U.S. AGENCY FOR
INTERNATIONAL DEVELOPMENT

Microenterprise: Laying the Foundation for Economic Development

Report

Microenterprise Results Reporting for 2002

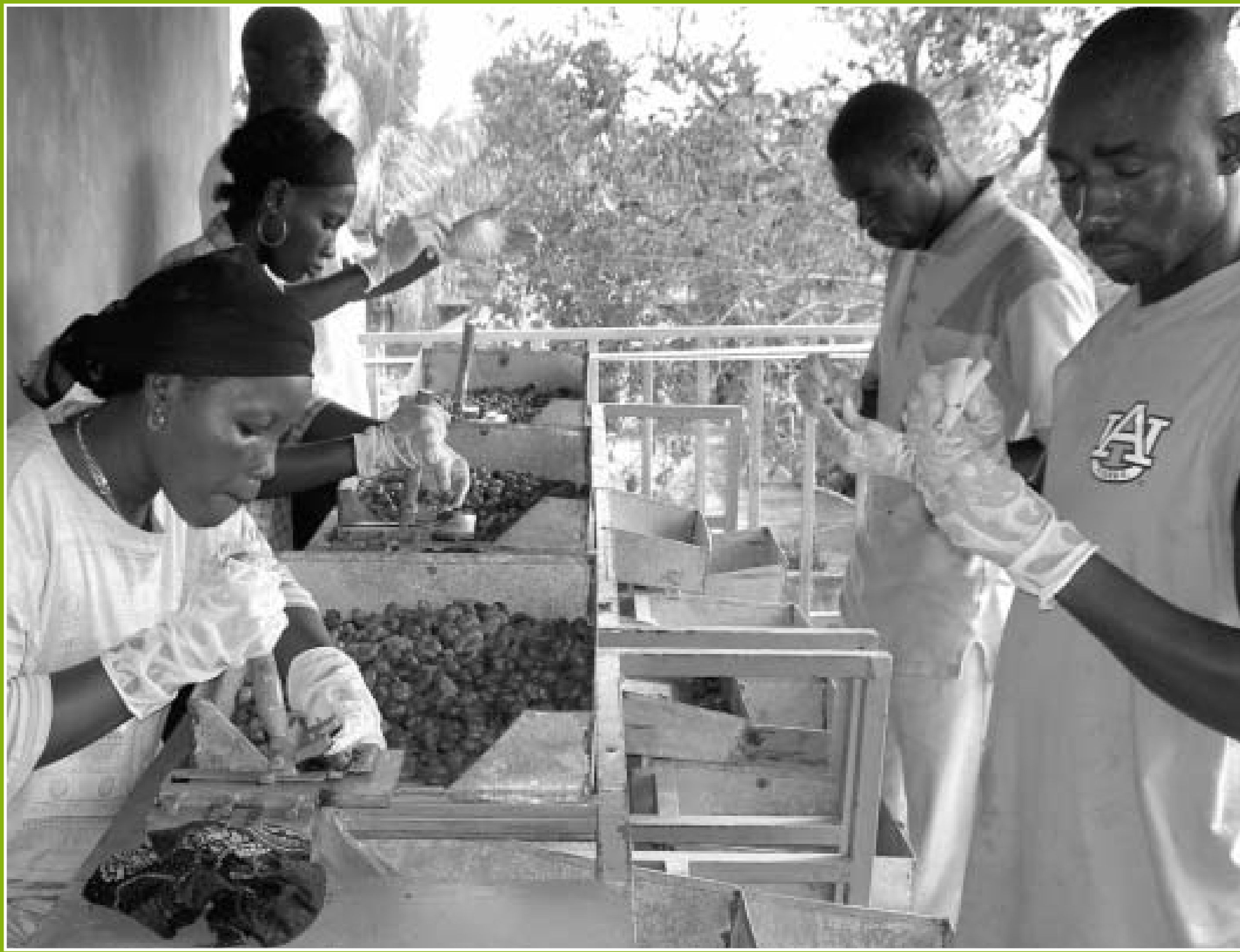

Photo by EnterpriseWorks Worldwide

EWW holds its first cashew processing training in Guinea. The training session was the first in a series of cashew processing trainings to be held by the Guinea Cashew Processing Project. Funded by USAID, the project aims to assist in the development of a cashew processing industry by introducing improved methods and technologies and creating sustainable commercial links among small processors, commercial distributors and local equipment suppliers.

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USAID/Bureau for Economic Growth, Agriculture and Trade/
Office of Poverty Reduction/Microenterprise Development
Division (USAID/EGAT/MD)

by Stacey Young
USAID/EGAT/MD

and Catherine Neill and Sharon Williams
Weidemann Associates, Inc.

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U.S. AGENCY FOR
INTERNATIONAL DEVELOPMENT

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Table of Contents

Microenterprise: Laying the Foundation for Economic Development

Successful small businesses are the primary engines of economic development, income growth, and poverty reduction in much of the developing world. These businesses can also build foundations for stable communities, civil society, and gender equality. However, poor infrastructure, weak public services, inadequate mechanisms for dispute resolution, and lack of access to markets and formal financing remain major impediments to small business growth.

The United States, the multilateral development agencies, and many bilateral aid donors are working to improve this situation by developing new programs that help microenterprises — small, locally owned businesses with up to 10 employees — contribute to dynamic, competitive industries. Over the past five years, America's average annual funding for microenterprise has been around $155 million. This support has reached more than 3.7 million microenterprises worldwide — whose activities include producing goods for export, such as footwear, furniture, agricultural crops, and other foods; providing services ranging from equipment repair to information technology; marketing raw materials to manufacturers; and trading a wide variety of goods. As these businesses expand and integrate into the formal economies of their countries, they empower the world's poor, create higher incomes and more jobs, contribute to economic growth, and strengthen democratic societies.

I am proud of America's key role in promoting microenterprise. U.S. objectives are threefold: to improve access to financial services for the world's poor; to support access to business services that specifically address constraints felt by poorer entrepreneurs; and to improve the business climate through regulatory, legal, and policy reforms. Our efforts are global, from Mali in Africa and Jordan in the Near East to Azerbaijan in Europe and Peru in Latin America. Our successes will be universal, with the concerted efforts of the international community. I hope you will join us in taking action towards that goal.

Colin L. Powell
U.S. Secretary of State

USAID's Microenterprise Development Program Recognized as Global Leader

USAID is committed to ensuring that our microenterprise development programs make a powerful contribution to improving the lives and economic opportunities of poor and very poor individuals around the world, and to facilitating the integration of microenterprises into the larger economy to maximize their contribution to overall economic growth. The Agency has a strong track record of leadership and effective assistance in this sector.

This track record enjoys worldwide recognition. A recent "aid effectiveness" peer review of 17 donor agencies active in microfinance rated USAID in the highest category for overall effectiveness, with top rankings in accountability for results, staff capacity and effectiveness of assistance instruments. The Agency also received high ratings in relevant knowledge management and strategic clarity (USAID's rank in this last area was the highest received by a bilateral organization).

The reviews were organized by the Consultative Group to Assist the Poor (CGAP), a 28-donor partnership that develops industry standards and identifies and promotes best practices in microfinance. The donor institutions that were reviewed included bilateral donors, development banks and multilateral organizations.

The review of USAID's performance concludes that "With over 25 years of experience, USAID rightly describes itself as a pioneer and a leader in the field of microfinance." The report also notes:

- "USAID programs have helped many institutions increase access to financial services for millions of poor people."
- "USAID has largely contributed to the field by funding some of the most prominent MFIs and networks (such as [Indonesia's] BRI, Grameen replications, ACCION, FINCA, Banco Ademi, WOCCU, etc.) and by launching research programs that have produced significant knowledge and become public goods for the international community."
- "USAID can work directly with the private sector through appropriate grant instruments. There is widespread evidence that the private sector is more efficient at delivering financial services than governments. USAID has a comparative advantage in this area since many other donors are constrained to implement programs through government institutions."

USAID's microenterprise program is one of which the Agency can justifiably be proud.

Executive Summary

As the leading bilateral donor for microenterprise development, USAID over the past two decades has played a critical role in creating and advancing an approach that meets the needs of individuals and entrepreneurs for financial and business development services, and promotes policy changes that facilitate the creation of enabling environments for microenterprises. USAID's partnerships with U.S. private voluntary organizations (PVOs) and other microenterprise practitioners have also demonstrated that these services can contribute to poverty alleviation in a commercially viable way.

