The U.S. Agency for International Development's Microenterprise Development Programs: Results Reporting

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AGENCY FOR INTERNATIONAL DEVELOPMENT

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LIST OF ACRONYMS

ACLEDA	Association of Cambodian Local Economic Development Agencies
AFR	Africa Region
ANE	Asia and the Near East
BHR	Bureau of Humanitarian Response
BRI	Bank Rakyat Indonesia
DA	Development Assistance
ESF	Economic Support Funds
ENI	Eastern Europe and Newly Independent States
FSA	Freedom Assistance Act
FY	Fiscal Year
G/EG/EM	Global Bureau, Economic Growth Center, Office of Emerging Markets
G/EG/MD	Global Bureau, Economic Growth Center, Office of Microenterprise Development
LAC	Latin America and Caribbean
MEMS	Microenterprise Monitoring System
MEDA	Mennonite Economic Development Association
MRR	Microenterprise Results Reporting
NIS	Newly Independent States
NGO	Non-governmental organization
NOA	New Obligating Authority
PL	Poverty Lending
PVC	Office of Private Voluntary Cooperation
PVO	Private voluntary organization
SAI	Special Assistance Initiatives
USAID	United States Agency for International Development
WOCCU	World Council of Credit Unions

EXECUTIVE SUMMARY

This report provides a global picture of the microenterprise development program of the U.S. Agency for International Development for FY 96. Results reporting is an integral part of the Agency's ***Microenterprise Initiative***, launched in 1994 and recently renewed in 1997. The Microenterprise Initiative, part of the Agency's broad-based economic growth strategy, seeks to strengthen USAID's microenterprise program and expand the availability of financial and non-financial services to poor microentrepreneurs.

The report focuses on two specific areas: the levels and distribution of microenterprise funding obligated in FY 96, in either dollars or local currency; and the programs of the institutions supported through those obligations. In addition, special attention is paid to microfinance programs, including poverty lending programs that reach poor borrowers.

Funding: In FY 96, USAID funded microenterprise programs in the amount of **$111.4 million**.[1] Of the overall funding level, 67 percent was for microfinance: technical assistance and loan funds or operating costs of microfinance institutions. All of USAID's regional bureaus with the exception of Africa have funded credit programs in greater proportion than non-credit activities (see Figure 1). In Africa, a number of USAID mission programs are targeted at providing services required by microenterprises which are complementary to credit. Largely in response to the Agency's Microenterprise Initiative, the central bureaus (principally the Office of Microenterprise Development) have substantially increased their share of overall funding.

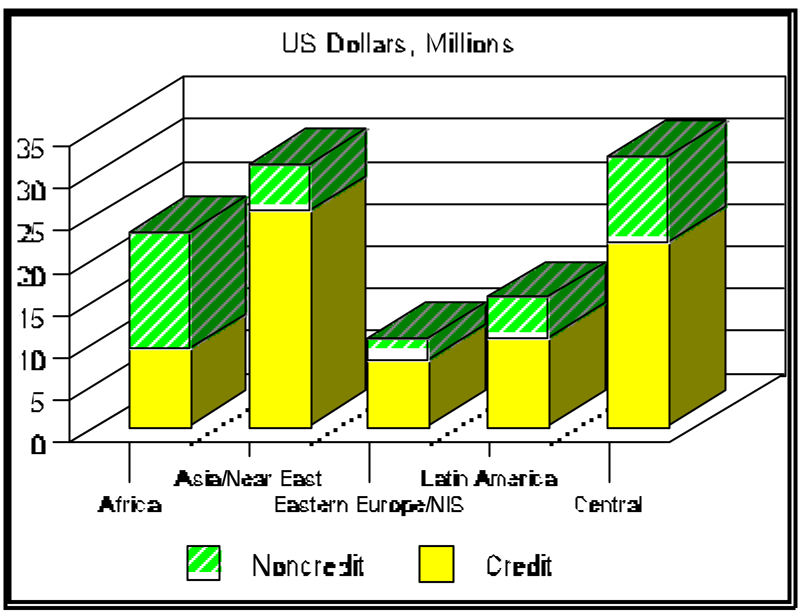

Figure 1.
Uses of Microenterprise Funding by Region, FY 96

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[1] The figure is lower than the internal USAID target level of $118 million, and lower than the figure presented in June 1997, which was $138 million. Reconfirmation of mission data submissions, particularly for two countries, Poland and Ghana, led to a reduction in the earlier estimate. In the case of Poland, $18 million will be reported in FY 97, not in FY 96 as originally indicated.

Programs: The microenterprise programs supported in FY 96 reached over **980,000 clients**, of which 66 percent were women. These clients had access to 243 microfinance institutions with combined **loan portfolios of $301 million**. Adding the institutions receiving funds for the provision of non-financial services to microenterprises, the total number of institutions supported in FY 96 was 310. Of these, 74 percent were local non-governmental organizations or private voluntary organizations.

Poverty Lending: Of the 982,000 loans issued in FY 96 by USAID supported institutions, **89 percent were poverty lending loans**. 58 percent of USAID's funding for microfinance was devoted to poverty lending and the poverty lending portion of mixed programs. In all USAID regions, excluding ENI, nearly two-thirds of the support to credit programs reached poverty lending. In Africa, with its very low levels of GDP per capita, there is an appropriately greater concentration on poverty lending: 83 percent of all microfinance support is directed at the very poor.

USAID's biggest challenge in the coming years is to help more of its partners to achieve financial sustainability. Only fully sustainable institutions can reach the many clients who need services and do so without repeated injections of donor funds. Only such institutions will make permanent, structural change in their communities and nations. The prospects are strong for microfinance institutions to make this leap as can be seen from the success of Latin American programs and some Asian institutions. Seeking progress in this area will define USAID's microfinance agenda for the coming years.

I. USAID’S COMMITMENT TO MICROENTERPRISE DEVELOPMENT[2]

In launching its Microenterprise Initiative in 1994, and renewing it in 1997, USAID affirmed that support for microentrepreneurs would be one of the main aspects of its approach to economic growth, an approach that stresses increasing the economic participation of the poor and people in transitioning economies.

USAID works indirectly through local institutions, US PVOs, and private financial institutions. In the field of microenterprise, the agency's work primarily involves promoting the development of effective methodologies, strengthening the institutions that deliver services to clients, and helping those institutions expand their outreach and increase their financial sustainability.

This report summarizes the data collected recently on all USAID microenterprise programs receiving funding in FY 96, the most recent year for which "actual" data (as opposed to estimates) are available. It also presents summary data for past years, placing the FY 96 program in the broader context of USAID's growing commitment to microenterprise during a period of budget stringency.

A. WHY MICROENTERPRISE?

Around the world today, vast numbers of poor people earn their living as microentrepreneurs. They engage in small-scale business activities that produce goods and provide services for their communities. These microentrepreneurs also produce critical incomes and employment to sustain their families. Microenterprises are often particularly important to women, as they allow women to work from their homes while caring for their children. In many countries, particularly the lowest income countries, microenterprises engage up to one-third of the labor force, and many countries report that the microenterprise sector of the economy is growing quickly as new entrants to the labor force cannot find formal employment elsewhere.

Microenterprises include seasonal and part-time income earning activities that supplement a variety of other family earnings (such as agricultural labor). They include full-time enterprises that, while staying small, allow families to build assets over time and pay for important family investments such as education, improved nutrition, and better housing. They also include the minority of microenterprises that will grow to become larger businesses, offering employment growth as well as a permanent path for entrepreneurs out of poverty. In Eastern Europe and the Newly Independent States (USAID’s ENI region), microenterprises provide direct experience for new entrepreneurs in private ownership and the market economy. Particularly in this region, microenterprises may prove to be an important avenue for new business creation.

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[2] This report was prepared by Elizabeth Hunt in the Office of Microenterprise Development, Economic Growth, Global Bureau (G/EG/MD), under the direction of Elisabeth Rhyne, Director, with assistance from Catherine Neill (Weidemann Associates, Inc.).

Because microenterprises contribute importantly to family income, jobs, the delivery of goods and services, and enterprise creation, support to microenterprises has a place in both economic growth and poverty alleviation strategies. Accordingly, microenterprise development is a key component of USAID's approach to economic growth, which emphasizes economic opportunity for the poor. USAID's microenterprise development efforts are directed at enabling the poor to increase assets, income and productivity, by gaining access to services previously out of reach for them. Experience has shown that access to financial services helps enable microentrepreneurs or potential microentrepreneurs to establish viable, sustainable enterprises. In some cases financial services can be successfully supplemented with other kinds of support (business training, product design, marketing) that assist businesses to thrive and grow.

