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and Gender in
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Issues and
Options

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GEMINI

GROWTH and EQUITY through MICROENTERPRISE INVESTMENTS and INSTITUTIONS
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Microenterprise and Gender in India: Issues and Options

by

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ACRONYMS

Currency: Rupees (Rs.)

US \$ 1 = Rs. 32.3

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| APEDA | Agricultural Processors for Export |
| ASSOCHAM | Associated Chambers of Commerce |
| CAPART | Council for Advancement of People's Action and Rural Technology |
| CCI | Conference of Indian Industries |
| CDF | Cooperative Development Foundation |
| EEE | Office of Environment, Energy and Enterprise, USAID/India |
| FFD | Office of Food for Development, USAID/India |
| FICCI | Federation of Indian Chambers of Commerce and Industry |
| GOI | Government of India |
| NGO | Non-governmental Organization |
| PD-17 | USAID Policy Determination on Microenterprise Development PRADAN |
| | Professional Assistance for Development Action |
| PRIA | Society for Participatory Research in Asia |
| RUDO | Regional Housing and Urban Development Office, USAID |
| SDO | Small Industries Development Organization |
| SHG | Self Help Groups |
| SIDBI | Small Industries Development Bank of India |
| SEWA | Self-employed Women's Association |
| SIDA | Swedish International Development Agency |
| SSI | Small Scale Industry |
| USAID | United States Agency for International Development |

EXECUTIVE SUMMARY

India, with over 930 million inhabitants, is second only to China in terms of population.¹ Per capita GNP in India is approximately \$300, and is comparable to other countries in the South Asian region. India is undergoing more rapid growth since the initiating an economic liberalization plan in 1991. Economic growth rose from 4.3 percent in 1992-93 to a preliminary 5.3 percent for 1994-95². Projected economic growth for 1996 is 6.0 to 6.3 percent.

The Mission of the U. S. Agency for International Development in India contracted with the Growth and Equity through microenterprise Investments and Institutions (GEMINI) Project³ to undertake a study with two objectives. The first was to provide an international perspective on microfinance initiatives and microenterprise development in India, particularly with respect to gender. The second objective was to make programming recommendations about support for enterprise development through NGOs.

Microenterprise in India is defined, not by the number of workers, but by the level of investment. Few data exist on microenterprises, variously defined as the "tiny sector", "cottage industry", village business, or the *khadi* sector. It is typically difficult to obtain data on microenterprise, and in particular, the informal sector. In India, the problem is compounded by requirements that only establishments with 20 or more workers report to the government, and second that business registration is optional. Nevertheless, a conservative estimate of the number of tiny and small scale business units is about 3.3 million total units.

Official GOI policy has been supportive of small enterprise, with selected sectors of the economy reserved for small businesses. The Small Industries Development Organization, and the Small Industries Development Bank of India are officially mandated to support small business development. The village and small scale industries sector achieved a real growth of five percent per year since 1990, higher than the overall industrial sector growth. Because formal sector performance has been solid in recent years, it could be expected that the informal sector is also thriving. In fact, anecdotal estimates place annual growth in the informal sector at up to 15 percent per year.

As expected, growth rates and constraints vary within and by sector. As the policy environment becomes more exporter-friendly, India's textiles, including ready made garments, agriculture and allied products, leather, gems and jewelry and process foods have great potential. And all of these are in the domain of India's small scale sector. Agribusiness, including fisheries, forestry, livestock and horticulture have tremendous growth opportunities for small scale businesses. A recent study of the rural non-farm sector indicated that services were a more important growth sector than traditionally assumed. The major constraints identified for the rural non-farm sector were: limited access to markets, undeveloped infrastructure, and inaccessibility of credit. Each of these barriers has implications for microenterprise/microfinance support programs.

Gender is also a crucial variable in microenterprise in India since women make up a large proportion of microentrepreneurs, are over represented among the poor, and have inadequate access to social safety net

¹ "World Population Data Sheet". 1995. Washington, D.C.:Population Reference Bureau. *Social Indicators of Development*. 1995. Washington, D.C.: World Bank.

² *Country Economic Memorandum*. 1995. Washington, D.C.: World Bank.

³ GEMINI was initiated in 1988 and has experience in more than 40 countries. The program is administered by Development Alternatives, Inc. to whom Weidemann Associates, Inc. is a subcontractor.

programs. In India, 94 percent of working women were reported to be self-employed. Women's businesses are a form of self-directed poverty reduction strategy and can partially substitute for social safety nets since self-employed women appear to have higher earnings than piece rate workers.

Non-governmental organizations (NGOs) play a significant role in promoting cottage industries and income-generation in India. There are an estimated 60 thousand NGOs officially registered, but only about 10 percent are active. Of the active NGOs, between 700 and 1,000 are capable of delivering programs in a sectoral area. Approximately 20 NGOs are attempting to mainstream economic activities. The most significant of these organizations that work with women are SEWA, PRADAN, MYRADA, UDYOGANI, CDF, ASSEFA, ADITHI, and URMUL.

USAID has several options that must be considered in developing an approach to microenterprise promotion.

- The legal and regulatory environment is particularly nettlesome for microentrepreneurs in India. A dialogue covering policy and regulatory issues impacting on the growth and development of micro-business would be fruitful since government officials appear to be given significant latitude in interpretation of policy, and "rent seeking" behavior results.
- NGO strengthening must be an integral part of any strategy for USAID to assist the growth of microenterprise. These organizations can play significant roles in preparing microenterprise for financial intermediation. However, there needs to be more active extension and outreach from one NGO to another since many NGOs are discovering lessons in parallel rather than from each other. The philosophical orientation or social welfare underpinnings of many NGOs has often hampered meaningful entry into microenterprise and microfinance. Furthermore, in the laudable effort to be participatory, many NGOs only reach limited number of clients, with few programs, and take years to do so. This constrains their potential for outreach, scaling up, and replicability, especially in the absence of opportunity for cross-learning with other NGOs.
- Before embarking on any microenterprise development, or microfinance program, USAID needs to examine some critical knowledge gaps. These gaps include estimating with greater precision the number and location of microenterprises, determining the major firm-level constraints, identifying existing sources of formal and informal finance, uncovering the existing business linkages between microenterprises and larger businesses, and assessing the effectiveness of support structures and organizations to assist microentrepreneurs.

With regard to gender, USAID/India's Women's Initiative (WIN) Project is in the pre-design stage. WIN is expected to support women's initiatives in the Hindi-speaking area of North India through technical assistance, grants and training for NGOs working on issues related to women's roles and status. Women in these States are often poor, uneducated, and lacking in access to social services. The WIN Project will build a constituency on women's issues by strengthening Indian NGOs working in Uttar Pradesh and Madhya Pradesh, focusing on women's leadership, literacy, microenterprise and environmental health. WIN will also work at the national level with NGOs involved in research and training on policy issues relating to women's rights and status. It will complement the Mission's family planning and reproductive health interventions with an intervention designed to improve the role and status of women in Uttar Pradesh and Madhya Pradesh.

The Mission's strategy for the WIN Project should be guided by several principles:

- Women in development professionals, NGO leaders and poor women cited income-generating as a top priority. Therefore, the project should be economically-led to the extent possible. Upon getting the women's attention and time commitment, and demonstrating sincerity about meeting their expressed needs, additional project features can be added--health, family planning, literacy, etc.
- Ideally, pilot projects should be sited where there is the greatest chances of success. However, this project must be located in the Northern Hindi-speaking belt where the need is greatest and but where the human and institutional resource base is limited.
- WIN is an integrated program with microenterprise as a potential area of emphasis. However, there is a critical vacuum of NGOs with proven microcredit/microenterprise experience in the targeted geographic area. Maximum effort must be made to select sites and situations in the targeted area where NGO capacity can be enhanced, so that women are attracted to the program, and objectives are achieved in women's leadership, literacy, environmental health and entrepreneurship.
- If feasible, WIN should be linked to any proposed Mission initiatives in microfinance, in order to assess impact of credit, and to create connections between microenterprise and microfinance pilot activities.
- WIN's approach should be transparent since the proposed project involves sensitive topics such as family planning and reproductive health. In view of the large women's movement in India that some elements would label as "feminist", there are many opinions to be sought and divergent voices to be heard.
- The Mission should involve NGOs in training and participation from the outset to ensure maximum benefits for the Mission, the NGOs who act as intermediaries, and the women who are the ultimate clients. The design and the process surrounding it should probably be viewed as an integral part of the project and not just a prelude to it.

SECTION ONE

BACKGROUND

INVESTIGATIONS IN INDIA

The Mission of the U. S. Agency for International Development in India contracted with the Growth and Equity through microenterprise Investments and Institutions (GEMINI) Project⁴ to undertake a study with two objectives. The first was to provide an international perspective on both microfinance and microenterprise, especially with respect to gender. The second objective was to help USAID/India to determine whether it should support NGOs active in enterprise development, and if so, what form this support should take. This consultancy⁵ took place March 1-17, 1995 and followed a six week TDY by Dr. Joan Mencher, who examined gender and successful microenterprise programs of the Government of India (GOI) and NGOs. The current assignment coincided with one by Dr. Marguerite Robinson, who was investigating the potential for a self-sustaining financial institution for rural India.

The consultant was to work in India for one month, collaborating with a local firm to conduct more in-depth analysis of constraints facing women's access to formal credit in the northern and central Hindi-speaking states.⁶ It is difficult in the best of circumstances to do justice to such a large, diverse, and important country as India, so the findings presented here are preliminary.

During the assignment, the consultant met with USAID, government and NGO officials, using key informant and rapid appraisal techniques.⁷ Data were verified through "triangulation" using additional sources. Primary data were gathered during a brief field visit to Rajasthan; otherwise, secondary data were used.

No comprehensive survey of microenterprise nor microfinance had been undertaken in India and little information was available in the Mission about this sector. Therefore, it was necessary to first review the state of the art of microenterprise in India before proceeding to women's enterprise opportunities and constraints, and finally to programming options for the Mission.

This report begins with a brief overview of USAID's Microenterprise Initiative and the global state of the art on microenterprise. Section two of the report addresses microenterprise in India while section three adds the gender dimension. Section four examines the role of non-governmental organizations in microenterprise and microfinance. A brief discussion of poverty as it relates to microenterprise and gender

⁴ GEMINI was initiated in 1988 and has experience in more than 40 countries. The program is administered by Development Alternatives, Inc. to whom Weidemann Associates, Inc. is a subcontractor.