In 2002, 568 institutions had active microenterprise agreements with USAID. Of these, 440 institutions (77 percent) reported data on their activities, which forms the basis of the findings presented in this report.[1] The 440 reporters included 325 microfinance institutions, 87 business development services (BDS) institutions and 28 policy institutions.

USAID support for microenterprise development continues to rise. Funding supports financial services, business development services and enabling environment activities in all four regions in which USAID operates.

- In FY2002, USAID exceeded the funding target of $155 million by providing $170.4 million in support of microenterprise programs worldwide. This amount reflects a steady upward trend in funding by USAID over the past ten years. As in prior years, approximately two-thirds of total microenterprise development (MED) funding was used to promote access to credit and other financial services through funds for loan capital, loan guarantees, technical assistance, and policy and regulatory reform; the remaining third was used to expand business development services and encourage policies favoring microentrepreneurs.

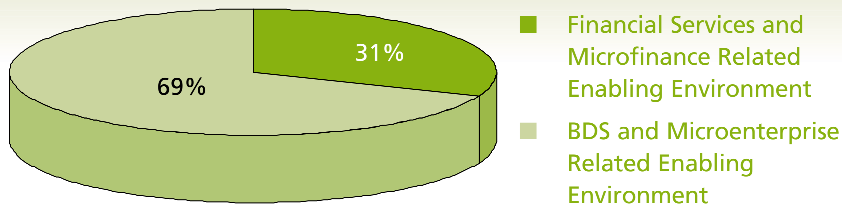
- In 2002, USAID-supported business development services (BDS) programs assisted more than 690,000 microenterprise clients. An estimated 2 million rural Bolivian households received market information through a single USAID-assisted institution, Sistema Informativo de Mercados Agropecuarios. Marketing services and management training were the most widely offered services by BDS providers. USAID continues to channel support to those organizations that offer demand-driven services and that are working to open or expand markets for micro-entrepreneurs.

- Policy advocacy organizations worked to improve the enabling environment for both microentrepreneurs and microfinance institutions. Sixteen of the 28 USAID-supported policy institutions reporting on their 2002 activities were engaged in improving microfinance regulation, credit information services, or the supervision of retail lending institutions. Other policy work focused on facilitating microenterprise development through such activities as helping

1 Table 18 breaks out these figures by institution type.

countries streamline their business registration process so that microenterprises are more willing and able to formalize; building the capacity of microentrepreneurs to work through independent business associations to advocate for policy reforms; and promoting anti-corruption efforts or tax reform.

FY2002 Funding by Type of Activity



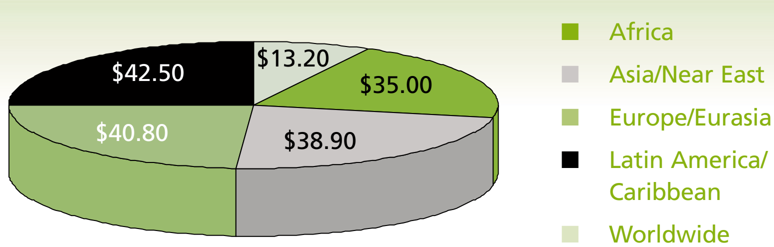
- Africa region obligations accounted for $35 million, or more than one-fifth, of the total USAID microenterprise assistance. Historically, funds from the Africa region have been split closely between microfinance and BDS programs; this was also the case in 2002.

- Asia and the Near East (ANE) programs also obligated more than one-fifth ($39 million) of total USAID assistance, with 90 percent of that amount applied to microfinance programs.

- Europe and Eurasia accounted for more than $40 million in 2002, with three-quarters of that amount used for microfinance.

- Latin America and the Caribbean (LAC) obligated nearly $43 million. More than 40 percent of the funds from the LAC region were used to promote business services to microentrepreneurs; the remainder supported microfinance. USAID also supported programs headquartered in the U.S. or Canada that served MED field operations worldwide.

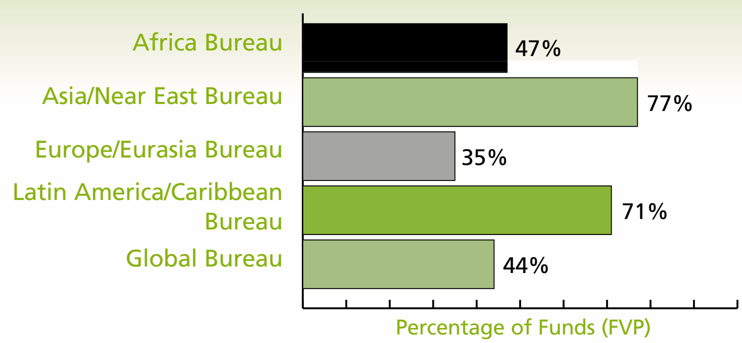
FY2002 Funding by Region US$ (Millions)



USAID's investment in microenterprise development aids the very poor, particularly women. When the Microenterprise for Self-Reliance and International Anti-Corruption Act of 2000 was signed into law, it established microenterprise development as an integral part of U.S. foreign assistance. The law authorized grants by USAID to support poor microentrepreneurs, further specifying that half of all funds must benefit the very poor[2]; and it set a funding target of $155 million for FY 2002. USAID partners with more than 500 U.S., local and international organizations to implement this initiative. The great majority are private-sector providers of financial and business services targeted to the microenterprise sector.

- USAID MED funds that benefited the very poor (FVP) in FY02 supported institutions providing poverty loans; funds for other MED activities – for example, business development services – can also be shown to have benefited this group. *Using the measures established by the U.S. Congress, the portion of USAID's FY02 MED funding that benefited the very poor was 50 percent.*[3]

FY2002 Percentage of Funds Benefiting the Very Poor by USAID Bureau



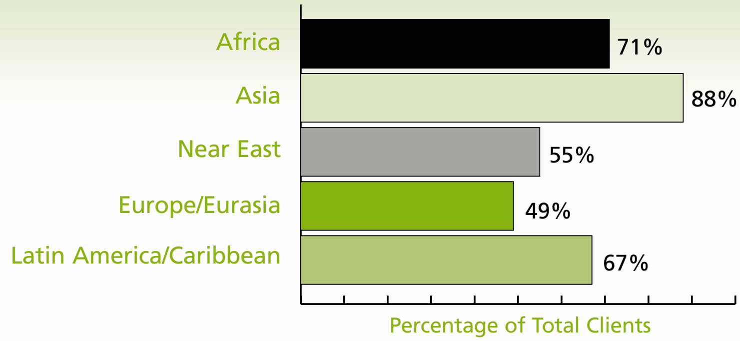
- Women clients constituted more than two-thirds of the total clients of all microfinance institutions (excluding Bank Rakyat Indonesia – BRI).[4] In the Near East, the percentage of women clients has more than doubled since 2000, rising from 27 percent to 55 percent.

2 The definition of "very poor" established by the law is someone living on less than US$1/day purchasing power parity, or falling among the bottom 50% of people living below the national poverty line.

3 See the Methodology Annex in the full report for a discussion of how the funds that benefit the very poor (FVP) is calculated.

4 BRI's numbers are typically excluded from analyses of USAID microenterprise development funding because the Bank's client base is so large it would skew the findings for the rest of the institutions that receive USAID support.

FY2002 Women as Percentage of ME Clients by Region



- Poverty loans – defined for FY02 reporting by regionally adjusted loan limits set by the U.S. Congress in the Microenterprise for Self-Reliance Act of 2000 – comprised almost two-thirds (63 percent) of all loans held by microfinance institutions reporting data in 2002.

USAID microfinance support combines breadth and depth of outreach with an emphasis on sustainability. USAID-supported microfinance institutions reported 2.7 million clients, with a loan portfolio of nearly $1.3 billion. Another 2.9 million clients received loans through BRI, which had a loan portfolio of $1.3 billion. Two-thirds of the loan portfolio for all institutions (excluding BRI) was held by institutions in Latin America.

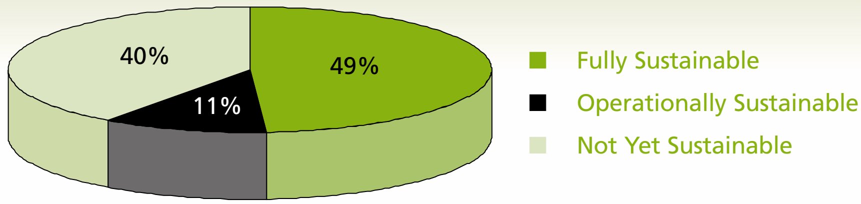
- The average loan balance for all regions was $465, ranging from $117 in Asia to $774 in the LAC region. The Latin America and the Caribbean region has the most mature microfinance industry and hence more longterm clients who have built the capacity to use larger loans.

- USAID-supported microfinance institutions (excluding BRI) reported 3.2 million savings clients with combined savings deposits of $779 million, or $242 per client. Eight large savings networks accounted for more than 40 percent of the total savings clients. BRI reported 28 million savings clients with deposits of $2.6 billion.

- Almost half (49 percent) of USAID-assisted institutions reporting were fully financially sustainable.[5] *These institutions provided services to 71 percent of the loan clients and held 83 percent of the total loan portfolio.*

5 Full financial sustainability occurs when the institution is able to cover all operational expenses, plus the cost of raising any additional loan funds from commercial sources, adjusted for the effects of inflation and subsidies.

FY2002 Sustainability of USAID-Supported Institutions



USAID continues its strong support to the development of PVO networks and other direct service providers. Private voluntary organizations (including cooperative development organizations) are the backbone of U.S. assistance to the microenterprise development field. The share of USAID funding received directly by U.S. PVOs, NGOs, cooperatives and credit unions for services to poor entrepreneurs was 45 percent. The actual extent of USAID funding to these traditional USAID microenterprise partners is even higher: of the funds awarded to consulting firms, a significant portion (often more than 50%) is typically designated for direct service providers including PVOs, NGOs, cooperatives and credit unions. USAID funding for other types of important direct service providers, such as banks and business associations, complements this longstanding support to the non-profit sector and helps ensure access to diverse financial and business services for a growing number of clients.

Microenterprise Development: An Overview

In many countries, microenterprises – small, informally organized businesses that are owned and operated by poor or low-income people – constitute the majority of businesses, in most cases by a very wide margin. They account for a substantial share of total employment and GDP, and they contribute significantly to poverty reduction and mitigation. They are often the chief economic defense of vulnerable households in higher-risk environments. As the predominant source of income and employment for hundreds of millions of people worldwide, the microenterprise sector's influence on individuals and households as well as national economies is clear and profound. The poorer the economy, the more pronounced this phenomenon is.

Dolores Mendoza Lopez, Client of Financiera Compartamos

Photo: Rohanna Mertens for ACCION International

Recognizing the key role that microenterprises play in both household survival and national economic vitality, support for microenterprise development has featured importantly in U.S. foreign assistance for the past three decades. The United States Agency for International Development (USAID) is the U.S. Government's lead agency for bilateral foreign assistance and humanitarian aid, and directly implements the U.S. Government's microenterprise development activities. USAID promotes microenterprise development by:

- providing financial and technical assistance to institutions and networks that offer sustainable credit, financial services and business development services (BDS) to low-income and underserved households;
- promoting policy reforms that improve the enabling environment for the smallest businesses and their service providers, thereby leveling the playing field so they can compete against larger firms and achieve their income and job creation potential; and
- supporting experimentation and research to identify and promote best practices worldwide.

As the leading bilateral donor for microenterprise development, USAID's support for microenterprise development over the past two decades has been critical in creating and advancing an approach that meets the needs of individuals and entrepreneurs for financial and business development services, and promotes policy changes that facilitate the creation of enabling environments for microenterprises. USAID's partnerships with U.S. private voluntary organizations (PVOs) and other microenterprise practitioners have also demonstrated that these services can contribute to poverty alleviation in a commercially viable way.

When the Microenterprise for Self-Reliance and International Anti-Corruption Act of 2000 was signed into law, it established microenterprise development as an integral part of U.S. foreign assistance. The law authorized grants by USAID to support poor microentrepreneurs, further specifying that half of all funds should benefit the very poor. It set a funding target of $155 million for FY 2002. USAID partners with more than 500 U.S., local and international organizations to implement this initiative. The great majority are private-sector providers of financial and business services targeted to the vibrant microenterprise sector.

As a result of U.S. government support, well over 2 million poor people throughout the developing world have access to credit from a wide range of institutions. They use loans to raise their incomes, build assets and improve their lives. They also prove their creditworthiness, achieving repayment rates that typically exceed 95%. More than 3 million poor people are depositing their savings in such institutions, allowing them to better plan for their families' futures and cope with crises. More than 690,000 clients benefit from USAID-supported business development services, which help them reach new markets, improve their skills and productivity, and raise their incomes.

Photo:©2001 CARE/Josh Estey

Woman bee-keeper, client of CARE/India's microenterprise program.

USAID provides the majority of its microenterprise development support through its field missions in developing and transitional countries. Currently, approximately 70 USAID missions support microfinance and microenterprise development programs. Funding is divided roughly equally among the four USAID regions – Africa (AFR), Latin America and the Caribbean (LAC), Asia and the Near East (ANE) and Europe and Eurasia (E&E).

What is microenterprise development?

Microenterprise development involves support for programs and institutions that provide assistance to the microenterprises operated by low-income households. Access to capital, information, inputs, technologies and markets enables poor entrepreneurs to seize new opportunities and create better lives for themselves and their families. Effective market access, buyer-supplier linkages and technology transfer have generated impressive income gains for low-income families, while access to financial services helps poor households generate increased income from existing micro-scale activities, create new enterprises and build business assets. Access to these services also helps low-income households cope with the risks associated with business opportunities as well as the financial instability that can result from household emergencies or broader economic downturns.

Support to microenterprises can be targeted to institutions and activities that fall into three main areas of strategic support: microfinance, business services and policy/enabling environment.

Microfinance

To grow and prosper, businesses of all sizes and in all countries need access to financial services. Such access is a particular challenge for the poor families around the world who need credit and savings to establish, sustain and expand small businesses and microenterprises. Once considered peripheral to mainstream development policy, access to microfinance is now at the forefront of a global anti-poverty strategy that has a tremendous potential to generate income and expand employment at both the local and national levels.

As important as financial services are in enabling businesses to start, grow, create jobs and contribute to economic growth, these services are equally important in protecting households against the unforeseen consequences of illness, incapacity or death of a breadwinner, natural disasters, war and other crises. With financial services, poor families can send their children to school, buy medicine and get through lean times when cash and food are scarce.

USAID's microfinance strategy is three-fold, and includes: investing in diverse retail financial institutions able to serve a variety of markets/clientele; tailoring product features and service delivery techniques to meet the needs of various clients; and, in countries with more mature microfinance markets, complementing support for individual retail institutions with broader support to the microfinance industry as a whole and to the market infrastructure it needs to thrive.

When this field was in its infancy, microfinance meant small loans for microentrepreneurs to use in starting or expanding their businesses. The predominant methodology was the group loan, based on the Grameen Bank model, which required individual entrepreneurs to receive loans in groups, attend weekly meetings and take responsibility for all group members' repayment. Over the years, microfinance has grown to include a variety of lending methodologies. Loans can be offered on a group or individual basis, with amounts and repayment terms increasingly flexible and tailored to the needs of the client. Microfinance is now also understood to encompass the full range of financial services offered to any clients who need them for any purpose they determine. Loan products may meet a wide variety of financial needs, including school fees, housing or emergency consumption. Non-credit services include savings deposit services, insurance and transfer/remittance services. The list continues to grow as microfinance institutions develop new products in response to client demand.

Roughly two-thirds of USAID microenterprise funds support development of credit and financial services targeted to low-income entrepreneurs and their households. Over the past two decades, USAID support has led to the development of a number of successful microfinance methodologies adapted to a wide variety of settings and client groups. For credit programs, repayment rates typically exceed 95 percent.

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 timeframe. 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.