B. HOW USAID SUPPORTS MICROENTERPRISE GROWTH

To achieve the spread of high quality services for microenterprises, USAID relies on an array of development partners, both US-based and local, ready to address the challenges of providing financial and technical/business services. USAID provides the support these development partners need to strengthen their capacity to delivery quality services in a sustainable way.

A number of institutions have demonstrated that financial services can be provided in the poorest communities on a cost recovery basis and at a price the poor are willing and able to pay.[3] Methodologies have evolved to serve large numbers of clients. Because microfinance services can be provided to large numbers profitably, most USAID programs focus on microfinance, including poverty lending.

Throughout the world, NGO programs provide credit services to the previously unserved poor via village banking, group guarantee, and individual lending. These programs are beginning to reach significant numbers of people, to cover their costs, and even to generate profits (see Box 1). NGOs have made so much progress that USAID has established a policy that all the microfinance programs that it supports must become financially viable and of significant size within a reasonable time frame. A few NGOs have been exceptionally successful and have been converted into formal institutions, regulated by the banking authorities and permitted to take deposits from the general public, while continuing to focus on providing services to their small scale borrowers and depositors. It is hoped that many more institutions will reach this level in the next few years.

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[3] See Christen, Robert Peck, Elisabeth Rhyne, Robert C. Vogel, and Cressida McKean, "Maximizing the Outreach of Microenterprise Finance: An Analysis of Successful Microfinance Programs." The United States Agency for International Development. USAID Program And Operations Assessment Report Number 10. USAID Center for Development Information and Evaluation. August, 1995.

In some places, commercial banks are discovering a new niche[4], and are either adopting techniques pioneered by the NGO community to serve the microenterprise market directly, or are becoming wholesalers to, or partners with, the NGOs. Credit unions also are, with donor encouragement, reaching further down into the community and improving their attractiveness to small savers and borrowers. These are exciting and complex developments. In numerous countries, innovation and exploration are going on at every level from local NGOs to credit unions to the commercial banking sector and the national regulatory authorities. In many cases, specialist US PVOs are involved as partners or affiliates. In a vast number of cases, USAID is involved in a significant way.

Box 1. CHISPA — Mennonite Economic Development Association (MEDA), Nicaragua

The Mennonite Economic Development Association (MEDA) established the CHISPA loan program in April 1991 to support microentrepreneurs in the war-torn Masaya area of Nicaragua. After the civil war, Nicaragua was impoverished and there was rampant unemployment. This situation resulted in rapid growth of the informal, self-employed sector. CHISPA (which means "Spark") responded by offering financing and training to these new entrepreneurs. It has since expanded to the Managua and Rivas areas. Although it is a relatively young credit program, CHISPA is now financially viable, covering all of its financial and operating expenses.

CHISPA provides credit to enterprises through three principal credit lines: 1) solidarity group loans; 2) individual loans; and 3) small business loans. The solidarity group program comprises about 70 percent of CHISPA's portfolio. Groups of 4 to 5 microentrepreneurs come together to receive training and loans. Loan terms range from about 4 to 30 weeks. Repayments rates have been well above 95 percent. Poor women are approximately 60 percent of the solidarity group borrowers. The individual loan and small business loan programs have about 1,000 clients, receiving larger and longer term loans.

By March 1997, the CHISPA program had 5,019 active borrowers and a portfolio of $915,000, with an average loan size of $199. With USAID assistance, the program plans to expand to over 9,600 clients by 1999 and to access commercial sources of funds.

Financial services are not the only services that can benefit microentrepreneurs. Policy reform in areas such as municipal licensing, zoning and land use restrictions, and certain areas of trade policy can have a fundamental impact on microentrepreneurs' ability to do business profitably. Technical skills upgrading, business

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[4] See Bayadas, Maya M., Doublas H. Graham and Liza Valenzuela, "Commercial Banks in Microfinance: New Actors in the Microfinance World," Microenterprise Best Practices Project, August, 1997. The paper is available through web site: www.mip.org.

skills training and market access are also identified by microentrepreneurs as areas where they need assistance. Given the variety, finding cost-effective ways of delivering these services remains challenging. USAID supports experimental work which attempts to establish those additional services that are critical to microenterprise success and can be delivered in accessible, cost-recoverable ways.

In March 1994, USAID launched a Microenterprise Initiative to give added impetus and attention to the Agency's work in this sector. To underscore USAID's commitment to this exciting work, the Microenterprise Initiative was renewed in July 1997. The Initiative brought together leaders who made a commitment to support USAID's microenterprise work, including USAID Administrator Brian Atwood, Republican and Democratic Congressmen and Senators, the First Lady Hillary Rodham Clinton, and the microenterprise development practitioners represented by the Microenterprise Coalition, a policy group of US PVOs engaged in microenterprise development worldwide.

For the renewed Initiative, USAID has pledged that its programs will be characterized by the following:

- At least half of all microenterprise clients of the institutions it supports will be women;
- At least half of all the funds supporting microfinance institutions will go toward poverty lending programs;[5]
- At least two-thirds of the clients of the microfinance institutions it supports will receive poverty lending loans (less than $300);
- The average repayment rates for microfinance institutions receiving USAID support will be 95 percent or above;
- Every microfinance organization supported by USAID will have a plan for reaching full financial sustainability within a credible period of time;
- USAID has set a target of 15 percent per year growth in the number of clients receiving services.

To ensure that these pledges are met, USAID also continues to further develop its systems to measure and monitor the results of its microenterprise support efforts.

C. DATA COLLECTION FOR THIS REPORT

Two types of data were collected for this report: funding data and data on the institutions supported with

[5] Poverty lending programs are defined as those which issue a significant portfolio of loans of $300 or less in most regions of the world or of $1,000 or less in Eastern Europe and the Newly Independent States. A program may be 100 percent dedicated to poverty lending or may have a portion of its lending in this range.

USAID funding in FY 96. The funding data includes all obligations[6] of US dollars made by USAID missions and USAID/Washington offices for microenterprise development, as well as local currency expenditures.[7] Missions and USAID/Washington offices were asked to report on both the sources and uses of funds for microenterprise. Annex A provides details on the methodology used.

USAID microenterprise funding came from the standard funding accounts within USAID, which include Development Assistance Funds, Economic Support Funds, Freedom Assistance Act Funds, Special Assistance Initiatives Funds and local currency associated with balance of payments support programs or PL-480. Annex B provides more details on the funding categories.

II. FINDINGS

A. USAID MICROENTERPRISE DEVELOPMENT FUNDING

The overall trend in USAID microenterprise funding shows a persistent increase during the past decade (see Figure 2). By 1995, the funding level was 131 percent of the 1988 level and by 1997 it is expected to rise to 160 percent of 1988.

[6] In USAID, funds are defined as "obligated" when they are assigned to a specific, legally binding agreement or contract.

[7] Local currency expenditures represent funds from special programs, such as food aid, that generate local currency for use by local governments or organizations which are programmed with USAID approval. These funds are necessarily tracked at the point of expenditure (actual transfer of funds) rather than obligation.

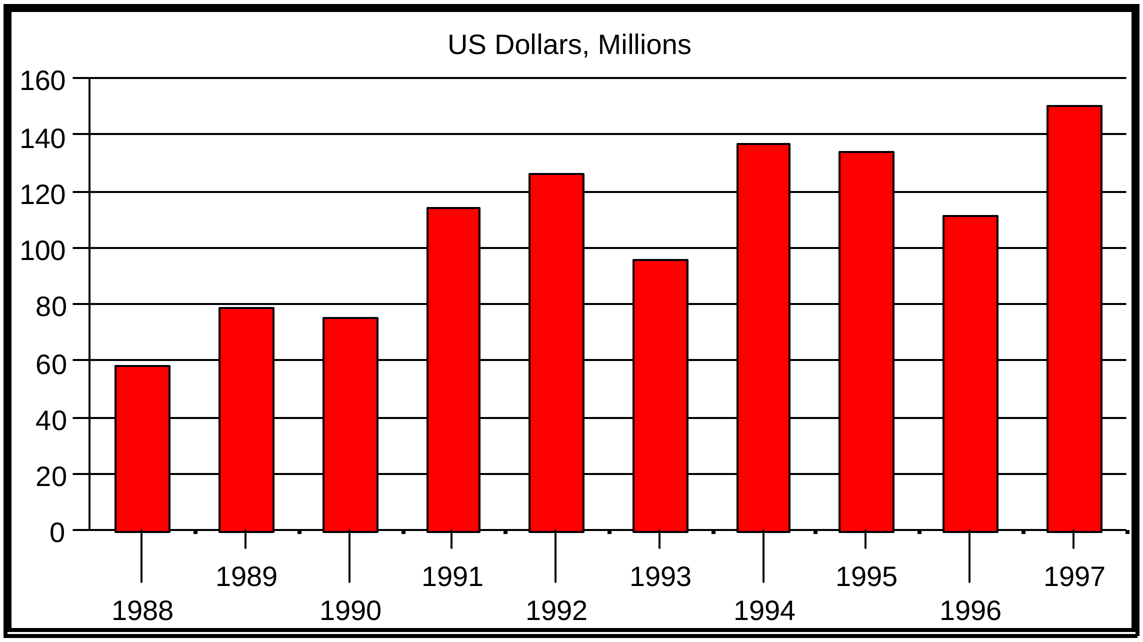


Figure 2. Ten Years of USAID Microenterprise Funding, 1988-1997[1]

1. Note that amounts for all years are actual amounts with the exception of FY 97, which is an estimate.

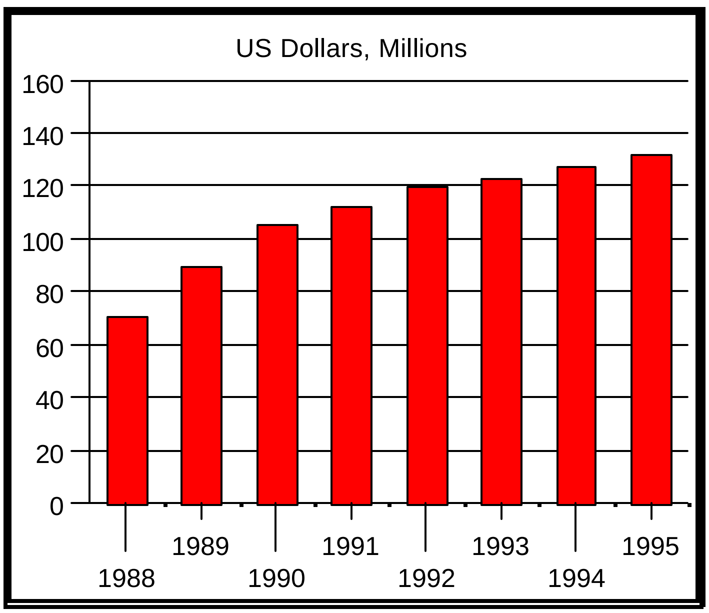
Under its 1994 Microenterprise Initiative, USAID proposed to fund microenterprise programs at $130 in FY 94 and $140 in FY 95. The actual amounts were $137.3 million and $133.5 million for 1994 and 1995, respectively. While initially it was projected that FY 96 funding would reach $118 million, actual funding proved to be somewhat less at $111.4 million.[8] In its renewed Microenterprise Initiative in 1997, USAID proposed providing annual funding of $120 million to microenterprise activities in FYs 97 and 98. The current estimate for microenterprise funding in FY 97 is $150.2 million. It should be noted that estimates generally exceed actuals, as often some portion of the activities that missions anticipate funding in a given year are not funded or are funded in the succeeding year.

Periodically the total funding for individual years either falls backward, as in FY 96, or leaps ahead, as happened in FY 94. A rolling average is useful for demonstrating the underlying trend. A rolling three-year

[8] In June, 1997, USAID released a preliminary total of $138 million for FY 96. This number has changed as a result of closer scrutiny of each reported item in the process of collecting the detailed institutional data. Some of the change can be attributed to discrepancies in the definitional criteria for microenterprise among missions. The largest change resulted from a shift in timing of nearly $20 million in funds provided to Fundusz Mikro in Poland from FY 96 to FY 97.

average beginning in 1988 better illustrates the steady USAID commitment to microenterprise development (see Figure 3).

Figure 3. Average Funding of Microenterprise for Three-Year Periods[1]



1. Years shown in table mark the initial year of the three-year period. Hence, 1995 represents the average of FY 95 (actual), FY 96 (actual), and FY 97 (estimated).

The fluctuations are due to various factors, such as the life cycle of USAID projects. Many missions have only one or two projects in a given sector. When a large project ends, there tends to be a funding decrease while a mission gets a new project in that sector underway. If this happens in a number of missions simultaneously, it appears as a drop, followed by a surge in the overall USAID microenterprise funding. Similarly, changing geopolitical emphases and Congressional earmarking of USAID funding cause funds to move from region to region; this can create phenomena similar to the project life cycles. As is discussed later, the Eastern European programs are currently shifting toward the poorer areas of the region and toward more traditional development programming, which should lead to a significant increase in microenterprise funding; conversely, some of the traditional USAID regions have been relatively de-emphasized in recent years. In addition, in some countries the funding is narrowly tied to drug eradication, environmental preservation or other mandates. Finally, as in FY 96, the Agency sometimes receives its funding extremely late in the year. In such years, when funds can be carried over, obligations often actually take place in the following fiscal year. Some combination of these and other factors creates an uneven trend line.

1. Microenterprise Funding Compared to Overall Agency Funding

Since 1990, overall appropriated funding available for development programming has been declining (See Table 1). USAID's support for microenterprise has been maintained despite the stringent budget cutbacks affecting the Agency as a whole.

Table 1. Total USAID Funding Levels and Microenterprise (ME) Funding, (US Dollars, Millions)

	1990	1991	1992	1993	1994	1995	1996
Total Agency[1]	**6,208.2**	**5,244.2**	**4,993.0**	**4,862.2**	**3,934.7**	**5,524.4**	**4,391.3**
Total for ME without local currency	**54.4**	**83.4**	**95.7**	**72.4**	**120.8**	**116.2**	**97.5**
Percent of Agency Total	**0.8%**	**1.6%**	**1.9%**	**1.5%**	**3.1%**	**2.1%**	**2.2%**
Total for ME with local currency	**75.4**	**113.6**	**126.3**	**96.0**	**137.4**	**133.5**	**111.4**
Percent of Agency Total	**1.2%**	**2.2%**	**2.5%**	**2.0%**	**3.5%**	**2.4%**	**2.5%**

1. Total Agency funding is defined as the sum of actual obligations for DA, ESF, SAI/NIS, Title II and Title III as reported in the summary tables of the Congressional Presentations for the appropriate years, net of transfers to Israel, Cyprus, Ireland, South Pacific, and Turkey.

Overall available agency funding was at a high of $6.2 billion in FY 90. In FY 96, including the funding sources utilized for the ENI, the equivalent level was $4.4 billion or 70 percent of the earlier figure. In the same period, despite declines and heavy earmarking of the budgets in many years, the amount of dollars obligated for microenterprise rose from 0.8 percent of all USAID funding in FY 90 to 2.2 percent in FY 96. A high of 3 percent was recorded in 1994. If the estimates for FY 97 are confirmed, the percentage should rise further.

Local currency, and more recently contributions to the ENI Enterprise Funds, are frequently important sources of microenterprise funding. When the local currency and Enterprise Fund contributions used for microenterprise development are added, microenterprise funding compared to the available development budget rises to 1.2 percent in 1990 and 2.5 percent in 1996.

Local currency available for development uses is most commonly generated from two sources: monetization of funds under PL 480 programs and ESF balance of payments programs. The latter has declined quite dramatically over the past 10 years. Thus, local currency from balance-of-payments programs is a shrinking resource for microenterprise. Local currency generated through PL-480 programs, however, remains an important source of microenterprise funding.

2. Funding for Microfinance and Non-financial Services

USAID's microenterprise funding can be categorized as either credit or non-credit, where credit refers to funds used for loan capital for institutional development of credit institutions. This category includes support to poverty lending programs providing loans smaller than $300. Non-credit funding includes funds for: training microentrepreneurs in business or technical skills; policy and regulatory reform directly affecting microenterprises; market access programs; and some USAID program support and research (see Table 2).

Table 2. Uses of FY 96 Funding by Region, (US Dollars, Millions)

	Credit Programs		Non-Credit Programs		Total	
	Amount	Percent	Amount	Percent	Amount	Percent
REGIONAL BUREAUS: Africa	9.1	40	3.8	60	22.9	100
Asia / Near East	25.4	82	5.5	18	30.9	100
Europe/ NIS	7.8	75	2.6	25	10.4	100
Latin America	10.3	68	4.9	32	15.2	100
CENTRAL BUREAUS	21.7	68	10.2	32	31.9	100
Total	74.3	67	37.0	33	111.3	100

Overall, USAID provides two-thirds of its support to credit programs. However, patterns differ by region. The Asia/Near East Bureau shows the greatest concentration on finance with more than four-fifths of its funding devoted to finance. At the other extreme, the Africa Bureau applies 60 percent of its funding to non-credit uses (see Box 2). The differences reflect a range of factors, including the greater relative availability of institutions that can absorb large amounts of loan funding in some Asia/Near East countries.

Box 2. Non-Credit Funding in Africa

Of the 17 African countries with USAID funding for microenterprise activities in FY 96, five missions are engaged exclusively in non-credit activities. Another eight missions are funding both credit and non-credit microenterprise activities. There are different reasons for the emphasis on non-credit activities; among them are that other donors are funding credit programs on such a massive scale that certain missions have chosen to emphasize other areas that they consider complementary.

Those countries that funded only non-credit activities in FY 96 are Eritrea, Gambia, Ghana, Senegal, and Zambia. The following are examples of the type of activities funded:

< In Eritrea funds are provided to the National Council of Negro Women for institution-building with the National Union of Eritrean Women.

< USAID/Ghana funded a Trade and Investment Program which promotes microenterprises that produce non-traditional exports. Marketing assistance is provided through Technoserve and Aid-to-Artisans.

< USAID/Zambia supports an activity that provides business skill training to micro and small companies. Local trainers provide training in basic business, business management, accounting/bookkeeping, marketing, and production.

3. Funding for Poverty Lending

USAID has pledged that at least half of its microfinance funding will support institutions providing services to the very poor, as measured by the availability of loans of $300 or less.[9] Loans in this range are known as poverty lending. For each credit institution funded by USAID in FY 96, a poverty lending rating was determined based on the proportion of lending in the poverty lending range in its overall portfolio. The ratings for each institution were then weighted by the funding amount received in FY 96. Thus, for a program with one-third of its portfolio in loans below $300, one-third of the USAID obligation to that program would be counted in tallying USAID's total support to poverty lending.

In FY 96, 58 percent of USAID's microfinance funding was devoted to poverty lending and the poverty lending portion of mixed programs (see Table 3). This shows a substantial focus on reaching the very poor. In the

[9] As noted, poverty lending in the ENI region has been defined as loan sizes of $1,000 or less.

traditional USAID regions, excluding ENI, nearly two-thirds of the support to credit programs is for poverty lending. In Africa, with its very low levels of GDP per capita, there is an appropriately greater concentration on poverty lending: 83 percent of all microfinance support is directed at the very poor.

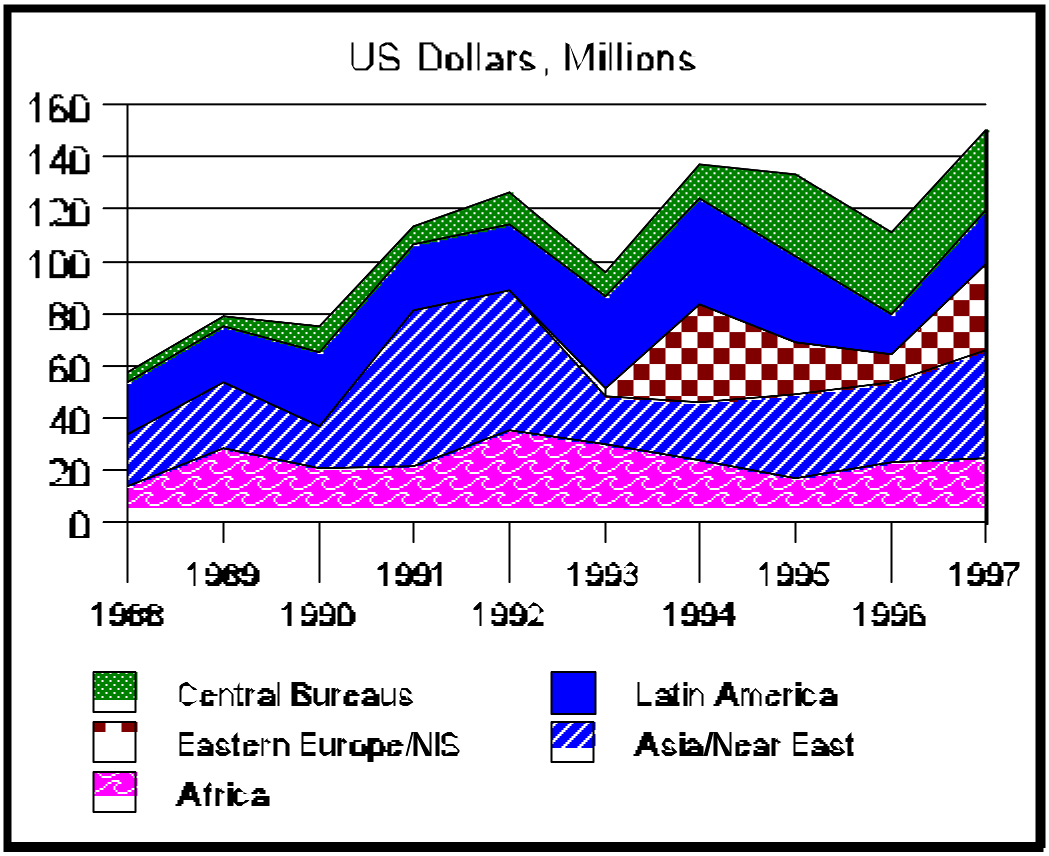
Table 3. Percentage of Poverty Lending by Region, FY 96

	Total Microenterprise Funding (US$ millions)	Credit Programs		Percent of Credit Funding for Poverty Lending
		Amount (US$ millions)	Percent of Total	
Africa	22.9	9.1	40	83
Asia/Near East	30.9	25.4	82	59
Eastern Europe/NIS	10.4	7.8	75	15
Latin America	15.2	10.3	68	39
CENTRAL BUREAUS	31.9	21.7	68	75
Total including Eastern Europe/NIS	111.3	74.3	67	58
Total excluding Eastern Europe, NIS	100.9	66.5	66	65

4. Regional and Country Funding Patterns

During the past two years, USAID has made substantial shifts in its placement of microenterprise funds (see Figure 4). First, as a result of the 1994 Microenterprise Initiative, USAID directed significant funding into centrally-funded programs, especially in the Office of Microenterprise Development (G/EG/MD) and the Office of Private Voluntary Cooperation (BHR/PVC). This shift was intended in part to ensure greater participation of US PVOs in the Microenterprise Initiative.

Figure 4. USAID Microenterprise Funding by Region, 1988-1997



Second, with the opening of USAID programs in Eastern Europe and the Newly Independent States, funding has been directed toward starting up microenterprise programs in this new region. Programs in this region differ substantially from those in the traditional USAID regions, both because microenterprise and microfinance are new to the region and because the economies of most countries in the region are more developed than those in the traditional developing countries. See Annex C for further details on USAID's activities in the ENI region.

5. Missions and Offices with Major Microenterprise Funding in FY 96

In FY 96, USAID made large scale investments in microenterprise in a wide range of countries, not confined to one geographic area (see Figure 5). Large scale microenterprise funding tends to fluctuate among different missions and offices from year to year for the same reasons discussed in Section II.A. Thus in any given year, some missions with major, multifaceted microenterprise programs may not appear in the list of the top ten funders. For the period 1990 through 1997, a few missions and central offices consistently stand near the head of the list: Egypt, El Salvador, the Philippines (all missions receiving large overall budgets during the 1990s), BHR/PVC, and G/EG/MD. While the list highlights certain consistently large players in this area, it also tends to obscure what may be an equally intense commitment by missions with smaller budgets. For example, Bolivia has a long standing commitment to work in the microenterprise area, but only appears within the list of the ten top funders twice in the period illustrated.

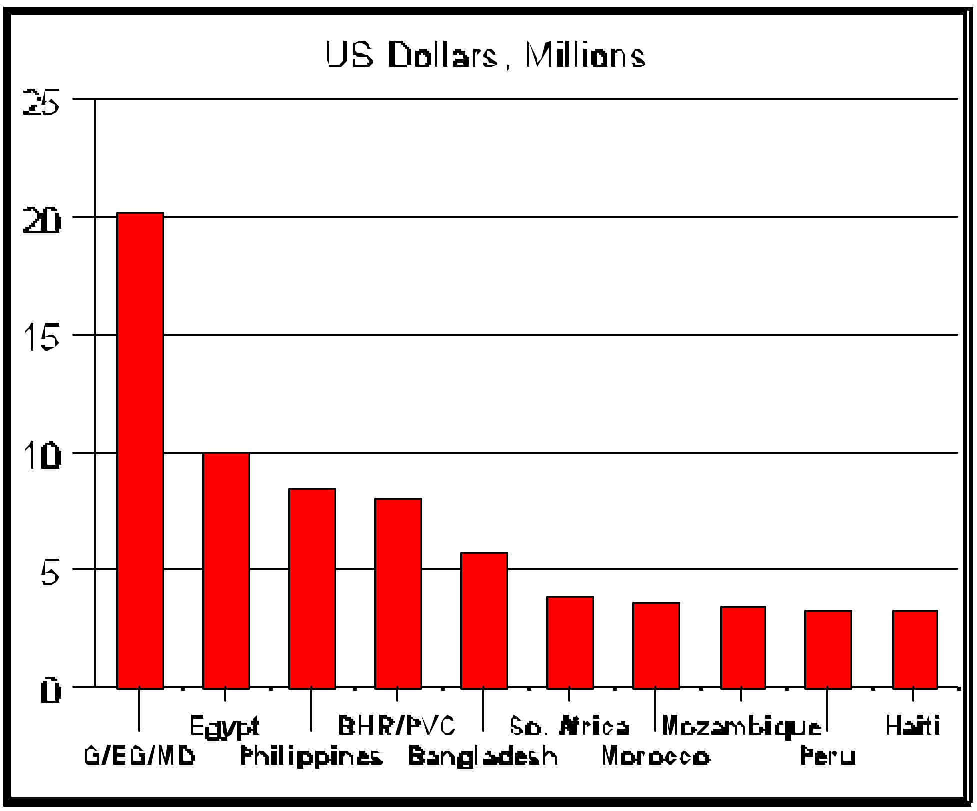


Figure 5. Missions and Offices with Ten Largest Amounts of Microenterprise Funding for FY 96

Table 4. Missions and Offices with Largest Funding Amounts for Microenterprise, 1990-1997

Mission or Central Office	Number of Years in the Top Ten, 1990-1997
Egypt, BHR/PVC	8
El Salvador, G/EG/MD	7
Philippines	6
Honduras, Mali, Peru	4
Dominican Republic, Malawi, Poland	3
Bangladesh, Bolivia, Pakistan, Russia, Senegal, South Africa	2
Caribbean Region, Croatia, G/EG/EM, Ghana, Guinea, Haiti, Kyrgystan, Morocco, Mozambique, Uganda, Zimbabwe,	1

While many countries have microenterprise programs that are funded annually, some missions, at least occasionally, provide multi-year funding to projects. Hence in a particular year, a mission that has on-going microenterprise programs may have provided no additional microenterprise funding.

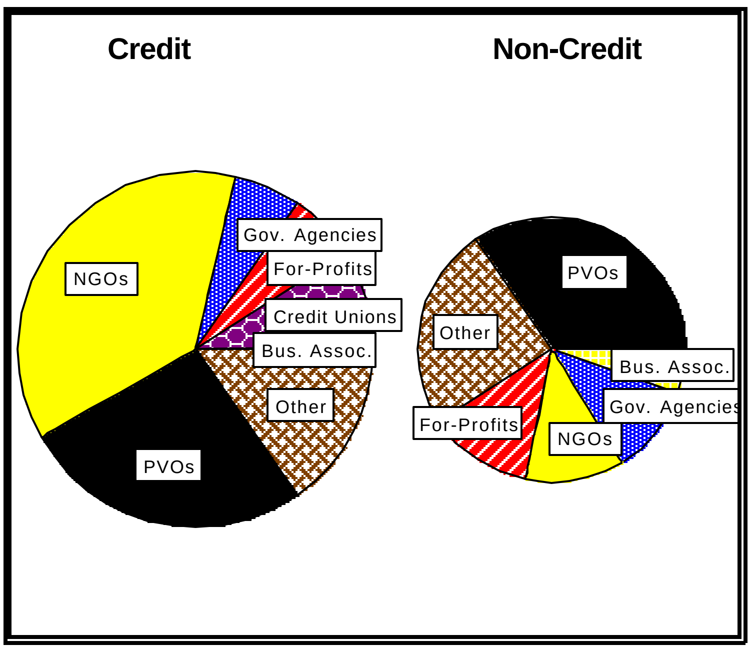
B. MICROENTERPRISE INSTITUTIONS SUPPORTED BY USAID

This section of the report moves from a discussion of the application of USAID funding to more detailed examination of the programs themselves, with a focus on those working in microfinance.

1. Number and Types of Institutions Supported

USAID identified 310 institutions or activities supported with FY 96 USAID funds. The institutions were of a variety of types, including US-based private voluntary organizations, credit unions, local non-governmental organizations, private banks, government agencies, and private consulting firms (See Figure 6).

Figure 6. FY 96 Funding Amounts for Credit and Non-Credit Activities by Type of Institution



Note: 'Other' includes mission projects which have not yet committed funds to particular institutions, mission support activities on behalf of microenterprises, and the technical assistance and support activities of the office of G/EG/MD.

USAID's support is overwhelming directed at US PVOs and local NGOs. US PVOs with experience and expertise in specialized areas received large amounts of funding in support of microenterprise activities in FY 96 (see Table 5). PVOs and NGOs combined received 74 percent of the funding in FY 96. However, this figure undercounts the funding amount eventually going to these groups as some of the "other"category represents initial obligations into general, PVO co-financing, or similar, projects. Much of this money will eventually be "subobligated" into cooperative agreements with PVOs or local NGOs, raising the percentage further. By contrast, only 7.5 percent of the funding goes to government agencies. The for-profits, which account for only 8.5 percent of total funding, are consulting firms providing technical expertise either to local institutions or USAID.

Table 5. US PVOs Receiving Largest Amounts of USAID Funds for Microenterprise, FY 96

US PVOs Receiving Largest Amounts of USAID Funds for Microenterprise	Countries Where Programs Are Located	FY 96 Funding US Dollars Millions
Volunteers in Technical Assistance	Guinea, South Africa, Morocco	6.5
FINCA	Malawi, Uganda, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Peru, Kyrgystan	5.3
TechnoServe	Ghana, Mozambique, Worldwide	4.0
WOCCU	Ghana, Kenya, Mozambique, Niger, Swaziland, Uganda, Zimbabwe, Bolivia, Ecuador, El Salvador, Nicaragua	3.8
ACCION	Bolivia, Ecuador, Guatemala, Nicaragua, Peru	2.7
World Vision	Mozambique, Tanzania, Uganda, Armenia, Azerbaijan, Georgia, Romania, Peru	2.6
CARE	Mozambique, Philippines, Georgia, Ecuador, Guatemala, Peru	2.3
Catholic Relief Services	Benin, Ethiopia, Gambia, Senegal, Cambodia, Indonesia, Philippines, Ecuador, El Salvador, Guatemala, Haiti, Nicaragua, Peru	2.2
Total		29.4

In FY 96, 243 credit organizations received funds for credit activities and 88 organizations received funds for non-credit activities. From these two groups, 21 institutions received USAID funds to implement both credit and non-credit activities.

Of the 243 credit organizations, 24 organizations received funds to initiate new lending activities, and, hence had no data to report on loan portfolio. Another 91 did not provide portfolio data for various reasons. Some of these institutions are umbrella organizations without a portfolio and others provide technical assistance to the lending organizations. In some cases, umbrella organizations reported the data of all "pass through" organizations combined. Thus, the data set for which detailed portfolio information is reported consists of 128 institutions.

2. Client Outreach and Portfolio Size

USAID supported microfinance programs are achieving significant outreach around the world. Worldwide, programs USAID supported in FY 96 reached nearly one million clients and had lending portfolios totaling $301 million. Of this total number of clients, two-thirds were women (see Table 6).

Table 6. Average Loan Size and Percentage of Women Clients for FY 96

Region	Average Loan Size (US Dollars)	Percentage of Women Clients
Africa	130	85
Asia/ Near East	260	68
Eastern Europe/NIS	1,014	61
Latin America/ Caribbean	389	60
Total	307	66

These programs are growing rapidly, with an aggregate growth rate in loan portfolio of 42 percent and a 24 percent increase in borrowers. The annual growth rate in savings in these institutions is 28 percent with an 11 percent increase in savers.

The average loan sizes shown in Table 6 demonstrate the differences between regions most clearly, with Africa having the smallest average loan size (US$130) and Eastern Europe/NIS the largest ($1,014). Striking differences in the outreach and portfolios of programs supported in each region are evident (see Figures 7 and 8).

Africa, Asia/Near East and Latin America all show outreach to substantial numbers of clients and sizeable loan portfolios. The ENI Bureau, reflecting the early state of microfinance institutions in the region, shows a much smaller outreach and portfolios (see Annex C).

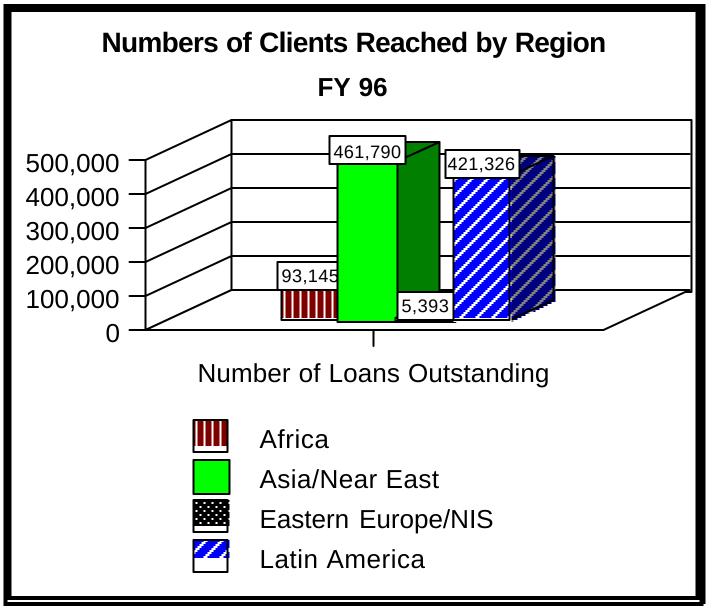


Figure 7. Number of Clients Reached by Region, FY 96

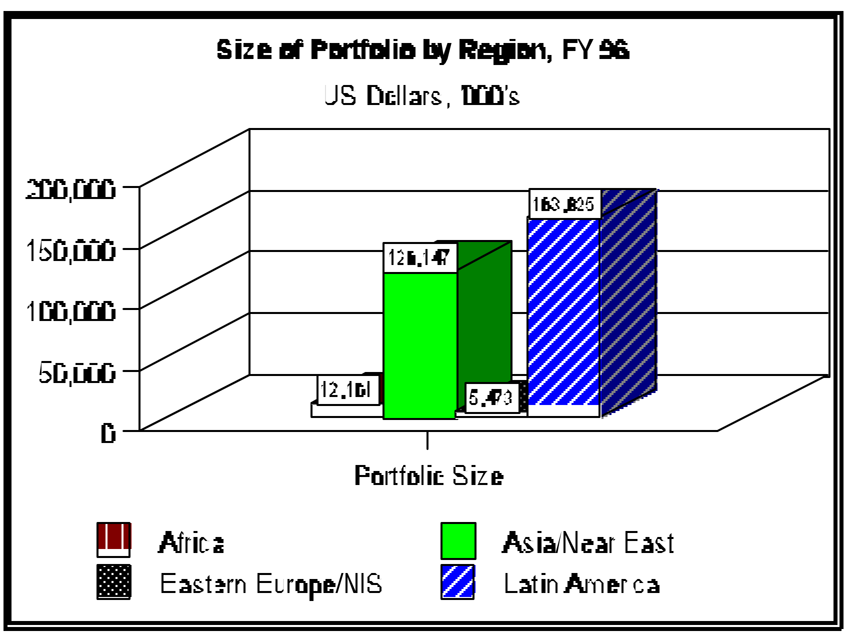


Figure 8. Size of Portfolio by Region, FY 96

3. Characteristics of Institutional Support

Microfinance organizations include those that serve as retail lenders to clients, those serving as wholesale lenders to other institutions and those which specialize in providing technical assistance to other credit institutions. The sample include both microcredit organizations that received assistance from USAID directly and those that received it indirectly via an umbrella organization that channeled funds or technical assistance to them.

USAID supports institutions which employ a range of methodologies and organizational structures for the provision of credit, and in many instances, savings. USAID supports credit unions or credit union federations, village banking programs, solidarity group lending programs as well as many individual lending programs. Many US PVOs specialize in a particular approach. For example, FINCA International and Freedom from Hunger have well-established village banking programs, while ACCION International promotes the solidarity group model, WOCCU provides technical support to strengthen the management of credit unions (see Box 3).

USAID works with a variety of microfinance institutions. The agency works with credit unions and commercial banks in order to help them learn how to work profitably with a much poorer clientele either directly or in partnership with NGOs. It works with regulatory authorities and national legislators in order to improve the regulatory and legislative environments within which microfinance institutions and microentrepreneurs operate.

In the case of NGOs and PVOs, USAID often supports the expansion to scale and sustainability of a particular local institution or the expansion of a proven methodology into a new region. It also supports PVOs that are experimenting with improving methodologies or breaking new ground in the sector. Sometimes the new development involves methodologies or procedures; sometimes it involves new regions or social groups.

Box 3. Credit Union Development -- World Council of Credit Unions (WOCCU), Ecuador

In 1995, the World Council of Credit Unions (WOCCU) was awarded a grant from the Office of Microenterprise Development (G/EG/MD) for work in Ecuador.

In some ways, Ecuador's credit unions are similar to U.S. credit unions. They provide financial services to the low and middle-income segments of the population; have moderate collateral requirements, and accept small savings accounts. However, in Ecuador over 52 percent of credit union members are employed in or own a micro or small enterprise. With more than 500,000 members, the credit unions in Ecuador serve over 8 percent of the economically active population.

However over the past decades, many credit unions have become either bankrupt or incapable of providing their members with good services. They pay low rates on savings, suffer chronic liquidity shortages, and make customers wait weeks or months to receive loans. Some credit unions are marginally profitable, but loan recovery problems are common, operating costs are high and increasing, and the availability of retained earnings to finance capital growth is declining.

The WOCCU grant is designed to reverse this decline by introducing a new, more business-oriented credit union model in selected areas. This model combines standardized accounting and formats, modern techniques for lending and deposit mobilization, and strategic plans to upgrade services. By June 1997, WOCCU had selected ten of the largest Ecuadoran credit unions, with a combined membership 356,000 individuals (46 percent women), loans of $63 million, and savings of $70 million. Five additional organizations are seeking to enter the program.

WOCCU's new model is now in place and beginning to show results. Over 73,000 loans were outstanding in December 1996 (with an average loan size of $800), and asset growth was outpacing inflation. Loan delinquency rates have improved to 13 percent of outstanding loans and are expected to improve further. The remainder of the project period will determine the degree to which the credit unions can overcome outdated policies and attract new members to their upgraded financial products and services.

USAID has long been a leader in promoting successful approaches for providing savings services, as well as credit. Of the 1996 institutions, 59 percent of the microfinance organizations are active in providing savings services to their clients. A lesser number of organizations are experimenting with leasing and group life and/or health insurance programs.

4. Poverty Lending

USAID's loan programs are clearly focused on the poverty lending client: almost 89 percent of all clients in USAID supported program are receiving poverty level loans less than $300 in most regions. Even in the ENI region, they constitute 63 percent of the loans provided.[10]

Table 7. Poverty Loans in FY 96 by Region ('000's)

	Total Microenterprise Loans	Poverty Loans	As Percent of Total Loans
Africa	**93.1**	**74.1**	**79.6**
Asia/Near East	**461.8**	**423.7**	**91.7**
Eastern Europe/NIS	**5.6**[1]	**3.5**	**62.5**
Latin America	**421.3**	**369.4**	**87.7**
Total	**981.7**	**870.5**	**88.7**

1. This amount includes data on World Vision/Azerbaijan which reported on the number of loans and poverty loans but did not report other portfolio data.

The proportion of the portfolio dedicated to loans falling within the poverty lending definition, however, is much lower. This is, in part, simply due to the fact that a few larger loans can have a dramatic effect on this measure. (One client receiving $1,000 claims as much loan capital as ten clients receiving $100.) Worldwide approximately one-third of the total portfolio being placed by institutions receiving USAID funding in FY 96 corresponds with poverty loans. In Eastern Europe and the NIS, a handful of institutions are almost exclusively poverty lending programs, but their volume of lending currently represents a small portion of the total portfolio for the region.

[10] Microcredit organizations were asked to report on the poverty lending portion of their portfolio either in terms of initial loan sizes or in outstanding balances based on the availability of data. Two-thirds of the respondents reported on initial loan sizes, while the remaining third reported on the amount of outstanding balances.

Table 8. Amount for Poverty Loans in FY 96 by Region, US Dollars

	Total Microenterprise Loan Amount (Millions)	Poverty Loan Amount (Millions)	Poverty Lending as Percent of Total Portfolio
Africa	12.1	6.3	52.1
Asia/Near East	120.1	40.7	33.9
Eastern Europe/NIS	5.5	0.4	7.0
Latin America	163.8	56.4	34.4
Total	301.5	103.8	34.4

As long as USAID intends to help people move up and out of poverty, its programs will show this kind of number and size distribution (see Box 4). The programs will strive to reach many of the very poor, but by continuing to offer larger loans to those who are moving up, it will continue to show significant amounts of the loan portfolios dedicated to loans above the poverty lending threshold.

Box 4. Association of Cambodian Local Economic Development Agencies (ACLEDA)

ACLEDA is the leading microfinance institution in Cambodia, a country where only 10 percent of the labor force is officially wage-employed. On the Human Development Index, Cambodia ranks 153 out of 174 countries. Nominal GDP per capita in 1995 was estimated at $292. Banking services are concentrated in the capital, leaving the vast majority of the economically active population without access to financial services.

ACLEDA currently provides credit to more than 25,000 active borrowers through a network of 19 branches. Ninety percent of ACLEDA's clients are women. ACLEDA makes short-term loans based on a solidarity group guarantees. In 1996, the average loan size for this window, with 12,335 active clients at year end, was $96, and the loan recovery rate was 98 percent. ACLEDA also provides individual secured loans to micro and small businesses. Loan sizes range from $200 - $4,000, and business training services are a key component of this lending window. At year end, 1996 there were 6,838 active clients, with an average outstanding loan balance of $592.

From its beginning as an ILO project in 1993, ACLEDA rapidly expanded its portfolio and developed a plan for organizational growth, leadership, and sustainability. The organization has evolved into a locally owned microfinance lending institution. ACLEDA is now committed to transforming its NGO operations into a commercial bank that serves the urban and rural poor in Cambodia.

In 1996, USAID supported the expansion of ACLEDA's lending facilities through a small grant, in parallel with funding from the Japanese government, as part of the US-Japan Common Agenda.

5. Quality of Loan Programs

As a leader in promoting sound financial practices in microfinance, USAID's policy on microenterprise development includes specific institutional performance standards for microfinance institutions.[11] These performance standards include expectations for sound management practices, high quality service provision and outreach to the poor on a truly significant scale.

USAID's expectations for the financial management of microfinance institutions cover three main areas:

1. The microfinance institution must have the ability to set interest rates and fees at full cost-covering levels. A reasonable start-up period is allowed. Emphasis is also placed on efficiency to keep the cost to the

[11] See Microenterprise Development Brief, Number 34, October 1996 entitled, "USAID Policy on Microenterprise Development." Also see September 1995 USAID Policy Directive on Microenterprise Development.

clients as reasonable as possible.

2. The microfinance institutions must have control over loan delinquency with a delinquency rate no higher than 10 percent (outstanding balance on loans overdue more than 90 days as a percentage of total portfolio)[12] and a loan loss rate below 5% (not applicable to start-up programs). Loan loss rate is defined as the average of losses over several years as a percentage of loans outstanding.[13]

3. The microfinance institution must provide a credible plan for how it plans to achieve full financial sustainability within no more than seven years of the initial USAID funding.

This year USAID supported institutions were asked to report on measures of portfolio quality (delinquency and loan loss) and financial viability (see Tables 9 and 10).

Table 9. Average Loan Delinquency and Loan Loss for Microcredit Institutions by Region (n=128)

Region	Delinquency Rate	Loan Loss Rate
Africa	**4.3**	**2.2**
Asia/ Near East	**3.8**	**2.0**
Eastern Europe	**5.3**	**2.4**
Latin America/ Caribbean	**6.7**	**2.4**
Worldwide	**5.5**	**2.3**

Institutions supported by USAID reported on their progress toward attaining full financial sustainability, whereby the organization is able to fully finance its own operations (including the cost of obtaining funds and compensation for inflation) with revenues from clients. A less ambitious measure, operational sustainability is defined as the ability to cover all administrative costs, including loan losses, with client revenues. In general, the institutions which have already achieved full financial self-sufficiency are older, well-established programs in Latin America. Of course, as programs become large and truly profitable, they no longer need USAID support and

[12] Some institutions reported on loan delinquency over 30 days.

[13] Aggregate loan loss rates reported by the institutions in our sample may be optimistic as a number of newer programs were not able to report on this measure.

disappear from the USAID data set, as has happened with some well-established programs, such as the Bank Rakyat Indonesia (BRI).

Table 10. Sustainability of Institutions supported by USAID (n=128)

Region	Not yet Sustainable		Operational Sustainability		Full Financial Sustainabilit y		Region Total
	No.	Percen t	No.	Percent	No.	Percen t	No.
Africa	28	85	5	15	0	0	33
Asia/ Near East	13	59	8	36	1	5	22
Eastern Europe	9	100	0	0	0	0	9
Latin America/ Caribbean	39	61	12	19	13	20	64
Total Institutions	89		25		14		128
Percent of Total	69		20		11		100

Helping more of its partners to achieve financial sustainability represents the single biggest challenge for USAID's microenterprise program. Only fully sustainable institutions can reach the many clients who need services without repeated injections of donor funds. Only such institutions make permanent, structural change in their communities and nations. The prospects are strong for microfinance institutions to make this leap as the success of Latin American programs and some Asian institutions has shown. Institutions in Africa are increasingly on their way towards sustainability, while those in ENI are only starting. Seeking progress in these regions will be high on USAID's microfinance agenda for the coming years.

ANNEX A
MICROENTERPRISE RESULTS REPORTING (MRR)[14]
Details on Data Collection Process

Obligations data. Early in 1997 a request for obligations data was made by cable to all USAID offices. As in previous years, microenterprise obligations and local currency expenditures were requested by fund account and by function: credit and non-credit. The goal was to capture some of the detail related to the variety within the non-credit programs (i.e., training and technical assistance, policy reform, and institutional development) through program descriptions of the non-credit activities in future years.

Missions and USAID/Washington offices were also asked to provide in detail the funding amounts provided to specific institutions or activities. Thus, for the first time, all funding for the reported fiscal year has been linked to specific institutions or activities. This is an important addition to USAID's system for tracking its support for microenterprise. The list of institutions was later cross-referenced against the data obtained through the MRR questionnaire. As a result, MRR is able to directly connect each program activity to a specific USAID obligation.

Institutional data. Institutional data was collected through the use of a multilevel questionnaire completed by USAID mission staff, PVO offices, and other microcredit institutions. The emphasis this year, as in previous years, has been on collecting data on financial organizations. Reporting on non-financial activities was limited to asking missions to provide brief descriptions of each non-financial activity funded in FY 96.

On the financial side, umbrella organizations were asked to list the organizations they supported. All organizations, including 'subgrantees,' handling a loan portfolio were asked to provide portfolio data. This included direct recipients of USAID funding and recipients of USAID funded technical assistance.

The MRR Questionnaire for the current reporting year had two parts. The first section contained an overview explaining agency-wide definitions for microenterprise and poverty lending. Mission personnel were then asked to provide the following:

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[14] USAID has had a system for tracking its microenterprise support efforts since 1989. Prior to that time, important details, such as the gender of clients and the size of loans, could not be tracked. The Microenterprise Monitoring System (MEMS) was funded through FY 1995 to provide regular reporting on USAID's microenterprise projects worldwide. In January 1997, a new contract to monitor USAID's microenterprise activities was signed with Weidemann Associates Inc. The new activity, known as Microenterprise Results Reporting (MRR), has been responsible for collecting the data presented in this report. The MRR contractors are simplifying and refining the methods of data collection to facilitate prompt and accurate on-going reporting.

< Details on mission criteria for microenterprise obligations and microlending;
< An appropriate exchange rate for calculation of poverty loans;
< Brief descriptions of non-credit activities, including amounts obligated to specific institutions.

The second part of the questionnaire was directed to microcredit institutions that had received FY 96 obligations. Mission personnel were asked to report on this information where available or forward the form directly to the institution if necessary. Information was requested on:

< Type of organization, including PVO, NGO, business association, for-profit, etc.
< Sources of USAID funding;
< Names, types and contact information for local institutions supported through an umbrella where applicable;
< Geographic location of project activities;
< Fiscal year for institutions;
< Portfolio data for FY 96 and FY 95, where applicable (amount of loans outstanding, number of loans outstanding, and percent of women borrowers);
< Savings data for FY 96 and FY 95, where applicable (amount of clients' savings and number of savings members);
< Portfolio quality data, including loan delinquency rate and long term loan loss rates.
< Level of sustainability of the institution: operational, financial, or neither.
< Poverty lending data; including the amount in local currency equivalent to $300 ($1000 for ENI); the amount of loan balances with initial loan size of $300 ($1000) or less with the associated number of loans; or the amount of loan balances in amounts equivalent to $300 ($1000) or less with the associated number of loans. The institutions were offered alternate ways of determining their poverty lending portfolio because not all microcredit institutions have the same loan monitoring capacity.

This questionnaire was distributed via e-mail. This greatly facilitated the process and made it easier for the MRR office to provide support to the field offices when necessary.

In this year's reporting, 63 field missions and central offices reported microenterprise funding in 59 different countries and 310 organizations received FY 96 funding for either credit or non-credit activities. Of the 243 institutions engaged in providing credit or technical assistance to credit programs, a subset of 128 provided data on lending operations.

Table 11. Microenterprise Institutions in FY 96 Survey, by Type

Type of Institution	Total Obligations		Credit Obligations		Non-Credit Obligations		Number Providing Data[1]
	Amount (000's)	Number	Amount ('000's)	Number	Amount ('000's)	Number	
Business Associations	2,176	5	240	3	1,936	3	1
Credit Unions	6,699	20	6,699	20	0	0	12
For-Profits	9,427	21	4,662	17	4,765	8	8
Government Agencies	8,379	6	4,394	4	3,985	3	1
NGOs	31,582	144	27,185	127	4,397	21	69
PVOs	32,715	85	19,929	62	12,786	33	33
Other[2]	20,380	29	11,206	10	9,174	20	4
Total	111,358	310[3]	74,315	243	37,043	88	128

1. Only institutions receiving USAID funds for credit programs were asked to provide data.
2. Mission projects which have not yet committed funds to particular institutions, Mission support activities on behalf of microenterprises, and the technical assistance and support activities of the office of G/EG/MD.
3. Note that the total of all institutions does not equal the number for credit and non-credit institutions as 21 institutions received funds for both types of activities.

A variety of reasons exist for the remaining 115 organizations or activities not having portfolio data to report. Fledgling programs just beginning operations often have no portfolio activity to report for the first 6 to 18 months after obligation; one-fifth of those institutions could not provide portfolio information for this reason. A number of umbrella institutions have no direct lending portfolio but provide funds or technical assistance to local organizations which reported individually; conversely, some programs reported all the institutional activity through the umbrella in a bundle and did not break apart the data for the individual organizations working under the umbrella. Similarly, for-profit institutions (as opposed to NGO umbrellas organizations) often provide technical assistance or training to the organizations which, in turn, actually provide credit services to the clients. Finally, there are some obligations to USAID projects that will later be passed to microenterprise organizations: the most common example of this are obligations to PVO Co-Financing Projects or general microenterprise development projects which will in the following year be used to fund cooperative agreements to one or more PVOs or local NGOs. In such a case, only the initial general obligation is counted. The specific secondary obligation is not counted in the funding totals the following year.

The number of institutions reported this year undercounts, in some countries dramatically, the programs actively supported by USAID because data collection was limited to those receiving funding from USAID in FY 96. Therefore, as an example, an institution receiving full funding in FY 95 for a three-year activity does not appear in the data.

While this year's questionnaire reported on only FY 96 obligations, next year a comprehensive set of data on all institutions supported with USAID funds (i.e., institutions with active contracts or grants) will be collected. Institutions supported with FY 97 obligations would still be specifically linked to FY 97 funding.

MRR will continue to try to improve its overall response rate by ensuring the field missions receive some benefit from this exercise. This year a report on USAID's microenterprise activities is under preparation as a reference directory for mission staff. It is hoped this will lead to greater cooperation and sharing of best practices among missions engaged in microenterprise development activities.

ANNEX B
Sources of Microenterprise Funding

FY 96 funding was comprised of dollars from the Development Assistance account (65 percent), the Economic Support Fund (14.5 percent), the Freedom Assistance Act (5 percent) and Special Assistance Initiatives (3 percent). The Freedom Assistance Act (FSA) is an account that provides funds for countries in the NIS. Funds for Special Assistance Initiatives (SAI) are appropriated for special purposes and are currently being used by missions in the ENI and ANE regions. The funding levels also include expenditures of local currency (11 percent) and contributions the ENI Enterprise Funds have provided to microcredit programs (1.5 percent).

In almost all cases, the initial obligation or legal commitment of the funding is counted. In a few rare instances where the initial obligation was not identified or counted for microenterprise, a subobligation to a microenterprise institution is picked up. It should be noted that the obligations can include funds carried over from appropriations in earlier years, as well as FY 96 NOA monies. In addition, in years for which the agency has been granted deobligation/reobligation authority, the funding may include re-obligated funds.

Table 12. Sources of USAID Funds for Microenterprise, 1990-1997
(US Dollars, Millions)

Fund Account	1990	1991	1992	1993	1994	1995	1996	1997 (estimate)
DA[1]	44.6	40.2	61.3	51.6	89.2	93.3	72.9	78.0
ESF	9.6	43.2	34.4	20.8	31.6	22.9	16.1	22.6
Local Currency	21.0	30.2	30.6	23.6	16.6	17.3	12.2	25.1
ENI Reflows							1.7	17.3
FSA							5.4	6.0
SAI							3.0	1.1
TOTAL	**75.4**[2]	**113.6**	**126.3**	**96.0**	**137.4**	**133.5**	**111.4**	**150.2**

1. Development Assistance (DA) Funds include Development Fund for Africa (DFA).
2. Total does not add because data on fund accounts not available for Colombia and Oman.

ANNEX C
Eastern Europe and the Newly Independent States (ENI)

The microenterprise programs in the ENI region are unique. This is due to the distinctive economies of the region and the history of USAID involvement there. The economies in Eastern Europe, in particular, are more similar to those of the developed world than the developing world in size and structure. On the basis of most social and educational indicators, these countries must be considered developed. Although lagging behind the economies of the group of countries generally classified as developed, their GDPs are significantly higher than those of most USAID-supported countries.

The ENI programs originated differently and evolved differently than USAID programs elsewhere. The SEED (Support for East European Democracy) Act and the FSA (Freedom Support Act) were passed in 1989 and 1992, respectively, by Congress to provide U.S. assistance to the political and economic transitions taking place following the fall of communism in the Soviet Bloc countries.

The overriding objective of programs that developed from the SEED and FSA Acts was the facilitation of the transition from an economic system based on the socialist principles of centralized planning and management to the democratic and capitalist systems of open markets, competition, and free enterprise. Under the SEED and FSA Acts, programs are focused primarily in three areas: economic restructuring (including privatization of large state owned industries), strengthening democratic institutions, and improving the quality of life. To date, more than 70 percent of program funding has been allocated to economic restructuring.

Within the ENI region, loan size is not used as the principal criterion for defining a microcredit program. Firm size and social and economic disposition relative to others are considered more important factors. The numbers of clients reached in the region is not expected to be as high as in other regions, due to the lower prevalence of microenterprises in the economy and the nascent capacity of service and finance providers. Evidence to date indicates that ENI microenterprises in many cases generate higher levels of employment than other regions.

Several of the earliest lending programs in Eastern Europe are funded through independent Enterprise Funds established by Congress. The Enterprise Funds place investments in local institutions to promote enterprise development. Although the Enterprise Funds are generally focused on large enterprises, many of them have opened special windows for small and microenterprises, often in partnership with NGOs. Because the legislation for the Enterprise Funds is separate from regular USAID funding, although their funds originate in USAID's budget, they operate independently of USAID. As a result, the relationship between USAID and the Enterprise funds is indirect and USAID receives only minimal reporting from them. Because Enterprise Funds do not obligate funds the same way as regular USAID missions, questions arise from time to time regarding how to treat given activities in the reporting. This happened this year in the case of the Polish American Enterprise Fund.