund, launched in 2001 by Calmeadow. AFRICAP's goal is to build successful, sustainable commercial MFIs in Africa by providing patient venture capital, active oversight, and capacity building support. AFRICAP also supports overall industry development activities.

AFRICAP is the first equity investment fund focused on MFIs in Africa. The fund is expected to invest in about ten MFIs over five years, then divest and liquidate within ten years.

clients, including savings, working capital loans, housing loans, and multi-purpose loans.

One way USAID's partners have been able to grow quickly is through gaining access to commercial capital. Such commercialization facilitates a dramatic expansion of resources and services available to microenterprises. In Bolivia, for example, a decade of investment in microenterprise support institutions, including formal financial institutions, has led to the impressive expansion of financial services to the low end of the market. In 1990, the entire Bolivian financial system had only 195,000 borrowers and 460,000 savers. By 2001, the financial sector served 616,000 borrowers and 1.4 million savers, largely reflecting the growth in microfinance.

To further integrate microfinance into formal commercial finance markets, USAID funds innovative market-building activities. For example, USAID fosters the development of credit ratings agencies that analyze risk for potential financiers of MFIs. Ratings agencies encourage greater transparency and remove critical information barriers, crucial to attract the private investment that MFIs need to fund portfolio expansion.

Another innovation is to assist in the development of credit bureaus. Well-functioning credit bureaus incorporate the repayment patterns of clients across institutions and allow lenders to better assess individual credit risk. This ultimately leads to service expansion, helps protect clients against over indebtedness, and reduces the cost of credit to deserving borrowers. USAID funding for research and experimentation is helping to determine effective ways to support credit bureaus that are linked to private sector initiatives in places such as El Salvador and Jordan.

USAID also uses grant and credit instruments to help mature retail MFIs cross the bridge from donor subsidy to commercial credit. USAID's Development Credit Authority

Development Credit Expands Access to Commercial Funds

There are an estimated 1.2 million microenterprises in Morocco, yet only 175,000 primarily urban clients are served by 12 MFIs. To expand the operations of two prominent MFIs, Al Amana and Fondation Zakoura, USAID has extended portable loan guarantees to allow these institutions to obtain capital at favorable rates. A total of US $2 million will be authorized for this purpose. The guarantees will add loan capital from private lenders, while diversifying fund sources for the institutions. The institutions will seek to develop additional loan products, such as housing loans, for their clients.

Photo courtesy of Al Amana.

Rachida, a client of Al Amana in Morocco, used her loan to purchase a weaving loom.

(DCA) can offer MFIs "portable guarantees" that guarantee up to 50 percent of the risk exposure of a commercial bank willing to lend to the MFI. To date, USAID has authorized $21 million in DCA guarantees to support microfinance institutions and microenterprises in Mexico, Guatemala, Ecuador, Honduras, Peru, Uganda, and Morocco. USAID has also created innovative credit instruments to support bond issues and risk-sharing arrangements. DCA provides a useful and cost-effective tool to demonstrate to commercial banks and other investors that loans and credit lines to MFIs are secure, solid investments.

By Reaching Out to Poorer, Hard-to-Reach Clients

Many microfinance programs were born from a social mission, and most retain dual goals of impact (enterprise growth and poverty reduction) and sustainability (long-term viability of the institution). After many years of successful implementation of financial services, however, the industry is now seeing sustainability as more of a means than an end. To push the "downreach" frontier, much more needs to be done to ensure that the very poorest microentrepreneurs benefit from access to these vital services.

While the growth and success of microenterprise development means that millions of poor people have economic opportunities once completely out of reach, the fact is that most microenterprise programs have difficulty reaching large numbers of extremely poor households. USAID is committed to exploring

CRECER Sets an Example in Bolivia

In 1990, Freedom from Hunger began an organization in Bolivia called CRECER (Crédito con Educación Rural) to implement its *Credit with Education* program. CRECER is now a successful, independent Bolivian nonprofit organization. It continues to work with Freedom from Hunger to expand the program to an ever-increasing number of women and their families. CRECER offers credit with education to over 31,000 participants who have borrowed more than US$43 million. Non-formal adult education is provided in the areas of health, nutrition, family planning and microenterprise management. As of December 31, 2001, the program had an outstanding loan portfolio of US $4.2 million and was covering 99 percent of its operating costs. CRECER maintains the lowest average loan size of any program in Bolivia, reflecting its commitment to reaching the very poor.

financial products and low-cost service delivery mechanisms that allow MFIs to address the needs of risk-averse,[5] extremely poor households through cost-effective institutions that will survive when donor funding fades away. To achieve this, USAID and its partners will need to be innovative and carefully consider the characteristics of the world's poorest households. In general, additional "downreach" will occur only by addressing the reasons why many poorer households are either reluctant to participate in microfinance programs or are excluded from them.

USAID pursues an aggressive "action research" agenda by encouraging practitioners to explore innovative models that tailor microenterprise products and services to very poor clients. With USAID support, microfinance institutions developed and implemented a number of approaches that target the very poor, such as village banking methodologies, community-based self-help groups, credit combined with education services, and flexible savings services.

A client of CRECER selling spices and fruit.

5 Poorer households tend to be more risk averse because they have fewer assets to draw on in times of crisis. Taking out a loan, which could result in loan default and a loss of assets, has inherent risk that is avoided by many.

Photo courtesy of John Gibbons for FINCA.

In Uganda, many village banking groups create their own uniforms and wear them to meetings as a statement of solidarity.

Conflict, natural disasters, and other crises can deepen poverty sharply. Microenterprise development has proven itself as a strategy that can work in particularly challenging and unstable circumstances, giving vulnerable people a chance to increase and stabilize incomes even during times of crisis. There are many examples of successful efforts to support microentrepreneurs in immediate post-conflict situations, following natural disasters such as Hurricanes Mitch and Georges, and in regions, like southern Africa, now coping with extremely high rates of HIV/AIDS infection.

In the future, USAID will work in collaboration with organizations to identify and assess innovative models in agricultural microfinance. One such model could include enhancing the roles of traders and retailers that serve as important sources of credit to microentrepreneurs, small farmers, and poor rural households. This research will likely lead to recommendations on how donors and practitioners can engage with non-institutional credit providers to deliver services to underserved rural communities.

FINCA Uganda: Adapting Services to Help Poor Clients Overcome Adversity

FINCA Uganda has grown to become one of FINCA's largest programs, serving more than 35,000 clients. In doing so, it has developed new products such as life and health insurance. FINCA has also incorporated product improvements, including a lower savings requirement that allows clients to 'grow' faster. Microcare, a health care financing program, was designed to provide clients with a full range of health care services through hospitals.

One client of the Kawempe Village Banking group, Lukia Ssemanobe, was barely surviving running a street food business after her husband died of AIDS. Six years ago, Lukia took her first small, four-month loan from the village bank. Eighteen loans later, Lukia now runs two restaurants and employs 11 people. In the process, she built two houses for her extended family, and supports four AIDS orphans.

SEWA (Self-Employed Women's Association) India

Using the AIMS tools (see footnote below), SEWA Bank developed a number of new products and services for its clients. SEWA recently introduced a one-day loan to meet the credit needs of vegetable vendors. In addition, it now offers a special savings account designed to pay for marriage expenses, and has started a financial literacy program to help its members improve their personal financial management. In addition, SEWA is reviewing the appropriateness of its products for workers in each of the major subsectors in which its members work. Future plans may include a loan product to finance girls' education.

By Improving the Quality of Services

As institutions expand and extend services to underserved communities, USAID is committed to helping them offer microenterprise services that meet the real needs of poor and very poor households. Practitioners increasingly recognize that to succeed and grow, services need to be demand-driven. Furthermore, it is necessary to invest in market research and product innovations to adequately respond to client needs.

USAID encourages its microfinance partners to understand their clientele and to reach out to poorer and more rural clients with services those clients demand. Too often, MFIs have simply provided credit, rather than a range of services that may be desired by its clients. The types of financial services needed by poor people extend far beyond working capital loans, to include savings, housing loans, insurance, and money transfer services. Convenient, safe and flexible deposit services are a particularly crucial need.

USAID supports groundbreaking work by MFIs to develop more capacity for responding to client feedback and integrating demand-driven services. For example, in Latin America many MFIs now offer clients housing loans, enabling them to finance the expansion or improvement of their home. For many microentrepreneurs, their home is their workplace, so this represents an important enterprise-related investment and family asset.

By Achieving Sustainable Impacts

Until just a few years ago, many microfinance institutions had little more than anecdotal evidence to support the claim that their programs made a difference in the lives of their clients. To help practitioners and donors better understand the effects of microenterprise services on clients, USAID supported the development of a set of flexible tools for microenterprise institutions through the AIMS[6] activity. Under this activity several major impact assessments were undertaken to show the ways in which microfinance services affect individuals, households, and communities.

6 USAID's Assessing the Impacts of Microenterprise Services (AIMS) project developed the manual "Learning from Clients: Assessment Tools for Microfinance Practitioners" to help practitioners better understand clients and improve product services and client impact. It contains a set of five assessment tools and provides step-by-step instructions for the use of the tools, from initial planning to data collection and analysis.

Photo courtesy of Richard Lord for Technoserve.