⁵ The consultant for this assignment was Dr. C. Jean Weidemann, while Ms. Madhu Gujral was the USAID/Indian Mission team member. Dr. Heather Goldman, Director, Food for Development (FFD) and Mr. Terry Myers, Deputy Mission Director, provided overall guidance.

⁶ These states include: Uttar Pradesh, Madhya Pradesh, Bihar and Rajasthan.

⁷ The consultant did not work with a local firm since this decision was postponed until a clearer determination could be made about using such services.

is included. The report concludes with a look at USAID's options and strategies for microenterprise in general, and for women in particular.

DEFINITION AND USAID DIRECTIVES ON MICROENTERPRISES WORLDWIDE

Definition and Characteristics of Microenterprises

Microenterprises are very small informally organized, non-agricultural businesses.⁸ Many of these businesses employ only one person, the owner-operator. Some include unpaid family workers, while others may have one or two paid employees. USAID has adopted an upper threshold of ten employees, including the owner-operator and any family workers, for an enterprise to be considered "micro". USAID's Policy Determination 17 (PD-17), provides the following definition of a microenterprise:

As a working definition, subject to the following exceptions, a microenterprise should have no more than approximately 10 employees and should have characteristics (assets, revenue, etc.) that fit well within the framework of objectives set forth below. Special emphasis should be placed on small-sized and individually-owned productive activities. An attempt to define or limit the size of a microenterprise too severely would exclude from the program some enterprises that Congress desired to receive the benefits of the program. Furthermore, the objective of gradually advancing an enterprise to access formal sources of financing could be undermined with too severe a limit based upon the firm's employees.⁹

Policy Determination 17 goes on to state that "Missions may well have to use a locally appropriate definition of microenterprise. This definition should be delineated in project of program documentation."

There are distinct types of microenterprises along a continuum of economic sophistication. At the lowest level are economic activities carried out on an occasional basis that generate some income, but where it is debatable whether the activity constitutes an "enterprise". For example, a woman who raises poultry for her own household use and occasionally sells excess to her neighbors, may or may not be considered a microentrepreneur. In the same neighborhood, another woman may regularly raise and sell poultry as an income-generating activity. This woman clearly fits the profile of a microentrepreneur. At a slightly more sophisticated level, poultry-rearing may be a home-based family enterprise.

At the low end of microentrepreneurship continuum are individuals who are the disguised unemployed. They include individuals who are attempting to supplement meager family incomes with home-based income-generating activities. Women as owner-operators and employees comprise the majority of these enterprises. Also included are those who are actively seeking wage employment, but are self-employed until something better comes along. Survival, not business expansion, is the focus. These businesses individually exhibit little or no economic growth. As a result of these factors, there is a high turnover of businesses at the low end of the microenterprise continuum.

⁸ This section draws from previous syntheses of GEMINI work, as well as USAID's Microenterprise Initiative, and PD-17 of October 10, 1988 on Microenterprise Development (Annex A). The latter is currently under revision.

⁹USAID Policy Determination: Microenterprise Development Program Guidelines, October 10, 1988. paragraph B-2 *Program Beneficiaries*.

At the upper bounds of the microenterprise continuum are growth-oriented businesses. A major shift occurs when a business expands beyond the level of using only family labor. Only a small minority of microenterprises are expansion-oriented. The growth-oriented enterprises expand quickly. Annual growth rates ranging from 40 per cent to 80 per cent are common. The expanding enterprises are often characterized by the proprietor having had previous experience in a related business, family support, engineering or technical skills, a productive work force and a propensity to take some business risk.

Subsistence-oriented and growth-oriented microentrepreneurs each require a different strategy and a different set of interventions. While both need credit, both often have difficulty finding suppliers of financial services. Banks are usually not structured to provide satisfactory financial services to small survival-oriented entrepreneurs and their households. Financial institutions able to cost-effectively deliver services to small communities are needed. When such institutions are not available, intermediaries such as NGOs are often used. Business development training is appropriate for businesses that are expanding, but not for survival-oriented businesses.

Approximately 80 per cent of the Third World population is under-served by social and economic services. At best, poverty alleviation and microenterprise development programs reach between four to twenty per cent of the targeted population. Governmental and donor programs have been unsuccessful in reaching intended beneficiaries.

This has resulted in movement to a market-led approach focusing on the environment surrounding microenterprises and to the strengthening of intermediaries able to develop and provide sustainable post-project services. A major need of microentrepreneurs is the provision of financial services. As a result, project assistance focussing on this need has reached large numbers of beneficiaries at relatively low cost. The provision of savings services for the poor and the communities in which they live is of critical importance. Frequently the number of savers in a financial program or institution will outstrip the number of borrowers, perhaps by a fivefold margin. Many microentrepreneurs are debt-averse due to their small equity base and the economic uncertainties of their lives. Savings programs allow them to accumulate liquid assets available for use during emergencies and offer positive rates of returns. Universal data show that even very poor families are able to save 20 cents to 50 cents per week. These amounts are significant when measured against initial loan sizes frequently in the range of \$25 to \$50. The positive relationship between the recovery rate of loans and the collection of savings from within the same community is also important. The volume of community savings, furthermore, usually exceeds the demand for lending when satisfactory savings services are provided.

Typically, microenterprises account for approximately 30 per cent of employment in an economy. The majority of microenterprises, however, grow very little: about 70 per cent show no growth and these employ half of the microenterprise work force¹⁰. Business start-ups are responsible for 80 per cent of employment growth, and more than 80 per cent of new starts are one person enterprises.

Gender is a critical factor. Women proprietors often use enterprise profits for family welfare, thus creating conflict with the capital needs of a rapidly growing business. Access to capital is the most frequently stated constraint to microenterprise development. For most microenterprises, the next largest problem relates to markets. Among the fastest growing enterprises, however, raw material inputs is an important economic constraint.

¹⁰ Much of this information is from GEMINI baseline surveys in Africa and work in Bolivia, the Philippines, Bangladesh and Indonesia.

Often banks are often neither structured nor located to provide small-scale financial services outside of urban areas. Thus, it has been necessary to provide services in these areas through small financial institutions and NGOs. The latter types of financial services can reach large numbers of clients and can achieve sustainability with substantial investment over time. The Grameen Bank required ten years to prove its viability. BancoSol in Bolivia needed almost twice its anticipated time for start-up and commencement of operations, and the Bank Rakyat Indonesia (BRI) Units and the Bank Pembangunan Daerahs (BPDs) in Indonesia benefitted from project assistance received over ten years. This amount of time is necessary to ensure that all regulatory, commercial and social linkages are fully tested and viable in a non-distortionary manner.

Self-help group (SHG) development requires an investment of approximately \$4 per group member to enable members to be eligible to receive services. Job training programs usually cost more than \$200 per trainee. Taking into account failures in start-ups and the inevitable death of many enterprises within three years, the final cost will be more than double for each surviving entrepreneur. Additional business investment cost per job created will commonly be within the range of \$ 130 to \$ 1,000. Unless training is focussed on specific job needs, its cost, plus business investment costs, resultant businesses will not be financially feasible.

Sub-sector studies have enhanced cost effectiveness of enterprise-creating services by identifying high growth potential industries; types of interventions to be used; and stimulating their linkages within a commercial framework. Required services can then be identified and appropriately priced so that, as far as possible, they are recoverable from the consumers. The high rates of return feasible from microenterprise activities make cost-recovery a realistic goal if satisfactory services are provided.

Measuring the impact of microenterprise development activities is difficult. Many households are involved in more than one economic activity and often have multiple sources and uses of funds generated and used in both business and personal activities. This makes it very difficult to separate out the costs and benefits of each activity. The lack or paucity of appropriate records further complicates this problem. The occurrence of "spillover" benefits of projects on non-intended beneficiaries, particularly at the village level, further contaminates the statistical integrity of a control group against which project benefits can be measured and compared.

The effect of projects on the intermediaries delivering services to microentrepreneurs also requires careful assessment. There are many instances of intermediaries being socially or financially destroyed through project participation.

USAID's Microenterprise Initiative

The Administrator of USAID chartered a Microenterprise Initiative in June of 1994. The Initiative is a set of policies, strategies and specific actions designed to make microenterprise a prominent part of USAID's economic growth strategy. The goals of the initiative are:

- To assist poor people to increase their income and assets, thereby gaining the basis to improve their welfare, nutrition, health, housing and education.
- To increase the skill and productivity base of the economy, so that the capacity of the economy to grow is enhanced.

- To develop sustainable institutions through which disadvantaged groups gain greater access to resources, fostering a social fabric that more effectively weaves poor people into their societies as participating members.

In pursuing these goals, USAID is committed to the following areas.

Focus on Women and the very poor. "Programs should be designed ideally to (a) seek out the very smallest enterprises and, among them, those with the greatest potential for expansion; (b) help firms access formal systems of financing and technical services; and (c) make at least 50 percent of their resources (credit, technical, and training) available to women-owned and -operated enterprises." The conference report accompanying the legislation suggested that the microenterprise beneficiaries should be individuals in the poorest 50 percent of the population, women-owned businesses, and businesses owned and operated by the poorest 20 percent of the population¹¹

The USAID Microenterprise Initiative emphasizes poverty lending programs. Poverty lending programs are defined as extending loans of \$300 or less. Among microenterprises, those with the greatest potential for expansion should be targeted.

Assist implementing organizations in reaching greater numbers of people. The PD-17 encourages USAID to maximize use of private sector institutions such as local privately-owned and controlled financial institutions.

Work toward sustainability and financial self-sufficiency. Working with commercially viable businesses finance and service organizations assures that institutional strengthening will support the ability of these businesses to continue to found and develop new small business entities.

Develop partnerships with local organizations. USAID will seek improved partnerships with governmental organizations, associations, credit unions, and other institutions.

Summary: Fine-Tuning Microenterprise Interventions

Microenterprise programs can best achieve their goals of expanding opportunities for clients by:

- increasing access by the poor, especially women, to credit and savings services provided by a variety of sustainable financial service institutions.
- providing innovative non-financial assistance in a cost-effective manner for technical and management training, and marketing and technology development,
- strengthening the capacity of local organizations, such as NGOs and associations, to have a voice in the policy process affecting microenterprise development at the national and local level,
- fostering an enabling environment for microenterprise through institutional and economic policy change.