More than half of USAID funds for microfinance support very poor entrepreneurs estimated to be well below the poverty line in their countries (as directed by Congress, the proxy of regionally-adjusted loan sizes is used to determine poverty status).[6] Program features that are appropriate for poorer clients may include group guarantees (as a substitute for traditional loan collateral) and very small loan sizes with frequent loan repayments. Grouping clients also offers MFIs a way to achieve economies of scale and recoup their costs despite the very modest revenue generated by each transaction. An important savings innovation for poorer households involves permitting clients to make frequent, very small deposits, reflecting the actual availability of cash in the household.

6 USAID Microenterprise Results Reporting, 2002, p. 18 (table).

Section 105 of P.L. 106-309 added a new Sec. 131 to the Foreign Assistance Act, which requires that 50 percent of all microenterprise resources be targeted to very poor entrepreneurs, defined in the law as those living in the bottom 50 percent below the poverty line as established by the national government of the country. The section also sets out loan sizes in different regions to serve as a standard for measuring the poverty level of clients, with loans in 1995 United States dollars of $1,000 or less in the Europe and Eurasia region; $400 or less in the Latin America region; and $300 or less in the rest of the world.

Business Development Services (BDS)

Business services are offered to microentrepreneurs by a variety of organizations to help increase business returns, build capacity, initiate new economic activities or increase their leverage in the marketplace. They include marketing assistance, product development, business training, advisory or information services, assistance with productivity-enhancing technologies and linkages to financial services. USAID does not support direct subsidization of business services for microentrepreneurs. Instead, it supports the development of commercial BDS markets by helping BDS providers extend services that boost microenterprise income and competitiveness. Service providers often need help to tailor their services to poorer clients. The potential for sustained poverty impact is especially powerful when microentrepreneurs have access to appropriate financial as well as business services to help them seize new economic opportunities.

Photo: Heather A. Luca, ACDI/VOCA

Shamama Mirzayeva, client of ACDI/VOCA's USAID-funded Food Preservation Project in Azerbaijan. The project taught her and other internally displaced people (IDPs) living in a tent community the skills to launch a vegetable preservation and canning business. Selling to local grocers and restaurants, the business has operated at a profit since its inception.

Linking small producers to larger firms and more lucrative markets is often the key to success.

- In Bangladesh, the USAID-supported JOBS program supports firms producing hand-made sandals for export to Paris. With project assistance, the larger exporters organized groups of smaller producers to supply this market, providing them with inputs, designs and quality control in addition to export services. The business services facilitated by JOBS helped flexible, labor-intensive micro-firms enter emerging niche markets for which larger firms are less well suited. As a result, individual microentrepreneurs working as part of a cluster saw income increases ranging from Taka 2000-5000 ($40-$100) per month, depending on their skill level.

- In Haiti, 37 coffee grower associations (representing 25,000 small growers) were assisted in development of a common logo for the "Haitien Bleu" premium coffee brand. Backed by consistent quality standards and a targeted market, Haitien Bleu has provided the micro producers significantly higher returns.

Enabling Environment

A supportive policy environment, including a favorable business and investment climate, is critical to successful, sustainable microenterprise development. USAID supports reform of laws, regulations and policies to create a more enabling environment for microenterprises and expand access to financial and other services by poor and underserved clients. This can include helping countries streamline their business registration process so that microenterprises are more willing and able to formalize; building the capacity of microentrepreneurs to work through independent business associations to advocate for policy reforms; and promoting anti-corruption efforts or tax reform.

Microenterprise Funding in FY 2002

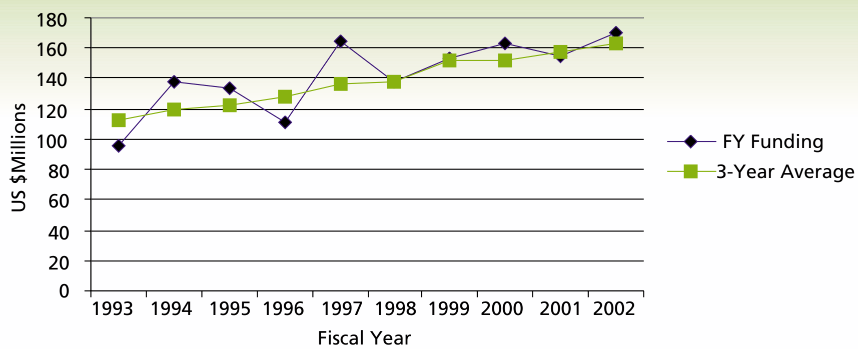
Overall Funding

USAID has tracked its funding to microenterprise development since 1988. During this time, the Agency has been the world's leading bilateral donor to microenterprise development, providing more than $2 billion in assistance to build a thriving network of microenterprise assistance institutions serving millions of microenterprise households around the globe.

In FY 2002, USAID surpassed the funding target of $155 million by contributing $170.4 million to microenterprise development programs. This represents a 10 percent increase over FY 2001 funding.

Figure 1 shows the amount of USAID funding annually to microenterprise development over the past ten years. Many USAID funding agreements to microenterprise activities extend over a period of three to five years; a 3-year average softens the peaks and troughs of this funding cycle. A steady upward trend in USAID funding is captured by a rolling 3-year average.

Figure 1. Three-Year Averaged[1] USAID Funding to Microenterprise Development, 1993-2002 (US$ Millions)



1 The average of current fiscal year plus two prior years' funding to microenterprise development.

Table 1 illustrates the different sources of funding within USAID for microenterprise development.

The Development Assistance (DA) account is used by USAID to fund long-range development objectives in Africa, Asia, the Near East, Latin America and the Caribbean. (USAID's activities in Europe and Eurasia are supported with monies from other accounts.) Typically, funding from this account comprises 50 percent or more of the total amount for microenterprise development. In 2002, DA funds were 47 percent of the total.

Economic Support Funds (ESF), authorized through the U.S. Department of State, increased in FY 2002 by 18 percent over FY 2001 funding levels. These funds typically contribute between 14 and 21 percent of total funds for microenterprise programs. In FY 2002, ESF funds were 19 percent of the total. ESF funds have been programmed for microenterprise development in all regions.

Table 1. Sources of USAID Funds for Microenterprise by Appropriation Account, 1991-2002 (US$ Millions)

Fund	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
DA[1]	40.2	61.3	51.6	89.2	93.3	72.9	83.3	79.9	74.3	88.9	87.4	80.7
ESF	43.2	34.4	20.8	31.6	22.9	16.1	24.5	27.2	32.9	19.5	27.9	32.9
FSA						5.4	20.6	14.3	12.8	30.2	19.6	33.4
SEED/SAI[2]						4.7	24.8	4.6	13.0	9.2	7.6	4.4
CACEDRF[3]									3.2	8.0		
CSD/HIV[4]										.8	.5	.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	18.5
Total	113.6	126.3	96.0	137.4	133.5	111.4	165.0	138.4	153.5	165.4	156.7	170.4

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).

3 Central America and Caribbean Emergency Disaster Recovery Fund

4 Child Survival and Development/HIV. These funds are from the Child Survival Account; the agency does not count them toward the overall microenterprise funding target.

The Freedom Support Act (FSA) account, also authorized through the State Department, funds programs in Russia, Ukraine, Moldova, the Caucasus and the Central Asian Republics. FY 2002 funding for microenterprise from the FSA account surpassed the record amount of funding from this account in FY 2000. The $33.4 million for FY 2002 was a 70 percent increase over funding in FY 2001. The increase in total funding in the region since 2000 reflects added support to the Central Asian Republics (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, Uzbekistan) which have seen strong growth in funding: from $5 million in 1999 to over $10 million in 2002. In addition, program support to microenterprise programs in both Ukraine ($15.3 million) and Azerbaijan ($15.2 million) was significant over the 3-year period.

Funds appropriated for activities in Central and Eastern Europe under the SEED Act, or Special Assistance Initiatives, have gradually decreased in the last three years as several USAID field offices in Europe have closed.

Local currency used for microenterprise (from the monetization of Title II funds under P.L. 480 or balance of payments support) increased by 35 percent from FY 2001. Local currency from Food for Peace was programmed for microenterprise support in Peru, Guatemala, Ghana and Morocco. Local currency from balance of payments support was programmed in Egypt.

Uses of FY 2002 Funding

Table 2. FY 2002 Funding in Regions by Activity (US$ Millions)

	Financial Services & Microfinance-Related Enabling Environment		BDS & Microenterprise-Related Enabling Environment		Total	
	Amount	Percent	Amount	Percent	Amount	Percent
Africa	$15.3	44	$19.7	56	$35.0	20
Asia/Near East	$35.4	91	$3.5	9	$38.9	23
Europe/ Eurasia	$30.7	75	$10.1	25	$40.8	24
Latin America/ Caribbean	$24.6	58	$17.9	42	$42.5	25
Worldwide[1]	$11.4	86	$1.8	14	$13.2	8
Total	$117.4	69	$53.0	31	$170.4	100

1 Refers to funds provided to North American headquarter operations for institutions operating worldwide.

In FY 2002, 69 percent of total USAID funding went to financial services programs for loan capital, operational expenses, technical assistance and microfinance policy work. Much of USAID's work in the area of microfinance supports capacity building for microfinance institutions. Through its Development Credit Authority, USAID also provides loan portfolio guarantees to established MFIs that are ready to significantly expand their operations, to permit them to access commercial loans for expansion.

The remaining 31 percent of funds supported business development programs or policy advocacy to improve the enabling environment for microentrepreneurs and microenterprise development programs.

Funding in Africa continues to focus on strengthening microenterprise access to appropriate business development services (BDS), while building institutional capacity in the area of microfinance. BDS is a funding priority in most African countries where weak markets and traditional technologies constitute major income constraints for rural microenterprise households. USAID Missions in Ghana, Kenya, Mozambique and Tanzania provided sizable funding for ongoing BDS programs. New microfinance and business development initiatives in the Democratic Republic of Congo, Eritrea, Namibia and Nigeria also received funding in 2002.

The great majority of funds in the Asia and Near East region have been used for microfinance programs. One-third of all the funds ($66 million) to the region for the period 1998-2002 can be attributed to one office, USAID's field mission in Egypt, which has a large microfinance program that, by the end of FY

2002, was serving 131,000 clients through NGOs and banks.[7] USAID offices in the Philippines and Jordan have also funded comprehensive microfinance programs during this period. New microfinance initiatives in Vietnam and Mongolia were assisted in 2002. In Indonesia, USAID has funded several institutions to promote much-needed policy reforms to level the playing field for microenterprises and microfinance institutions.

In the Europe and Eurasia Region, there has been a steady upward trend in funding since 1998. The majority of the funding in the region has been used to support microfinance programs, many of which are newly established. In 2002, USAID provided more than $6 million to the Central Asian Microfinance Alliance (CAMFA), a technical assistance consortium designed to build microfinance institutional capacity throughout the Central Asian Republics. Several countries in the region have invested in business development services to address key constraints to microenterprise growth in transitional economies; Ukraine, for example, provided more than $4 million to its BDS program in 2002.

Funding in Latin America and the Caribbean exceeded $42 million in 2002, with a 15 percent gain over 2001 funding. (The drop in 2001 funding was associated with the end of special appropriations related to natural disasters and crises in the region.) In 2002, USAID offices gave strong support to business development services with a focus on making rural economies more competitive ($9.3 million in Peru and $4.5 million in El Salvador). New microfinance activities in Brazil and Mexico also received funding.

Table 3. FY 2002 Funding to Regional Activity by USAID Bureau (US$ Millions)

	Financial Services & Microfinance-Related Enabling Environment		BDS & Microenterprise-Related Enabling Environment		Total	
	Amount	Percent	Amount	Percent	Amount	Percent
Africa Bureau	$9.7	38	$16.0	62	$25.7	15
Asia/Near East Bureau	$31.6	91	$3.1	9	$34.7	20
Europe/ Eurasia Bureau	$28.1	75	$9.6	25	$37.7	22
Latin America/ Caribbean Bureau	$20.4	54	$17.2	46	$37.6	22
Global Bureau	$27.6	79	$7.1	21	$34.7	20
Total	$117.4	69	$53.0	31	$170.4	9

7 As of April 2004, current active borrowers at USAID/Egypt-assisted microfinance institutions numbered more than 220,000 clients served through seven NGOs and two banks.

Table 3 presents the same data as in Table 2, but from the perspective of the funding entity within the Agency rather than the destination of funds. The Bureaus for Europe and Eurasia (E&E) and Latin America and the Caribbean (LAC) designated roughly equal amounts to microenterprise programs, with the Bureau for Asia and the Near East (ANE) designating only slightly less. Funding from the Global Bureau (now the Economic Growth, Agriculture and Trade Bureau) added another $9.3 million to funds for Africa provided through the Africa Bureau. Another $12.9 million from the Global Bureau was distributed across the other regions as follows: $4.2 million to ANE; $3.8 million to E&E; and $4.9 million to LAC.[8]

Funds for Enabling Environment (EE)

Changes at the policy or regulatory level often have far-reaching effects that cannot be measured easily in terms of affected households or individuals, or even institutions. Funding for policy efforts has been tracked since 1998. Prior to that time, policy efforts were not tracked separately from other activities. While funding that is used, for example, to develop or promote methods for the regulation of financial institutions may be small, the effect can be tremendous.

Of the two-thirds of total funding applied to microfinance shown in Table 2 and 3 above, 6 percent or $6.9 million went to financial policy activities aimed at reforming or instituting laws and regulations affecting microfinance and microfinance institutions. Ten percent of non-financial funding, or $5.3 million, went to efforts to create a more enabling environment for microenterprises. USAID-funded institutions have addressed policies and regulations that affect the development of the microenterprise sector more generally, as in the areas of business licensing and registration or dispute arbitration.

Table 4. Funding for Microfinance and Microenterprise Enabling Environment, 1998-2002 (US$ Thousands)

Fiscal Year	1998	1999	2000	2001	2002
Microfinance Enabling Environment	$406	$3,390	$13,500	$8,307	$6,956
Microenterprise Enabling Environment	$800	$3,700	$5,141	$5,715	$5,295
Total Funding for MF and ME Enabling Environment	$1,206	$7,090	$18,641	$14,022	$12,251
As Percent of Total USAID Funding	0.9%	4.6%	11.4%	8.9%	7.2%

8 Global Bureau funds are also used for capacity building of PVO headquarters. In addition, funds are used in support of microenterprise research (e.g., on ways to improve impact assessment), to train staff, for salaries of those who provide technical assistance to field programs, and for MRR, USAID's system for tracking microenterprise funding.

Funds for Very Poor Entrepreneurs

The 2000 Microenterprise for Self-Reliance Act mandated that half of all USAID microenterprise funds should benefit the very poor.[9] To report on its assistance to the very poor, USAID asks its institutional partners to provide information using measures mandated by the law. For microfinance institutions, the percentage of FVP, or funds benefiting the very poor, is calculated based on the percentage of the total loan portfolio held in "poverty loans." For BDS institutions, the percentage of funds for the very poor corresponds to the percentage of clients with outstanding loans (from the recipient of USAID funds or from another source) at or below the amounts designated as poverty loans. Because there is no client data associated with institutions that are engaged in policy research, the amounts for policy are excluded from Table 5 and the estimate of funds benefiting very poor households.

Poverty loan amounts were set by the U.S. Congress 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 Europe and Eurasia.

Table 5. Percentage of Funds Benefiting the Very Poor, 2002

	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 Benefiting the Very Poor
Africa Bureau	$24.5	79%	38%	47%
Asia/Near East Bureau	$31.2	90%	59%	77%
Europe/Eurasia Bureau	$31.8	46%	3%	35%
Latin America/Caribbean Bureau	$35.6	67%	75%	71%
Global Bureau	$31.4	42%[1]	50%	44%
Total all Bureaus	$154.5[2]	53%	45%	50%

1 This percentage is influenced by the portfolio guarantees provided to banks through the Office of Development Credit. As banks, their services are not focused on very poor clients, and typical loan sizes fall at the high end of those considered to fit the definition of "microenterprise loan."

2 Funds in the amount of $3.652 million used for USAID salaries, training, and research were excluded from this column. Total funds ($12.251 million) provided to improve the enabling environment for microenterprise development were also excluded. The rationale for excluding them is that the extent to which they benefit very poor clients is impossible to estimate by the poverty loan proxy mandated by law, since they do not directly serve clients.

The Total Microenterprise Funding column in Table 5 includes all FY 2002 funds that supported field-based microenterprise programs. For all of these programs, MRR requested data on poverty loan clients but it did not in every case receive the data. MRR calculated the percentages in the remaining three

9 This legislation was amended in 2003, and now defines the very poor as those living on less than $1 a day (purchasing power parity), or the bottom 50% of those living below their country's poverty line. For FY 2002, however, the provisions of the 2000 law were in effect.

columns in Table 5 based on a subset of the funds in the first column – i.e., based on those funds that supported programs for which the implementing institutions provided data on their 2002 activities.[10]

The data provided to MRR by USAID-supported institutions indicates that the agency just met its target of directing 50 percent of its funds to benefit the very poor for 2002.[11] Results from previous years have also put the agency very close to the 50 percent target: 53 percent in 2000 and 2001. (See the Methodology Annex for a complete explanation of how these calculations were made.)

Table 6. Percentage of Funds Benefiting the Very Poor by Region, 2000-2002

Fiscal Year	2000	2001	2002
Africa Bureau	60%	44%	47%
Asia/Near East Bureau	60%	44%	77%
Europe/Eurasia Bureau	26%	40%	35%
Latin America/Caribbean Bureau	64%	53%	71%
Global Bureau	61%	47%	44%
Total All Bureaus	53%	53%	50%

A key factor that affects USAID's ability to report accurately on the percentage of funds benefiting the very poor is that funding is tracked at the time the grant or contract is made. Because USAID provides assistance to many organizations for new initiatives to increase their outreach to poorer clients, the activity of the institution at the outset may not reflect the extent of outreach to the very poor that will occur as a result of the grant. Nonetheless, MRR must use program results (often from the period preceding program implementation) as the basis for calculating funds that can be attributed to benefits to very poor clients. (That is, because assessing the poverty status of prospective clients would be impractical, USAID directs awardees to assess the poverty status of current clients at the time the annual MRR survey is conducted.)

A second factor that affects USAID's ability to report accurately on the percentage of funds benefiting the very poor is that USAID funds have been used to build microfinance infrastructure; this effort has included supporting the development of national microfinance networks and associations, credit rating agencies and credit bureaus. Because these activities may have no directly associated client data, they cannot report poverty data for use in the calculation of the

10 MRR believes it is reasonable to extrapolate from the percent of funds that benefit the very poor derived from this data to the total funds for field-based ME programs. The rationale for extrapolating from the FVP for activities implemented by those institutions that did report to arrive at the FVP for all activities is that there is no reason to assume that microenterprise programs implemented by institutions that do not provide data to MRR serve the very poor at lower rates than programs implemented by those institutions that do provide this data.

In fact, extrapolating from those institutions that report data to all MED activities likely results in a conservative FVP figure. As discussed below in the Methodology Annex, there is reason to assume that the low response rates among BDS providers/facilitators artificially deflate the estimate of the FVP associated with BDS activities. This is another reason to infer that measuring FVP using the loan size proxy results in a conservative figure for the portion of USAID funds that benefit the very poor.

11 See the Methodology Annex below for a full discussion of how the funds that benefit the very poor (FVP) is calculated.

percentage of funds that benefit the very poor.[12] But because these institutions provide industry-building support to retail microfinance institutions, which are the basis of the FVP calculation, the FVP calculation is extrapolated to the funds that support their activities.

A severe limitation on the reporting of funds for BDS that reach very poor clients is that many institutions do not track whether their clients have poverty loans, particularly if they do not themselves provide or package financing to their clients. Many practitioners have concluded that loan size is such an inaccurate proxy for clients' poverty levels that they have little incentive to track it, and if they do collect the data, they face real challenges assessing the quality of data based on estimates of the extent to which their clients have poverty loans from other sources. It is likely that the extent of service to very poor clients by USAID's BDS partners is significantly understated due to the poor fit of this proxy with most partners' activities.

USAID recognizes the limitations associated with using loan size as a proxy indicator for client poverty level. In response to the amendments in the law in 2003, USAID is developing improved tools for assessing the poverty level of its microenterprise beneficiaries. The new tools will come into effect in 2006. Until then, the poverty measurement provisions of the 2000 Microenterprise for Self-Reliance Act remain in effect.

Funds for US Private Voluntary Organizations (PVOs) and Networks

USAID has long supported the development of PVO networks (including cooperative development organizations) that are the backbone of U.S. assistance to the microenterprise development field. The Office of Private and Voluntary Cooperation, through its Matching Grants program, has provided annual assistance to strengthen the PVOs, many of which have created extensive multi-country networks. Other USAID missions and offices have also contributed large amounts of funding to the PVO networks, many of which reach large numbers of clients. Most of these networks work primarily in the area of microfinance, though some facilitate or provide business development services. Table 7 shows the amounts of USAID support to 20 of the largest PVO microenterprise networks supported by USAID. These 20 PVO networks alone received 36 percent of total funding by USAID to microenterprise development between 1997 and 2002. Other PVOs, NGOs and cooperative organizations received annual fund averaging an additional $10 million per year during that period. Total funds to the institution and its network affiliates (which could include NGOs and for-profits), combining funds from both USAID field and central offices, are included.

12 Some microfinance networks and associations do provide funds directly to retail MFIs, in addition to providing technical assistance for the industry-wide benefits described above (establishing credit bureaus, etc.). One example is CAMFA (Central Asian Microfinance Association), which made a grant to the Kazakhstan Community Loan Fund (KCLF) in 2002. The CAMFA funds that passed through to KCLF are included in the calculation of funds for the very poor through the process explained above.

Table 7. Annual Funding to PVO Networks, 1997-2002

PVO Network	Total USAID Awards (US$ Thousands)	Avg. Annual Award (US$ Thousands)
ACCION International	$18,266	$3,044
ACDI/VOCA	$27,730	$4,622
Aid to Artisans (ATA)	$14,367	$2,395
CARE International	$16,848	$2,808
Catholic Relief Services	$28,673	$4,779
Cooperative Housing Foundation	$10,715	$1,786
Enterprise Works	$20,318	$3,386
FINCA International	$47,983	$7,997
Freedom from Hunger	$2,238	$373
Katalysis North-South Partnership	$5,791	$965
Mennonite Economic Development Association (MEDA)	$3,033	$506
Mercy Corps	$13,413	$2,236
Opportunity International	$28,651	$4,775
PLAN International	$4,101	$684
Save the Children Federation	$20,249	$3,375
TechnoServe	$30,847	$5,141
WOCCU	$26,429	$4,405
World Education	$6,026	$1,004
World Relief Corporation	$6,117	$1,020
World Vision Relief and Development	$8,586	$1,431
TOTAL Funding	$340,381	$56,730

Results from USAID-Supported Microenterprise Institutions in 2002

USAID-assisted microenterprise development practitioners with active agreements received a survey questionnaire on their FY 2002 activities. All those institutions with funding in FY 2002, in addition to those with active agreements from prior years, were queried.[13]

The results of this survey cannot definitively address the question of what the impact of USAID funding has been. An impact assessment would involve charting the progress of the institution through a period of time, beginning with the USAID grant. Many institutions included in the current survey have only recently received USAID funding or the first installment of a multi-year grant. Furthermore, while some of the institutions surveyed may have received USAID grants previously, the data reported in this summary should not be attributed solely to USAID support. Rather, these results could be understood to be the combined effect of all the prior assistance received by the institution, which may include support from other donors as well as USAID.

Microfinance

USAID assistance to the microfinance industry includes funding for a range of purposes; for example, support to microfinance institutions in the form of loan capital, portfolio guarantees, funds for operational expenses, staff training, new product development and new program initiatives. USAID microfinance support has also included efforts to build the broader microfinance industry at the country level through such initiatives as national practitioner networks, credit bureaus and credit rating agencies.

In 2002, 149 microfinance institutions or activities received USAID funding. Of that number, 119 (80 percent) provided data on their activities. Forty percent or 60 of the 149 were technical assistance providers or apex institutions, some of which were also engaged in retail microlending operations.[14] These 60 institutions served more than 219 additional organizations by providing funds, management expertise and other services.

All actively supported institutions in 2002 were requested to provide data on their operations for 2002. Of 415 microfinance institutions with active agreements, 325 (78 percent) responded to the survey. Of that number, 298 provided data on their retail lending operations; another 27 apex organizations had no portfolio data to report because they support other MFIs rather than serving as retail lenders themselves. While the inventory of USAID-supported institutions changes every year, 58 percent or 174 of these 298 institutions reported data in both 2001 and 2002.

13 Many institutions have multi-year agreements that are evaluated against annual performance indicators. Active agreements are those still operating under the contract term.

14 This category also includes networks that received funds to be further distributed among network affiliates or to build headquarter operations.

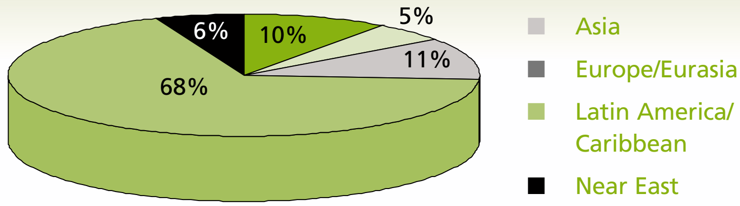
BRI, supported by USAID for several consecutive years, will again not be included in the summary tables due to its size. With more than 2.9 million loan clients, BRI has as many clients as all the other USAID-supported institutions reporting data for 2002 combined; including it in the summary tables would overshadow data from the other institutions in USAID's portfolio.

Table 8. Clients of Lending Institutions in 2001 and 2002[15]

	Clients 2001 (all institutions) (thousands)	Clients 2002 (all institutions) (thousands)	Client increase (institutions reporting in both 2001 and 2002)
Total	2,907.2	2,731.6	+15%

Since 2001, the number of clients reached with USAID assistance has decreased slightly (6 percent); however this still represents a 26 percent increase over clients reported in 2000. For those institutions reporting in both 2001 and 2002, the number of clients increased by 15 percent.[16]

Figure 2. Percentage of Total Loan Portfolio held by Microfinance Institutions in 2002, by region



Loan portfolio value in the LAC region, where average loan size is larger ($774), constitutes more than two-thirds of the total portfolio of USAID-assisted institutions. The amount of total outstanding portfolio for all regions grew 36 percent in 2002 to nearly $1.3 billion, up from $934.3 million.

As shown in Table 9, the percentage of women clients in USAID-supported microfinance institutions is high for all regions. In the Near East, the percentage of women borrowers continues to climb steeply. In 2000, only 27 percent of the MFI clients in the Near East were women; in 2002, 55 percent were women. The average loan size in the Near East has decreased (from $498 in 2000) as USAID partners have invested heavily in mostly group lending programs for poor women.

15 The number of loans is used as a proxy for the number of clients.

16 This excludes WOCCU/Ecuador, which reported 114,452 clients in 2001 and 410 clients in 2002 because it initiated a new activity.

Table 9. Average Loan Balance[17] and Percentage of Women Clients, 2002

	Average Balance (US $)	Percentage of Women Clients
Africa	197	71%
Asia	117	88%
Near East	345	55%
Europe/Eurasia	697	49%
Latin America/ Caribbean	774	67%
Total	465	69%

17 Asia and the Near East, shown together in the USAID funding tables, are presented separately here and throughout the data summaries because the regions reflect very different economic and cultural contexts.

In accordance with the poverty measurement provisions of the 2000 Microenterprise for Self-Reliance Act, MRR requests data from microfinance institutions on the number and value of "poverty loans" they hold. This loan size proxy is used to measure the amount of USAID microenterprise funding that benefits the very poor. Poverty loans are loans that are sufficiently small to indicate that the borrower can be presumed to be among the very poor.

Table 10 shows the number of poverty loans held by all institutions with current agreements with USAID, not just those that received funding in FY 2002 as reported in Table 5.

Table 10. Clients with Poverty Loans, 2002

Region	Number of Loans ('000s)	Number of Poverty Loans ('000s)	Percent Poverty Loans
Africa	655.8	506.0	77%
Asia/	531.1	450.7	85%
Near East	238.8	141.2	59%
Europe/ Eurasia	197.6	164.5	83%
Latin America/ Caribbean	1,107.9	446.3	40%
Total	2,731.2	1,708.7	63%

In 2000, MFIs in the Near East region reported that only 31 percent of loans held were in amounts equal to or less than $300; the share of poverty loans almost doubled by the end of FY 2002.

Savings Services

Microfinance practitioners have long understood the value of safe and secure savings services for households living on the economic margin. USAID has supported the development of financial services that suit the specialized savings needs of low-income clients.

Of the 298 USAID-supported microfinance institutions providing data in 2002, almost two-thirds (66% or 196) reported on their savings programs for microenterprise clients.[18] Of these, most (81%) require that their loan clients maintain a savings account as loan collateral. Forty-nine percent (96) of the institutions also offer voluntary savings services.

Table 11. Number of Savers and Savings Amounts, 2002

Region	Savings Members ('000s)	Savings Amounts (US$ millions)	Average Savings Account (US$)
Africa	1,235.3	$104.1	$84
Asia/	850.9	$18.1	$21
Near East	2.3	$0.06	$26
Europe/Eurasia	143.4	$21.3	$149
Latin America/ Caribbean	985.6	$635.4	$645
Total	3,217.5	$778.9	$242

Table 12 shows the top eight savings institutions or networks of savings institutions supported by USAID in 2002. These eight accounted for 45 percent of the clients and 73 percent of the savings held by all the USAID-supported institutions shown in Table 11. Four of the top eight are in Africa, one in Asia, one in Europe, and two in Latin America. One institution, WOCCU/Mexico, accounts for 80 percent of the savings portfolio of the top eight, and 59 percent of the entire USAID savings portfolio shown in Table 11.

18 Excludes BRI in Indonesia, which has 28 million savings clients with deposits of $2.6 billion. If included, this single, large institution would outweigh the results of all other USAID-supported institutions combined.

Table 12. Leading Savings Institutions or Networks Supported by USAID, 2002

Institution Name	Savings Members	Savings Amounts (US$)	Average Savings Account (US$)
WOCCU/Mexico	528,958	$ 458,506,087	$866
WOCCU/Rwanda	318,784	$ 32,553,189	$102
WOCCU/Bolivia	115,675	$ 39,593,376	$342
WOCCU/Romania	115,004	$ 18,563,048	$161
Rural Green Bank of Caraga, Philippines	113,536	$ 2,844,437	$25
PAMECAS/Senegal	106,093	$ 9,993,025	$94
Kenya Women's Finance Trust	79,265	$ 6,183,318	$78
Uganda Women's Finance Trust	62,189	$ 1,309,396	$21
Total	1,439,504	$ 569,545,876	$396

The data for each of the WOCCU networks refers to the activities of many local credit unions located throughout each country. For example, WOCCU/ Romania includes 26 individual credit unions, Bolivia includes 15 credit unions and Mexico includes savings activities in 31 regions with 365 branch offices.

Table 13. Location of Microfinance Clients, 2002

	Rural Percent	Urban Percent
Africa	60	40
Asia/	89	11
Near East	32	68
Europe/Eurasia	33	67
Latin America/ Caribbean	39	61
Total	52	48

Table 13 presents summary data reported on the location of clients of USAID-assisted microfinance institutions. The percentage of rural clients reported in 2002 increased over 2001 for all regions except Africa, which is nearly the same as in 2001 (61%).

Data on portfolio at risk and loan losses are shown in Table 14. These standard indicators are used in microfinance to monitor financial performance.[19]

19 Portfolio at risk is calculated based on the amount of portfolio reported to be in arrears for 30 days or more. Loan loss rates show the percent of portfolio that must be written off because of delinquent loans.

Table 14. Portfolio at Risk and Loan Loss Rates, 2002

Region	Portfolio at Risk	Loan Loss Percent
Africa	3.9%	2.7%
Asia/	3.3%	0.7%
Near East	4.8%	0.5%
Europe/Eurasia	1.1%	0.5%
Latin America/Caribbean	7.1%	1.5%
Total	5.8%	1.4%

USAID's objective is that microfinance institutions be fully sustainable within seven years of the initial provision of USAID assistance. Full financial 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. An intermediate measure, operational sustainability, refers to an institution's ability to produce adequate income from interest and fees to cover all its operational expenses, including loan losses.

About half (49 percent) of USAID-assisted institutions reporting were fully financially sustainable. ***These institutions provide services to 71 percent of the loan clients and hold 83 percent of the total loan portfolio***. An additional 11 percent were operationally sustainable.

Table 15 compares the subset of institutions that reported in both 2001 and 2002. The 174 institutions includes 47 African MFIs, 40 Asian MFIs, 20 institutions located in the Near East, 26 located in Europe or Eurasia, and 41 in Latin America or the Caribbean. In every region the number of institutions reporting full financial sustainability increased in one's year time. The most dramatic increase in reported sustainability occurred in the Africa region where thirteen additional MFIs of the 47 reported reaching financial sustainability. It should be noted that in FY 2000, fewer than 15% of MFIs in the Africa and Europe and Eurasia regions reported full financial sustainability.

Table 15. Sustainability of USAID-Supported Institutions Reporting in Both 2001 and 2002

	Not Yet Sustainable		Operationally Sustainable		Fully Financially Sustainable	
Year	2001	2002	2001	2002	2001	2002
Africa (n = 47)	25	16	7	3	15	28
Asia/ (n=40)	14	8	2	1	24	31
Near East (n = 20)	7	6	6	5	7	9
Europe/Eurasia (n = 26)	11	11	5	4	10	11
LatinAmerica/ Caribbean (n = 41)	15	11	7	5	19	25
Total (n = 174)	72 (41%)	52 (30%)	27 (16%)	18 (10%)	75 (43%)	104 (60%)

Business Development Services

Business services can play a key role in helping microenterprises build skills and resources that allow them to grow their businesses. Business development services include a range of services, such as product design and development, marketing and market access, business management assistance and skills training, to name a few.

Of the 121 institutions with active USAID agreements to provide or facilitate the provision of BDS to microentrepreneurs in 2002, 87 institutions reported data on their clients. Fifty-one institutions provided services directly to microentrepreneurs. Forty-nine were engaged in facilitating BDS provision by working to assist BDS provider organizations to expand markets, build capacity or boost client demand. (Thirteen organizations were both providers and facilitators.) One organization, Sistema Informativo de Mercados Agropecuarios (SIMA) in Bolivia, was responsible for disseminating market information to an estimated 2 million microenterprise households. (Data from SIMA is not included in Table 16 because the data is not comparable to other BDS data.)

Table 16. Clients of USAID-Funded BDS Programs (Providers and Facilitators), 2002

	Number of Micro Clients	Percent Women	Percent Rural
Africa (n=43)	549,871	50%	87%
Asia/ (n=14)	32,903	47%	97%
Near East (n=1)	700	100%	5%
Europe/Eurasia (n=10)	42,244	37%	54%
Latin America (n=19)	66,807	41%	82%
Total (n=87)	692,525	48%	85%

BDS Providers

USAID promotes business services that address the primary constraints affecting microentrepreneurs in their local market contexts. Many BDS providers undertake market research to ensure that their services are relevant and demand-driven.

The overwhelming majority of BDS clients (85%; see Table 16) reside in rural areas, where access to market information, product inputs and outlet markets is limited. USAID has promoted organizations in their efforts to reach rural clients with quality, demand-driven services.

Of the 51 direct BDS providers who responded to USAID's annual survey in 2002:

- More than 80 percent (43) assisted microentrepreneurs to link to new and better markets.
- More than 80 percent offered business management support (44) or technical training (39) to microenterprise clients.
- More than 75 percent assisted microentrepreneurs with market research (37) or provided management counseling (39).
- Many providers also offered one of more of the following services: new product development (30 or 59%), access to products (30 or 59%), research and development of technologies (33 or 65%) and information on taxes and licensing requirements (18 or 35%).
- More than 30 percent (16) of the providers had the capability to provide financing to their clients, and another 55 percent (28) were able to link their clients to financial services.

In addition, USAID has encouraged providers to develop a clear exit strategy, or a plan for continuing services without ongoing donor funding. Nearly 60 percent (29) of the providers surveyed had developed such a plan.

BDS Facilitators

BDS facilitators are international or local institutions that aim to expand and improve low-income entrepreneurs' access to BDS by increasing demand for new services or supporting BDS providers in developing new services, promoting good practice and monitoring and evaluating performance.

Of the 49 reporting organizations that served as BDS facilitators in 2002, most (86% or 42) were engaged in capacity building of BDS providers. Many also trained trainers (73% or 36) and disseminated best practices (76% or 37). Monitoring and evaluation of business services was one of the primary functions performed (80% or 39). Many were also engaged in impact studies of these services.

BDS facilitators were also heavily involved in expanding markets for microentrepreneurs. Dissemination of market information was a primary activity (67% or 33).

In addition:

- 80% (39) linked entrepreneurs to new business opportunities or networks
- 71% (35) identified new products
- 69% (34) of the facilitators had a plan for leaving – an exit strategy – once they had built the BDS market.

Policy Advocacy and Reform

In FY 2002, USAID provided funds to 26 institutions for the purpose of undertaking policy reform in the areas of microfinance regulation or policies affecting microenterprises generally. Eighteen reported on their activities. These 18 represented $10.8 million, or 88 percent, of the policy obligations made during 2002. Another 10 institutions with obligations from prior years reported on their policy-related activities in 2002.

Sixteen of the 28 institutions reporting were actively involved in improving microfinance regulation and supervision, or credit information services. In El Salvador, for example, USAID has recently funded efforts to assist the Superintendency of the Financial System to implement a monitoring system for non-bank financial institutions, under a new law that has given these institutions full legal status. Funding also supports efforts to build the capacity of bank and credit union regulators to protect poor people's savings.

Policy work funded by USAID to create a positive enabling environment for microenterprises includes a range of activities, such as association building, export promotion and the removal of unfair barriers to economic participation by microenterprises. USAID-funded policy work includes helping countries streamline their business registration process so that microenterprises are more willing and able to formalize; building the capacity of microentrepreneurs to work through independent business associations to advocate for policy reforms; and promoting anti-corruption efforts or tax reform.

ACRONYMS

ACCION	Americans for Community Cooperation in Other Nations
ACDI/ VOCA	Agricultural Cooperative Development International/ Volunteers in Overseas Cooperation and Assistance
AFR	Africa Region (USAID)
ANE	Asia and the Near East Region (USAID)
BDS	Business Development Services
BRI	Bank Rakyat Indonesia
DA	Development Assistance
CACEDRF	Central American and Caribbean Disaster Relief Fund
CARE	Cooperative for Assistance and Relief Everywhere
CGC	Credit Guarantee Corporation
CSD/HIV	Child Survival and Development/Human Immunodeficiency Virus
ESF	Economic Support Funds
EE	Enabling Environment
E&E	Europe and Eurasia Region (USAID)
FINCA	Foundation for International Community Assistance
FS	Financial Services
FSA	Freedom Support Act
FVP	Funds that benefit the Very Poor
LAC	Latin America and the Caribbean Region (USAID)
MD	USAID/Washington Microenterprise Development Team
ME	Microenterprise
MED	Microenterprise Development
MEDA	Mennonite Economic Development Association
MF	Microfinance
MFI	Microfinance Institution
MRR	Microenterprise Results Reporting
NGO	Nongovernmental Organization
PVC	Office of Private and Voluntary Cooperation (USAID)
PVO	Private Voluntary Organization
SAI	Special Assistance Initiatives
SEED	Support for Eastern European Democracy
SIMA	Sistema Informativo de Mercados Agropecuarios
SOAG	Strategic Objective Agreement
USAID	United States Agency for International Development
WOCCU	World Council of Credit Unions

The full report is available online at www.mrreporting.org and www.microlinks.org. The report is also available in hard copy or on CD-ROM from Weidemann Associates, Inc. Please contact admin@mrreporting.org to request a hard copy or CD-ROM.

For more information, contact
U.S. Agency for International Development
Washington, DC 20523-1000
Telephone: 202-712-4810
www.usaid.gov

MicroLINKS, the USAID Microenterprise Development web site at www.microlinks.org, contains the latest microenterprise research and reports, hosts a number of active communities of practice convening around subjects central to microenterprise development, and offers links to other informative web sites.

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Weidemann Associates, Inc.
933 North Kenmore Street, Suite 405
Arlington, Virginia 22201 USA
Tel.: 703-522-3075
Fax: 703-525-6169
E-mail: mail@weidemannassoc.com
Internet: www.weidemann.org

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