Technoserve is linking El Salvador's small-scale shrimp growers to processing and export markets.

One such assessment was performed by Organization el Desarrollo Empresarial Femenino (ODEF) in Honduras. ODEF, in collaboration with Katalysis, SEEP, and AIMS, conducted an impact assessment of its microenterprise program in 1997, revealing benefits to businesses and their owners and families. At the enterprise level, client businesses grew faster and were more profitable than non-client businesses. Positive results at the client household level were demonstrated through increased levels of savings among clients, as well as improved food consumption. Qualitative indicators demonstrated improved self-esteem and self-confidence of ODEF's primarily women clients. ODEF's clients were also found to be more productive than non-clients, spending less time on business activities while generating more profits.

Evidence from other microfinance institutions suggests similar benefits to microentrepreneurs and their households, though not all institutions are equally capable of delivering services. Further research will reveal the extent to which these benefits are maintained over the long term.

The AIMS tools, which include a main impact survey, a client exit survey, and surveys of loan use, client satisfaction, and client empowerment, are in great demand among institutions that want to improve the impact of services on clients. These tools can also be used to assist institutions in expanding their outreach to poorer clients and improving client retention or delinquency to reach financial sustainability more quickly. Institutions need support to incorporate such client and market assessment tools into their daily operations, information systems, and product design processes. USAID supports demonstration projects that show practitioners how effective use of client assessment and monitoring helps expand services to underserved groups, and improve client retention, repayment, and growth rates.

Business Development Services (BDS)

How does USAID support BDS?

In many cases, microfinance alone cannot generate real income and employment growth, particularly in poorer rural areas. Even with access to financial services, poor microentrepreneurs still face major barriers: lack of information about more lucrative markets; inability to improve quality of products or efficiency of production; expensive or poor quality inputs; weak infrastructure; and lack of access to business skills and basic services.

Rather than subsidizing BDS providers directly, USAID increasingly focuses on using BDS "facilitators" to build markets in which private businesses (often themselves small or micro scale) provide appropriate services to poorer microenterprises on a commercial basis. This helps ensure that sustainable local capacity remains behind after the program ends.

USAID-supported programs devise ways of making BDS affordable to microenterprises, and profitable to service providers. They achieve this through development of new services, innovative payment mechanisms tailored to the cash flow of clients, and the promotion of linkages between different sized firms. BDS "facilitators" base their interventions on market assessments; most have a clear, upfront exit strategy, or plan to leave once the business services are in place and profitable.

In supporting BDS programs, USAID tries to create:

- A significant impact on microenterprise income;
- Appropriate services, including payment options, for poorer enterprises; and
- Sustainable and competitive markets.

By Supporting Services that Boost Microenterprise Income

In identifying key services to promote, the focus has been on services that have an almost immediate impact on microenterprise income. Unlike larger firms that can afford to invest in long-term training and management consulting, poorer entrepreneurs tend to demand services with clear benefits that can be realized in a short time frame. For example, in India and Kenya, the dairy industry is extremely important to very poor, rural villagers who rely on milk production for household income as well as for consumption. In rural India, USAID will support a program implemented by AT-India that works with wholesale milk buyers to supply veterinary and improved feed services to milk producers. Milk collectors and processors, who buy from small women farmers, provide the technical assistance enabling the producers to increase their milk yields and hence their incomes.

Because most very poor households are located in rural areas, a key priority for USAID's BDS programs is to build up agricultural service markets, which in turn can strengthen the diverse agro-related enterprises required to generate a thriving rural economy. For example, USAID funded a project by ApproTec in Kenya to boost rural livelihoods through improved technologies delivered in commercially viable ways. ApproTec helped subsistence farmers to improve and commercialize their operations, by facilitating the sale and distribution of 18,000 low-cost irrigation pumps. Farmers' use of these pumps has increased net incomes from horticulture and related

What is BDS?

BDS refers to the wide range of non-financial services that help poor entrepreneurs start new businesses and grow existing ones. Examples of BDS provided to microenterprises include skills training; market research and linkages; input sourcing; product development; accounting and financial management; communications and brokering services; business advice; and technology development aimed at productivity increases, like micro-scale irrigation pumps and mobile telephones.

Mercy Corps Addresses Low Incomes in Azerbaijan

Photo courtesy of Mercy Corps Azerbaijan.

Poultry producer, Mrs. Tahira Ismayilova, providing vaccines to her stock of chickens.

In 2002 Mercy Corps/Azerbaijan began by conducting an extensive market assessment in remote rural areas that analyzed constraints to growth for poor women engaged in poultry farming (average income: $34/month). Based on the assessment, Mercy Corps discovered that poor quality feeding and breeding were responsible for low prices and high rates of rejection by the State Animal Health Board. Mercy Corps is now working to develop the capacity of local veterinarians who are dispatched to remote areas, while facilitating group formation to increase awareness of the importance of veterinarian services and bring down delivery costs. Mercy Corps is also helping the women to set up a basic insurance scheme, where the women make regular savings so they have money for the vet services as they are needed. In the next three years, Mercy Corps expects this program to achieve a 35% increase in sales for 4,158 micro-entrepreneurs, an 87% increase in sales for 54 veterinarians, and a 22% increase in sales volume for meat products in the target area.

microenterprises by more than $21 million in the last five years.

By Supporting Appropriate Services for Poorer Clients

Poorer microentrepreneurs face a wide variety of constraints to improving their businesses, some of which are particular to their sector. Successful BDS providers, therefore, must tailor their services to address the constraints felt by poor clients. Specifically, many poorer microentrepreneurs need different services than better-off clients; thus, BDS providers interested in reaching this market segment must adapt their products and services appropriately. For example, a training provider might offer shorter and more focused skills training for poor microentrepreneurs, in place of a more in-depth financial management course.

Microenterprises also find it difficult to pay up-front in cash for the services they need, due to the realities of their enterprise or household cash flow. As a result BDS providers often have to modify their payment mechanisms.

Photo courtesy of Chantal Regnault for Aid to Artisans (ATA).

With USAID funding ATA has helped many Haitian craftspeople bring their home-made goods to the international market.

PRIDE/Formation, begun by Volunteers in Technical Assistance (VITA), offers short-term evening courses in several local languages geared toward its semi-literate Guinean clients. It has developed an affordable, cost-effective, two-tiered pricing structure that has made business training affordable to a large number of microentrepreneurs, including many women. This is an example of a BDS provider adapting both its product (by making it shorter and more convenient) and its pricing (by introducing a new pricing structure) to meet the needs of its target market.

Another very important solution for the cash payment challenge is to provide services on a commission basis or "embedded" within a commercial transaction. For example, a USAID-funded program supporting small farmers in Honduras offers training on farming techniques to input supply shops. These shops then offer technical advice to their clients, who purchase seeds, fertilizers and other farm inputs from them — all without any direct cash payment for the service. Because most very poor households are located in rural areas, strengthening these embedded service markets goes a long way towards ensuring that the most appropriate and relevant services are available to the microenterprise sector.

By Supporting Sustainable and Competitive Markets

Careful planning and analysis by BDS facilitators can lead to surprisingly large-scale returns to microentrepreneurs — and to more efficient markets with a more level "playing field". For example, Action for Enterprise (AFE) in Mali sought to address constraints felt by microenterprise artisans. Using subsector analysis and market assessments, they identified strategic program interventions that have had a significant effect on local handicrafts markets. The interventions focused on developing the capacity of BDS providers to provide market access, product design, input supply, and financial services to small and microenterprises. To date, AFE has provided technical assistance to eight importers, six exporters, and over 1,000 microenterprises. These efforts have resulted in more than $600,000 in increased export sales and 100 percent increases in revenues for participating businesses. Importantly, key market linkages have been established among importers, exporters, and producers that will likely last for years to come.

To promote better functioning, more competitive markets, USAID-supported BDS programs place particular emphasis on increasing the leverage of microenterprises in the marketplace, or enhancing their bargaining position in the commercial arena. In Bangladesh, the USAID Mission has adopted an integrated approach to development, in which microenterprises are organized into producer associations or clusters through which they acquire business skills, financial services, and marketing

Diálogo de Gestiones (DdG) Markets BDS

Diálogo de Gestiones (DdG), a microenterprise training program in Colombia, was designed by ACCION to help microentrepreneurs manage their small businesses more effectively. Through interactive role-playing, games and discussions that incorporate the life experiences of participants, Diálogo teaches business basics in a way that is accessible and practical. DdG was developed after extensive input from microentrepreneurs themselves and is in wide demand. DdG's goal is to produce a package of affordable training modules that can be provided by a range of institutions on a commercially sustainable basis. DdG licenses (which include facilitator materials and technical assistance) have been sold to 17 institutions, including MFIs, commercial banks, Chambers of Commerce, and private firms, in 14 countries.

assistance (see box on page 38). Leverage is enhanced in a few strategic subsectors, such as handicrafts, shoes, and agricultural produce, by improving access to information, and by promoting linkages with a variety of larger firms, resulting in multiple purchasers for microenterprise goods.

Creating an Enabling Environment for Microenterprises

To complete the foundation for sustainable, poverty-focused microenterprise development, USAID supports activities to reform government laws, policies, and regulations in ways that foster entrepreneurship and expand access to financial and other services by the underserved poor. Currently USAID works with governments, regulatory bodies, business associations, research institutions, and non-governmental organizations (NGOs) to build a stronger enabling environment for microenterprises and microenterprise support institutions.

Improvements in the policy environment are crucial to addressing the principal challenges facing USAID in its microenterprise strategy — namely, integrating microenterprises into the formal economy and ensuring sustainable benefits for the poorest microenterprises. The enabling environment for microenterprises includes appropriate legal, regulatory and supervisory practices for both public and private microfinance institutions. In addition, it includes the policies, regulations, and administrative practices governing the business environment in which microenterprises operate. To survive and succeed, microenterprises need a supportive operating and investment environment, as well as access to capital and other services. In many countries, inappropriate laws, regulations and policies discourage entrepreneurship, the competitiveness of the smallest businesses, and the growth of microenterprise development institutions.

USAID-supported institutions help national and local governments develop and implement appropriate microfinance laws and regulations. They also address issues of business registration and licensing, foreign trade, non-governmental organization (NGO) regulation, and equitable access to services. The number of microentrepreneurs benefiting from such policy changes often far exceeds the number assisted directly through microenterprise insti-

Laying the Foundation for Microfinance in the Central Asian Republics

USAID's support to the microfinance industry in the Central Asian Republics (CAR) began with investments designed to promote best practices in microfinance. Market leaders, such as FINCA/Kyrgyzstan, the Kazakhstan Community Loan Fund (ACDI/VOCA), and the Association of Business Women in Tajikistan (Mercy Corps and Save the Children), have demonstrated the feasibility of operating sustainable institutions serving poorer entrepreneurs.

USAID then supported a second generation of providers, including ACDI/VOCA in the Ferghana Valley. Most recently, USAID helped to create the Central Asian Microfinance Alliance (CAMFA), which will support expansion of the market leaders and provide training, capacity-building services, grants, loans, and policy support to MFIs throughout the region.

The legal and regulatory environment for microfinance in these ex-Soviet Republics has posed particular challenges. Laws throughout the region have restricted the normal operations of microfinance institutions, impeding their ability to run efficient, sustainable operations. Highlights of USAID-supported work in the region include:

- **Kazakhstan**: The National Bank developed a law on Microcredit Organizations, which is now under consideration by Parliament.
- **Kyrgyzstan**: A new law, creating the legal and organizational foundation for microfinance organizations, was adopted in 2002 with donor and stakeholder input.
- **Tajikistan**: USAID is supporting efforts by the National Bank of Tajikistan to develop stable and consistent microfinance laws and policies.
- **Uzbekistan**: A new government resolution allows development agencies, for the first time, to legally implement microcredit activities.

tutions. In Kenya, for example, privatization of the dairy industry has opened this sector to 65,000 microenterprises, or 5 percent of all Kenya's micro businesses. Dairy sales account for 3.5 percent of Kenya's GDP.

USAID helps to create a more level playing field for microenterprises by helping countries streamline business registration, so that more micro and small enterprises will be able and willing to move into the formal market economy. In many countries, business registration is still a long, expensive and complex process that discourages informal microenterprises from entering the formal sector. The result is a lose-lose situation: microenterprises must operate in the vulnerable informal sector where they face serious obstacles to growth and expansion, and states are deprived of much-needed tax revenues as well as reliable data on the country's workforce and economy.

One important element of USAID's work to improve policy environments for microenterprises is a focus on strengthening the voices of microentrepreneurs through independent business associations to advocate for policy reforms. These efforts, which have been funded throughout the Europe and Eurasia region, also support U.S. goals of establishing democracy and encouraging civil society development. Anti-corruption efforts are also important, since microentrepreneurs and informal sector businesses are particularly vulnerable to predation by government officials and inspectors at all levels.

Photo courtesy of ACDI/VOCA.

ACDI/VOCA's Agricultural Cooperatives in Ethiopia (ACE) project empowers smallholder farmers by supporting the development of cooperatives and unions. Here a member of the Oromia Coffee Union displays her shade-grown, organic coffee cherries.

USAID-supported institutions help governments develop and institute appropriate microfinance laws and regulations. Regulations on reserve requirements, for example, can discriminate against micro and small borrowers by requiring high provisioning for loans without collateral. Notarization requirements can dramatically increase the transaction costs for microlending.

USAID's efforts to deregulate interest rates are critical in assisting MFIs to become self-sustaining. Many developing and transition countries have policies limiting the interest rates that financial institutions can charge. Such policies effectively prevent MFIs from charging rates that adequately cover transaction costs with microentrepreneurs, resulting in rationed capital and limited access to financial services. As a result, many MFIs cannot expand services without donor assistance.

Reaching Further Down Market: Examples from the Field

Bringing the benefits of microfinance and BDS to poorer clients is a frontier issue for the microenterprise development field. Remarkable progress has been made in ensuring that poor entrepreneurs have access to microenterprise services vital to the growth and profitability of their businesses. However, the benefits of this access have generally been enjoyed more by moderately poor households than by the very poor. That is not to say that the very poor have not benefited from microenterprise development programs; rather, it is to point out that the field needs to do more to find innovative ways to reach larger numbers of poorer and hard-to-reach clients sustainably and cost-effectively.

Many USAID partners in BDS and microfinance have been searching for solutions, resulting in remarkably diverse approaches and methodologies.

Photo courtesy of IDE.

IDE Nepal pioneered the development of low-cost drip irrigation systems.

Business Development Services

Poorer microentrepreneurs face huge challenges as they seek to build their businesses. Ongoing efforts to expand BDS to poorer clients often focus on one or more of these challenges.

Achieving a "critical mass" for service provision: A major factor constraining the availability of services to poorer microentrepreneurs in remote, rural areas is the lack of a sufficient concentration of clients. Even when the clients are willing to pay for the services, the costs of setting up the BDS for too few people may be prohibitive. One strategy is to use existing or newly-formed groups (producer groups, cooperatives, MFI client groups, or groups formed for other purposes, such as women's health groups) to deliver services. With the support of USAID-Ethiopia, for example, ACDI/VOCA is facilitating access to private BDS by existing small farmer cooperatives so they can tap more lucrative markets for their horticultural produce. As the farmers have been able to extend their reach into commercial markets, positive effects can be seen in very poor households and in the wider economy.

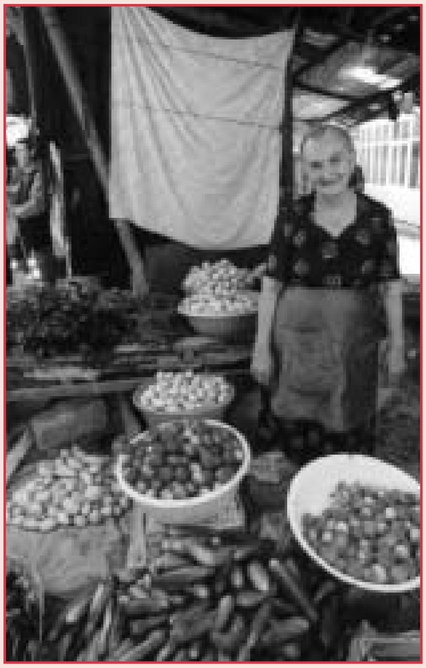
Adapt the service: Poorer entrepreneurs generally need services that are different from those in demand by small and medium enterprises. Existing BDS providers often are not equipped with the tools or services to attract microenterprises. Yet with assistance from a facilitator, they can adapt existing products and services to suit the needs of a subsector in which poor microentrepreneurs are concentrated. In India, for example, IDE has adapted technology, "affordable micro-irrigation technologies" (AMIT), to directly address the needs of very small horticulture producers. In three years' time, more than 15,000 AMIT kits were installed, providing benefit to more than 75,000 rural farmers.

Adapting methods of payment: To better fit the cash flow realities of many poor microentrepreneurs, some BDS is delivered "embedded" within a business transaction, so the microentrepreneur incurs no additional expense. For example, when the Malian artisans sell their products to the exporters assisted by Action for Enterprise (p. 18) the mark-up on the export sales covers the exporters' provision of many embedded services such as marketing, production advice, and quality control. Other institutions have innovated in a variety of ways to make their services more affordable. PRIDE/Formation in Guinea adapted its pricing structure for training to ensure affordability to poor rural clients.

Microfinance

Successful methods employed by microfinance institutions to reach down market include:

Client targeting: A number of USAID-supported MFIs have led the way in trying to ensure that the benefits of microfinance reach further down the economic spectrum. Some partners, such as Cashpor in India, utilize up-front screening of clients to ensure a focus on the poorest clients. Other MFIs target their services to poorer regions, or communities where the poorest microenterprises generally live and work. A number of MFIs, like Save the Children affiliates Microfund for Women in Jordan and Constanta in Georgia, are providing services in areas where internally displaced persons or refugee groups have been settled.



Azizova Ziyada Almirza used her loan from FINCA Azerbaijan to rent a small stall in the market to sell fruits and vegetables.

Low-cost delivery mechanisms: In the past, many institutions perceived a tradeoff between reaching poorer clients and the goal of sustainability. "Reaching down market" meant finding the right delivery mechanism to avoid the high operational costs associated with offering services to poorer clients. One such approach is PACT's Women's Empowerment Program (WEP), funded by USAID-Nepal, which reached more than 125,000 poor women in three years through village savings and credit groups. The groups' meetings and operations were self-run and self-managed, though facilitated by a large network of NGOs. Other examples of alternative delivery mechanisms with the potential to reach poorer clients include approaches that work through input suppliers or retail vendors.

Adaptation of products and services: Numerous MFIs are adapting their products and services to meet the demands of poorer clients. Like the pioneers before them who developed break-through innovations (e.g., accepting alternative collateral or group guarantees) to open credit access to poorer entrepreneurs, today's pioneers are partnering with USAID to discover the next generation of products and services for underserved "bottom of the pyramid" businesses and households. For example, MFIs around the world are experimenting with emergency loans, seasonal loans and flexible savings products. In Latin America, many MFIs are now offering housing and home improvement loans, recognizing that with flexible options, even very poor households can gradually acquire this valuable asset. Financiera Calpia (El Salvador), PRODEM (Bolivia) and EMT (Cambodia) also offer specialized loans for rural farmers.

Microenterprise Funding in FY 2001

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 nearly $2 billion to support microenterprise development. During this time, huge strides have been made in developing systems and methods that deliver microenterprise services, particularly financial services, to the world's poor.

In FY 2001, USAID contributed $158.7 million to microenterprise development programs, a 3.4 percent decrease in funding compared to the $164.3 million that USAID programmed in 2000. As in recent years, Development Assistance (DA) funds constituted more than half of the total for microenterprise development.

The use of Economic Support Funds (ESF), authorized through the U.S. Department of State, to support microenterprise development increased by 43 percent in FY 2001 over FY 2000. This resulted from a renewed commitment from USAID-Egypt, which typically contributes large sums annually to ongoing microenterprise activities.

Table 1. Sources of USAID Funds for Microenterprise by Appropriation Account, 1991-2001 (US$ millions)

Fund	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
DA[1]	40.2	61.3	51.6	89.2	93.3	72.9	83.3	79.9	75.3	84.5	88.8
AERA										2.0	
SADRF										1.5	
Total DA										88.0	88.8
ESF	43.2	34.4	20.8	31.6	22.9	16.1	24.5	27.2	32.9	19.5	27.9
FSA						5.4	20.6	14.3	12.8	30.2	20.2
SEED/SAI[2]						4.7	24.8	4.6	12.0	9.0	7.6
CACEDRF									3.2	8.0	
CSD/HIV										.8	.5
Local Currency	30.2	30.6	23.6	16.6	17.3	12.2	11.8	12.4	17.3	8.8	13.7
Total	**113.6**	**126.3**	**96.0**	**137.4**	**133.5**	**111.4**	**165.0**	**138.4**	**153.5**	**164.3**	**158.7**

1 Development Assistance Funds include the Development Fund for Africa.

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

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

	Financial Services and Enabling Environment		BDS and Enabling Environment		Total	
	Amount	Percent	Amount	Percent	Amount	Percent
Africa	$18.7	50	$19.0	50	$37.7	24
Asia/Near East	$34.5	89	$4.3	11	$38.8	24
Europe/ Eurasia	$18.7	66	$9.6	34	$28.3	18
Latin America/ Caribbean	$20.4	55	$16.5	45	$36.9	23
Worldwide[1]	$14.5	85	$2.5	11	$17.0	11
Total	**$106.8**	**67**	**$51.9**	**33**	**$158.7**	**100**

1 Funds provided to North American headquater operations for institutions operating worldwide.

The FSA account, also authorized through the State Department, funds programs in Russia, Ukraine, the Caucasus, and the Central Asian Republics. FY 2001 funding for microenterprise from the Freedom Support Act (FSA) account decreased from the all-time record funding level from this account in FY 2000, but $20 million represents a continued major commitment to microenterprise development in this region.

Local currency used for microenterprise (typically from the monetization of Title II funds under P.L. 480) increased from FY 2000 levels by more than 50 percent. The increase in FY 2001 local currency corresponds to the $5 million in local currency derived from balance of payments by USAID-Egypt.

In FY 2000, 67 percent of total USAID funding went to financial services programs including loan capital, operational expenses, technical assistance, and microfinance policy work (see Table 2 above). The remaining 33 percent supported business development programs or policy advocacy on issues affecting microentrepreneurs.

Of the two-thirds of total funding applied to microfinance, $7.2 million or 7 percent went for financial policy reform for reforming or instituting laws and regulations affecting microfinance institutions. Eleven percent of non-financial funding, or $5.9 million, supported efforts to create an enabling environment for microenterprises.

Total funding to Africa remained strong following a record-breaking high of $43.8 million in FY 2000. Funds for microfinance programs in Africa fell to $18.7 million in FY 2001, after reaching $26 million in FY 2000, which resulted in part from a commitment of $12 million by USAID-Senegal to its nascent microenterprise program. Funding for BDS continues to be high in Africa where weak markets and rudimentary technologies pose major impediments to largely rural microentrepreneurs. In recent years, USAID Missions in Ghana, Mozambique, Tanzania, and Zambia have provided

Table 3. Uses of FY 2001 Funding by USAID Bureau (US$ millions)

	Financial Services and Enabling Environment		BDS and Enabling Environment		Total	
	Amount	Percent	Amount	Percent	Amount	Percent
Africa Bureau	$13.3	43	$17.8	57	$31.1	20
Asia/Near East Bureau	$34.6	92	$3.1	8	$37.7	24
Europe/Eurasia Bureau	$18.1	65	$9.6	35	$27.7	17
Latin America/ Caribbean Bureau	$15.5	50	$15.7	50	$31.2	20
Global Bureaus	$25.3	82	$5.7	20	$31.0	20
Total	**$106.8**	**67**	**$51.9**	**33**	**$158.7**	**101**

large amounts of funding for ongoing BDS programs.

In addition, funds for Latin America and the Caribbean dropped to $36.9 million from nearly $43 million in FY 2000, a 14 percent decrease. This drop does not reflect decreased commitment of USAID to microenterprise development in the region, but rather the absence of a major crisis during FY 2001 necessitating special appropriations to the region. In the previous two years, special disaster-related appropriations to Guatemala ($9 million in 1999) and Honduras ($8 million in 2000) have contributed to large amounts of funding for the region.

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 increase from the prior year (up $15.4 million or 51 percent), due to the renewed commitment of funding by USAID-Egypt.

Funds for the Poor

Because of its priority to assist poor and very poor households, USAID collects and reports information on the poverty level of clients of USAID-sponsored microenterprise development institutions. Loan size, while not an actual measure of the client's poverty status, has long been the widely accepted proxy indicator for estimating the extent of service to poorer clients. In accordance with the Microenterprise for Self-Reliance Act of 2000, poverty loans are defined by region as:

- $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 and its partners are beginning to test additional proxies and measurement tools for

Table 4. Percentage of Funds Committed to Poverty Lending, FY 2001

	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	$31.1	72%	73%	72%
Asia/Near East	$37.7	42%	65%	44%
Europe/Eurasia	$27.7	47%	28%	40%
Latin America	$31.2	72%	34%	53%
Global Bureaus	$31.0	50%	33%	47%
Total all Bureaus	**$158.7**	**54%**	**50%**	**53%**

the poverty level of microenterprise clients. Until new tools are agreed upon, USAID will continue to use loan size to estimate the number of very poor clients receiving services. Clearly, loan size is less applicable to BDS programs, which are not always linked with financial services.

As in prior years, microfinance institutions reported on the percentage of their portfolio held in loans equivalent to poverty loan sizes. Following the regional limits noted above, more than one-half (54%) of FY 2001 funding to financial institutions was channeled to the very poor through microfinance institutions. USAID funding to BDS programs is prorated based on the percentage of BDS clients with poverty loans. Fifty percent (50%) of BDS funding went to very poor clients, based on BDS institutional reports.

Combining the amounts for both financial and non-financial purposes, fifty-three percent of total funding supported very poor clients, meeting the poverty target included in the Microenterprise for Self-Reliance Act.[7]

Funds for Private Voluntary Organizations

In addition to funding program activities, USAID has a long and successful history of assisting U.S.-based PVOs and their local partners to expand service delivery in a sustainable manner. More than a dozen U.S.-based private voluntary organizations (PVOs) have created extensive multi-country networks of individual microenterprise development institutions operating under similar models, through which they reach large numbers of clients. Such networks were built with significant U.S. support. Table 5 shows the amounts of USAID support to several large PVO networks that have specialized in microfinance. Total funding to the institution and its network affiliates, combining funds from both USAID field and central offices, are included. The number of clients shown represents all clients in the network.

For many years, the Office of Private and Voluntary Cooperation (PVC) Matching Grants Program has fostered innovative approaches to development assistance, and

7 For a more complete description of USAID's methodology to estimate funds to very poor clients, see Appendix 1: Methodology to Calculate Percentage of Funds for the Poor.

built management and technical systems to improve program effectiveness. For example, in 1998 PVC awarded a third Matching Grant to Catholic Relief Services (CRS) to support its worldwide affiliates as they work towards becoming commercially viable financial institutions. In addition to building overall capacity to transform its partner organizations and support them as commercial entities, CRS selected its programs in El Salvador, the Philippines, and Senegal to develop into Learning Centers for other CRS microfinance programs. Ten years earlier, in 1988, CRS received its first PVC Matching Grant, to test microfinance methodologies in five countries on three continents. This experience led to CRS' decision to focus on microfinance methodologies that reach the poorest microentrepreneurs.

Photo courtesy of Catholic Relief Services.

Delia Agom, a client of CRS' affiliate Cooperative Rural Bank Bulacon Incorporated (CRBBI) in the Phillipines.

Table 5. Average Annual Funding to PVOs for 1997–2001 with Clients Then and Now

Institution	Average Annual USAID Award (US$ Millions)	Clients in 1997	Clients in 2001
ACCION International	$3,272	342,105	609,201
Catholic Relief Services	$4,208	135,823	309,643
FINCA International	$7,990	70,520	189,587
Opportunity International	$5,570	102,236	308,026
Save the Children Federation	$4,318	19,000	140,000
World Council of Credit Unions (WOCCU)	$3,747	1,347,871	1,935,700

Results from USAID-Supported Microenterprise Institutions in 2001

USAID asked all microenterprise development practitioners with active USAID agreements in FY 2001 to provide data on their financial, BDS or policy advocacy activities, whether or not they received additional funding in FY 2001. Many institutions have multi-year USAID agreements, evaluated annually against performance indicators. Other institutions have received short-term assistance to undertake specific projects or innovations. Of the 492 organizations, 411 (84%) reported data for FY 2001. Almost one-half (199) provided data in both 2000 and 2001.

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. 295 microfinance institutions reported data for their 2001 fiscal year. Because the inventory of institutions with active USAID agreements changes every year, the difference in the number of clients from the previous year does not reflect a simple growth rate by the same set of institutions. However, more than one-half (56%) of the institutions reporting provided data in both 2000 and 2001. One institution, Bank Rakyat Indonesia, which received funding in 2000 and had an ongoing agreement in 2001, will not be included in the summary tables due to its size. To include the data from this one institution, which has over 2.8 million borrowers and 27 million savers, would skew the results from all other USAID-assisted institutions.

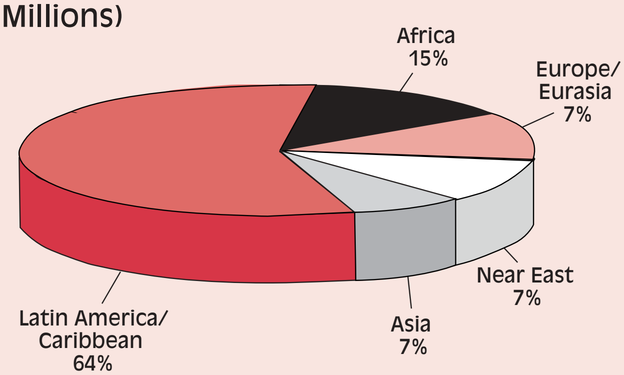
Table 6. Clients of Lending Institutions in 2000 and 2001 (USAID's Active Portfolio)[8]

	Total Clients 2000 ('000s)	Total Clients 2001 ('000s)	Percent Change from 2000
Africa	315.3	750.7	138%
Asia/	625.5	742.9	19%
Near East	88.7	192.2	117%
Europe/Eurasia	148.5	150.2	1%
Latin America	986.4	1,060.9	8%
Total	**2,164.4**	**2,896.9**	**34%**

8 The number of loans is used as a proxy for the number of clients. Many microfinance institutions track only loans, not clients. It would be rare for an individual to have more than one loan outstanding with the same institution.

Since 2000, the number of clients reached with USAID assistance has increased by 34 percent (see Table 6). For those institutions reporting in both 2000 and 2001, there was an annual growth rate of 20 percent (318,000 more clients for 164 institutions). In Africa and the Near East, in particular, institutions reported considerable growth in the numbers of clients reached.

Figure 1. Amount of Portfolio for Lending Institutions in 2001
(US$ Millions)



As in prior years, loan portfolio value in the LAC region, where average loan size is $558, constitutes nearly two-thirds of the total portfolio of USAID-assisted institutions. The amount of total outstanding portfolio grew by six percent in 2001 to $917.7 million, despite a decrease in overall average loan size per client. **Average loan size went down more than 20 percent, from $401 in 2000 to $317 in 2001**.

As shown in Table 7, the percentage of women clients in USAID-supported microfinance institutions is high for all regions. One remarkable statistic is the jump in the percentage of women clients in the Near East, climbing from 27 percent in FY 2000 to 52 percent in FY 2001.

Programs in Egypt provide an example of this changing mix of clients by USAID-supported institutions. In FY 2000, 6 Egyptian microfinance institutions reported a total of 72,634 clients, with average loan size of $506. Only seventeen percent of these clients were women. In FY 2001, these same institutions reported 95,063 clients (a 31% increase) with average

Table 7. Average Loan Balance[9] and Percentage of Women Clients in 2001 (USAID's Active Portfolio)

	Average Balance (US$)	Percentage of Women Clients
Africa	189	69
Asia/	81	92
Near East	332	52
Europe/Eurasia	398	60
Latin America/Caribbean	558	69
Total	**317**	**73**

9 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.

APIM/Mali

The Association of Professional Institutions of Microfinance (APIM) is a non-profit association working to develop the microfinance sector in Mali. APIM supports and advocates on behalf of its members, which include more than two dozen microfinance institutions serving more than 300,000 microenterprise clients. USAID assistance has helped APIM develop a strategic plan, an information and communications strategy, and a financial management system to better serve its members.

Developments in the Near East

In FY 2001, USAID provided US $26 million to expand and strengthen microenterprise service markets throughout the Near East. Following are the highlights of activities in the region:

- **Jordan**: USAID has committed approximately $30 million to microfinance in Jordan. Program components include: 1) operational support to four retail MFIs; 2) a credit information bureau; 3) a comprehensive technical assistance program; 4) the creation of the Microfinance Association of Jordan; 5) a new product development program; and 6) reform of legal and regulatory barriers to promote sustainable microfinance.
- **Egypt**: USAID has played a key role in the development of Egypt's small and micro enterprise (SME) sector since 1990. USAID-assisted institutions (nine SME foundations, two commercial banks, and a private corporation), have disbursed 793,000 loans to more than 325,000 small and micro enterprises.
- **Lebanon**: With USAID support, Save the Children Federation (SCF) and CHF have successfully established local partners, Al Majmoua and AMEEN, respectively. Al Majmoua now operates throughout the country and at six Palestinian refugee camps. AMEEN partners with local banks to provide individual loans.
- **Morocco**: With USAID funding, Volunteers in Technical Assistance (VITA) helped to create Association Al Amana, which now has 80 credit branch offices with more than 50,000 clients. USAID has also supported Fondation Zakoura, another large MFI, in its efforts to extend lending to rural areas. In addition, the Mission has provided funding to a new national microfinance association (FNAM).
- **West Bank/Gaza**: USAID launched a program to initiate microlending within 2 commercial banks, the Bank of Jordan and the Arab Bank. The banks initially committed $3 million of their own capital for this purpose. Results have been impressive, with over 5,900 loans made in two years. The number of branches engaged in microlending has doubled during this same time period.

Table 8. Clients with Poverty Loans in 2001

Region	Number of Loans ('000s)	Number of Poverty Loans ('000s)	Percent Poverty Loans
Africa	750.7	492.4	66%
Asia/	742.9	638.0	86%
Near East	192.2	108.5	56%
Europe/Eurasia	150.2	132.1	88%
Latin America/ Caribbean	1,060.9	628.2	59%
Total	**2,896.9**	**1,999.2**	**69%**

loan size of $342. Forty-five percent of these clients were women.

Table 8 shows the high percentage of total loans that were poverty loans in all regions. Especially noteworthy is the dramatic increase in the percentage of poverty loans in the Near East. Where microfinance institutions in the Near East reported that only thirty-one percent of loans held were in amounts equal to or less than $300 in 2000, more than half (56%) of the loans held at year end 2001 were poverty loans.

The Savings Safety Net

Microenterprise development practitioners discovered long ago that many very poor households are more likely to save to meet both expected and emergency demands for cash than they are to seek loans. Without the security of an external safety net, poor households draw on cash savings, or sell assets, such as animals, in the event of a crisis or setback. USAID has long emphasized the need for safe and reliable savings mechanisms suitable for the poor.

Table 9. Number of Savers and Savings Amounts in 2001

Region	Savings Members ('000s)	Savings Amounts (US$ millions)	Average Savings Account (US$)
Africa	757.2	$49.2	$65
Asia/	1,087.3	$34.5	$32
Near East	2.7	$0.07	$26
Europe/Eurasia	150.8	$9.4	$62
Latin America/ Caribbean	1,516.2	$331.6	$218
Total	**3,514.2**	**$424.8**	**$121**

Table 10. Leading Savings Institutions or Networks Supported by USAID

Institution Name	Savings Members	Savings Amounts (US$)	Average Savings Account (US$)
WOCCU/Ecuador	914,485	$ 75,988,230	$83
WOCCU/Honduras	194,034	$ 34,430,016	$177
WOCCU/Philippines	171,561	$ 15,758,701	$92
PACT/Nepal	122,406	$ 1,659,862	$14
WOCCU/Kenya	120,582	$ 4,379,049	$36
WOCCU/Romania	105,015	$ 5,181,554	$49
Rural Green Bank of Caraga, Philippines	97,852	$ 1,540,409	$16
WOCCU/Bolivia	69,955	$ 32,682,018	$467
Total	**1,795,890**	**$ 171,619,839**	**$96**

Of the 295 USAID-supported microfinance institutions providing data in 2001, more than two-thirds (207 or 70%) have active savings programs for microenterprise clients.[10] Of these, the majority (84%) requires that their loan clients maintain a savings account as loan collateral. More than fifty percent (107) of the savings institutions offer voluntary savings to their clients as well.

Photo courtesy of WOCCU.

A client of WOCCU/Kenya.

Table 10 shows the top eight savings institutions, or 'institution networks', supported by USAID in 2001. These eight account for fifty-one percent of the clients and forty percent of the savings held by all the USAID supported institutions shown in Table 9. Three of the top eight are in Latin America, three in Asia, one in Africa, and one in Europe.

The data shown for each of the WOCCU networks represents the activities of many small credit unions located throughout the country. For example, WOCCU/Ecuador has 22 affiliated credit unions, Kenya has 16 credit unions,

10 Includes BRI in Indonesia.

Constanta Foundation, Georgia: Reaching Sustainability and Poor Clients

Constanta is a Georgian microfinance institution created in 1998 after the civil war, with assistance from Save the Children. It designed its products and outreach strategy to ensure service to women who were internally displaced persons, typically supporting families on their own. Constanta now has an active client base of over 14,000, and has served over 21,000 very disadvantaged microentrepreneurs. Seventy percent of its clients are women.

Constanta's methodology, which includes both group and individual loans, has enabled it to expand its outreach dramatically while simultaneously improving the quality of its portfolio. Repayment rates are at 98%. In 2002 Constanta reached an operational self-sufficiency of 202% and financial self-sufficiency of 174%. This achievement is the result of establishing new branches and new products that helped to ensure client loyalty and increased demand for Constanta's services.

Table 11. Location of Microfinance Clients, 2001

	Rural Percent	Urban Percent
Africa	61	39
Asia/	85	15
Near East	27	73
Europe/Eurasia	17	83
Latin America/ Caribbean	35	65
Total	**53**	**47**

Romania has 23 individual credit unions, and Bolivia has 15 credit unions.

USAID continues to emphasize outreach to microentrepreneurs located in rural areas, where the poorest households reside. Data in Table 11 suggest that many USAID-supported institutions are making real progress in reaching rural microenterprises with microfinance services. In Africa, for example, the percentage of loan clients in rural areas has increased from 37 percent in 2000 to 61 percent in 2001. Since many microfinance programs began in urban and peri-urban settings, a shift towards more rural borrowers reflects the successful adaptations by microfinance institutions that have chosen to enter rural markets.

USAID offices and missions actively monitor the microfinance institutions they support to ensure quality of service. Data on repayment and loan losses are shown in Table 12. These standard indicators are used in microfinance to monitor financial performance.[11]

USAID offices track sustainability indicators as an important measure of partner institutional

11 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.

Table 12. Average Repayment and Loan Loss Rates, 2001

	Repayment Percent	Loan Loss Percent
Africa	98.5%	1.6%
Asia/	94.2%	5.1%
Near East	95.2%	2.5%
Europe/Eurasia	93.9%	1.9%
Latin America/ Caribbean	91.6%	0.8%
Total	**93.3%**	**1.4%**

development. Operational sustainability occurs when the institution produces adequate income from interest and fees to cover all its operational expenses, including loan losses. Full sustainability occurs when the institution is able to cover all operational expenses, plus the cost of raising its loan funds from commercial sources, adjusted for the effects of inflation and subsidies.

As shown in Table 13, **more than one-half of USAID-assisted institutions reporting for FY 2001 are either operationally or fully sustainable**. It is especially impressive that the newer institutions of the Europe and Eurasia region are achieving operational or full-sustainability so quickly. Constanta Foundation in Georgia, which has only been in operation for 5 years, is a good example of how this is being accomplished in a relatively short period of time.

Business Development Services

Business services are often a key factor in helping poor microentrepreneurs build a meaningful economic livelihood from a meager income-generating activity. While loans create opportunities that lead to the potential for growth, many microentrepreneurs are unable to take advantage of such opportunities because they lack other resources, including basic business skills and knowledge of better markets. Business development services include a range of services offered to microenterprises that help them put all the ingredients together to make their business a success.

The inventory of BDS institutions that USAID supported in 2001 reflects a field in transition.

Table 13. Sustainability of USAID-Supported Institutions, 2001

Region	Not Yet Sustainable	Operational Sustainability	Fully Sustainable
Africa (n=81)	60%	14%	26%
Asia/ Near East (n=101)	46%	11%	43%
Europe/Eurasia (n=44)	46%	20%	34%
Latin America/ Caribbean (n=68)	37%	18%	45%
Total (n=294)	**47%**	**15%**	**38%**

Many institutions are engaged in directly providing more traditional BDS type activities such as business training, while some institutions reflect the new, market-led approach to BDS described earlier in this report. USAID is leading the way in promoting the expansion of private BDS markets, which aims to achieve massive outreach as well as full sustainability. As the means to this end becomes more widely understood in the field, more of the USAID-assisted institutions reporting data will reflect this approach.

Of the institutions with active USAID agreements for BDS to microentrepreneurs in 2001, 98 reported data on their clients. Seventy-two of these provided services directly to microentrepreneurs. Forty-nine facilitated BDS provision, that is they worked at a market level to assist BDS provider organizations to expand markets, build capacity, or boost client demand. Twenty-three organizations were both providers and facilitators.

In 2001 the number of microenterprise clients reached with BDS through USAID assistance increased more than threefold from 2000, (from 250,000 clients to more than 800,000 clients, see Table 14). Nearly three-quarters of these clients are reached through the activities of institutions that facilitate BDS or work through other organizations, while the remaining one-quarter is reached through direct BDS providers. In this way, USAID leverages the impact of its development assistance by funding activities that have the potential for greater outreach, particularly to rural clients. As an example, in Peru USAID has supported the efforts of Swiss Contact, which provided BDS to both microentrepreneurs and organizations in 2001. Through its direct assistance to microentrepreneurs, it provided services to 1,700 clients; through assistance to other BDS organizations it had outreach to another 6,000 clients.

Photo courtesy of Swiss Contact Peru.

A client of Swiss Contact Peru.

BDS Providers

USAID promotes BDS programs that contribute to the microenterprise economy through a variety of means. Following are some of the ways that USAID-assisted BDS practitioners supported clients' business activities in 2001:

- More than 70 percent performed market research or built market linkages;
- More than 70 percent offered business management or technical training, or provided individual business management assistance to clients;
- More than 60 percent undertook research and development to introduce or adapt production technologies;
- More than 50 percent provided financial services directly or linked their clients to financial services;
- More than 50 percent used subsector analysis to provide strategic services to microentrepreneurs; and
- More than 40 percent were also engaged in advocacy for clients on microenterprise legal and regulatory issues.

Many of the organizations reported data on their USAID-assisted work with underserved, poorer populations, such as refugees and internally displaced persons, rural youth and

Table 14. Clients of USAID-Funded BDS Programs, 2001 (Providers and Facilitators)

	Number of Micro Clients	Percent Women	Percent Rural	Percent below Poverty Line[1]	Percent Very Poor[2]
Africa	472,134	27%	88%	71%	35%
Asia/	150,496	95%	91%	44%	15%
Near East	16,480	30%	83%	68%	20%
Europe/Eurasia	66,618	62%	70%	55%	26%
Latin America	79,730	57%	44%	54%	24%
Worldwide	50,000	60%	50%	80%	50%
Total	**835,458**	**47%**	**80%**	**64%**	**30%**

1 Data are estimates of number of clients below poverty line reported by respondents.

2 Data are estimates of numbers of clients earning less than half the income designated as the country's poverty line.

women, and poor farmers. For example, CHF has worked with internally displaced persons in Azerbaijan providing business training and consultation and helping to build associations of microentrepreneurs in particular industries and commodities.

Most BDS clients (80%, see Table 14) reside in rural areas. Many organizations have the objective to reach out to rural areas where microentrepreneurs are constrained by poor infrastructure, limited markets, and inadequate information. In Mozambique, for example, TechnoServe assists businesses that source raw materials from the rural poor or employ the rural poor. To track progress toward its objective, TechnoServe monitors the number of rural poor suppliers reached, the value of products purchased from these suppliers, the number of rural poor employed, and wages paid to the rural poor.

BDS providers view tracking details about their clients as critical to successful program implementation. Three quarters (75%) of the BDS providers monitor client income data to measure the effect of their services. Half also monitor household income.

BDS Facilitators

As noted above, USAID frequently funds institutions that achieve wide outreach by enhancing the effectiveness of BDS providers and stimulating demand for BDS. Whereas BDS providers may focus on more local markets, working with relatively small numbers of entrepreneurs, BDS facilitators may address constraints across a wider area, seeking to open regional or foreign markets to an entire sector. Support offered by BDS facilitators affects the quality and range of BDS services available as well as the demand for these services.

Of the 49 reporting organizations that served as BDS facilitators in 2001[12],

- 43 (88%) were engaged in capacity building of BDS providers;

12 Twenty-three of these organizations are also BDS providers.

JOBS Bangladesh: Linking to Opportunity Through Producer Associations


Photo courtesy of IRIS.

Women organized by JOBS for making handmade paper, a good example of cluster development.

Job Opportunities and Business Support (JOBS), a microenterprise support activity funded by USAID in Bangladesh, facilitated market access and working capital for the Modhupur Pineapple Association. With assistance from JOBS, this association established a relationship with PRAN, a large agricultural processor in Dhaka. As a result, members of the association were able to sell their pineapples to PRAN at twice the amount they would have received on the local market.

Following this success, 12 more associations were established and a network created. With JOBS assistance each of the 13 associations has increased the size of its operations, from 30 to 70 acres. The Modhupur Association has also obtained loans from the Social Investment Bank Limited to enable members to expand operations, purchase additional land, and grow more crops.

- 41 (84%) performed regular monitoring and evaluation of business services;
- 39 (80%) trained trainers;
- 37 (75%) provided market information services to microenterprise organizations;
- 36 (73%) linked entrepreneurs to new business opportunities or networks; and
- 34 (69%) identified new market opportunities and innovative products for microentrepreneurs.

BDS facilitators, like BDS providers, put effort into tracking the impact of their services. Of the facilitators reporting, forty-three (88%) tracked indicators that included customer satisfaction, gross business profit, increases in employment and sales, business starts, changes in business practices, and awareness of business services available.

Both facilitators and providers are working towards cost-recovery, though the majority of USAID-supported institutions are not yet self-sustaining. Among the ways that institutions recover costs are by charging fees to their clients, adding margins on goods sold, and through bundling BDS with other services. Nineteen (38%) of the facilitators and thirty-one (43%) of the providers recover costs through these means.

Policy Advocacy and Reform

In FY 2001 USAID provided funds to twenty-two institutions for the purpose of undertaking policy reform either in the areas of microfinance regulation or policies affecting microenterprises generally. Eighteen institutions reported on their activities for the year; of these, seven had received funding in FY 2001. Twelve of the eighteen institutions were engaged in dialogue on microfinance regulation, including credit union reform, and the supervision of second-tier lending institutions. In Ecuador and Kazakhstan, USAID has worked directly with the Central Bank to encourage appropriate microfinance regulation. In Jordan and Ecuador, USAID has provided funds to set up credit bureaus that will assist microfinance institutions to better serve their clients.

Funding for policies that affect the general business environment contribute to leveling the playing field for microenterprises in many ways. For example, in Senegal USAID has supported the development of a fair judicial process and a system for arbitration of disputes, either labor or commercial, involving microenterprises. In Mozambique, USAID funded the efforts of ACDI/VOCA to review the business regulation framework for cooperatives, which are the economic backbone of this largely agrarian economy. Strengthening cooperatives makes them more commercially competitive, particularly in the area of foreign trade where formal enterprises dominate markets.

USAID places high priority on its work in the policy arena. While having an impact on many more entrepreneurs in the short-term, such changes in the policy environment will also affect the shape of things for many years to come in these emerging economies. With a more level playing field, microenterprises have a better chance of thriving in the midst of change and destabilizing forces to become reliable sources of income for poor households.

Credit Policy Improvement Program (CPIP) in the Philippines

The Credit Policy Improvement Program (CPIP), begun in 1996, has the goal of helping to bring about increased financial services to the Filipino poor through policy reform. Through a series of policy notes, workshops, seminars, and other strategic forms of advocacy, including study tours to Indonesia and several Latin American countries, CPIP's technical assistance has resulted in critical credit policy reforms and strengthened the National Credit Council (NCC). Specific accomplishments include: (i) adoption by the Philippine Government of the National Strategy for Microfinance; (ii) enactment of the Social Reform and Poverty Alleviation Act; (iii) enactment of the Agriculture and Fisheries Modernization Act; (iv) issuance of Executive Order 138 directing Government Non-Financial Agencies to cease implementing credit programs and Government Financial Agencies to adopt the Credit Policy Guidelines of the NCC; (v) formulation of the Agricultural Modernization Credit and Financing Program; and (vi) recognition of the NCC as the chief governmental agency responsible for credit formulation.

Conclusions

At the core of microenterprise development is a fundamental belief that people in developing countries can and will improve their own lives, when they have access to the appropriate tools and opportunities.

For microenterprise practitioners, financial services and BDS are those tools. Access to financial services empowers and protects poor people by giving them choices and economic security. Access to BDS improves the bottom lines of both microentrepreneurs and the businesses and organizations that serve them. Both microfinance and BDS can help break down the isolation that too often dooms the enterprises owned by the poor to marginality.

The ultimate goal is a world in which poor and very poor entrepreneurs benefit from permanent access to a wide range of financial and non-financial services, delivered through a variety of convenient mechanisms by different types of institutions, in a competitive market that promotes customer satisfaction. USAID, through its continued leadership and investment in microenterprise development and research, is building the foundation to achieve that goal. Through its commitment to microenterprise development, USAID is helping to build stronger, more democratic societies where the poor have more of a say in their own future and more of a chance to benefit from the globalized world economy.

USAID Russia: Building the Microfinance Market, Not Just Institutions

USAID's activities in Russia are now focusing on the needs of the microenterprise sector as a whole, rather than on capacity building of a few select institutions. One of USAID's most important contributions to the microfinance industry was its support in creating the Russian Microfinance Center (RMC). The RMC's principle roles are to:

- Provide training to microfinance institutions;
- Disseminate best practices and standards;
- Maintain a dialogue with leaders in Russia and in international microfinance; and
- Implement a system of informational exchange, annual conferences and workshops.

In June 2002, USAID sponsored a weeklong visit of financial and business leaders of the Russian State Duma, to learn about microenterprise development and its role in strengthening the Russian economy. The visit, organized by FINCA, featured a forum on Capitol Hill with 14 Members of Congress, including Speaker Dennis Hastert and Sen. Hillary Rodham Clinton.

Key microfinance partners in Russia have included FINCA, Counterpart International, Opportunity International, and ACDI/VOCA. Combined, these institutions now reach more than 40,000 borrowers.

APPENDIX I: METHODOLOGY TO CALCULATE PERCENTAGE OF FUNDS FOR THE POOR

USAID collects and reports information on the amount of funds allocated to very poor clients, as determined by the amount of portfolio (for MFIs) or number of clients (for BDS programs) with poverty loans. Loan size, while not an actual measure of the client's poverty status, is the currently accepted proxy indicator in the microenterprise development field for estimating the extent of service to poorer clients.

In accordance with the Microenterprise for Self-Reliance and International Anti-Corruption Act of 2000, poverty loans are defined by region as:

- $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.

Calculation of funds for microfinance: For MFIs, an institution's poverty lending ratio is determined by dividing the amount of portfolio held in poverty loans by the total portfolio amount for that institution. The result is then multiplied by the amount of the obligation to the institution, to give the amount of funds that can be attributed to poverty lending. Adding these amounts together for the universe of institutions reporting data in the current year provides the actual amount of total funds for poverty lending. The proportion of total funds for poverty lending is then determined based on the ratio of the sum of funds for poverty lending by these institutions to the total amount of funds for microfinance provided to these institutions. Institutions with current lending activities that reported data are included in this summary, which presents an accurate reflection of USAID support to the microfinance industry. Funds for microfinance for which there is no corresponding data include newly initiated activities and the technical support activities of the Microenterprise Development Division.

Calculation of funds for BDS: Funds for the very poor are calculated based on the number of BDS clients with poverty loans. USAID divides the number of BDS clients with poverty loans by the total number of BDS clients, and multiplies that ratio by the total funds obligated to the institution for the current year to obtain the amount of funds channeled to the very poor. The sum of funds that can be attributed to very poor clients is then divided by the total amount of funds obligated to these institutions to give the percentage of total BDS funds that can be attributed to funds for the very poor.

Appendix II: USAID's Annual Microenterprise Survey

Tables 15 and 16 contain information on the respondents to USAID's annual microenterprise survey undertaken by Microenterprise Results Reporting (MRR).[13] In 2001, 295 microfinance, 98 BDS institutions and 18 policy institutions responded to the survey.

Table 15. USAID's Microenterprise Survey Respondents, 2001

Types	Microfinance Survey	Business Development Survey	Policy Survey	Total
Banks[1, 2]	59	1	-	60
Business Associations	5	2	1	8
Consulting Firms	1	8	8	17
Cooperatives/ Credit Unions	36	10	2	48
For-Profits/ Finance Companies	4	1	-	5
Government Agencies	-	1	-	1
NGOs	135	30	1	166
Non-Bank Financial Institutions	19	1	-	20
PVOs	36	37	3	76
Research Institutions	-	4	2	6
Other	-	3	1	4
Total[2]	**295**	**98**	**18**	**411**

1 Includes rural banks that function more as village banks than as commercial banking facilities.

2 Total includes Bank Rakyat Indonesia (BRI).

13 Microenterprise Results Reporting (MRR), implemented by Weidemann Associates, Inc. through a contract with the Barents Group of KPMG Consulting, is responsible for collecting and reporting on USAID's microenterprise funding and institutional results. This report was prepared by Catherine Neill of Weidemann Associates, Inc, under the direction of Katharine McKee, Director (USAID/EGAT/MD), with assistance from Mark Engmann and Geoffrey Chalmers.

Table 16. USAID Funding for Microenterprise Institutions, 2001[1]

	Microfinance		Microfinance Enabling Environment		BDS		Microenterprise Enabling Environment		Total Obligations[2]	
	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	4,877	22	0	-	403	1	0	-	5,280	23
Business Associations	0	-	0	-	1,710	2	0	-	1,710	2
Consulting	15,206	8	2,115	6	8,139	11	3,221	6	28,681	25
Cooperatives & Credit Unions	3,994	8	0	-	2,066	2	0	-	6,060	9
For-Profits/ Finance Companies	538	3	1,531	1	705	2	0	-	2,774	6
Government Agencies	289	1	0	-	547	2	0	-	836	3
NGOs	23,989	40	250	1	7,415	17	150	2	31,804	58
Non-Bank Financial Institution	20,738	12	0	-	0	-	0	-	20,738	12
PVOs	22,304	37	260	1	15,977	33	2,050	2	40,591	64
Research Institutions	0	-	312	2	3,310	4	0	-	3,622	6
USAID[3]	4,189	7	2,700	2	5,732	11	532	2	13,153	15
Other	3,493	5	0	-	0	-	0	-	3,493	5
Total[4]	**99,617**	**143**	**7,168**	**13**	**46,004**	**85**	**5,953**	**12**	**158,742**	**228[2]**

1 *Funds were provided to institutions for loan capital, institutional strengthening, technical assistance, program expansion, monitoring and evaluation, or research and development.*

2 *Table shows obligations made to umbrellas and apex organizations, not sub-obligations.*

3 *Obligations to USAID include those funds that were used for microenterprise project management and those for which specific implementing institutions had not yet been identified.*

4 *Total for all obligations does not correspond with column totals because 22 institutions had funding for more than one purpose.*

Appendix III: USAID Microenterprise Funding by Country, 1992–2001

Table 17: USAID Microenterprise Funding by Country, 1992-2001 — US$ '000's

COUNTRY	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Africa (AFR)										
Benin						1,835	1,040	1,397	1,109	985
Botswana	627	158								
Burkina Faso	150									
Burundi	2,171			543						
Chad	258	1,635	10							
Eritrea					200	200				553
Ethiopia				330	34		1,049	1,683	600	756
Gambia	100	298	10		276					
Ghana	1,050	505			2,584	4,515	4,448	6,322	6,000	6,513
Guinea	4,054	1,409	2,210	2,210	500	401	73	1,300	600	600
Guinea-Bissau	1,370		1,855		2,575	2,033				
Kenya	1,084	270	1,650		2,000	2,904	1,717	2,629	943	2,357
Madagascar	801		550		229	260		225		
Malawi	3,466	1,953						340	230	635
Mali	4,329	175	8,251	1,160	148	417	809	3,131	2,265	2,710
Mozambique	750	180	630		3,373	2,370	2,802	0	1,932	1,086
Namibia		280	320	410	712	241				
Niger		2,795	3		715			0		
Nigeria										3,090
RCSA						400			200	
REDSO/EA		260								
Senegal	7,040	7,850	3,520	450	932	364	2,500	2,778	12,916	3,852
South Africa		3,021		8,016	3,781	3,308	4,005	50	1,000	1,000
Swaziland	3,327									
Tanzania			1,558	1,478			200	950	2,000	2,650
Togo	1,141									
Uganda	2,330	3,358	2,582	2,416	3,044	5,481	5,162	4,752	2,540	1,300
Zambia	153		500		600	1,000	616	1,500	1,869	1,021
Zimbabwe	603	5,500	425		350	35		200	2,940	2,010
Regional Programs	491	100			800					
AFR Subtotal	**35,295**	**29,747**	**24,074**	**17,013**	**22,853**	**25,764**	**24,421**	**27,257**	**37,144**	**31,118**

COUNTRY	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Asia/Near East (ANE)										
Bangladesh	1,500	250	650	1,165	5,670	8,639	7,663	3,388	2,000	4,105
Cambodia		112	462	2,398				1,281	750	1,000
Egypt	35,554	11,000	17,376	16,020	10,000	15,000	15,000	15,000	0	15,000
India						428		250		1,300
Indonesia	2,590		679	2,200		747	866	1,000	4,186	1,700
Jordan		1,031	100		500	2,792	3,539	5,739	7,655	6,000
Lebanon				2,045		1,000	1,000	2,100	866	2,500
Mongolia										105
Morocco		210		1,500	3,600	1,450	990	2,000	1,250	900
Nepal	1,980	2,260	1,950	1,200	50	1,170	1,855	500	1,500	
Pakistan	3,134									
Philippines	4,820	2,666		4,802	8,411	3,000	2,746	900	1,000	2,540
South Pacific	564									
Sri Lanka	2,873	1,292	482	549	769	200				
Yemen	658									
West Bank/Gaza					1,888	2,499	3,311	501	3,133	2,515
ANE Subtotal	**53,673**	**18,821**	**21,699**	**31,879**	**30,888**	**36,925**	**36,970**	**32,659**	**22,340**	**37,665**
Europe and Eurasia (E&E)										
Albania			2,240	2,200	225	1,000	1,000	1,500	950	550
Armenia					553	2,150				
Azerbaijan					991	4,200			6,961	3,100
Bulgaria			1,564	1,400	771	132	524	1,450	1,266	1,118
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	1,172
Hungary			1,197	730			310			
Kazakstan						244	1,377	1,975	3,045	2,715
Kosovo									1,000	1,600
Kyrgystan			6,200		487	2,878	1,177	1,826	999	2,523
Latvia			224	430						
Lithuania			560	600						
Macedonia				2,500	950	900	500	2,000	1,056	1,000
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	1,293
Russia			12,810	5,200	2,475	2,139	7,340	7,357	5,218	4,470
Serbia										2,000
Slovakia			896	500						
Tajikistan								101	1,479	2,235
Turkmenistan								356	638	

COUNTRY	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Ukraine			2,100	450			2,403	1,238	4,948	3,500
Uzbekistan								40	583	442
E&E Subtotal	0	2,614	38,106	20,136	10,473	45,398	18,941	25,570	35,291	27,718
Latin America and the Caribbean (LAC)										
Belize	266									
Bolivia	2,136	3,548	5,532	7,652	1,775	1,800	3,230	1,200	1,700	2,025
Caribbean Regional	1,005	1,000	4,610	600						
Costa Rica	300	110	140	15						
Dominican Republic		4,778	5,684	2,065	1,300	780		500		
Ecuador		200	250	945	1,094	796	945	758		2,730
El Salvador	11,882	9,898	19,120	7,788	2,478	3,214	3,800	2,990	2,918	4,366
Guatemala		795		647	708	1,974	1,403	9,576	2,155	2,136
Guyana		875	350	700		53		30	164	2,000
Haiti		2,030	1,180	760	3,148	2,868	3,698	7,246	6,789	1,964
Honduras	8,307	6,190		1,187	587	914		5,205	9,312	2,639
Jamaica	745	946	743	696	442	389		640	1,074	1,926
Mexico	65					200		147	550	1,000
Nicaragua		627	101	1,744	448	1,222	1,440	2,817	1,021	2,441
Peru	732	4,592	3,011	7,796	3,220	4,447	6,564	5,863	9,357	8,011
Regional Programs						1,444			1,453	
LAC Subtotal	25,438	35,589	40,721	32,595	15,200	20,101	21,080	36,972	36,493	31,238
CENTRAL BUREAUS										
GLOBAL										
Business Development						3,150	10,750			
Develop.Credit	500	450				61	573	375	784	3,021
Emerging Markets	4,136				2,800					
Microenterprise	3,145	3,793	4,909	22,416	20,194	28,534	24,994	12,288	22,844	17,056
Housing (RHUDO)					300					
Women in Develop.	730				645					
Private & Voluntary Cooperation										10,926
Global Subtotal	8,511	4,243	4,909	22,416	23,939	28,595	28,717	23,413	23,628	31,003
BUREAU FOR HUMANITARIAN RESPONSE (BHR)										
Private & Voluntary	3,381	4,989	7,887	9,494	8,005	8,289	8,316	7,650	9,495	0
BHR Subtotal	3,381	4,989	7,887	9,494	8,005	8,289	8,316	7,650	9,495	0
SUBTOTAL Central Bureaus	11,892	9,232	12,796	31,910	31,944	36,884	37,033	31,063	33,123	31,003
GRAND TOTAL	126,298	96,003	137,396	133,533	111,358	165,072	138,445	153,521	164,391	158,742

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The USAID microenterprise web site, www.USAIDMicro.org, contains the latest microenterprise research and reports, and links to other informative web sites.

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