¹¹ PD-17.

Microenterprise interventions should aim toward: achieving greater outreach and significant scale; creating viable financial services; delivering cost-effective non-financial services; building local institutions that have long-term viability; and including women and the very poor. These themes were used as guidelines in recommending microenterprise interventions to USAID/India.

SECTION TWO

MICROENTERPRISE IN INDIA

DEFINITION AND CHARACTERISTICS OF MICRO AND SMALL ENTERPRISE IN INDIA

Microenterprises in India are known as "tiny", "cottage", village or "khadi" industries, and are defined by levels of investment. The micro group includes enterprises with less than half a million rupees in plant and equipment. In contrast, a "small" enterprise is significantly larger and can have up to 6 million rupees in plant and equipment. If the business is ancillary to a larger unit or is export-oriented, investment can be up to 7.5 million rupees. Relatively few data are available for enterprises employing less than 20 persons, since this is the threshold for reporting requirements to government.

Business ownership can take the forms of a sole proprietorship; a partnership with more than one individual; or a private limited company, or a public limited company. Business registration is optional. Recent figures indicate there are 2.2 million registered small scale industries (SSIs) in India employing 42.5 million persons. A very conservative estimate of the number of unregistered, or informal, businesses is 1.1 million enterprises. Thus formal and informal tiny and small scale units total at least 3.3 million (SIDBI 1994).

The fortunes of informal businesses are tied to the fortunes of formal businesses since there are often direct business linkages. Because formal sector performance has been solid in recent years, it could be expected that the informal sector is also thriving. This contention is supported by some statistics. Annual growth in the informal sector has been estimated at about 15 percent per year. The village and small scale industries sector achieved a **real growth** of five percent per year since 1990, higher than overall industrial sector growth. However when measured by **employment** growth, the village and small industries sector grew at about 4.5 percent, which is less than traditional industries which experienced 6 percent growth in employment. The small scale sector, including tiny businesses, recorded an impressive growth of 28 percent in **exports** in 1993-94, compared to the previous year. Some sub-sectors in the traditional industries group turned in commendable performances--hand looms with a growth of 24 percent and handicrafts (including gems and jewelry) at 28 percent (op. cit.).

Government Policy Toward Micro and Small Enterprises

The GOI has adopted a very supportive and paternalistic attitude toward small business development. Historically, government policies have left civil servants a wide latitude in interpretation. This resulted in uneven implementation of policy directives, and "rent seeking" behavior was often reported on the part of government officials responsible for making rulings, or granting permissions.

A long-standing policy reserves selected business areas for small enterprises only. Restrictions or prohibitions were placed on larger firms entering these markets in an effort to encourage growth in the small sector. An example of this type of restricted industry is the confectionery business. When the Wrigley Company attempted a market entry in 1988, the confectionery business was set aside for small business. This meant that Wrigley was prohibited from establishing branch operations; Wrigley was limited in the amount of equity they could own; strict limits and prohibitions were placed on selling of products in the domestic market; Wrigley was not allowed to use their own brand name for fear of giving a foreign firm unfair advantage in competition with domestic companies. Wrigley was able to negotiate exceptions to most of these

restrictions. Most of these restrictions have since been changed, but this case demonstrates the constrictive nature of the policy of attempting to promote small business by protective measures.

Since economic liberalization began in 1991, the GOI has taken additional steps to stimulate growth of small industries. The system of reserving selected lines of business for the small sector remains. However, the GOI has created a high level committee to review product reservation for small scale businesses, and another committee to check entry of large and medium units in areas reserved for small industries. The GOI is providing additional technology services, including in rural areas, strengthening subcontracting exchanges, and promoting linkages between agriculture and industry. Donor projects have focussed on food processing, leather, textiles, garments, metallurgy and chemical products. Small scale garment exporters have been given incentives for upgrading technologies and enhancing competitiveness in global markets. A sixteen member governing board of the National Credit Fund for Women was also created to promote initiatives for women's development by providing credit as an instrument of socio-economic change.

Another initiative, launched in 1993, was targeted at generating self-employment for educated, unemployed youth through small industries, services and business enterprises. For khadi and village industries, interventions have included upgrading technologies, expanding market outlets, export promotion, quality control, training, and research.

Some of the policy changes have had mixed impacts. Commercial interest rates were mandated downward in 1993 "to stimulate industrial recovery" (SIDBI 1994:13). To encourage a smoother flow of working capital to small scale industries, the entire small scale sector was classified as a "priority sector". The smallest industries, and the tiny sector units made up of khadi, village and cottages industries, and artisans, were allocated 40 percent of credit available to the small scale sector. The new private banks are also required to adhere to these "priority sector" norms. There are prices to be paid when banks are required to do priority sector lending. These include distortion of the incentive structure, higher default rates when credit is extended to non-viable small businesses, insufficient credit for larger, more viable enterprises, and misdirection of credit despite laws.

Measures which primarily affected large businesses include liberalized fiscal measures, and allowing access to foreign exchange resources on current (checking) accounts, and reduction in corporate tax rates. Import duties were lowered, along with duties on key raw materials, machine tools, capital goods, and parts and components. To help the domestic capital goods industry compete with imports, a countervailing duty on import of capital goods was also proposed. Other measures included a five year tax holiday on new industries in backward States of India.

Government Support for Small Businesses

The Ministry of Industries is responsible for development of the small enterprise sector. The Small Industries Development Organization (SIDO) in Delhi supports small industries through extension and other initiatives. A special bank, the Small Industries Development Bank of India (SIDBI) provides finance to the sector. SIDBI was established in April 1990, under the Small Industries Development Bank of India Act, passed by Parliament in 1989. SIDBI is a wholly-owned subsidiary of the Industrial Development Bank of India with 5 regional and 26 branch offices throughout India. SIDBI also uses 63,000 other financial institutions ranging from commercial banks to coops to disburse loans.

The objectives of SIDBI are to serve as the principal financial institution for promotion, financing, and development of industry in the small scale sector. SIDBI also coordinates the functions of institutions engaged in promoting, financing or developing small scale industry. SIDBI, originally a refinancing institution, has

now diversified its activities and offers financial assistance through term loans, foreign currency loans, lines of credit, equity assistance, and equity type soft loans. SIDBI's total assets in 1994 were over USD 3 billion. Several subsidized loan schemes have been established for women, ex-servicemen establishing businesses, and first generation entrepreneurs with typical loan ceilings of Rs. 1 to 1.5 million. SIDBI indicates that it has stimulated capital investment of rupees 25,580 million, and generated 640,000 new jobs in its first four years of operation. While approximately 40 percent of its loans go to the tiny sector, only one percent of total SIDBI clients are women. Recognizing the need for strengthening the self-help potential of rural poor, particularly women, SIDBI now extends loans and encourages savings among these individuals and supports selected NGOs to enhance their management capabilities.

Business Associations

Several associations provide support for large businesses, but there are few trade or business associations for small and microenterprises. Among the largest associations are the Federation of Indian Chambers of Commerce and Industry (FICCI), which is the leading apex organization representing the widest cross-section of industry and trade in India.

USAID has given a US \$1.1 million grant to FICCI to help promote economic liberalization policies of the GOI and create a climate conducive to successful implementation of reforms. FICCI is accomplishing this by conducting nationwide education programs for businesses on the aims and benefits of new economic policies. A second activity is to facilitate a process of consultation between different regional and industrial interest groups and key policy makers.

Other major organizations active in enterprise development and support include the Conference of Indian Industries (CCI), the Associated Chambers of Commerce (ASSOCHAM), and the Agricultural Processors for Export (APEDA). CCI has an influential lobby for big industry, but also has a unit for rural and smaller industries.

There are also industry level and local level associations. Smaller producers are supported in several sectors — for example, the National Dairy Development Board, and the Cooperative Development Foundation for rice cooperatives. The National Dairy Development Board provides services to dairy farmers, seventy percent of which are female. SEWA is the most noteworthy organization catering to the credit and deposit needs of women producers.

Outlook for Small and Microenterprises

The liberalized economy introduced some formidable challenges to the small scale sector — unrestricted competition from multinationals entering the consumer durables and non-durables market segments with internationally known brand names, technological superiority, and intensive marketing. The large scale exports of processed and semi-processed agricultural commodities through large export houses and multinational firms leave gaps in the supply of these resources which have traditionally been inputs for tiny industries.

The larger and more progressive SSIs have the flexibility and adaptability to switch over to low-volume specialized markets and diversify into differentiated products with appropriate manufacturing processes. The other SSIs and tiny units operating in the decentralized environment could gain through linkages with large enterprises or export houses. Foreign direct investment should have the spin-off effects through linkages with small scale unit that can provide the supply base to large undertakings. Foreign

investment offers possibilities for buy-back arrangements for labor-intensive activities such as reprocessing and repackaging of export goods, serving as ancillaries to large industrial houses with foreign collaboration through equity/technology transfers, and modernization and quality upgrading offer other potential avenues for the small scale sectors.

Since the infrastructure for boosting output in the agricultural and horticultural sectors is also being strengthened with incentives for private investment, there may be a need for expanded capacity in storage, processing and marketing. Small scale industries are best suited to enter these areas by strengthening their linkages with agriculture and other allied sectors. Agribusinesses, including fisheries, forestry, livestock and horticulture have tremendous growth opportunities for SSIs.

A truly efficient and competitive small scale sector requires:

- removal of deterrents to sustained increase in production
- price incentives to farm producers to increase agricultural output
- development of the infrastructure needed for agro-exports
- measures to ensure adequate flow of capital to small businesses.

As the policy environment becomes increasingly exporter-friendly, India's textiles, including ready made garments, agriculture and allied products, leather and leather goods, gems and jewelry, and processed foods have great potential. And all of these are in the domain of India's small scale sector.

On the one hand, India must integrate itself into global markets and at the same time, face competition in the domestic market from international suppliers. The future of the Indian small scale sector is dependent on technology, product quality, factor productivity, competitive marketing techniques and sound management practices

Microenterprise Knowledge Gaps

As noted earlier, establishments with less than 20 employees are not required to report to the GOI. Therefore, few data sources could be found for this category. Before any program is developed that targets this sector, more information is needed about the target group. USAID should not proceed with a microfinance initiative until more is known about microenterprise in some of the following areas: ¹²

- characteristics, location, and numbers of potential clientele for microenterprise/ microfinance programs;
- impact of the current policy and regulatory environment on small businesses;
- major constraints on small businesses;
- existing sources of finance, including informal finance for microenterprise;

¹² Gender is an important variable for these areas of inquiry. For example, since current information indicates that the majority of women in microenterprise are self-employed, then intervention strategies will need to be tailored to this reality.

- existing business linkages and growth areas, especially at the sub-sector level;
- support structures and organizations.

Savings rates are also an important consideration, particularly as they are sources of start-up capital for businesses. India is reported to have had a high savings rate — about 20 percent. There is some question about whether this has been eroded in recent years by consumerism.

In the area of non-financial assistance, business linkages and growth areas have received some attention but deserve more exploration. What business linkages benefit microenterprises—for example, mutual assistance, technical assistance, credit, in-kind/trade/supplier credits, market identification, market development, merchandising, etc.? These might occur through guilds or trade associations where members provide mutual assistance, joint purchasing, or a common repair facility. How can these linkages be strengthened and what institutional structures are most appropriate?

Sub-sector analysis¹³ is another area with potentially high rewards for small business growth. The following section summarizes a recent study that could be a model for future sub-sector work.

Non-Financial Assistance: Using Sub-Sector Analysis to Identify Client Characteristics and Needs

A recent subsector study examined the importance of the rural non-farm sector in terms of employment generation, raising incomes, contributing to GDP growth, and strengthening the foreign exchange position of India.¹⁴ Ten subsector profiles were developed in each of eight states. Secondary data were combined with interviews with key informants and interviews with entrepreneurs to provide the informational base. The findings of this study have tremendous implications for microenterprise and microcredit programs in rural areas. For example, credit was not the top ranked constraint, but was third, after markets and rural infrastructure. Among the findings and implications were:

- Contrary to the traditional view that rural non-farm workers are engaged as artisans in household manufacture, the study found nearly 60 percent of workers were in service sectors. A number of emergent sub-sectors were identified. This implies that a strategy to assist rural non-farm enterprise should focus on services.
- The overall growth rate for rural non-farm activities was 2.7 percent. From a base of 40 million workers, approximately one million new workers are being added per year. A quarter of all of these workers are women. The only sector with a negative growth was household manufacturing.
- Agricultural processing accounted for one-fourth of total enterprises. Over 77 percent of the establishments were operating year round, and 71 percent were running without power. This indicates the potential employment impacts of development of rural infrastructure.
- Excessive regulation coexists with pervasive violation and regulations seem largely to serve the purpose of rent extraction by officials. Most rural establishments rely on informal sources

¹³ The term, "sub-sector analysis," as used in this paper, is not limited to the methodologies pioneered by Michigan State University and the GEMINI Project.

¹⁴ "The Rural Non-Farm Sector in India," Study Group on Rural Development, 1995.

of credit including advances from traders. Formal channels have low interest rates, but very high transactions costs for the borrowers.

- In order of importance, the three major constraints are growth in markets, non-availability of infrastructure, and availability of credit.

Knowledge Gaps

Annex A delineates areas where further research is needed on gender, microenterprise and microfinance.

SECTION THREE

GENDER AND MICROENTERPRISE IN INDIA

CRUCIAL ISSUES

This section highlights priority gender issues facing the country that USAID (1995) and the World Bank (1991) have documented.¹⁵ Among those are:

Low Status of Girls and Women. The gender ratio of 927 females for every 1000 males reflects the differential treatment of females in India. In the northern and central Hindi-speaking states, sex ratios are skewed in favor of boys. Child and maternal malnutrition are common and mortality is significantly higher for girl than for boy children. Female infanticide, child marriage, and inequitable care of the female child arise from pressures for dowry payments and the costs of raising a child who constitutes an economic loss when she leaves a birth family for that of her husband. The "inside-outside dichotomy" (World Bank 1991) places women in the sphere of home and compound, with men interacting with the outside world. Upper-caste Hindus and landowners prefer that women's work occur within the domestic sphere and not take them out into the public arena. When women are confined to unpaid domestic work and family farm work, their status is undervalued because they are less able to earn income. Furthermore, the inside/outside dichotomy combined with women's double roles of production and reproduction often results in female preference for **home-based work even when the pay is lower** (Weidemann 1991, 1992a).

The Feminine Face of Poverty. The official poverty line in India is Rs. 11,000 per household per year.¹⁶ Forty percent of the world's poor reside in India and of these, two out of three persons living below the poverty line are female. This number will grow unless there is greater investment in female education, health and other programs that increase access to services, assets and information while enhancing their productivity. Recent reports estimate that women comprise only 20 percent of the beneficiaries of poverty alleviation programs of government, donors and NGOs in India (World Bank 1991).

Female-Headed Households. Women head approximately 20 percent of Indian households and provide significant income in many others. Female-headed households are over represented among the poor since they often have fewer adult workers and high dependency ratios.

Geographic Differences in Access. In the northern and central Hindi-speaking areas, over 40 percent of females are secluded, thus limiting their access and mobility for taking advantage of markets, training and other resources.

¹⁵ Additional details on women and microenterprise can be found in the 1995 report to USAID by Joan Mencher.

¹⁶ The poverty line should probably be revised upward to nearly double the current figure (Bharti Ramola. Personal Communication. Delhi, India. 1995).

Fertility Rates and Health. The northern and central Hindi-speaking States of Madhya Pradesh, Bihar and Uttar Pradesh have the highest fertility rates in the country at 4.7, 5.4 and 5.4 births per woman respectively. Life expectancy is now 59 years for both males and female. But females have higher mortality rates during the second half of infancy and during the childbearing years. Maternal mortality is estimated at 450 per 100,000 live births compared to a rate of 10 in developed countries. Only 25 percent of births among rural women are attended by a trained health provider and prenatal services are often lacking.

Literacy and Education. Literacy among females was 39 percent compared to 64 percent among males in 1991. Urban females are twice as likely to be literate as rural females and two thirds of those in classes supported by India's Total Literacy Campaign are women. Female attendance in primary school has increased steadily from 1950 to 1985, from around 25 percent to 77 percent, but still lags behind the rates for boys. At secondary level, about 10 percent of girls complete school, compared to 23 percents of boys. There are considerable rural/urban and geographic differences, with higher enrollments in urban areas and in the South. Not surprisingly, school enrollment increases with family income.

Political Empowerment. A recent amendment to the Indian Constitution mandated that 30 percent of all members and 30 percent of all Chairpersons of Panchayats (village level, elected self-government bodies) be women. Approximately 800,000 women will now participate managing community and government resources. The amendment should help ensure more equitable gender distribution of social and economic development. This is a true window of opportunity for women, but one that requires leadership training and community mobilization processes that may be unfamiliar to women who are illiterate and have had little interaction with structures of government.¹⁷

Labor Force Participation. Less than 10 percent of India's working women are in the formal sector. Between 70 to 80 percent of the Indian population resides in rural areas with the majority of women employed in agriculture. UNICEF estimates that 60 to 80 million children are employed full-time, whereas 40 million adults are currently unemployed.

Informal Sector and Self-Employment. The *Shramskakti: Report of the National Commission for Self-Employed Women and Women in the Informal Sector* (NCSW) was a watershed study chaired by Ela Bhatt, the founder of SEWA. The report detailed the actual conditions of poor women in these sectors throughout the country, the laws affecting women and the changes required, the health hazards they faced, and models and recommendations for organizing women. It also brought out the significant regional variations in socio-economic conditions, with the implication that a singular national policy on women's development would not likely be effective.

Gender Aspects of Microenterprise

Characteristics of Women's Enterprises. Women's businesses tend to be home-based and sometimes ambulant, with no fixed location. Female enterprises are also likely to be smaller with fewer assets and less access to credit than men's businesses. In addition, the preponderance of women in certain low-

¹⁷ The consultant met with one of the newly elected women during a field visit to an income-generating group in a very remote and poor area of Rajasthan. She was a 40-year old widow, with no education and little income, but she had very definite ideas on how to change women's lives for the better and was clearly supported by the women in the group.

remuneration enterprises with few barriers to entry, such as food and craft production, limits opportunities for expansion. Women also tend to be concentrated in the commercial sector and in services. Their work is often seasonal, part-time and diverse, thus accommodating their childcare and other responsibilities. Women's portfolios may be more diverse than those of men, perhaps to spread risk. Finally, women's business growth strategies may differ from those of men. A typical pattern worldwide is for men to purchase equipment and for women to hire workers (Weidemann 1992b).

Rationale for Supporting Women's Businesses. There are important rationales for supporting women's enterprises. The primary reason is the contribution of these businesses to family income and family welfare.

Women's business is a self-directed poverty reduction strategy, particularly when agriculture or formal employers cannot supply income-producing work for large portions of the population. Supporting women's ability to cope with poverty through enterprises might prove, on close analysis, to be a relatively successful, cost-effective measure compared to temporary social safety net programs (Rhyne and Holt 1994).

Another reason to support women's businesses is the effect of female entrepreneurship on their status. There is evidence that when women gain access to income, they shift their social position, both inside and outside of the family (*ibid.*) This is especially true in India according to the World Bank. The following statement supports economically-led women's initiatives:

Direct unmediated access to income drastically reduces a women's dependency and thus strengthens here ability to realize her own preferences within the family. In the longer term, changed perceptions of women's economic value appear to change family resource allocation preferences by raising the opportunity costs of not investing in the welfare and economic productivity of women. This means that raising female earning power may be critical to increasing the effective demand for the education, health and family planning services necessary to improve women's welfare (World Bank 1991).

A final rationale to support women's enterprises is the contribution these enterprises make to the economy. An important subset of women's businesses do grow to some scale. (Rhyne and Holt *op. cit.*)

Self-Employment. The Shramshakti report on self-employment and the informal sector was mentioned earlier. In India, an estimated 94 percent of working women are self-employed (Shramshakti 1988). The self-employed category includes rag pickers, catering and food processing, petty hawkers and traders, laundry services, and petty manufacturers. Typically, self-employed women have higher earnings than home-based or piece rate workers that are employed by others, particularly when they have access to capital to invest in their businesses. Other data suggest that self-employed women fared better economically than domestics (Weidemann 1991).

Programming Microenterprise/Microfinance Initiatives for Women

Many areas of India discourage women from participating in economic activities outside of the household. There is usually no prejudice against women participating in home-based income-generating activities. Evidence in India indicates that many women prefer home-based economic activity even though

they were paid less.¹⁸ This implies that women need simple, non-capital intensive technologies that can be operated from the home.¹⁹ Interventions that target home-based businesses should automatically reach large numbers of women.

Women have less than equal access to training, credit, and other resources that would contribute to success in enterprise. Inadequate access to resources is closely linked to poverty. In designing microenterprise initiatives, explicit attention needs to be paid to the cultural roles of women, the household division of labor, time constraints, and educational attainment. Any program or project should first identify the particular barriers faced by women and then build in components to reduce these obstacles.

Since women tend to be concentrated in selected sectors of the economy as noted earlier, judiciously selecting program initiatives where women are particularly active has the effect of targeting women clients. Concentration in existing sectors should not preclude promoting women in newer, non-traditional economic activities, in an organized fashion with well-coordinated vertical linkages.

While many women are involved in family enterprise in significant positions, cultural norms often direct that official duties (registrations, licensing, signing for loans, etc.) be carried out by the husband on behalf of the wife, even if the business is her own. Husbands or fathers are often required by bank officers to countersign a loan, even when this is not official bank policy.

Obtaining loans from formal financial institutions is difficult for many small entrepreneurs. Microentrepreneurs, those in the tiny sector, or individuals engaged in only in income-generating, find the process is even more difficult. Women in particular face particularly large obstacles and constraints. Women often have difficulty getting equity capital or working capital for starting a business, even from family sources.

Finally, the participation of women in decision-making and leadership roles in any enterprise project or program will help assure that policies, resources, and services directed to them are relevant and necessary to their needs.

¹⁸ Similar results were reported in Egypt by Weidemann 1992a. Among a survey population of 323 entrepreneurs, over half the women said they would prefer a home-based business to an outside location, even if they made significantly less profit. Only 10 percent of men felt the same.

¹⁹ Housing lenders would do well to recognize that for those living in poverty, homes often serve as living and working quarters.

SECTION FOUR

MICROENTERPRISE AND NGOS IN INDIA²⁰

CHARACTERISTICS OF NGOS IN INDIA

India does not lack for NGOs. There are few countries where individuals and NGOs demonstrate altruism on such a scale. The Societies Registration Act of 1860 provided for the formation and registration of these groups. Today there are an estimated 50,000 to 60,000 registered NGOs. Registration does not necessarily imply legitimacy²¹ nor active programs. Only 5,000 to 6,000 or approximately 10 percent of the total NGOs are active. Of that ten percent, two thirds could be classified as small, with staffs of five to seven persons. NGOs of this size can do consciousness- and awareness-building but cannot deliver development activities. Between 700 to 1000 NGOs are capable of delivering programs in a sectoral area. Of those, only a third could be considered large, i.e., having staff numbering 100 or more. In contrast, Bangladesh has more than 700 organizations with staff sizes of 100 or more. Thus Bangladesh could be characterized as having very large NGOs, while the landscape in India consists of a proliferation of smaller NGOs with varying capacities. As with NGOs everywhere, many are dependent on the charisma of their leaders.

NGOs and Microenterprise

NGOs have a long history of promoting cottage industries and income-generation in India. Currently, there are probably 50 to 100 organizations that are seriously and sustainably attempting to mainstream economic activities. Of these approximately 20 are outstanding. Of those that conduct significant work with women, that category might include but not be limited to SEWA, Professional Assistance for Development Action (PRADAN), Cooperative Development Foundation (CDF), ASSEFA, ADITHI, URMUL, MYRADA, and UDYOGANI.²² A matrix comparing sponsors, objectives, activities, target clientele and operations for several of these key NGOs can be found in Annex C.

Many of the remaining NGOs are subsidized. When grant money ends, projects often end simultaneously. It was reported that some NGOs are further hampered by ideologies that are antagonistic towards the marketplace. This results in the poor selling to the poor instead of to those who are better off. The welfare mentality rather than poverty alleviation approach of some NGOs and of past GOI initiatives reinforces this situation. Many programs are extremely small in scale, reaching perhaps 20 or so beneficiaries. Furthermore, while there is no dearth of skill training by NGOs, jobs are in short supply, especially in remote and rural areas. Another constraint among NGOs is inadequate absorptive capacity due to lack of staff or outreach. In summary, the potential for replication and scaling up are missing elements in the Indian NGO scene.

²⁰ This chapter focuses on NGOs. Details on government programs, such as the Mahila Mandals and DWCRA can be found in *Gender and Poverty in India*. Washington, D.C.: World Bank. 1991.

²¹ Retired politicians, civil servants, and other insiders have an incentive to form NGOs in order to qualify for government grants to this sector.

²² This NGO implements the World Bank Economic Development Institute's enterprise/financial systems program, called WEMTOP, in India. Similar pilot programs are underway in Africa.

Poverty and Enterprise Development

The nature of poverty in India makes it difficult for even NGOs with superior capacity to promote enterprise development and income generation. Half of the population is illiterate, with even higher rates among women. Many of the poor have no assets or skills. Of a population of 900 million, there are 300 to 350 million rural poor in India. Of these, about 240 million are hardcore poor, for whom wage labor is the only option. This is especially true among many female heads of households and for scheduled tribes and castes. Unless the poor have access to land, forest or other means of production, or belong to an artisan group, it is difficult to promote enterprises or self-employment.²³

It is likely that only 5 to 10 percent, or approximately 60 million of the rural poor, have some possibility for self-employment. The outlook for microenterprise or self-employment is probably brighter in urban areas, especially in the informal sector, through petty trading or vending microbusinesses.

Government/NGO Interaction

Collaboration between government and NGOs began soon after independence, but has had a history of philosophical, political, operational and bureaucratic tension (World Bank 1991). The scenario improved recently when the Prime Minister issued an NGO Action Plan encouraging NGOs to act as agents of social change in addition to their more traditional role as service providers (1994). VANI is the NGO group that has helped GOI chart this new course, which is still in process. The Foreign Contributions Regulation Act prohibited direct donor support to NGOs, mainly to prevent external political involvement. However, this Act is now under review as GOI recognizes the role of NGOs, especially in grassroots development.

The Home Ministry has NGO oversight responsibilities. The Ministry of Rural Development and Ministry of Welfare have significant NGO programs, and most ministries have small grants for NGOs. The Council for Advancement of People's Action and Rural Technology (CAPART) was created as an apex entity for channeling government funding to NGOs. There was consensus that this has not been the most effective organizational arrangement.

Strengths and Limitations of NGOs

This section highlights some of the observations made about NGOs during the brief consultancy. The discussion begins with some general comments and then focuses on NGO activities in microcredit and microenterprise.

- Any program that is designed to reach large numbers of beneficiaries in remote parts of the country will likely have a substantial NGO component. NGOs are among the few appropriate institutions that reach into all parts of the country and have intimate contact with diverse groups in society.

²³ An exception may be services in the rural non-farm sector which exhibit promising growth, as noted in Section Two of this report.

NGOs play a very important role in social intermediation.²⁴ A fundamental form of social intermediation is expanding the access of the poor, as **beneficiaries only**, to social and production support services, such as health, education and agriculture extension programs. A more advanced form of social intermediation--building up human resources and local institutions to prepare marginalized groups to manage their own institutions or to enter into responsible business relationships with formal financial institutions--is more difficult, but essential for sustainability. In the latter model, there is a reciprocal contract with a two-way flow of obligation that enables beneficiaries to become **clients**. **Financial intermediation** encompasses the sustainable delivery of credit, savings and insurance. **Participation** is the bridge between social and financial intermediation. Crucial to this area of inquiry are cost-effectiveness, sustainability, optimal levels of participation that ensure ownership but are not overly time and labor-intensive, best modalities (probably through groups), overcoming physical barriers, such as limited infrastructure of banks, roads, markets, and communication systems, as well as socio-economic impediments of clients, such as low literacy, poverty, caste/ethnicity, mobility, and gender.

In the very laudable effort to be participatory, many NGOs reach only limited number of clients, with few programs, and take years to do so. This constrains their potential for outreach, scaling up, and replicability, especially in the absence of opportunity for cross-learning with other NGOs.

Many NGOs are run by non-professional staff possessing few skills in operating complex organizations. Thus, some NGOs need training and upgrading of skills as much as the target group with whom they are working.

The communication among NGOs facing similar problems with similar client groups is remarkably lacking. Parallel discovery is the norm, rather than learning from each other.

Most NGOs started with a social welfare concept, and have only gradually evolved into income generating activities, and eventually into enterprise development. Only in the last four to five years have significant numbers of NGOs added savings and thrift components to their programs.

The relationship between NGOs and beneficiaries is sometimes paternalistic. As a result, many NGOs do not understand the concepts of "graduation", sustainability, and business development. Without "graduation", clients remain locked in their relations with the NGO. Ideally, if the NGO is a financial intermediary, the client should develop the capacity over time to move on to formal banking.

Many NGOs set themselves up for failure. There are four possible scenarios with clients and economic activities as dual variables. The easiest approach is to upgrade the existing activities of current clients. The second level of difficulty is to work with existing economic activities, but with new clients. Next on the order of complexity is introducing new economic activities to current clients. The most difficult scenario is the one that many NGOs attempt

²⁴ The World Bank has been a leader in defining and exploring social intermediation and its relationship to financial services for the poor, particularly women. See Lynn Bennett, 1994 and 1995.

— that of introducing new economic activities to new and poor clients, often using groups as a vehicle to do so.²⁵

- Some NGOs lack knowledge of the state of the art in the technologies they disseminate, thus contributing to low productivity and results among beneficiaries.
- At the other extreme, NGOs frequently promote improved production techniques, without regard to market development. For example, if they find women are engaged in sewing by hand, the NGO may "upgrade" the production technique, but fail to find new market outlets, thereby over-saturating the market. The bottom line is that instead of production enhancement strategies, NGOs need to adopt market-driven approaches.
- Some NGOs have started thrift and lending programs. Since the oversight of the activities of these NGOs is so lax, some NGOs are illegally accepting deposits of clients' money. The depositors with these NGOs are placing their funds at risk with no recourse in cases of financial infidelity, or incompetence.
- Experience has shown that NGOs that emphasize savings mobilization prior to extending credit have much better loan repayment records. Participants have a much more acute sense of ownership of funds. There needs to be adequate preparation before individuals and groups are linked to banks.²⁶
- Some NGOs emphasize group loans and economic production to the exclusion of individual activities, where the latter are preferred and appropriate. The NGOs thus lose clients and opportunities.

Empirical Evidence: The Case of URMUL in Rajasthan

To illustrate some of the above points, the following discussion demonstrates some of the activities and best practices of an Indian NGO, the URMUL Trust. While there was not time for extended field visits, a brief trip was made to Loonkaransar, URMUL headquarters in a very poor and geographically remote area of Rajasthan.²⁷ URMUL was started in 1986 and registered in 1987. Initially, it was an Upper Rajasthan Milk Producers Group and had a staff of six or seven persons. URMUL has been in Loonkaransar and the surrounding areas for about 8 years and now has a staff of 50 that works in approximately 70 villages. About 33 villages have women's groups that reportedly reach up to 1600 women, many of whom are poor, illiterate and lower caste.

URMUL's activities include education, health, income-generating, thrift and savings groups, food self-sufficiency through a grain bank that also gives grain loans, sheep/goat rearing and management of common property. The Swedish International Development Agency (SIDA) is the primary external source of education

²⁵ Adapted from Vijay Mahajan. Personal Communication. New Delhi, India. 1995.

²⁶ Preliminary evaluation of the IFAD program for poor rural women in Tamil Nadu indicates that in some instances, women may have been linked too soon with formal banking.

²⁷ A narrow gauge railroad serves Bikaner, the nearest town. There is no air service and roads are in poor repair. Project headquarters are two hours from Bikaner. Project villages, such as those the consultant visited are often "off track" without any surfaced roads.

funding, and targets 6-14 year olds in the "Lok Jumbish Program." Action Aid of the United Kingdom is another major funder of URMUL activities. The area is drought-prone and similar to sub-Saharan Africa — dependent on agriculture when there is rain. When there is drought there is malnutrition, unemployment and severe underemployment. There are few prospects for non-farm work at any time because of geographic isolation.

There are several lessons to be learned from URMUL's program for women:

- Initially, the program worked with lower caste women and emphasized health. Project staff reported that health issues were not a "felt need" by the women, who instead requested income-generation activities.
- Some women were trained to spin cotton yarn and to make dhurries, essentially as contract labor. Raw material is delivered to the village group and finished products are collected monthly.²⁸ The women work during the non-harvest season and at home since female seclusion is practiced. During harvest their labor is needed for agriculture and they do not have time to devote to spinning. The women who spin pay for their spinning wheels in installments and are given skill training by project staff.
- The women who spin are able to earn Rs. 200 to 600 per month during the off-farming season. This is a significant contribution to household income given that poverty level income is Rs. 11,000 per family. Furthermore, the non-agricultural season is six to nine months in duration, thus allowing considerable time for spinning for extra income. Widows made up about 20 percent of one of the groups that was visited, and in such cases, this additional income source is crucial. Women reported they used their money for food and education for their children. This corroborates worldwide information that the income women earn contributes to family welfare. All the women in the group that was visited had repaid their loans for the spinning wheels.
- URMUL was filling a real gap since there were no government services of any kind from any ministry in the village of Nathu Sar that the consultant visited.
- On the downside, there is a threshold beyond which the spinning and weaving activities cannot be expanded because of lack of access to markets and market saturation. Some experts would also question the introduction of traditional activities, such as handicrafts, since these are often underpaid and overdone. In the URMUL case, the choice seems defensible. The women were asset poor and none had sheep, goats or other means of earning money, except as wage laborers.²⁹

In summary, URMUL has demonstrated its ability to identify client needs in Rajasthan. It has displayed flexibility by shifting to other project activities when initial choices did not work. URMUL has reached a significant number of total clients in less than ten years, demonstrating a good learning curve. URMUL is now contemplating activities in Assam in the Northeast, another less developed area of India. The attempt to replicate in another distinctly different area is unusual and is one of the characteristics of a

²⁸ Men also requested income-generating activities because of the poor agricultural situation and scant alternatives for livelihood. Since female seclusion is practiced, men's income-generating groups are separate and they produce stools.

²⁹ Income-earning was such a strong felt need that in the group interviews, these secluded women asked the consultant about possibilities for working on roads and other infrastructure projects.

competent NGO. URMUL also emphasizes self-sufficiency through its grain bank and thrift and credit groups, another desirable quality among NGOs. On the downside, URMUL has not reached large numbers of women with its economic activities and will likely face marketing constraints with the spinning enterprises.

Best Practices for Group-Based Financial Services

Since women often participate in group lending, this brief section of the report presents preliminary results of a recent World Bank's study of five South Asian group-based financial services systems. Based on the findings released to date, the characteristics of strong groups included the following:

- Self selection of members
- Literacy of a least of a few group members
- Membership of only one gender

The most successful systems were ones where a large proportion of the lending capital was raised from group members' own savings. This finding is consonant with USAID emphasis on savings as a crucial element of financial systems for the poor. Interestingly, the study reported that group performance is **not** affected by group size, leadership rotation, and the type or frequency of group meetings. Groups that had easy access to an outside system of assistance, such as an NGO, were able to enforce sanctions applied to members (Bennett, Goldberg and Hunt, forthcoming).

Groups do not guarantee success. However, where they are well-managed financially, avoid corruption, refrain from control by elites to the exclusion of the disadvantaged, they can be sustainable and cost-effective means of self-help.

SECTION FIVE

MICROENTERPRISE OPTIONS AND STRATEGIES FOR USAID/INDIA

MICROENTERPRISE DEVELOPMENT: OPTION OR IMPERATIVE FOR THE MISSION?

Microenterprise and the informal sector are key sources of employment in most developing countries and India is no exception. Anecdotal reports suggest that this sector in India is growing at two to three times the overall economic growth rate, creating jobs and promoting self-employment. While agribusiness is a current strategic objective of the Mission, microenterprise per se is not.

The Mission is confronted with two questions about microenterprise. The first is whether it should engage in a microenterprise initiative, and the second is the place of microenterprise in an integrated WID project. To begin, microenterprise promotion should be viewed as the overarching umbrella, encompassing microcredit which often appears to loom larger. Microenterprise initiatives require analysis of constraints affecting the sector. Finance is often a major constraint but usually other factors, such as markets, are also critical. Additional aspects of microenterprise promotion include analysis of the policy, legal and regulatory environment.

The Mission is now considering a major microfinance initiative, similar to the Bank Rakyat Indonesia. A BRI-type microfinance initiative, adapted to India would have major long term benefits for women and the poor in general, and should be weighed carefully. Accumulated evidence indicates that a finance-led approach can be very cost-effective in reaching large numbers of clients and mobilizing savings (Christen, Rhyne and Vogel 1994; Mahajan 1995 and Robinson 1995).

Before the Mission undertakes a BRI-type finance initiative and/or includes microenterprise in the proposed Women's Initiative Project (WIN), it makes sense to offer some recommendations about microenterprise in general. From this consultancy, three general recommendations emerged in the areas of: policy and regulatory dialog; training and cross-learning of best practices among NGOs working in microenterprise and microfinance; and basic research into the microenterprise. Each is addressed in turn below.

- Microenterprise Policy and Regulatory Dialog

While exploring BRI-type options, including bank policies that would further unleash the financial system, the Mission should not overlook opportunities to undertake parallel policy and regulatory dialog in the microenterprise sector. Similar exchanges could take place at a minimum with the Small Industries Development Bank, and possibly the Ministry of Industry, Small Industries Development Organization and other entities that impact on microenterprise development.³⁰ Prior to this, the policy, legal, regulatory and administrative environment needs to be assessed from a small enterprise perspective, with gender in mind. One issue identified in this study was the disproportionate degree of discretion in the interpretation of

³⁰ As noted earlier, some interaction and consultation is currently underway through a USAID grant from the Mission's Office of Environment, Energy and Enterprise to the Federation of Indian Chambers of Commerce and Industries.

regulatory issues affecting small businesses, such as licensing, importing, etc. that may be in the hands of rent-seeking administrative staff.³¹

Training and Cross-Learning of Best Practices Among NGOs Engaged in Microenterprise/ Microfinance

The Mission should involve key NGOs working in microenterprise to assist in identifying needs, problems and best practices. Since many of the NGOs appeared to work in isolation, it would be reasonable to aim towards training, cross-fertilization and dissemination of best practices. Initially, one representative from the 10 key NGOs³² working in microenterprise could be brought together to outline the current situation and identify possibilities for learning from each other. After a small national seminar, regional and state workshops could follow.

Basic Data on the Sector

As noted earlier, establishments with less than 20 employees are not required to report to the GOI. Therefore few data sources could be found for this category. USAID would be in a better position to proceed with a rational microfinance initiative if more were known about microenterprise.

Six initial areas of inquiry are recommended and additional knowledge gaps are outlined in Annex A:³³

- Characteristics and numbers of potential clientele for microenterprise/microfinance programs³⁴;
- Effect of the current policy and regulatory environment on small businesses and the major constraints;
- Major constraints on small business;
- Existing sources of finance, including informal finance for microenterprise;

³¹ For example, import and licensing restrictions often discriminate against small enterprise. Only larger businesses have the financial and political resources to obtain import licenses for raw materials and intermediate products. Small businesses are forced to buy from the importer who extracts economic rent in the pricing of the materials and products for sale to small businesses. If the importer instead decides to enter the business, he is able to undercut the small scale entrepreneur. A small business does not have access to letters of credit, and cannot afford to purchase in container-load quantities of imported goods.

³² GOI previously worked fairly successfully with a group of NGOs representing various sectors and geographic areas to inaugurate its NGO initiative.

³³ Gender is an important variable for these areas of inquiry. For example, since current information indicates that the majority of women in microenterprise are self-employed, then intervention strategies will need to be tailored to this type of businesses.

³⁴ This inquiry should take into account the prevalence of poverty in India. Only 2.3 percent of India's population has a household income of over \$2,484. While per capita GDP in Indonesia is around \$700, the comparable figure for India is less than half that amount--approximately \$300. BRI has a much more affluent client base and therefore the size of loans and transaction costs will be much lower than any comparable program in India. Furthermore, many of India's poor not only lack assets but are deeply indebted, attributable in part to rural India's tenant-landlord system.

- Existing business linkages and growth areas, especially at the sub-sector level; and
- Support structures and organizations.

Microenterprise is an area of comparative advantage for USAID. For example, USAID has a comparative advantage and global history in identifying and developing non-traditional exports through its International Executive Service Corps TIPS Project (Sri Lanka), the KEDS Project (Kenya), MAP Project (Morocco) and the AgEnt Project (Sri Lanka). USAID also has a comparative advantage in innovation. This is important because microentrepreneurs are excellent emulators, but poor innovators. USAID can assist by identifying innovations that can then be disseminated by intermediaries, such as NGOs or trade associations.

WID PROGRAMS

Gender remains an agency-wide priority. The Office has two upcoming projects to backstop Agency efforts in gender research, advocacy, service delivery, technical assistance and training. The Global WID Office has been allocated three direct hire positions when hiring freezes are in effect elsewhere.

Within the India Mission the new Women's Initiative Project will be the primary vehicle for an integrated gender project that includes microenterprise, presently planned for several central and northern Hindi-speaking states. Financial as well as non-financial assistance will be necessary to reach the women in these States as they are often secluded, illiterate, low income, and have little experience with formal institutions. Thus, the project should include the "social intermediation" approaches described earlier and should adopt a "credit plus" rather than a minimalist credit only approach.

WOMEN'S INITIATIVE PROJECT (WIN)

USAID/India's new project will support women's initiatives in North India through technical assistance, grants and training for NGOs working on issues related to women's roles and status. India confronts a continuing population crisis with a population that has doubled in the past 20 years to almost 900 million. Assuming present growth rates, the population will reach 2 billion before stabilizing in 2088. The project targets the northern and central Hindi-speaking belt which has the highest birth rates, scarcest resources and poorest social services. Women in these States are uneducated, poor and lack access to social services.

WIN's goal is to increase women's participation in the fundamental decisions affecting their reproductive lives. Specifically, its purposes are to:

- Build a constituency on women's issues by strengthening Indian NGOs working in Uttar Pradesh and Madhya Pradesh, focusing on women's leadership, literacy, microenterprise and environmental health. WIN will also work at the national level with NGOs involved in research and training on policy issues relating to women's rights and status.
- Complement the Mission's family planning and reproductive health interventions with an intervention designed to improve the role and status of women in Uttar Pradesh and Madhya Pradesh. Those projects are the \$325 million Innovations in Family Planning Systems in Uttar Pradesh and the \$90 million reproductive health project, EXPAND, in Madhya Pradesh.

Women's status and role as an aspect of the population equation would be addressed, and the ability of women to make informed decisions on family size would thus be influenced. Stabilizing population growth is one of three strategic objectives of the India Mission. The other two are: increased competition and innovation in selected sectors (Housing finance, capital markets, agribusiness and power generation) and environmental protection in targeted sectors. WIN's theme of improving women's status cuts across these two objectives as well.

THE WIN DESIGN PROCESS

Principles

The Mission's strategy for a women's initiative involving microenterprise should be guided by several principles:

The project should be economically-led to the greatest degree possible. The potential for income-generating activities and microloans has attracted women across the globe. WID professionals, NGO leaders and poor women cited income-generating as a top priority.³⁵ Upon getting the women's attention and time commitment, and demonstrating sincerity about meeting their expressed needs, additional project features can be added--health, family planning, literacy, etc.

Pilot projects are usually sited where there is the greatest chances of success. However, this project must be located where the need is greatest and but where the human and institutional resource base ³⁶ is limited. The issue of site selection was raised repeatedly by those interviewed during the during the consultancy. Many individuals did not understand why these areas were under consideration since they were viewed as having low prospects for success. Therefore, it is important to clarify to individuals outside of USAID that need, and complementarity with existing projects were predominant criteria used in selecting this area.

WIN is an integrated program with microenterprise as one of its four possible areas of emphasis. However, there is a critical vacuum of NGOs with proven microenterprise experience in the targeted geographic area. With the exception of the SEWA program in Lucknow and the surrounding areas, respondents could not identify exemplary women's microenterprise programs in Uttar Pradesh and Madhya Pradesh. Maximum effort must be made to select sites and situations in the targeted area where NGO capacity in this topic can be enhanced, so that women are attracted to the program, and objectives in all four areas are achieved.

The approach should make use of USAID's comparative advantage as a global leader in microenterprise. USAID outstrips many multi-laterals and bi-laterals in microenterprise/microfinance knowledge and practice. USAID/India could tap into the existing worldwide USAID body of knowledge, such as the established networks, research, technical

³⁵ The ICDS Project has sometimes experienced difficulties getting low income women to attend child feeding sessions because of their income-earning obligations during the daytime hours when the program operates.

³⁶ Uttar Pradesh has a nascent women's NGO movement that will take some nurturing but could support project work. (Jodi Jacobson. Personal Communication. Washington, D.C., 1995.)

assistance and training of GEMINI to supplement the growing interest and knowledge at Mission level. A microenterprise initiative in the Mission can draw upon related work in existing Mission units, such as Food for Development; Environment, Energy and Enterprise; Regional Housing and Urban Development Office, etc., with the goal of introducing a cohesive and mutually reinforcing strategy.

- WIN should be linked to any proposed initiatives in microfinance, where feasible, to assess impact and create connections between microenterprise and microfinance pilot activities.
- However, the WIN approach should be broader than microfinance alone. The levels of human capital development among women in the target states are among the lowest in India. Furthermore, approximately 40 percent of the women in these households are in seclusion. A strategy involving only microfinance would not reach the poorest of the poor, especially females.³⁷
- WIN's approach should be transparent since the proposed project involves sensitive topics such as family planning and reproductive health. In view of the large women's movement in India that some elements would label as "feminist," there are many opinions to be sought and divergent voices to be heard.
- Participatory strategies with their clients are common among Indian NGOs. If the Mission intends to involve NGOs, a participatory approach is called for from the outset to ensure Mission interaction with the NGOs, who act as intermediaries, and the women who are the ultimate clients.³⁸ This will result in greater uncertainty at any given moment in project design and implementation. The method will require an unswerving commitment to openness, and in all probability, a longer time frame for project design. The eventual results in terms of achieving project objectives should exceed those of a more traditional design approach. Management of this process will tax the Mission's human resource base which is constrained by limited numbers of staff, competing other tasks. Consideration should be given to adding at least one local staff member to work with this project and its associated processes.
- USAID's funding mechanisms and internal procedures are sometimes at cross-purposes with a project initiative. Such is the case with WIN — population funding is both helpful and at the same time, presents a difficult terrain because of its past history in India. While USAID does not view WIN as a family planning nor reproductive health project, but rather an integrated project focusing on women's empowerment through literacy, income generating, leadership and environmental health, an outsider may not hold the same view.
- The principle of doing intensive work in a limited pilot area to ensure success that is replicable elsewhere is preferable to attempting too much in multiple sites. Many projects fail to scale up and cannot be replicated because they are too labor-intensive and not cost

³⁷ The GEMINI evaluation of women and BRI versus Bank Pembangunan Daerahs (BPD) financial services programs in Indonesia reports that three quarters of clients are men. In contrast to BRI, BPD clients are significantly poorer than BRI clients and are predominantly female (Holt 1991).

³⁸ While USAID/India cannot interact directly with nor subsidize the thousands of NGOs in the country, it can have high impact, cost-effective interactions with selected NGOs in the targeted geographic region.

effective. These aspects demand careful consideration during project design, implementation, monitoring and evaluation.

- The design and the process surrounding it should probably be viewed as an integral part of the project and not just a prelude to it.

Suggested WIN Design Features

USAID should allow for an evolutionary rolling design for WIN. Ideally, a prominent feature of the project should be participatory training and planning process involving both the NGOs and the women who are the ultimate clients. Objectives may initially be less precise, and implementation plans may shift from those in the current project description.

It has been difficult and time-consuming to date for the Mission to directly involve local NGOs. Thus U.S. PVOs, such as CARE, have been used as intermediaries for service delivery. Should this situation continue, two planning/implementation tracks may be desirable. One could work with US PVOs as intermediary institutions and another could pilot direct work with Indian NGOs. Both of these aspects might request funding through the USAID Microenterprise Innovations Project.

The participatory approach suggested above is not without risk. NGOs with conflicting views and agendas may emerge. Therefore, criteria for selecting and accrediting local NGOs for potential involvement requires careful consideration. An outside advisory group could assist in establishing criteria for local NGO selection. The advisory group could be drawn from the cross-section of groups that came together in preparation for the Beijing Women's Conference in August-September, 1995. An alternative might be the Health Watch Network.³⁹

A Project Design Task Force could be created, consisting of about 10 individuals representing the various sectors subsumed in WIN, as well as Mission staff, local consultants, and international consultants. A similar approach was used in an integrated WID project design for the World Bank that addressed many of the same issues for women with similar backgrounds in The Gambia. That project is known as one of the more successful gender projects in the Bank and has been replicated in several other countries. Collaborative needs assessments, in partnership with local NGOs and under the guidance of a Project Design Task Force, should be conducted in the geographic target areas to determine where the greatest impact could be realized.⁴⁰ In addition, or alternatively, a forum attended by key NGO leaders to address design issues and share best practices could be part of the design process.

In summary, WIN weaves together into one project a series of critical issues and opportunities for women at the policy, institutional development, and client capacity building levels. These questions and opportunities focus on NGOs, gender, empowerment, microcredit/microenterprise, and the existing and proposed Mission initiatives in child survival and population stabilization. Some of the downside risks have been identified above. However by adopting a flexible and process-oriented approach to design,

³⁹ This option was suggested at a meeting of the WIN Working Group in USAID/W.

⁴⁰ The OXFAM office in New Delhi has developed a set of State-level indicators, including sex ratios, government attitudes and expenditures on women's programs, and status of NGOs that may be useful in targeting any additional States.

implementation and management, these risks can be minimized and the project can make a significant contribution to enhance the quality of women's lives in a geographic area of great need.

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ANNEX A

SOME KNOWLEDGE GAPS REQUIRING FURTHER INQUIRY

The current gaps fall into three major categories: microenterprise development, including NGOs; microfinance; and gender. Each is treated separately below.

Microenterprise Development

What data are available on microenterprise, particularly for the tiny sector and firms with less than 20 employees?

Are data disaggregated by gender?

Are there gender differences in types of enterprises? If so, what are the differences?

Are the majority of female microentrepreneurs self-employed and what are the strategic implications of this?

What are the constraints faced by microentrepreneurs? Are these different for female versus male entrepreneurs?

Which major NGOs work with entrepreneurs? It would be useful to chart the key NGOs by year established; sources of funding; staffing patterns; staff skill levels; geographic coverage; number of female clients; numbers of male clients if any; differences observed between female and male clients and their needs, etc.; additional sectors covered, such as health, education; thrift component included and whether it is required or voluntary; interest rates; repayment rates; whether group methods are used; what group methods are used; whether enterprises are individual or group-based; graduation criteria for moving into more formal financial systems; and number of clients graduated.

What are effective approaches to supporting NGOs working on microenterprise development?

What are the most cost-effective means of NGO involvement in microenterprise development?

How can NGOs and other community organizations best be linked to the formal banking sector?

Which business and trade associations support ME development, especially for women?

In which areas does the tiny sector versus the small scale dominate?

What are business linkages that benefit microenterprises--for example, mutual assistance, technical assistance, credit, in-kind/trade/supplier credits, market identification, market development, merchandising, etc. These might occur through guilds or trade associations where members provide mutual assistance or joint purchasing, or a common repair facility.

How can these linkages be strengthened?

To what services do small businesses have access?

What are the growth areas by sub-sector? Are there differences, e.g. by gender, rural/urban, etc.

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Microfinance

What are the major differences between the rural and the urban financial sector?

What is the role of informal finance? What are the sources and typical loan sizes?

Are current savings rates as high as the reported 20 percent or has consumerism eroded that figure?

What non-bank financial intermediaries exist and how do they operate, for example, NGOs, APEX organizations of NGOs,¹ federations of SHGs, credit unions, and cooperatives?

What are the roles of pawnshops and pawning in microenterprise finance? Pawning is a fast and non-bureaucratic way for microentrepreneurs to get needed cash for business purposes. This helps women since they are more likely than men to have gold jewelry as a store of value or for ornamentation. Therefore the presence of widespread pawning in the country is an advantage for female entrepreneurs. Do formal sector banks have pawn departments that accept gold jewelry² as collateral?

If a woman applies for a business loan, does the bank ask for the husband's signature also? Alternatively, if a man applies for a loan, does the banker require the wife to sign? Are husbands, because of self-esteem or other issues, reluctant to countersign for their wife's loans, even though women are widely reported to be better credit risks than men?³

Gender

How do women now get credit?

How do or would women use credit?

Which women most need credit?

Would a minimalist, or credit only, approach work if it targeted women at the poverty line (right above or right below)?

How long would it take to move rural versus urban women from credit plus programs to direct dealings with formal financial systems?

What percent of women would move into entrepreneurship after group membership that focused on enterprise skills? What urban versus rural differences exist?

¹ For example, the Chaitanya scheme in Maharashtra State that began with its own savings, now has an apex organization of groups that on-lends.

² For example, in Sri Lanka, almost 70 percent of the outstanding loan portfolio of the Regional Rural Development Banks was in pawned loans. In addition there are pawn shops located throughout the country.

³ There is global evidence that women are more conservative about incurring debt and take out smaller loans. Programs should consider the benefits of educating women concerning rights and the law. Also, women's programs must include men so that cultural attitudes of males do not undermine female participation.

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Would women still/want need group support after they are dealing with formal financial institutions?

ANNEX B
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ANNEX C

MATRIX FOR SOME KEY NGOs IN THE MICROENTERPRISE SECTOR⁴

⁴ Source: Vijay Mahajan, Development Consultant, Hyderabad, India.

| S.No. | Key Variables | SEWA Bank | Sarva Jana Seva Kosh | SEWA SHGs | CDF Thrift "Coops" | PRADAN SHGs | CRESA SHGs |
|-------|------------------------|--|---|---|---|---|--|
| A | General | | | | | | |
| 1 | Year of establishment | 1974 | 1989 | 1991 onwards | 1990 onwards | 1990 onwards | 1987 onwards |
| 2 | Type of Institution | Urban Cooperative Bank | Non-Banking Financial Company | Unregistered informal groups | Unregistered informal groups | Unregistered informal groups | Registered under Societies Act |
| 3 | Ownership/Sponsorship | Shareholders: all of whom are poor women members of the Trade Union called Self-Employed Women's Association (SEWA) | Shareholders: all of whom are poor families from villages in which a Gandhian NGO called ASSEFA runs rural development projects | Members are "owners". The sponsor is SEWA, and its affiliate, the Mahila SEWA Trust. SEWA Bank provided loans & takes deposits | Members are "owners". The sponsor is CDF (Cooperative Development Foundation) erstwhile Samakhyia, an NGO. | Members are "owners". The sponsor is PRADAN (Professional Assistance for Development Action, an NGO) | Members are "owners". The sponsor is CRESA (Centre for Rural Reconstruction and Social Action, an NGO) |
| 4 | Primary Objective * | To provide poor women a secure place to save. Also to provide loans for productive purposes | "To act as a development agency... for economic upliftment of members... to promote thrift and savings habits.." | To enable rural poor women to save and to get credit easily and at lower cost than from money-lenders. (inferred) | To enable rural women to save and to get credit easily and at lower cost than from money-lenders. (inferred) | To enable rural poor women to save and to get credit easily and at lower cost than from money-lenders. (inferred) | "To assist rural poor women economically." |
| 5 | Other Major Objectives | Economic empowerment of urban poor women | Economic empowerment of rural poor households | Economic empowerment of rural poor women | Economic empowerment of rural women | Economic empowerment of rural poor women | Education and health, income generation |
| 6 | Main Activities | Savings collection in urban slum areas. Banking services. Loans: up to Rs 25,000 for productive purposes | Receiving funds recovered by ASSEFA Gram Sabhas who got donor grants for various development activities (wells, pumps, cattle) Providing loans for new development activities. | - Collecting savings on a periodic basis. - Providing loans from pooled savings. - Channeling loans from SEWA Bank. | - Collecting savings Rs 10 on a monthly basis - Providing loans from pooled savings. - CDF thrift groups do not accept outside funds. | - Collecting savings on a periodic basis. - Providing loans from pooled savings and small matching grant from PRADAN in early stages - Channeling loans from nationalised banks/NABAF | - Collecting savings Rs 10 on a monthly basis - Providing loans from pooled savings and small matching grant from CRESA in early stages - Channeling loans from Rashtriya Mahila Kosh. |
| 7 | Target Segment | Poor self-employed women in Ahmedabad and five nearby districts | Poor families from those districts where ASSEFA runs development projects 39 branches in 5 states | Poor rural women in four districts: Ahmedabad, Kheda, Banaskantha, and Mehsana | Poor rural women in two districts of AP : Warangal and Karimnagar | Poor rural women in Madurai & Ramnad districts of Tamil Nadu | Poor rural women in W.Godavari and Krishna districts of Andhra |
| 8 | Funding | The SEWA Bank is a profit making entity; extension and training support is given by SEWA and the Mahila SEWA Trust which are funded by a large number of foreign and Indian donor agencies | The SJS Kosh is a profit making entity, although for the year ending 31.3.94 it made a small loss of Rs 17(Extension support comes from ASSEFA, funded by a large number of foreign and Indian donor agencies. | The SHGs do not need direct funding; extension and training support is given by SEWA and the Mahila SEWA Trust which are funded by a large number of foreign and Indian donor agencies. | The SHGs do not need direct funding; extension and training support is given by CDF which is funded by a number of foreign and Indian donor agencies. | The SHGs do not need direct funding; extension and training support is given by PRADAN which is funded by a number of foreign and Indian donor agencies. | The SHGs do not need direct funding; extension and training support is given by CRESA which is funded by a number of foreign agencies and Rashtriya Mahila Kosh |

| S.No. | Key Variables | SEWA Bank | SJS Kosh | SEWA SHGs | CDF Thrift "Coops" | PRADAN SHGs | CRESA SHGs |
|-------|--|--|--|---|---|--|---|
| 9 | Financial Impact: | | | | | | |
| a. | Direct | By choosing to work with only poor self-employed women, the SEWA Bank has remained rather small as compared to the other urban cooperative banks in Ahmedabad/ Gujarat. Profitability is also likely* to be lower in comparison. | SJS Kosh has not only been confined to the rural poor but among those to ASSEFA beneficiaries only This has led to relatively slower growth compared to other rural banks. | The initial impact of SHGs on SEWA Bank is higher costs but as the numbers increase, the demand for credit from rural SHGs will in fact solve problem of inadequate demand in its urban operations. | The thrift coops charge interest rates of 2-3 % pa and have very low default (2.2% as on 31.3.94), thus the coops are financially sound, with growing operations and reserves. | The SHGs charge interest rates of 2-4 % pa and have very low defaults (exact data not available*) but are obligated to charge 12% for RMK loans (see below). There is no spread for the SHG in the RMK scheme. | |
| b. | Indirect | The customers served by SEWA Bank are unlikely to have come into the fold of normal commercial banks. Thus market broadened. | SJS Kosh has weaned the ASSEFA projects away to making greater use of loan funds. | Members of SEWA SHGs are unlikely to have got loans from rural banks, except IRDP type of loans Savings also encouraged. | Because of the insistence on using only own pooled savings, the CDF promoted thrift "coops" are highly autonomous and vibrant financial institutions as compared to normal coops. | SHGs have federated into "cluster banks" which link up with local commercial banks for a line of credit under a NABARD Pilot Project | SHGs have been linked up with the Rashtriya Mahila Kosh (RMK) through CRESA. RMK lends to CRESA @8% pa for on-lending @12% pa |
| 10 | Non-Financial Impact: | