

A.I.D. MICROENTERPRISE DEVELOPMENT PROGRAM

REPORT TO THE CONGRESS

U. S. Agency for International Development

March 30, 1990

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AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON DC 20523

March 31, 1990

THE ADMINISTRATOR

The Honorable Robert C. Byrd
Chairman
Committee on Appropriations
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

I am pleased to submit the enclosed report to you on the Agency for International Development's (A.I.D.) microenterprise development program, as requested by the Conference Report accompanying the Foreign Assistance Appropriations Act for 1990.

I believe that broad-based economic growth is the most important means of assuring that poverty is sustainably reduced in developing countries. One of the most effective ways of involving the poor directly in this process is through microenterprise development. Recognizing this imperative since the mid-1970s, A.I.D. is proud to be among the leaders in supporting microenterprise survival through providing assistance and in searching for new means of helping these entrepreneurs and enterprises to succeed.

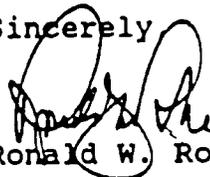
The enclosed report underscores the deep commitment A.I.D. has to achieving the above objectives. In addition to reviewing the diverse composition of A.I.D.'s microenterprise program, the report confirms that A.I.D. successfully met its FY 1988 and FY 1989 earmarked levels of \$50 million and \$75 million, respectively. Moreover, based on a recent canvas of A.I.D. field missions, I expect that the Agency will meet the \$75 million earmarked for FY 1990. In light of absorptive capacity limitations in developing countries and in terms of competing budgetary needs within the Agency as a whole, the current level of effort and program mix, established during the last few years, should continue.

I would also note that, as the report points out, A.I.D. recently reorganized its microenterprise management and coordination office in Washington in order to assure continued excellence in this program. I share this commitment and wish

to reassure you of my strong personal support for this program and for A.I.D.'s worldwide staff and cooperators who are carrying it out.

Please let me know if I can provide you with additional information on A.I.D.'s microenterprise development activities.

Sincerely



Ronald W. Roskens

Enclosure: a/s

Note: This report was also formally transmitted to the following:

United States Senate:

The Honorable Mark O. Hatfield, Committee on Appropriations

The Honorable Patrick J. Leahy, Chairman, Subcommittee on Foreign Operations,
Committee on Appropriations

The Honorable Robert W. Kasten, Subcommittee on Foreign Operations,
Committee on Appropriations

House of Representatives:

The Honorable Jamie L. Whitten, Chairman, Committee on Appropriations

The Honorable Silvio O. Conte, Committee on Appropriations

The Honorable David R. Obey, Chairman, Subcommittee on Foreign Operations,
Committee on Appropriations

The Honorable Mickey Edwards, Subcommittee on Foreign Operations, Committee on
Appropriations

EXECUTIVE SUMMARY

Poor people throughout the developing world create jobs and income for themselves, through microenterprises. A.I.D. has long been committed to microenterprise development, and now, thanks to interest from Congress and payoff from A.I.D.'s long term investment, A.I.D.'s support to microenterprise development is growing larger and more purposeful each year. This report, prepared to fulfill a Congressional request, presents the current status of those activities.¹

In 1988 A.I.D.'s new funding for microenterprise development totaled \$58.8 million; in 1989 it grew to \$81.1 million; and in 1990 it is expected to reach \$83.3 million. This support is widely distributed. Missions in 47 countries reported 170 separate projects with microenterprise activities, whose lifetime funding will total \$390 million. About one-third of this support taps local currencies while two-thirds represents dollar obligations.

Beneficiary Characteristics

A.I.D. directs its microenterprise support toward the very smallest enterprises. At least half the projects work mainly with one and two person enterprises. Four-fifths of the projects work mainly with firms that employ five or fewer people. The microentrepreneurs A.I.D. assists are poor, but generally not the very poorest people. In the typical project, almost all of the microentrepreneurs (over 90 percent) are in the poorest half of the population, while a third are in the poorest 20 percent. It is likely that in many countries people engaging in a non-farm enterprise are almost by definition better off than the very poorest segments of society, so that A.I.D.'s beneficiary groups may well be a reflection of the underlying population of entrepreneurs.

The same may be true with respect to the participation of women. In the average A.I.D. project, 37 percent of microentrepreneurs are women. This figure may be less than 50 percent as a result of the proportion of entrepreneurs in a society who are women, but it may also reflect bias in assistance techniques that some projects employ. This is an area A.I.D. is targeting for further scrutiny and improvement.

¹ This report draws on a February 1990 survey of all A.I.D. missions plus private voluntary and cooperative development organizations (PVOs and CDOs) supported by the Office of Private and Voluntary Cooperation in the Bureau of Food for Peace and Voluntary Assistance (FVA/PVC). Responsibility for determining which activities to include in these figures rests with missions, PVOs and CDOs who were charged to follow Policy Determination 17, "Microenterprise Development Program Guidelines."

A.I.D.'s Approach to
Microenterprise
Development

A.I.D. sees microenterprise development activities as a way to assist the poor to improve their lives through their own entrepreneurial activities. A.I.D. takes a business-oriented approach to microenterprise development. This business orientation in no way compromises commitment to the poor. Rather, the approach recognizes that even the smallest income-generating activities must master the same business realities as larger firms.

Every entrepreneur must satisfy four basic business needs: first, markets for their goods and services;

second, access to resources; third, business and technical know-how; and fourth, a supportive environment. These four needs correspond to several key segments of A.I.D.'s microenterprise portfolio (See Figure 1). Access to resources is the focus of the credit activities which make up 44 percent of all microenterprise funding in 1990. Business and technical know-how are addressed through training and technical assistance activities, which absorb 23 percent of the portfolio. Roughly 4 percent of the portfolio supports policy and regulatory reform activities that help improve the environment for microenterprises. A.I.D. provides a great deal of additional support for policy reform and for sparking market growth, in the context of broader economic and sector policy programs. Through small farmer credit programs, for example, A.I.D. provides hundreds of millions of dollars of loans to the primary customers of microenterprise products and services. This is a significant market stimulus. Finally, through finance, technical assistance and training, A.I.D. supports the development of institutions capable of providing assistance to microenterprises. This is particularly

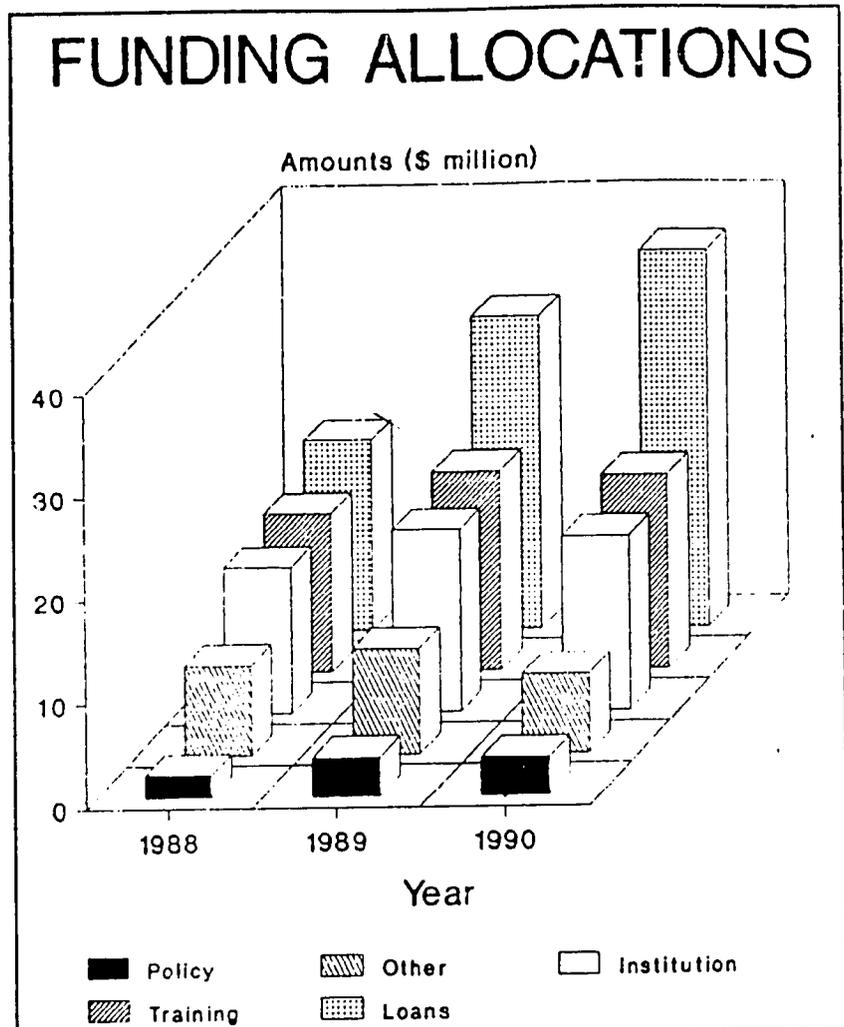


Figure 1

important, as such capability was very limited only a few years ago. Institutional development accounts for 20 percent of A.I.D.'s total microenterprise funding.

Microenterprise Credit

Loans to microenterprises are the fastest growing part of A.I.D.'s microenterprise portfolio. The 1990 estimate of total lending is nearly double the 1988 level. This rapid growth reflects both an increased commitment on A.I.D.'s part, and increased capacity on the part of the specialized lending institutions that serve microenterprises.

A.I.D. believes that there is little sense in supporting lenders that cannot be self-sustaining in the long run. Therefore, in designing and supporting microenterprise credit projects it places highest priority on the prospects for financial self-sufficiency of the lending institution. Particular program terms, such as loan size, are determined in light of the needs of both beneficiaries and the lending institutions, rather than on the basis of an external, or a priori set of rules. Nevertheless, most of the microenterprise programs A.I.D. supports make very small loans. The average loan size for all microenterprise loans made with A.I.D. funding was \$329 in 1988 and \$387 in 1989.

A.I.D. has observed that most of the large, relatively successful credit programs, such as Grameen Bank in Bangladesh, Badan Kredit Kecamatan (BKK) in Indonesia, and the ACCION International programs in Latin America use a lending methodology that is sometimes called "minimalist". This is a methodology which adapts its procedures for serving borrowers from the informal financial systems that are indigenous to many countries, but uses modern management techniques to track funds and reduce costs. It involves short term lending, with very little accompanying technical assistance, and reliance on the promise of repeat loans and personal character references to secure repayment, rather than collateral. A.I.D. plans to help equip an increasing number of programs to use minimalist principles in the coming years.

A.I.D.'s New Microenterprise Program

A.I.D.'s long involvement in microenterprise development is now maturing. We are reaching the point at which the agency's varied array of activities can be incorporated into a more cohesive microenterprise program. A.I.D. is already taking steps to bring this about. Budget constraints will not allow A.I.D. to expand significantly the amount of resources going into microenterprise by much, but consolidation of the activities into a more targeted and systematic program will mean that those resources have greater effect.

As part of the new program, A.I.D. has made plans to promote greater emphasis on three types of programs which have shown the potential to have a significant impact on microenterprises:

- 1) credit programs that use minimalist principles;
- 2) experimental forms of non-financial assistance; and
- 3) regulatory reform activities.

In addition, A.I.D. will continue to assist other organizations to enhance their capacity to carry out microenterprise programs, notably U.S.-based PVOs and their affiliates, and the Peace Corps.

The new emphasis will require an agency-wide effort of promotion and education, which will be carried out through the following steps:

- o Creation of a new Office of Small and Microenterprise Development within the Bureau for Private Enterprise to lead and coordinate A.I.D.'s efforts.
- o Encouragement of regional bureaus to increase their attention to microenterprise, including, if needed, the assignment of a full time microenterprise advisor, as the Africa Bureau has already done.
- o Launching of activities under the GEMINI (Growth and Equity through Microenterprise Investments and Institutions) Project, established in 1989 as a major resource for implementing new activities.
- o Creation, later this year, of the IRIS (Institutional Reform and the Informal Sector) Project, to focus on regulatory reform issues, and further support to the Institute for Liberty and Democracy in Peru to extend its experience to other countries.
- o Development of a monitoring system to better track both funding levels and achievements.
- o Conferences, workshops and cross-visits to noteworthy projects for A.I.D. staff and practitioners to accelerate learning.

PART I. A.I.D.'S APPROACH TO MICROENTERPRISE DEVELOPMENT

Throughout the developing world, the streets and marketplaces of both small villages and great cities are filled with vegetable stands, tea shops, bicycle repair shops, tailors, furniture makers, handicraft artisans, bakeries, and many other enterprises owned and operated by the poor. Recognizing that microenterprises are so important to the lives of the poor, and indeed, to developing economies as a whole, A.I.D. began to investigate ways to assist and promote them during the mid-1970s. In fact, A.I.D. has been at the forefront among both U.S. organizations and other donors in this effort. That commitment has paid off. Workable means of assistance have been developed, and the result is reflected in A.I.D.'s growing portfolio of successful microenterprise projects.

A. The Purpose of this Report

This report describes the current status of A.I.D.'s microenterprise development activities. It has been prepared at the request of the Congress, as stated in the Conference Report on the fiscal year 1990 Foreign Operations Appropriations Act. That report requested A.I.D. to submit:

a detailed evaluation of the Micro-Enterprise Program. This evaluation should review the success of the program to date, the ability of A.I.D. to provide and monitor loans of less than \$300 in poor countries and make recommendations on the size and scale of any future Micro-Enterprise Program.²

The report which follows has four parts. In this part the approach A.I.D. takes to microenterprise assistance is discussed, starting with a look at the needs of microenterprises. This part also reviews past A.I.D. contributions, the microenterprise legislation, and A.I.D.'s response to it.

In responding to the Congressional request, A.I.D. sent a questionnaire to all its missions, and its principal private voluntary organization (PVO) and cooperative development organization (CDO) grantees, seeking information on the amount of microenterprise funding for 1988, 1989 and 1990, types of programs supported by that funding, loan sizes, and beneficiary characteristics. With the help of the GEMINI project the responses have been examined, and inconsistencies in the data have been investigated and resolved. The resulting data have been tabulated, as presented in Part II of this report.

Part III states A.I.D.'s new plans for making its future microenterprise program more

² U.S. House of Representatives, Report 101-344, November 11, 1989, p. 18.

effective. A.I.D. recognizes that there is a continuing need to track the performance of its worldwide microenterprise activities and to provide decision-makers with regular information about its size and nature. Accordingly, A.I.D. has commissioned a study to lead to the creation of a monitoring and information system. The study is still in preparation, but preliminary considerations and findings are discussed in Part IV.

B. Who Are Microenterprises and Microentrepreneurs?

The definition one chooses for microenterprises will determine one's view of the problems the microenterprise development program should address. Unfortunately, a precise definition is notoriously difficult to pin down. The best definitions are qualitative. For example, microenterprises can be defined as the entrepreneurial activities of the poor. A frequently used alternate definition refers to those enterprises lacking access to conventional sources of capital, land, fixed premises, and business services. These definitions reflect the spirit of the term microenterprise. However, for purposes of program accountability, A.I.D. has adopted a more quantifiable definition, which is stated in its "Microenterprise Development Program Guidelines." This definition states that "a microenterprise should have no more than approximately 10 employees."³ The guidelines note, however, that final judgment in specific instances should refer to the underlying concept, namely ownership of the enterprise by the poor. Larger community-based or cooperative enterprises are specifically included, when their members are poor.

Most of the enterprises that benefit from A.I.D.'s microenterprise support fall in the low end of the one-to-ten employee range. According to A.I.D.-sponsored research, self-employed people comprise by far the most numerous type of microenterprise, and in most countries more than 90 percent of microenterprises have fewer than 5 employees.⁴ Although A.I.D.'s definition is broad, its program tends to focus at the small end of the size spectrum, simply because that is where most microenterprises are.

³ Policy Determination No. 17 (PD-17), October 10, 1988, p. 2.

⁴ Carl Liedholm and Donald Mead, "Small Scale Industries in Developing Countries: Empirical Evidence and Policy Implications," MSU International Development Paper No. 9, Michigan State University, East Lansing, Michigan, 1987, p. 22.

C. Out of Poverty: The Goals of A.I.D.'s Microenterprise Program

A simple belief motivates A.I.D.'s involvement in microenterprise development. It is that for millions of the world's poorest people, the best hope for fighting poverty is to engage in their own entrepreneurial activities -- microenterprises. This is as true in the rural areas of Kenya where farmland is scarce and more than 29 percent of adults depend primarily on non-farm enterprises⁵ as it is in the slums of Lima, Peru, where the possibilities of a job in the government or a formal sector business are impossibly far away for most of the poor. Throughout the developing world, poor people find that they must make their own opportunities.

If microenterprises represent one of the most important avenues the poor have for escaping poverty, international donors like A.I.D. should seek ways to help those enterprises succeed. Since recognizing this imperative in the late 1970s, A.I.D. has explored the needs of microentrepreneurs, seeking ways to support not just the survival, but also the growth of their enterprises.

A.I.D. has adopted a "business-oriented" approach to microenterprise development. This has been contrasted with a "poverty-alleviation" approach, but, while their methods may sometimes differ, in both cases the target population is the poorest of the economically active population and the smallest of enterprises. A.I.D.'s approach recognizes that there can be no poverty alleviation without the sustainable flow of income and employment from an on-going business. Regardless of the scale or level of an activity, it must exhibit some business-like characteristics in order to bring in income and create employment. Products or services offered must have a market and be competitively priced, so that the enterprise will survive and produce income, employment, and growth.

D. The Basic Needs of Microentrepreneurs

What does a business orientation to microenterprise development mean? For the smallest enterprises, as for the largest, there are four basic business needs: a market for their products or services; business and technical know-how; access to resources; and a supportive environment in which to pursue their trade. A serious lack of any of these basic needs leads to business failure, and in the case of the poor, business failure may threaten the entrepreneur's ability to supply her family's daily living requirements.

A.I.D.'s approach to microenterprise development is built around these four basic

⁵ Peter Kilby and Carl Liedholm, "The Role of Nonfarm Activities in the Rural Economy," S&T/RD/EED, EEPA Discussion Paper No. 7, 1986, p. 3.

business needs. A.I.D. has found that each must be tackled in a different way, and in any particular situation, the needs that are lacking will determine the appropriate interventions. Box 1 and the paragraphs that immediately follow it describe what microenterprises need in each of these four areas, and outline the ways A.I.D. has found to assist them. The discussion differentiates between the activities that are clearly within the scope of microenterprise development and related activities that may also have an important impact on microenterprises.

BOX 1. THE FOUR BASIC BUSINESS NEEDS OF MICROENTERPRISES AND THE MEANS TO ADDRESS THEM

<u>Microenterprise Programs*</u>	<u>Related Assistance</u>
ACCESS TO RESOURCES: FINANCE	
credit programs	financial market policy
savings programs	reform
support to informal financial systems	
BUSINESS AND TECHNICAL KNOW-HOW	
training and technical assistance	vocational training
in business skills	appropriate technology
subsector-based assistance	programs
A SUPPORTIVE ENVIRONMENT	
assistance to microenterprise	reform of economic policy toward
advocacy associations	small and microenterprises
removal of barriers to formality	infrastructure
construction of marketplaces and incubators	
MARKETS FOR THEIR PRODUCTS AND SERVICES	
non-traditional export	general or regional demand-
assistance	increasing actions, e.g.:
subcontracting programs	small farmer assistance
subsector-based assistance	macroeconomic and sector reform

 * Activities in this column are counted towards the earmark when they are specifically directed at microenterprises.

1. Access to Resources: Finance

Every entrepreneur needs to be able to acquire business inputs: raw materials, tools and equipment, working or selling space, and labor. In some corners of the development community, there is frequently the presumption that credit is the solution to all of these problems. It is assumed that every entrepreneur needs to borrow in order to prosper. While A.I.D. agrees that credit is an extremely valuable service that outside donors can provide, it shies away from an exclusive focus on credit for two

reasons: first, extensive research confirms that the overwhelming majority of poor entrepreneurs get the money to finance their businesses from their own savings, from family and friends or from informal financial systems.⁶ Profits from farming or other enterprises, carefully saved, are often used to buy equipment for starting a microenterprise, and vice versa. Even in the United States, a country where access to credit for small business is a less severe constraint, only a fraction of small enterprises borrow. Most use savings and reinvested profits to buy what they need.

Second, A.I.D. cautions against an exclusive focus on credit because finance plays a supporting, rather than a leading role in any economy. Markets, skills and a supportive environment determine the potential for success of a business. Credit is powerless if these conditions are wanting.

That said, it is also true that in generally favorable circumstances, credit can be critical. Credit can be especially important for helping entrepreneurs to grow. A perhaps once-in-a-lifetime chance comes to a tailor in Malawi, for example, when he gets an order to make school uniforms for a local primary school. But without a short-term loan he may not be able to purchase the cloth to make them. If he gets the loan and fills the order, he may be able to market his services to other schools. If not, he will continue picking up orders one at a time from his ordinary customers. In short, credit can be very powerful.

A.I.D. has channeled most of its credit support through the non-governmental organizations that are often the only source of credit for poor potential borrowers other than informal lenders. In fact, it has been instrumental in supporting the development and dissemination of the minimalist loan-making methodology that underlies much of the current interest in poverty lending. A.I.D.'s role in developing this methodology will be discussed below, in section I.E.1.

2. Business and technical know-how

Given the highly competitive conditions that most microentrepreneurs face, they must be competent both in the technical aspects of their businesses and in management. Most microentrepreneurs develop these skills through informal systems of training. Parents pass down their business sense to their children, master craftsmen take on apprentices, and entrepreneurs learn simply through their own hard work and ingenuity. This tends to be sufficient for enterprises in markets that change slowly, and for enterprises that do not attempt to grow. However, as A.I.D.'s "Microenterprise Stocktaking Synthesis Report" points out, enterprises that are in the midst of growth

⁶ Liedholm and Mead, p. 39.

or transition frequently need new levels of knowledge.⁷ These entrepreneurs can benefit from outside assistance. This is true both for the very poorest who are attempting to operate an enterprise for the first time, moving out of absolute poverty, and for the microentrepreneur who is poised to expand her business from one employing two family members, to one with six or seven regular employees.

Business and technical skills can be transmitted in many ways, ranging from formal classroom training to indirect technical assistance. A.I.D. and U.S. private voluntary organizations have traditionally focused on training in business management, but A.I.D. is now exploring methodologies that help microenterprises deal with some of the more technical issues that are unique to particular product or service lines (subsector-based assistance). Whatever the nature of the assistance, strong local institutions, both formal and informal, are needed to deliver it.

3. A Supportive Environment

In countries throughout the developing world, governments have erected barriers to entry into the formal business world, by setting out requirements that the poorest people cannot meet. In Peru, an extreme example of this pathology, Hernando de Soto has documented both the costly requirements of complying with government regulations and the fact that the most dynamic part of the Peruvian economy operates "informally", that is, outside those regulations. However, the costs of being informal are high. They range from harassment by local authorities, to the lack of secure title to property, to the fact that informal enterprises cannot count on the legal validity of agreements or contracts they make. Throughout the world A.I.D. is supporting analyses of the relationships between the formal authorities and poor entrepreneurs, as well as joint action by groups of the poor themselves to seek change from governments.

National economic policy creates another set of conditions that microenterprises must face. These policies often determine the prices and availability of materials, energy and the like, as well as sales prices of goods and services produced. In many countries, these policies have been biased against small-scale and microenterprises. A.I.D. encourages governments to remove these biases. For example, when a country adopts market exchange rates and dismantles protection for import substitution industries, as A.I.D. often advocates, it makes it easier for the smallest enterprises to obtain imported tools, equipment or raw materials, inputs that otherwise would be available primarily to large firms. A wide array of policies A.I.D. promotes in its policy dialogue with developing countries work in similar ways.

⁷ James J. Boomgard, "A.I.D. Microenterprise Stocktaking: Synthesis Report," A.I.D. Evaluation Special Study No. 65, December 1989. pp. 12-13.

Basic infrastructure is another aspect of the general environment that should not be underestimated. Some students of development have argued that infrastructure has proven to be the single best determinant of improvement in the incomes of the poor, because infrastructure enables businesses to operate more efficiently and productively. Rural electrification allows entrepreneurs to switch from hand-operated to electric machines, which produces immediate results in the amount of time required to make products and in product quality. Village water supplies free women to work in microenterprises rather than spending time fetching water. Roads to poor areas provide access to markets that were previously unreachable.

4. A Market for Their Products or Services

Having a market for the goods and services produced is probably the most important of the four needs, though it is often difficult to satisfy. Most microentrepreneurs sell their products to poor consumers, (though there are also important markets for some enterprises among middle class consumers, larger businesses, local governments, and even exporters). Therefore, probably the best way to promote microenterprises is to make sure that the poor have increasing purchasing power. In developing countries that are dominated by agriculture (the majority of them), most poor consumers are small farmers. This means that a healthy, growing agricultural sector is an important, if not the important, precondition for microenterprise growth. By devoting a very substantial share of its total budget to small farm agriculture, A.I.D. has long been supporting microenterprises in a crucially important, though indirect, way. ⁸

While the poor remain the main outlet for microenterprise services and products, some other markets offer more growth potential, such as the provision of inputs to medium and large-scale businesses and exporters. When they connect with these markets, microentrepreneurs reach beyond the limited resources of poor communities, to buyers with far more money. Handicraft producers who sell to exporters can tap into the purses of affluent first world consumers. In the process, they bring additional sources of money into their own communities, rather than merely recirculating the meager resources already available. Reaching such markets is not easy for microentrepreneurs. They need to know how to find potential buyers, what kinds of products are in demand, how to meet quality standards, and the like. Because of their social position, it is often quite difficult for poor, uneducated people to get such information, especially working alone. A.I.D. sponsors programs that help microentrepreneurs to organize themselves so that they can negotiate with larger buyers, funds industry specialists to act as brokers between microentrepreneurs and larger buyers, and supports a wide variety of other approaches that pave the way for microenterprises to

⁸ Small farmer assistance is not counted in A.I.D.'s microenterprise program totals.

break out of limited markets. And when such highly leveraged interventions are successful, they may benefit a whole group, class, or industry subsector of producers, not just a few individuals.

Microenterprises generally grow best if the economy as a whole is growing, and growth requires a sound macroeconomic environment. The economic policies A.I.D. advocates at the national level seek to create growth. In particular, they seek to promote a type of economic growth in which the poor can participate.

A.I.D. does not count its support to macroeconomic policy reform, infrastructure, or agriculture as part of microenterprise development. However, it is important to understand that these diverse indirect interventions can be as important to the development of microenterprises as any form of direct assistance.

In summary, A.I.D.'s microenterprise program is built around addressing these four basic business needs: markets, skills, resources, and a supportive environment. The next section of the report gives a brief history of how A.I.D. has developed this program during the recent past.

E. A.I.D.'s Contribution to Microenterprise Development

1. Early Initiatives

A.I.D.'s commitment to microenterprise development has grown steadily since the late 1970s.⁹ At the beginning, governments, donors and private voluntary organizations were just beginning to examine the potential for working with small-scale and microenterprises, amidst significant skepticism that such work would be either successful or particularly important for economic development. A.I.D. sponsored

⁹ A.I.D. has sponsored a number of centrally-funded projects to study the nature of microenterprises and ways to assist them, and to transfer this knowledge to A.I.D. missions and to operational projects in developing countries. Among these projects are: The Off-Farm Employment Project; the Small Enterprise Approaches to Employment Project, with components: 1) Program for Investment in the Small Capital Enterprise Sector (PISCES), 2) the small-scale enterprise project's evaluation component, 3) Michigan State University research components, and 4) Assistance to Resource Institutions for Enterprise Support (ARIES); the Small Business Capacity Development Project; CDIE Evaluations (Searching for Benefits, and Microenterprise Stocktaking, among others); the Employment and Enterprise Policy Analysis project; the Growth and Equity through Microenterprise Investments and Institutions (GEMINI) project, and (in preparation) the Institutional Reform and the Informal Sector (IRIS) project.

investigations that have helped the development community at large to learn about microenterprises, and to develop proficiency in assisting them. A.I.D.'s work provided two very clear and important findings. These appear so obvious today that it is hard to remember that they were not widely believed just a decade ago.

First, A.I.D.-sponsored research demonstrated that small and microenterprises make important contributions to economic and social well-being in poor societies. This research, carried out largely by Michigan State University (MSU), has been particularly important in proving to the leaders of governments and development organizations that even the very smallest microenterprises, of fewer than five members, were economically productive. The diffusion of these findings has increased the interest in microenterprise assistance. MSU's studies, carried out in more than ten countries, produced data that are probably the single largest source of information on the composition, characteristics and performance of small-scale and microenterprises. The data show clearly that in many countries small-scale and microenterprises produce as many jobs, and in some cases as great a share of GNP, as large enterprises. In most countries, small-scale and microenterprises are the top source of jobs other than agriculture. The research also showed that contrary to some conventional wisdom, the demand for the products of these enterprises is growing, and that small enterprises make profitable investments.

Second, A.I.D.-sponsored studies and pilot projects in developing countries confirmed that it is possible to provide assistance to small-scale and microenterprises effectively. These studies were done under the PISCES (Program for Investment in the Small Capital Enterprise Sector) project, carried out by ACCION International, the Development Group for Alternative Policies, and Partnership for Productivity, and through a series of evaluations carried out by Development Alternatives, Inc. (DAI). The widely read PISCES studies and DAI evaluations have played an important role in increasing worldwide interest in microenterprise development to its current level.

One aspect of that work of which A.I.D. is particularly proud is its part in demonstrating that poor microentrepreneurs are good credit risks and that programs serving them can cover operating costs. These findings ran against the conventional wisdom of many donors at the time. A.I.D. has helped refine and spread the lending methodology known as minimalist credit, which underlies much of today's interest in microenterprise lending. During its work on PISCES, the U.S. PVO ACCION had the opportunity to identify and test this methodology widely for the first time. ACCION's subsequent success in applying this methodology has led both to recognition of ACCION as a leader in microenterprise development, and to the methodology's growing acceptance throughout Latin America. DAI's evaluation of the Badan Kredit Kecamatan (BKK) program in Indonesia, a program that uses a similar methodology, has been and continues to be influential. It has introduced many people to the principles of minimalist lending and convinced them that the methodology offers the

potential to be self-sustaining and to serve large numbers of borrowers.

Another important contribution of A.I.D.'s work in microenterprise development has been to build the managerial capacity of the local organizations and U.S. PVOs that implement microenterprise programs. PISCES concluded that microenterprise programs failed most often because the implementing organizations were not able to handle the management tasks required to run their programs in a businesslike way. Under the ARIES (Assistance to Resource Institutions for Enterprise Support) project, Nathan Associates and Harvard Institute for International Development have worked with such organizations directly and have developed training materials that help organizations improve their performance, particularly in the areas of strategic planning and financial management.

At the same time that it implemented these centrally-funded research projects, A.I.D. has been quietly supporting a growing portfolio of microenterprise projects throughout the world. In early 1989, an A.I.D. report provided information on 87 active microenterprise development projects, in 35 countries, with total life-of-project funding of \$290 million.¹⁰ In addition, the Office of Private and Voluntary Cooperation, in the Bureau for Food for Peace and Voluntary Assistance (FVA/PVC), has for several years been funding the microenterprise programs of U.S. private voluntary organizations and cooperative development organizations. For example, ACCION has received four matching grants since 1979 that have enabled it to extend its programs throughout Latin America. About 24 percent of FVA/PVC's funding for new matching grants awarded this year will go to PVO microenterprise programs.

2. The GEMINI (Growth and Equity through Microenterprise Investments and Institutions) Project

The GEMINI project is one of the major vehicles through which A.I.D. will strengthen its microenterprise program in the next five years. This project, begun in October 1989, was developed as a direct response to growing interest in microenterprise development in Congress and in the development community. It will work directly with missions in the design and execution of their microenterprise activities and will carry out research and development to further the state of knowledge about microenterprise assistance. The GEMINI project will bring academics, A.I.D., PVOs and other practitioners together to address questions in three important areas:

- o How do microenterprises behave over time? Growth patterns will be

¹⁰ William Doyle and Joseph Lieberman, "Microenterprise Stocktaking: A Statistical Look at A.I.D.'s Microenterprise Portfolio," A.I.D. Evaluation Special Study No. 63. A.I.D./PPC/CDIE, 1989. p. 2.

examined, to help understand what factors and interventions contribute to a microenterprise's growth (or failure); how microenterprises contribute to overall economic development in a country; and to discover how often microenterprises "graduate" to become small and medium-sized firms.

- o Methods for assisting microenterprises. Most of GEMINI's work on credit methodologies will focus on enabling credit programs to expand and become integrated into local financial systems. GEMINI will also experiment with new methods of non-financial assistance, especially methods that respond to the competitive circumstances of entrepreneurs, such as subsector-based assistance.
- o Developing the capacity of local institutions to carry out microenterprise programs. Picking up from ARIES, GEMINI will provide training, including regional workshops and training for host country microenterprise practitioners and A.I.D. staff.

The GEMINI team combines institutions that have contributed a great deal to the field of microenterprise development. The project is led by Development Alternatives, Inc., with Michigan State University, four specialized PVOs (ACCION, Technoserve, Opportunity International and World Education), and Management Systems International, a consulting firm.

3. Collaboration with the Peace Corps

Although Peace Corps volunteers have worked with small businesses in thousands of poor communities since the early 1960s, it was not until 1983 that it formally established a small business development program. Today, over 3,500 volunteers are involved in small and microenterprise development in some 60 countries.

In 1988, the late A.I.D. Administrator Alan Woodc joined Peace Corps Director Loret Ruppe in signing a memorandum of understanding to launch a two-year Microenterprise Development Program (MEDP). The purpose of the program was to build on existing collaboration between the two agencies to:

- o Develop a cadre of skilled microenterprise volunteers and counterparts who could train others in their communities; and
- o Increase the ability of local microenterprise development institutions and persons to utilize A.I.D. or other donor resources -- both financial and non-financial -- for their own development.

Under a Participating Agency Service Agreement (PASA), A.I.D. obligated \$1.1 million to the Peace Corps for MEDP activities in 1988 and 1989. Programs have been launched in Botswana, Mali, Ghana, Kenya, Costa Rica, Honduras, the Dominican Republic, Guatemala, Fiji, and Western Samoa. Technical training in enterprise development, the development of training materials, and the sharing of experience and information through international workshops have taken place using A.I.D. resources.

In March 1990, some 70 Peace Corps, A.I.D. and host-country leaders gathered for the first time to review lessons learned from the two years of work in MEDP and to make recommendations for the future. With fifteen participating countries represented, conferees drew on a wide array of practical experiences, clarified MEDP objectives, examined specific country programs, and assessed technical needs and resources available for addressing them. Conference participants reaffirmed their commitment to joint work on microenterprise development, and proposed that the collaboration under MEDP be extended through at least 1992. A report on the proceedings of the conference will be issued shortly.

F. The Microenterprise Legislation, and A.I.D.'s Response

In the Continuing Resolution for fiscal year 1988, the Congress included language requiring that A.I.D. devote at least \$50 million of that year's dollar obligations or local currency expenditures to "programs of credit and other assistance for micro-enterprises."¹¹ This legislation, and the discussions surrounding its passage, coincided with an increased interest in microenterprise coming from within A.I.D. The result has been increased attention to and action on microenterprise development during 1988 and 1989, which continues today. A.I.D. has responded to the legislation as the following sections describe.

1. The Advisory Committee on Microenterprise

The Committee Report that accompanied the FY 1988 Continuing Resolution called on the A.I.D. Administrator to "appoint an advisory committee composed of individuals from nongovernmental organizations who have experience in implementation of micro-enterprise credit projects in developing countries to assist the Administrator in developing the guidelines for this program."¹² A.I.D. appointed a committee of 17 individuals, chosen by the Administrator for their expertise in the field of microenterprise. The principal task of this committee has been to provide advice on

¹¹ Continuing Resolution for Fiscal Year 1988, p. 144.

¹² Committee on Appropriations, U.S. House of Representatives. Report on FY 1988 Continuing Resolution. p. 816.

the guidelines A.I.D. uses to define its microenterprise program. The Committee reviewed, commented on, and finally approved the guidelines which A.I.D. drafted. These guidelines have since been issued as a formal A.I.D. policy determination, PD-17, "Microenterprise Development Program Guidelines." Subsequently, the Committee reviewed the microenterprise stocktaking reports that A.I.D. commissioned to gain a better understanding of the nature of its microenterprise portfolio. In its most recent meeting, on February 16, 1990, the Committee recommended some key changes in the guidelines, discussed below, and further recommended some specific actions A.I.D. should take to assure that its microenterprise program continues to focus strongly on credit for the poorest entrepreneurs.¹³

2. Guidelines

The guidelines enunciated in PD-17 play a central role in A.I.D.'s response to the microenterprise legislation. The guidelines, together with the annual budget process, are the formal vehicles through which A.I.D. implements the legislation. The guidelines determine what activities can be counted towards the microenterprise earmark, and the budget process directs funding into such activities.

The guidelines deal, among other things, with four issues that the Congress considered during the debate over the legislation: loan size, poverty level of beneficiaries, gender of beneficiaries, and types of activities that fit within the microenterprise program. Some proposed versions of the legislation had originally called for the program to cover loans only, with a maximum loan size of \$300. Half of the loans were to go to women, and all the loans were to go to the poor, variously defined as the poorest 20 percent or the poorest 50 percent of the population. As the legislation was discussed with A.I.D. and other experts in the field, it was decided that a good microenterprise program would require greater flexibility than these parameters allowed. The statute, as finally passed, contained none of these restrictions. Report language accompanying the legislation "urged" and "recommended" that A.I.D. meet the target levels as often as possible.

The guidelines adopted by A.I.D. reflect some of this tension between the need for flexibility in programming and the desire to promote poverty lending. They state the following:

- o This earmark may be met through the funding of credit, technical assistance, training, or related activities directed at microenterprises.

¹³ The Advisory Committee's report has not yet been presented to A.I.D. Statements here about its most recent actions stem from votes taken in the Committee's public meeting in February 1990.

- o The average loan size should not exceed \$300 unless there are indications that larger-sized loans are needed to achieve the objectives of this program.
- o Programs should be designed ideally to ... make at least 50 percent of their resources (credit, technical, and training) available to women-owned and -operated businesses.
- o Missions should note that the conference report accompanying the appropriations legislation suggested some levels or classifications of program beneficiaries: (a) individuals in the poorest 50 percent of the populations, ... and (c) businesses owned and operated by the poorest 20 percent of the population.¹⁴

In short, A.I.D.'s guidelines reflect the spirit of the report language in directing the agency to emphasize small loans for the poor, while explicitly allowing the microenterprise program to be broader in scope than credit and more flexible in its terms, as the statutory language permits.

A.I.D. maintains that it met the earmark in fiscal years 1988 and 1989, by funding more than \$50 million and \$75 million, respectively, of new activities that fall within the guidelines offered by PD-17, using the full flexibility that they provide. Part II of this report details funding levels.

3. The Stocktaking Exercise

During 1988 and 1989, A.I.D. undertook an extensive review of its past and present microenterprise portfolio. This thorough investigation sought to discover "what works best under what conditions."¹⁵ The stocktaking exercise developed a data base of 32 selected projects, many of which were evaluated on-site. The purpose of this exercise was not to check on A.I.D.'s compliance with the earmark. In fact, the exercise sought to capture A.I.D.'s recent past experience. The reports examined the nature of the microenterprise activities receiving A.I.D. support, seeking to understand the issues that would be involved in creating a stronger microenterprise program in the agency.

The stocktaking report revealed that A.I.D.'s microenterprise portfolio was indeed a broadly conceived program oriented toward growth. It showed that A.I.D.'s support

¹⁴ The four bullets are from PD-17, pp. 2, 4, 3 and 3, respectively.

¹⁵ Boomgard, p. vii.

was fairly evenly divided between enterprise formation programs that help the poorest people start income-generating activities, enterprise expansion programs that help established microenterprises grow, and enterprise transformation programs that help turn the most successful microenterprises into more sophisticated small businesses.

The assistance methodologies applied were quite diverse, ranging from pure credit, to mixed credit and technical assistance, to pure technical assistance. Among the credit programs, average loan size ranged from \$508 for the formation programs, to \$705 for expansion programs, to \$3,261 for transformation programs.¹⁶ Women's participation was near or over 50 percent in the formation and expansion programs, but substantially lower in the transformation programs. Finally, it was found that while almost all microentrepreneurs were clearly poor, they were not the poorest of the poor, largely because the poorest were not involved in self-employment, but some other type of activity, such as subsistence agriculture. It also concluded that microenterprise programs had the greatest impact on the poor through increased employment in assisted microenterprises, and challenged the presumption of some "that the jobs created are inferior in income, risk, or working conditions to self-employment."¹⁷

4. Advisory Committee's Response to the Stocktaking

In its review of the stocktaking report, the Advisory Committee on Microenterprise affirmed the tenor of A.I.D.'s program with respect to its breadth of approach and its success in reaching women. However, it noted that there was a significant discrepancy between the size of A.I.D.'s loans and the target of \$300. The Committee considered whether it was more appropriate to ask A.I.D. to change its program or to change the PD-17 guidance on loan size. It chose the latter course, after committee members commented that:

- o In some countries, cost structures were such that \$300 was too small even for loans to the very poor.
- o A \$300 limit would not allow for A.I.D.'s program to serve the full range of microenterprises that lacked access to credit, and thus implied a strong preference for self-employment over job creation through enterprise growth.
- o Long run viability of lending institutions often demanded that loan sizes

¹⁶ Boomgard, p. 73.

¹⁷ Boomgard, pp. 54-55.

be mixed, in order to improve portfolio diversification and spread administrative costs.

The Committee acknowledged that in eliminating the \$300 target, A.I.D. would lose a simple, though imperfect, criterion for ensuring that benefits would go to the very poor. In a unanimous decision, the Committee voted that the \$300 loan recommendation be dropped from PD-17, and charged A.I.D. to develop other measures that would conclusively show that the activities indeed reached the poor.

PART II. THE STATUS OF A.I.D.'S MICROENTERPRISE ACTIVITIES

According to data collected from A.I.D. field missions and Washington offices in February 1990, A.I.D. provided \$58.8 million of new funding for microenterprise development in 1988, \$81.1 million in 1989, and expects to provide \$83.3 million in 1990 (see Table 1).¹⁸ This funding supports a multi-faceted set of activities. In 1990, 44 percent of the total will be used for loans to microenterprises; 23 percent for training and technical assistance to entrepreneurs; 20 percent for support to implementing institutions; 4 percent for policy and regulatory reform activities; and the remaining 9 percent for a mixture of several types of assistance (such as in-kind grants of tools and equipment, or building premises for microenterprises). A.I.D. is carrying out microenterprise activities in 47 countries. The total number of projects identified is 170, and these projects will, over their lifetimes, provide \$390 million in assistance to microenterprises. Roughly two-thirds of A.I.D.'s microenterprise activities are funded from U.S. dollar obligations and one-third are from local currency generations.

TABLE 1. SUMMARY OF A.I.D.'S MICROENTERPRISE ACTIVITIES
(in thousands of dollars)

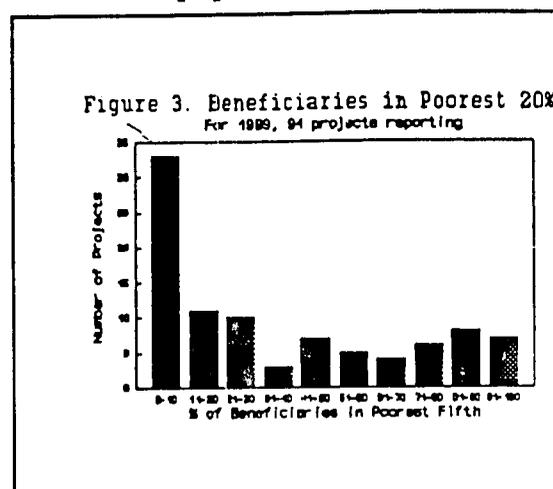
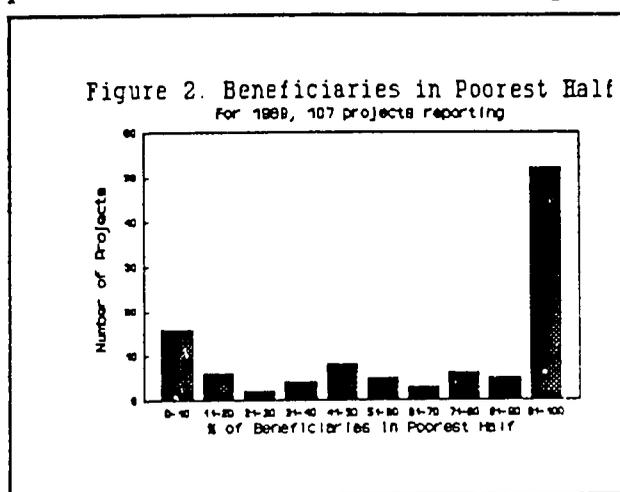
ACTIVITY TYPE	1988 ACTUAL	1989 ACTUAL	1990 ESTIMATE	LIFE OF PROJECT
Loans to Enterprises	18,434	30,255	36,374	124,051
Training and Tech. Assistance	15,350	19,294	18,810	115,985
Institutional Development	14,165	17,666	16,876	39,081
Policy and Regulatory Reform	2,182	3,735	3,625	13,504
Other	8,700	10,149	7,631	47,489
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TOTAL	58,831	81,099	83,316	390,110

The enterprises receiving assistance are indeed very small. For each separate project, missions reported on the average number of employees in the assisted enterprises. For 1988, the median project reported an average enterprise size of one. In 1989, that figure was two. In other words, half the projects are working mainly with one or two

¹⁸ These figures vary slightly from those reported previously for two reasons. First, A.I.D. missions are following the guidelines of PD-17 more closely in determining what to include as microenterprise activities. Second, these totals only cover mission-funded activities and support to PVOs and CDOs provided by FVA/PVC. Other centrally-funded activities are not included in the totals. Figures reported in this document should be considered as superseding estimates reported on earlier occasions.

person enterprises. The remaining projects work with a mix of enterprise sizes, up through ten employees, but even these projects are oriented towards the smaller firms. Only 26 of the 132 projects reporting on size of enterprises showed the average number of employees to be above five.

A.I.D.'s support does reach the poor. In the median A.I.D.-supported project, 90 percent of the beneficiaries are in the poorest half of the population (see Figure 2).¹⁹



However, the majority of beneficiaries in most programs are not in the very poorest group, the lowest fifth of the income distribution. In the average program for 1989, 37 percent of beneficiaries are reported to be in the very poorest income group (see Figure 3).²⁰ In interpreting this information, it is important to note that in many countries, particularly in Africa, the overwhelming majority of the population is poor, so that a program would not have to reach the lowest group to reach the truly poor. Moreover, in many of these same countries, the very poorest group consists largely of people who do not engage in microenterprise activities, such as subsistence farmers,

¹⁹ Beneficiaries are defined as the microentrepreneurs who own the enterprises. Data on the income levels of their employees is not available. If it were, it would likely show an even greater impact on the poor.

²⁰ Data on beneficiary characteristics are not available for all programs. In general, A.I.D. field missions were able to report on the proportion of female beneficiaries, except where benefits to microenterprises were indirect, as in some institutional support and policy reform activities. Data on the poverty level of beneficiaries were less frequently available, at least in the form requested. For example, the Dominican Republic mission reported that it could obtain income data on beneficiaries; however, as no national income distribution survey has been done since 1984, it could not reliably translate income figures into population percentiles.

laborers, or dependents (children, the aged, the infirm), or people who live in remote areas where microenterprise projects do not operate. Put another way, the very fact that someone is carrying on an enterprise activity may place that person above a significant fraction of the rest of the population. A handful of the reported projects serve primarily beneficiaries above the 50 percent mark. A.I.D. will review these projects to determine why missions have counted them as microenterprise activities.²¹

A.I.D.'s projects for the most part serve substantial numbers of female entrepreneurs, but there is room for improvement. In the average program for 1989, 37 percent of the beneficiaries were women. A few programs are directed almost entirely at women, but others serve mainly men (See Figure 4). A.I.D. will review the programs with very low female participation to identify and reduce obstacles to women's participation inherent in their design.

A.I.D.'s support to microenterprises is fairly evenly divided among the three geographic regions, with 5 percent of the 1989 total coming from centrally-funded support to PVOs and CDOs (see Figure 5). Africa received the largest share in 1989. Funding for microenterprise development is growing rapidly in Africa, while remaining relatively stable in the other two regions. The character of support to microenterprises shows

clear regional patterns. Projects in Latin America are heavily oriented toward credit, with more than two thirds of all funding in 1989 and 1990 supporting loans (see Annex Table 2). In the other two regions, activities are more evenly split among all program types. In Africa the lower relative level of funding for credit may reflect a

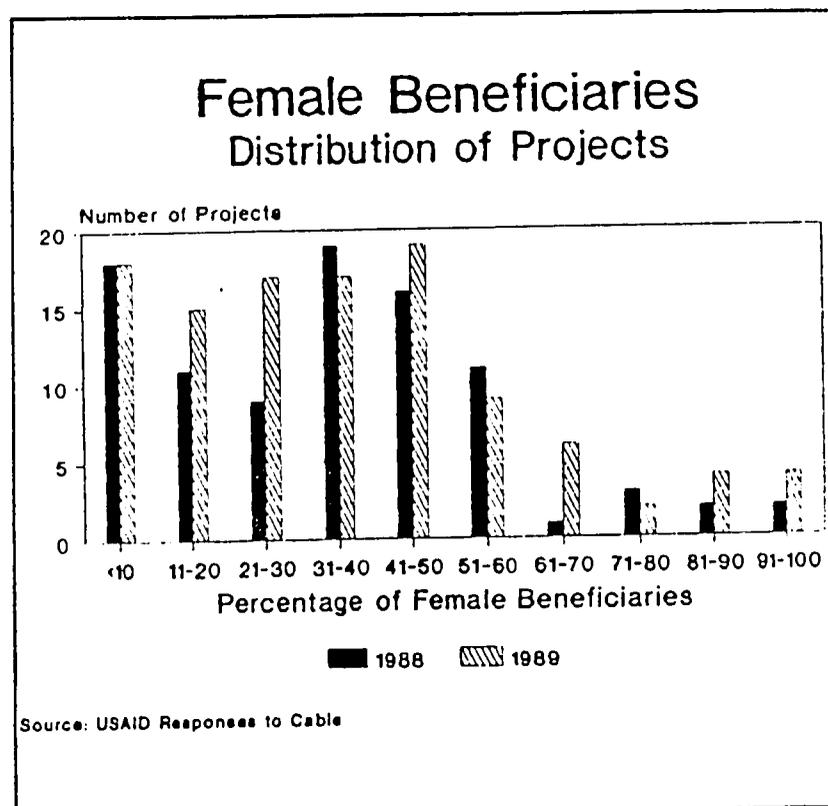


Figure 4

²¹ Such reviews could not be completed as part of this data collection effort. This report relies on determinations made by missions in light of PD-17 guidance.

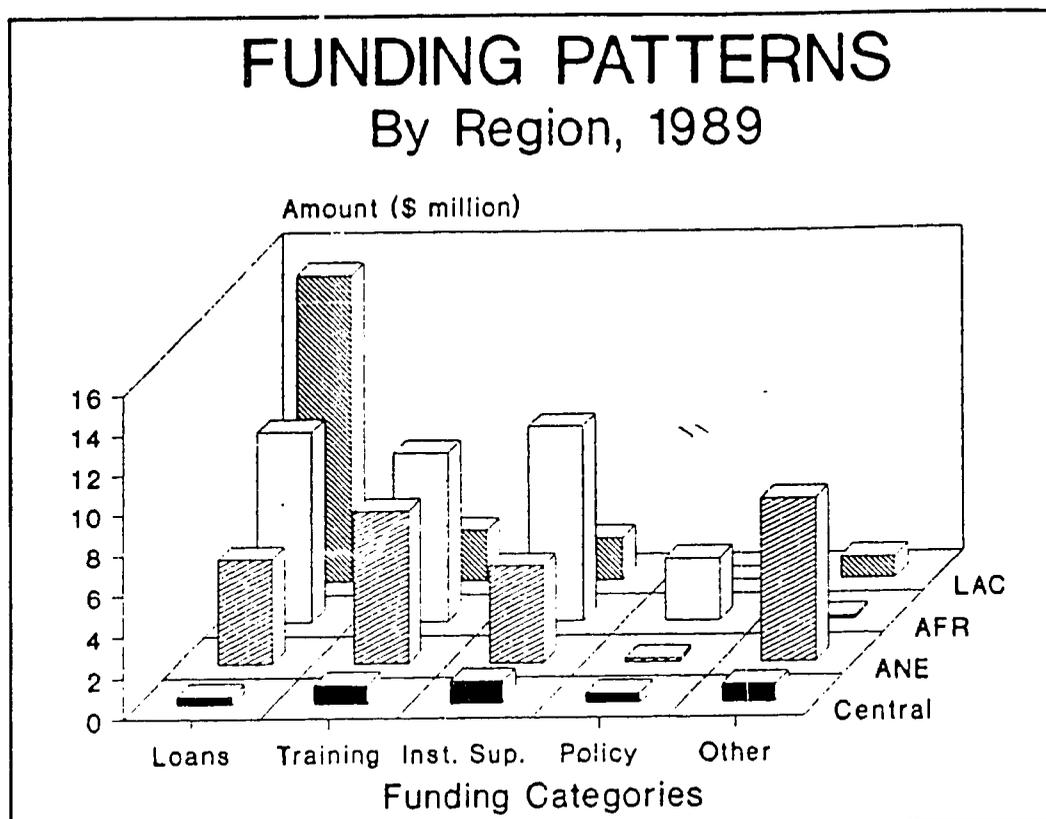


Figure 5

paucity of institutions capable of supporting large credit funds and the consequent greater investment in institutional development. In Asia, a large share of funds (31 percent in 1989) goes to other types of programs, such as direct grants, of money or tools and equipment, and construction of market premises.

To explore these data further, it is useful to examine how A.I.D.'s activities address each of the four basic business needs of microenterprises: access to resources through finance, technical and business know-how, a supportive environment, and markets. In addition, a closer look at A.I.D.'s institutional development activities is needed.

A. A.I.D.'s Approach to Credit

Microenterprise credit programs address the inability of the poor to get credit from formal financial institutions. This problem affects microentrepreneurs with business activities of all sizes. Commercial banks and most government development banks simply do not serve the genuinely poor. A.I.D. and others are beginning to share a vision of a time when this problem largely will be solved, through the operation of specialized financial institutions that have learned to lend to microenterprises at very low or no subsidy. That time is not yet here, but the accomplishments of programs like BKK, KUPEDES, Grameen Bank and ACCION International have given promise that

the vision may eventually be realized. (See Box 2 for a discussion of ADEMI, an ACCION affiliate that epitomizes A.I.D.'s aspirations in microenterprise credit.) This vision depends on the birth, nurturing and growth of sound institutions whose purposes include the provision of credit and other services to poor microentrepreneurs. If we take such a perspective, it is immediately apparent that what matters most is helping institutions to reach large numbers of the poor, with low or no subsidy. Loan size and other particular terms of a program must be decided in view of the health of each institution, not in advance or from outside. The large, successful microenterprise lending institutions differ from each other in many respects, including size of loans, lending mechanics, use of group lending, and loan terms. What they have in common are lending methodologies that blend informal finance techniques with modern, streamlined credit management. This method is often called minimalist credit, and is illustrated in Box 2 by the ADEMI project. It involves short term loans, with very little accompanying technical assistance, and reliance on the prospect of repeat loan to motivate borrowers to repay.

A.I.D.'s microenterprise portfolio reflects the fact that the elements of success in this difficult endeavor are only beginning to be understood. There simply are not very many institutions throughout the developing world that have demonstrated the potential to become large, low-subsidy microenterprise lenders. A.I.D. cannot create an ADEMI simply by providing funds, because local talent and commitment are essential, but A.I.D. can assist institutions that show promise. However, until credit programs show that they are on the track that leads to expansion and sustainability, the amounts of funding that A.I.D. can justify are limited.

Given continued institutional development, however, A.I.D. has been able to increase the amount of funding it devotes to microenterprise lending rather rapidly. In 1989, A.I.D. supplied \$30.3 million in funding for microenterprise lending, up from \$18.4 million in 1988. It expects to supply \$36.4 million in 1990. In other words, A.I.D.'s funding for credit has nearly doubled in two years. This credit portfolio is clearly micro. It is not directed primarily toward the upper end of the size distribution, but serves microenterprises of all sizes and types. The average loan size was \$329 in 1988 and \$387 in 1989 (see Table 2)²². Nearly half of all the loans A.I.D. finances for microenterprises are smaller than \$300.

²² Figures in Table 2 are based on loans made (that is, expenditures by the lending organization), while those in Table 1 and the Annex Tables are based on A.I.D.'s dollar obligations and commitments of local currencies to the organizations. Therefore, they are not directly comparable.

BOX 2. ADEMI: CREDIT FOR MICROENTERPRISE GROWTH

A.I.D.'S philosophy toward microenterprise credit is well illustrated by the example of ADEMI (La Asociacion para el Desarrollo de Microempresas, Inc.) in the Dominican Republic. A group of prominent local citizens started ADEMI in 1983, with technical support from ACCION International and, shortly thereafter, financial support from A.I.D., to serve poor entrepreneurs. ADEMI set its sights on growth: both for its own operations and for the enterprises of its borrowers. It aimed to become a nationwide program that would make a difference in the incomes, jobs and well-being of the poor, and through this to contribute to the economic and democratic development of the Dominican Republic. As businessmen, the founders of ADEMI saw that the bottom line for the program was financial self-sufficiency. This would enable it to raise the large amounts of funds needed to reach throughout the nation, and to continue to serve those borrowers year after year. ADEMI's program is designed to achieve financial self-sufficiency.

- o Its lending methodology is both low-cost and convenient for borrowers.
- o Interest rates and fees cover the cost of funds and operations.
- o Advanced information systems enable management to keep close tabs on performance.
- o Borrowers are motivated to repay by the prospect of repeat loans.
- o ADEMI seeks new clients while continuing to serve its growing older clients.

As a result of its businesslike approach, ADEMI has in six years expanded from one to 20 branch offices. It serves approximately 7,000 active clients, including about 300 new clients per month, a significant share of the total microenterprise population. Remarkably, its interest income now covers all of its operating costs and costs of borrowing, which includes interest on a sizeable private commercial bank loan.

ADEMI's growth orientation extends to its clients. It focuses on production enterprises, because of their growth potential. The job creation and multiplier effects of a growing enterprise bring income into the poorest areas. ADEMI estimates that one new job is created for every \$1,000 lent. The following anecdote illustrates how ADEMI stays with its clients as they grow.

Seven years ago, Teofilo bought cups, plates, and vases and sold them on the streets. He barely made enough money to survive. Today, he is a small manufacturer of ceramics, with 40 employees, two workshops, and 10 imported kilns. He attributes much of his success to the support he received from ADEMI. Teofilo used his \$150 first loan to purchase finished goods which he then sold. ADEMI continued to lend gradually larger amounts to him as his business grew, and as he showed that he could repay. He put aside enough money to invest in the equipment needed to manufacture the ceramics, again with the help of an ADEMI loan. Within a few years, Teofilo's business was thriving and he had hired several workers, but it was still far too small and lacking in collateral for commercial bank standards. At this point, Teofilo's credit needs had progressed well above \$1,000. ADEMI's staff realized that he had nowhere to turn, except ADEMI itself. They have continued to finance Teofilo's business. Teofilo has also helped a large number of youngsters from his rural home town to get a good start. His workshop has become an on-the-job training program for tens of unskilled youth whose alternative is unemployment. Some will probably start their own enterprises, and become ADEMI clients.

TABLE 2. A.I.D.'S MICROENTERPRISE LENDING (Summary Statistics)

ACTIVITY TYPE	ALL LOANS		LOANS UNDER \$300	
	1988	1989	1988	1989
Number of loans	58,786	75,283	41,313	46,360
Amount ('000)	\$19,323	\$29,164	\$5,540	\$5,525
Average loan size	\$329	\$387	\$134	\$119

Some of the programs A.I.D. supports focus on a particular loan size, but many others lend across a range from less than \$100 to more than \$1,000. Within this range, a seamstress in Honduras can progress from buying pieces of cloth to sew on a rented sewing machine, to purchasing her own machine. An important lesson from microenterprise programs that include a range of loan sizes is that an orientation toward microenterprise growth is highly compatible with a commitment to the poor. The growth and employment creation that results from staying with enterprises as they grow may provide more income for the poor than a strategy that has an arbitrary cut-off point.

B. Business and Technical Skills: Non-Financial Assistance

Development professionals who work with microenterprises throughout the world recognize that microenterprises do not always need to borrow money, but instead often lack critical business or technical skills. This understanding is particularly important in determining the most appropriate intervention to help the poorest people just starting an income-generating activity (enterprise formation) and for microenterprises seeking to grow to a new level of sophistication (enterprise transformation). Because of their close connection to growth, training and technical assistance always have been an important part of A.I.D.'s assistance to microenterprises. A.I.D.'s support for training and technical assistance has been growing slowly from \$15.4 million in 1988 to \$18.8 million projected for 1990. These activities account for about a quarter of the whole microenterprise portfolio.

However, the area of non-financial assistance is still in development, because few of the standard types of programs have been able to prove that they are cost-effective. The standard approach involves training in general business skills, such as record-keeping, marketing, and managing money and inventory, often as a prerequisite to receiving credit. Such programs may be costly, and it has been difficult to confirm the extent to which they benefit microenterprises and microentrepreneurs. Recognition of this problem was partly responsible for the emergence of the minimalist credit methodology mentioned above, which A.I.D. strongly supports, and which largely eschews training and technical assistance.

On the other hand, A.I.D. has helped implementing organizations improve their methods of providing non-financial assistance in three ways:

- o Concentrating technical assistance efforts in programs that work with business formation or transformation, where needs for new skills are strongest.
- o Developing the capacity of organizations to provide standard types of training more cheaply and with better effect.
- o Focusing assistance on the most binding constraints, such as markets and technical skills.

Under A.I.D.'s ARIES program, for example, Nathan Associates has reviewed training materials in use throughout the world, is adapting the best materials, and will make the new packages available to A.I.D. missions, U.S. PVOs and host country implementing organizations worldwide.

A.I.D. also is promoting a methodology known as subsector-based assistance that works on the market and technical constraints facing entrepreneurs in the same product line. This approach recognizes that tailors, for example, share common problems with other tailors that may have little relation to the problems faced by, say, street vendors. A recent study in Malawi found that tailors might face constraints because of import duties on cloth, competition from sellers of second-hand clothes, lack of access to large retail outlets, and lack of spare parts for sewing machines, among others. These are problems that neither credit nor training in general business skills will solve. A.I.D. has experimented with projects that address the needs of specific subsectors, working both directly with microentrepreneurs, and indirectly at levels that affect large groups of enterprises. A.I.D.'s most thorough effort to develop subsector-based assistance was the Central Java Enterprise Development Project (CJEDP) in Indonesia (see Box 3). Under the GEMINI project, A.I.D. will experiment with and promote subsector-based assistance with field missions, seeking to increase the now very small capacity to implement such potentially highly-leveraged programs.

C. Institutional Development

Because the microenterprise development field is still young, institutional capacity is often wanting, and varies greatly from one country to the next. A.I.D. has worked most frequently with local nongovernmental organizations, but there are other types of institutions, including governments, financial institutions, and business associations that could, with assistance, become more active in microenterprise development. Communications between programs has been limited, so that learning is a very slow

BOX 3. THE CENTRAL JAVA ENTERPRISE DEVELOPMENT PROJECT (CJEDP)

These examples illustrate how CJEDP worked (with A.I.D. funding) in two of its four subsectors.

1. New Technologies for Poor Shrimp Farmers. Along the north coast of Central Java, fish ponds are the primary source of food and income for more than 18,000 families, many of whom earn less than \$250 per year. The method of the poorest pond farmers has been simply to capture and raise shrimp swept into the coastal ponds by the tides. With the shrimp market expanding, CJEDP saw a risk that these small and poor farmers could be squeezed out by large-scale operators using modern technology. The problem was not lack of credit assistance -- that had been tried and had failed -- but primitive methods.

CJEDP supported experiments by aquaculture experts to find ways for poor farmers to increase their yields without major up-front investments. It funded a local non-profit organization, Dian Desa, to carry out the work. Dian Desa developed a model hatchery to grow shrimp fry and sell them to the farmers -- a better source than the tides. It also created demonstration ponds, to show pond farmers how to raise more shrimp in the same body of water, and developed a nutritional shrimp feed that small farmers could afford to buy.

Dian Desa taught individual farmers how to use the new methods. When the first farmers produced yields more than triple their old harvests, other farmers signed up in great numbers. Now, after A.I.D. support has ended, Dian Desa continues to teach the new methods to small pond farmers, financing that outreach from the revenues produced by its hatchery.

2. Matching Products to Markets: The Metalworking Sector. In this sector, CJEDP acted as a broker for microenterprises and larger markets. Suyitno was one of a hundred or so skilled foundry men in the village of Ceper whose business had suffered from the closure of the railroad repair year years earlier. Like his father and his grandfather, Suyitno earned a meager living by casting scrap iron into crude implements.

One day, Suyitno was visited by Mr. Budi, a businessman from a neighboring city, who owned a factory that made simple machinery for bending and smoothing rattan poles. Budi thought that the small-scale foundry men in Ceper could produce some pieces of the machines more cheaply than he could, and he asked Suyitno to organize them and to oversee the casting of some samples. The samples were suitable, and orders came in regularly for more than two years. Suyitno's firm grew. He added new work space and several young employees. But then, as quickly as it began, the orders from Budi stopped. There was no apparent reason.

Suyitno turned for advice to Anton, the director of the metal subproject of CJEDP. Anton found that demand for the rattan machines had grown faster than anyone could have imagined and the market had expanded across the entire country. Unfortunately, Suyitno's frame parts could not pass the Department of Industry's new standards because of inferior molds used in casting them.

Anton met with Budi and Suyitno to find a solution. Suyitno believed that if the local founders could obtain aluminum molds, they could match the quality of the larger factory which was now supplying the products -- at a lower price. Anton proposed that the CJEDP project would supply these molds if Budi would pledge to continue to work with the local small producers to develop new products. CJEDP spent approximately \$1,500 for molds that preserved the jobs and improved the capacity of 10 microenterprises.

process. A.I.D.'s institutional development activities are critical not only to A.I.D.'s ability to fund direct credit and training for entrepreneurs, but also for the development of strong microenterprise programs in developing countries that can attract support from other donors, governments, and the private sector. In 1989, 22 percent of all A.I.D.'s funding was used for institutional development. Approximately this level of commitment is expected to continue in 1990.

A large share of the funding that A.I.D. provides directly to U.S.-based PVOs and CDOs is used for institutional development. Typically, FVA/PVC grants enable PVOs to make the investment they need to develop new microenterprise programs. This support has been especially important for the socially-oriented PVOs, such as CARE and Catholic Relief Services, which historically have not served microenterprises. A.I.D. funding has helped such PVOs to "retool": to learn about microenterprise development, hire professional staff, design strategies, and train field staff and the staffs of their indigenous partner organizations. For PVOs primarily oriented toward microenterprise development, FVA/PVC support has provided room for experimentation that improves assistance methods.

A.I.D. has long supported central projects that seek to identify lessons of experience and disseminate them widely, including the PISCES, ARIES, and GEMINI projects. The teaching that these and other projects have done has involved a) widely circulated written documents; b) professional conferences and workshops both in the United States and in the field; c) direct technical assistance to A.I.D. missions and their projects; d) building a cadre of experts in microenterprise development; and e) providing opportunities for practitioners to learn from each other. Examples of the last item include support to the Small Enterprise Education and Promotion (SEEP) Network, which provides a forum for coordination and exchange of information among U.S. PVOs and their affiliates, and the development under ARIES of teaching cases on strategic management and credit management. These products provide vehicles for practitioners to learn from each other.

Two of the approaches to microenterprise development that A.I.D. finds most promising have intensive requirements for institutional strengthening:

- o Achieving financial self-sufficiency and expansion in credit programs is very difficult. Existing institutions have to restructure, and new institutions must begin on a businesslike footing. In Honduras, for example, A.I.D. is funding a full-time advisor to help its microenterprise program grantees to computerize their credit operations, an essential prerequisite to cost reduction in programs that hope to reach large numbers of borrowers with small loans.

- o Subsector-based assistance will require the development of new analytical and practical skills among implementing organizations, as well as new institutional structures.

D. The Supportive Environment: Policy and Regulatory Reform

Through its work in policy and regulatory reform, A.I.D. encourages governments to create an operating environment that is supportive of microenterprise development. Economic policy and government regulations create two related, but distinct aspects of that environment. Because much of A.I.D.'s work in these areas is negotiated through complex non-project assistance agreements, it is difficult in most instances to attribute specific amounts of funding directly to microenterprise assistance. Accordingly, although only \$3.6 million in 1990 funding will be devoted specifically to microenterprise policy reform, many elements of much larger reform programs will lead to improvements in the environment in which microenterprises operate. In the realm of economic policy, microenterprises must often contend with a system that has been established to promote large, capital-intensive, import substitution businesses. A.I.D. typically attempts to persuade governments to dismantle these protection systems, which hurt the economy as a whole, because they gobble up large implicit and explicit subsidies. A.I.D. recommends steps such as reducing the flow of subsidized credit into large businesses, and freeing access to imported spare parts and raw materials. Such steps make it easier for small-scale and microenterprises to compete for access to resources. These efforts are supplemented by research that identifies problems specific to microenterprises, as illustrated in Box 4.

In the area of government regulations, as Hernando de Soto has pointed out, the relationship between state and private enterprise in many countries is not healthy: the state wants to control business activity rather than to provide a level playing field.²³ To avoid regulations that would ruin their businesses, the poor are forced to direct their entrepreneurial energies through informal channels.

Informality, however, often raises the costs of doing business and inhibits growth. For example, lack of secure property rights denies the use of property as collateral for obtaining loans, and the inability to enforce contracts constrains the formation of partnerships and the sharing of facilities and technologies. Police harassment often results in bribes that directly reduce profits and incomes among the poor. A.I.D. believes it crucial to change the state-business relationship to make formality easier to achieve, and to reduce the costs of being informal. A.I.D. supports the development of

²³ Hernando de Soto, The Other Path: The Invisible Revolution in the Third World, New York: Harper and Row, 1989.

**BOX 4. THE VALUE OF INDIRECT ASSISTANCE:
THE TRADITIONAL BEER BREWERS OF BOTSWANA**

A.I.D. has found ways to influence whole groups of microentrepreneurs, by working indirectly. A simple study and the actions that followed from it led to striking improvements in the livelihoods of the thousands of home-based sorghum beer brewers in Botswana.

Sorghum beer is a thick, bitter drink that provides a major source of calories in a country with an often inadequate diet. Women, living in poverty on the barren plains, brew the beer at home, to pay for the few products they must buy rather than make themselves.

A.I.D. supported an analysis of the market for traditional beer. The study examined possible competition from factory brews, and ways to make home-based production more profitable. The analyst, who worked with the Government of Botswana, brought some far-reaching facts to light. First, by showing how many lives depended on the income from beer brewing, he helped convince the government not to approve a new factory in Botswana that would have squeezed out the traditional brewers. Second, he found that brewers who used commercially produced malt as an input had higher incomes than those who made the malt themselves. In response, the Ministry of Commerce and Industry launched an educational campaign to encourage brewers to use commercial malt. Finally, the analyst found that local authorities were harassing home brewers, at least partly because of the undue influence of the competing factory brewers. The government took action to end the harassment.

Each of these steps was very important to the home brewers. Their incomes rose, and their futures were protected. The analysis A.I.D. sponsored, and the steps the Government took in response, cost little, especially in comparison to the number of people whose enterprises they touched.

indigenous institutions that can engage in dialogue directly with the government, such as de Soto's Institute for Liberty and Democracy (ILD) in Peru. In fact, A.I.D. has provided a grant to ILD to enable it to act as a worldwide resource institution, to spread its approach and methodology throughout the developing world. Delegations from several countries in both Asia and Africa have visited the ILD for training. These visits are intended to spark actions in the visitors' home countries.

Taking this concept one step further, a new project, Institutional Reform and the Informal Sector (IRIS) is now under design, and will begin in the summer of 1990. The IRIS project will support developing country organizations in identifying the legal, institutional, and administrative impediments enterprises face and in developing strategies for correcting these deficiencies. Support will take the form of collaborative research between U.S. and indigenous institutes, training, promotion of direct interaction between such institutes in different countries, and support to increase the capacity of these institutes to administer effective research and advocacy programs.

E. Markets

As described in Part I of this report, the most important condition for the success of microenterprises is growth of their markets. Given the nature of microenterprise markets, growth requires increasing purchasing power among poor consumers. A.I.D. works with host governments to promote nationwide economic growth through structural adjustment and policy reform. Equally important in this context, A.I.D. has long provided assistance that increases the purchasing power of exactly the kinds of poor consumers microenterprises serve.

General efforts to expand markets are not classified as part of the microenterprise program, because they foster a wide variety of benefits, with microenterprise growth one happy by-product. Nevertheless, a strong link exists between A.I.D.'s support to small farmers and its microenterprise activities. Small farmer development has been one of the foundations of A.I.D.'s approach to economic development for at least two decades. In many ways, the interest in microenterprises grew out of the realization by those who studied small farmers of the multitude of non-farm entrepreneurial activities that took place in small towns and rural areas, and out of a desire to understand the mutually supportive relationship between farmers and other entrepreneurs. As a result, A.I.D. has always defined microenterprises as non-agricultural activities. However, some observers prefer to make no distinction between the two, as the people involved in them are often the same. If A.I.D. were to adopt a definition of microenterprise that included micro-farmers, it would be able to show hundreds of millions of dollars in microenterprise credit each year, because it continues to sponsor major programs of small farmer credit throughout the world.

PART III. A.I.D.'S NEW MICROENTERPRISE PROGRAM

The past two years have provided A.I.D. an opportunity to take stock of its various microenterprise activities, both to develop a better picture of the scope and nature of its investments, and to gain an improved understanding of the most effective ways to work in this field. With that important preparation, A.I.D. is now poised to meld its activities into a more comprehensive microenterprise program, and indeed, has already taken several steps to do so. While budget constraints and earmarking mean that the total amount of resources going into microenterprise development cannot expand significantly, their consolidation into a more visible and systematic program will mean that those resources will be used more effectively, and will carry greater benefit to the poor. A.I.D. is pleased to take this opportunity to describe the program.

A. Direct Financial Support to Microenterprise Programs

The heart of the program will, of course, be the funding A.I.D. provides directly to microenterprise projects, primarily through field missions. Through this funding, A.I.D.'s objective will be to build strong, sustainable microenterprise programs in host countries, programs that will benefit the poor substantially, both in the near term and into the future. A.I.D. will continue to apply its funding to a diverse set of activities that address the four basic business needs, as well as the requirements of institutional development needed to support direct assistance. However, as part of the new program, it proposes to promote greater emphasis, including increasing annual funding, on three types of programs:

- 1) credit programs that use a minimalist credit methodology;
- 2) experimental forms of non-financial assistance; and
- 3) regulatory reform activities.

These are the types of programs that have shown the greatest promise in recent years for sustainably improving the performance of microenterprises. Increasing the share of microenterprise assistance devoted to these activities will require an internal effort of promotion and education with A.I.D. staff and the staffs of organizations A.I.D. works with. This promotional effort is an important aspect of the new program, as described below.

Another important part of A.I.D.'s funding will come through the Office of Private and Voluntary Cooperation (FVA/PVC) for activities carried out by PVOs and cooperative development organizations. FVA/PVC has actively encouraged U.S.-based organizations to work in microenterprise development, and has worked closely with several traditionally relief-oriented PVOs to create and strengthen their microenterprise

programming capacity. It also has promoted participation by cooperative development organizations in microenterprise development, including innovative pilot efforts such as the recent grant to the World Council of Credit Unions and the National Cooperative Business Association to improve credit unions' services to microentrepreneurs. FVA/PVC is now assisting several PVOs to gain experience with "village banking" programs. FVA/PVC encourages new grant proposals for microenterprise activities. With the help of the GEMINI project, FVA/PVC will work to build the capacity of U.S. PVOs, and through them to help improve programs administered by their partner organizations in the field. PVC has a long-term commitment to invest in PVOs' technical and management capabilities in microenterprise development, working in collaboration with mission funding of U.S. and local PVOs.

Finally, A.I.D. plans to continue its close working relationship with the Peace Corps' microenterprise program, because it complements the agency's efforts to reach the poor, increase incomes, and generate jobs. The Microenterprise Development Program (MEDP), described earlier, will be extended through at least 1992. MEDP combines the human resources of the Peace Corps with A.I.D.'s financial resources to achieve greater effect from both. Several new countries will be brought into the program. The future focus of this collaboration will be the development of local institutions that serve the business growth needs of very small enterprises in the communities in which Peace Corps volunteers work. A.I.D. will provide extended support for training of volunteers and their local counterparts, the creation and use of innovative training materials, and workshops and conferences to reach poor business men and women.

The kind of program A.I.D. wishes to pursue involves experiments in many countries, as is reflected by the current dispersion of the microenterprise program in 47 countries. In the near term A.I.D. proposes to maintain mission and central bureau programming near its current level. Although A.I.D. would like to be able to expand the microenterprise program, the realities of its budget prevent this. Limitations include the geographic concentration of A.I.D. funds, particularly in countries where most U.S. assistance is structured in a way that precludes its use for microenterprise development, such as Eastern Europe. At the same time, discretionary development assistance funds are being reduced for countries that are not in the political spotlight. In some countries, where strong institutional capacity is lacking, it is difficult, even unwise, for A.I.D. to spend too much on microenterprise development simply because it has funds available. In future years, as institutional capacity grows in host countries and as budget constraints may ease, A.I.D. hopes to be able to expand its microenterprise program more significantly.

B. Support for the New Program

Turning a disparate set of activities into a focused program will require an agency-wide effort of promotion, education and coordination, which A.I.D. is prepared to

undertake. The real action on microenterprise development must take place in field missions, where new projects are shaped. Missions need support in order to build their own capacity to design and implement better microenterprise projects.

A.I.D./Washington has set the stage for mission support by creating a new Office of Small, Micro and Informal Enterprise Development within the Bureau for Private Enterprise to take the lead in coordinating and implementing the program. That office will be responsible for the various elements of the program, including the GEMINI project, the Peace Corps program, the microenterprise monitoring and information system, liaison with A.I.D.'s Advisory Committee on Microenterprise Development, and coordination of microenterprise field projects within the agency.

At the same time, the regional bureaus will be asked to place increased emphasis on the microenterprise activities of their regions. The Africa Bureau has already done this, by funding a regional advisor whose task is to work with Africa field missions specifically in the area of microenterprise development. That advisor already is well into the process of helping missions move from a "target of opportunity" approach to microenterprise assistance to a more holistic approach that considers all four basic business needs of microenterprises, as stated previously. The other two regional bureaus will be encouraged to establish similar positions as needed.

The GEMINI project will assist A.I.D.'s regional bureaus and field missions to implement the new program and promote more effective support for microenterprise development. As a research project, it will be GEMINI's task to search for lessons about the needs of microenterprises and about how best to assist them. As a service project, GEMINI will communicate these lessons throughout the microenterprise development community, both within A.I.D. and outside it. In particular, GEMINI will conduct a major program of action research on the expansion and promotion of minimalist credit programs. This action research will examine how large, financially self-sufficient programs are built, and will help individual credit programs to put those findings into action. It will also conduct an action research program on experimental approaches to non-financial assistance, including interventions that focus on the needs of particular subsectors and on indirect methods of assistance. The findings of these and other action research programs will be disseminated widely both throughout A.I.D. and among its cooperating agencies through conferences, seminars and workshops, both in the U.S. and in the field.

A.I.D. will continue to sponsor workshops, both in the field and in Washington, to ensure that agency staff as well as host country institutions are kept informed of the latest developments in microenterprise practice. These workshops will promote direct contacts between practitioners in developing countries, so that practical experience can be transmitted directly. A.I.D. also believes that practitioners should learn from the examples of the most successful microenterprise projects, and accordingly, it will support cross-visits by practitioners to such projects.

In order to be sure that the new microenterprise program is achieving its objectives, A.I.D. will continue to need the advice of an independent committee of experts, such as the Advisory Committee on Microenterprise. Indeed, the program described in this section reflects suggestions made by the Committee in February, 1990.

Finally, implementation of a new monitoring system, as described in Part IV, will enable A.I.D. to have the information needed to effect improvements in field-based microenterprise activities. It is, therefore, an important aspect of the new program.

PART IV. MONITORING AND EVALUATION NEEDS OF A.I.D.'S MICROENTERPRISE PROGRAM

A.I.D. recognizes the need to establish an agency-wide system to monitor both the level and characteristics of its microenterprise development activities. Until now, A.I.D. has measured its microenterprise activities only through ad hoc surveys or through the annual budget process. The budget process provides information on obligation levels, but not on program characteristics or impacts. Moreover, the budget system is based on projects which often encompass a wide range of activities, only some elements of which relate to microenterprise development.

The budget process alone will not suffice as a monitoring system. Accordingly, A.I.D. has directed the GEMINI project to assess the feasibility of establishing a comprehensive monitoring system for the microenterprise program. That preliminary feasibility study is now underway. This section gives a summary of findings to date. A final feasibility study, including cost estimates, is expected to be completed in April, 1990.

A. Potential Uses of a Monitoring System

A monitoring system for A.I.D.'s program will require three levels of participation: grantees, A.I.D. missions, and A.I.D./Washington. Each will bear significant costs in maintaining and operating such a system, and therefore, each should have a use for the information the system produces. The three levels can be thought of as a pyramid with the implementing organizations at the base, followed, in ascending order, by the A.I.D. missions, A.I.D./Washington and, finally, the Congress and the public at large. Information needs at each level depend on the types of decisions made there. These decisions are of an increasingly general nature as we ascend the pyramid. Because of the cooperative nature of links between levels, any system will depend on maintenance of good working relationships throughout.

At the foundation of this pyramid, the implementing organizations require information necessary to run their programs and maintain institutional health. The natural operating processes of the organizations generate such information. For example, data on clients are recorded upon application for assistance, and checks written leave a record of loans made. An effective monitoring system will be built upon the information that these natural operating processes generate.

At the next level up, the A.I.D. missions must determine how microenterprise activities should fit into their overall country programs. They need data on program impact, the competence of implementing organizations they support, and the sustainability of project activities.

A.I.D./Washington must decide how strong an emphasis to place on microenterprise development relative to other types of programs, and what kinds of microenterprise programs to support. To make these decisions it needs information both on the magnitude and characteristics of the activities it funds, and on the costs and benefits of various types of programs.

Finally, Congress needs to be informed on whether its statutory requirements are being met, and on the development impact of microenterprise programs.

In simplest terms, the monitoring system must be useful to all those involved in carrying it out. Furthermore, it must build from the specific to the general, grounded in the operating processes of implementing organizations. Several complicating factors make this simple concept somewhat more complex in reality.

Very few of the implementing organizations that work with microenterprises currently have management information systems that could provide the kinds of information needed. Typically, they maintain data on outputs such as loans made, or people trained, but less frequently on beneficiary characteristics, and rarely on impacts, such as resulting growth in employment. Moreover, systems at the grantee level are unique to each organization, so that data cannot easily be aggregated across programs. A major effort to upgrade organizational capability would be required before genuinely reliable data on program performance and impact could be collected. Standardization would have to be an essential part of the upgrading effort, so that the data could feed into the central system. Although the upgrading process would be a long and costly one, it could well bring significant benefits to implementing organizations through improved management.

An issue at the A.I.D. mission level is that while a system to track compliance with an earmark must follow the logic of the federal budget process, data on program characteristics and performance cannot easily be made to conform to that logic. For example, many lenders use A.I.D. funds to make several short term loans within a year. Should they report the gross or only the net activity? How should exchange rate fluctuations during the year be treated? Similar quandaries abound. Fortunately, there is no real need to force programs into the budget system, when two separate but complementary tracking systems could be developed. The budget tracking system could be fully completed by A.I.D. missions, while program tracking would require input from implementing organizations. In addition, some relevant information must be brought in from still other sources. For example, the system should incorporate national demographic data on income distribution so that the poverty level of beneficiaries can be accurately interpreted.

At the A.I.D./Washington level, it is most useful to have data in virtually raw form, to support in-depth, flexible data analysis. Raw data reporting should also be easiest for

implementing organizations.

Developing and implementing the kind of monitoring system implied by these considerations would require strong leadership from A.I.D. The process necessarily involves a large number of people throughout the agency and its grantees, all of whom would have to be committed to the system in order to make it work. It would also take some time to implement, and would not be expected to reach its full potential until it had been tested and refined over the course of several reporting cycles. The monitoring systems used in the A.I.D. population and child survival programs, which require several million dollars annually to maintain, attest to the magnitude of the effort required. They also attest that reliable data can demonstrate real impact in the areas the programs address. Continued financial support for microenterprise activities will inevitably depend on such demonstration of impact. Although decisions about the scope and nature of a monitoring remain to be made, A.I.D. is committed to developing a system that will meet information requirements at all levels as nearly as is possible.

Annex Table 1.
Annual Activity Levels
Summary of Obligations, by Region and Country
(US \$000)

Region and Country	No.	1988	1989	1990	LOP
Region: Central					
ACCION International	1	218	211	338	767
Save the Children	1	256	302	323	881
CARE	1	426	364	425	1,215
World Relief Corp.	1	474	468	719	1,661
CRS	1	-	58	273	331
Coop. Housing Fund	1	-	110	-	110
Foster Parents Plan	1	686	681	678	2,045
Opportunity Int	1	450	450	450	1,351
Technoserve	1	837	602	457	1,896
Intl Voluntary Svcs	1	141	86	109	336
WOCCU	1	-	30	30	60
OEF	1	471	532	478	1,481
	----- 12	----- 3,959	----- 3,894	----- 4,280	----- 12,134
Region: Asia/Near East					
Egypt	1	128	322	3,063	-
Morocco	1	62	-	-	84
Jordan	1	-	-	582	3,200
Yemen	5	-	40	590	15,600
Nepal	3	-	132	1,347	5,311
Sri Lanka	7	1,156	5,260	2,115	13,527
Bangladesh	1	200	200	-	1,037
Pakistan	3	2,425	2,830	3,175	15,500
South Pacific	8	1,810	2,690	1,570	8,175
Philippines	5	1,840	6,658	2,378	14,195
Thailand	2	478	650	262	1,390
Indonesia	7	11,723	6,722	5,940	47,887
	----- 44	----- 19,822	----- 25,504	----- 21,022	----- 125,906
Region: Latin America and Caribbean					
Belize	4	625	50	700	3,210
Bolivia	1	-	-	1,193	-
Costa Rica	2	1,500	1,958	1,699	6,680
Dominican Republic	5	401	298	1,062	1,332
Ecuador	2	625	521	744	1,490
El Salvador	13	1,064	5,792	4,351	11,731
Guatemala	6	3,826	3,306	5,103	12,796
Haiti	2	898	625	715	4,686
Honduras	6	7,118	2,623	4,476	21,737
Paraguay	1	80	70	-	350
Peru	3	546	507	969	4,436
Jamaica	13	1,660	3,434	1,528	10,243
RDO/Caribbean	1	1,641	1,451	470	6,229

Chile	1	-	128	102	300
Colombia	2	116	128	141	879
	-----	-----	-----	-----	-----
	62	20,100	20,891	23,253	86,099
Region: Africa					
	-----	-----	-----	-----	-----
Zambia	1	-	500	1,114	4,187
Malawi	4	1,400	5,579	5,817	23,621
Zimbabwe	4	2,500	2,500	3,141	33,051
Kenya	6	666	3,331	4,029	20,551
Lesotho	4	1,083	1,074	968	4,686
Botswana	3	110	610	660	2,130
Sierra Leone	1	-	44	58	744
Swaziland	1	-	-	250	250
Sudan	1	-	402	624	1,026
Zaire	1	50	250	200	1,500
Liberia	1	1,100	1,600	2,700	5,400
South Africa	1	2,300	905	-	5,630
Chad	1	494	555	396	1,446
Niger	1	243	1,340	1,340	5,900
Senegal	5	1,300	6,679	2,250	24,779
Madagascar	4	1,056	2,170	2,863	7,868
Mali	4	398	1,357	2,347	8,134
Southern Africa Reg.	3	700	1,254	2,832	5,021
Togo	5	548	567	2,435	13,850
Rwanda	1	1,000	90	985	-
	-----	-----	-----	-----	-----
	52	14,948	30,807	35,009	169,774
GRAND TOTAL	170	58,829	81,096	83,564	393,913

Annex Table 2.
Program Types
Summary of Obligations, by Region and Country, 1989
(US \$000)

Region and Country	No.	Loans	T/TA	InSp	P/REG	Other	Total
Region: Central							
ACCION International	1	-	-	211	-	-	211
Save the Children	1	40	80	-	-	182	302
CARE	1	17	17	322	-	8	364
World Relief Corp.	1	136	105	227	-	-	468
CRS	1	-	25	33	-	-	58
Coop. Housing Fund	1	-	-	-	110	-	110
Foster Parents Plan	1	122	157	-	219	183	681
Opportunity Int	1	114	28	179	-	129	450
Technoserve	1	-	383	64	155	-	602
Intl Voluntary Svcs	1	-	86	-	-	-	86
WOCCU	1	-	20	5	5	-	30
OEF	1	-	44	77	9	402	532
	12	429	945	1,118	498	904	3,894
Region: Asia/Near East							
Egypt	1	141	-	181	-	-	322
Morocco	1	-	-	-	-	-	-
Jordan	1	-	-	-	-	-	-
Yemen	5	-	-	10	30	-	40
Nepal	3	28	54	50	-	-	132
Sri Lanka	7	593	1,670	150	100	2,747	5,260
Bangladesh	1	58	50	45	-	47	200
Pakistan	3	-	1,130	200	-	1,500	2,830
South Pacific	8	-	865	1,825	-	-	2,690
Philippines	5	1,820	2,457	2,087	46	248	6,658
Thailand	2	39	51	-	-	560	650
Indonesia	7	2,437	1,191	181	-	2,912	6,722
	44	5,116	7,468	4,729	176	8,014	25,504
Region: Latin America and Caribbean							
Belize	4	-	50	-	-	-	50
Bolivia	1	-	-	-	-	-	-
Costa Rica	2	864	769	325	-	-	1,958
Dominican Republic	5	150	-	148	-	-	298
Ecuador	2	451	70	-	-	-	521
El Salvador	13	5,531	197	64	-	-	5,792
Guatemala	6	3,185	22	99	-	-	3,306
Haiti	2	408	143	73	-	-	625
Honduras	6	1,550	822	251	-	-	2,623
Paraguay	1	-	70	-	-	-	70
Peru	3	298	194	4	5	6	507
Jamaica	13	1,950	20	394	-	1,070	3,434
RDO/Caribbean	1	818	83	550	-	-	1,451
		81					

Chile	1	-	-	128	-	-	128
Colombia	2	10	57	61	-	-	128
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	62	15,215	2,497	2,097	5	1,076	20,891
Region: Africa							
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Zambia	1	-	250	250	-	-	500
Malawi	4	840	708	2,041	1,990	-	5,579
Zimbabwe	4	-	1,500	1,000	-	-	2,500
Kenya	6	744	853	1,627	74	33	3,331
Lesotho	4	374	416	284	-	-	1,074
Botswana	3	350	200	45	-	15	610
Sierra Leone	1	16	21	-	-	7	44
Swaziland	1	-	-	-	-	-	-
Sudan	1	222	180	-	-	-	402
Zaire	1	-	150	100	-	-	250
Liberia	1	1,000	300	300	-	-	1,600
South Africa	1	100	-	585	220	-	905
Chad	1	-	132	423	-	-	555
Niger	1	140	1,200	-	-	-	1,340
Senegal	5	3,300	1,200	2,079	-	100	6,679
Madagascar	4	2,118	52	-	-	-	2,170
Mali	4	76	948	-	333	-	1,357
Southern Africa Reg.	3	-	-	815	439	-	1,254
Togo	5	214	182	171	-	-	567
Rwanda	1	-	90	-	-	-	90
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	52	9,494	8,382	9,720	3,056	155	30,807
GRAND TOTAL	170	30,254	19,292	17,664	3,735	10,149	81,096

Annex Table 3.

Microenterprise Funding Patterns, by Region: 1988

Amounts in US \$000

	Central	ANE	LAC	AFR	Total
Loans	362	3,115	10,279	4,678	18,434
Training and TA	1,283	8,651	2,248	3,168	15,350
Instit. Support	1,155	2,303	6,663	4,043	14,165
Policy Reform	362		277	1,543	2,182
Other	797	5,754	634	1,515	8,700
Total	3,959	19,823	20,101	14,948	58,831

Percentage Allocation of Funds

	Central	ANE	LAC	AFR	Total
Loans	9.1	15.7	51.1	31.3	31.3
Training and TA	32.4	43.6	11.2	21.2	26.1
Instit. Support	29.2	11.6	33.1	27.0	24.1
Policy Reform	9.1		1.4	10.3	3.7
Other	20.1	29.0	3.2	10.1	14.8
Total	100.0	100.0	100.0	100.0	100.0

Microenterprise Funding Patterns, by Region: 1989

Amounts in US \$000

	Central	ANE	LAC	AFR	Total
Loans	429	5,116	15,215	9,495	30,255
Training and TA	945	7,469	2,498	8,383	19,294
Instit. Support	1,118	4,729	2,098	9,720	17,666
Policy Reform	498	176	5	3,056	3,735
Other	904	8,014	1,076	155	10,149
Total	3,894	25,504	20,892	30,809	81,099

Percentage Allocation of Funds

	Central	ANE	LAC	AFR	Total
Loans	11.0	20.1	72.8	30.8	37.3
Training and TA	24.3	29.3	12.0	27.2	23.8
Instit. Support	28.7	18.5	10.0	31.6	21.8
Policy Reform	12.8	0.7	0.0	9.9	4.6
Other	23.2	31.4	5.2	0.5	12.5
Total	100.0	100.0	100.0	100.0	100.0

Microenterprise Funding Patterns, by Region: 1990

Amounts in US \$000

	Central	ANE	LAC	AFR	Total
Loans	475	4,657	17,131	14,111	36,374
Training and TA	1,408	5,201	2,694	9,508	18,810
Instit. Support	1,358	5,217	3,053	7,248	16,876
Policy Reform	331	672	106	2,516	3,625
Other	708	5,275	271	1,377	7,631
Total	4,280	21,022	23,255	35,009	83,566

Percentage Allocation of Funds

	Central	ANE	LAC	AFR	Total
Loans	11.1	22.2	73.7	40.3	43.5
Training and TA	32.9	24.7	11.6	27.2	22.5
Instit. Support	31.7	24.8	13.1	20.7	20.2
Policy Reform	7.7	3.2	0.5	7.2	4.3
Other	16.5	25.1	1.2	3.9	9.1
Total	100.0	100.0	100.0	100.0	100.0

Microenterprise Funding Patterns, by Region: LOP

Amounts in US \$000

	Central	ANE	LAC	AFR	Total
Loans	1,266	20,717	52,284	49,784	124,051
Training and TA	3,637	41,546	12,350	58,453	115,985
Instit. Support	3,631	19,123	17,699	48,628	89,081
Policy Reform	1,191	2,056	488	9,769	13,504
Other	2,409	39,966	2,223	2,891	47,489
Total	12,134	125,907	86,100	169,776	393,916

Percentage Allocation of Funds

	Central	ANE	LAC	AFR	Total
Loans	10.4	16.5	60.7	29.3	31.5
Training and TA	30.0	33.0	14.3	34.4	29.4
Instit. Support	29.9	15.2	20.6	28.6	22.6
Policy Reform	9.8	1.6	0.6	5.8	3.4
Other	19.9	31.7	2.6	1.7	12.1
Total	100.0	100.0	100.0	100.0	100.0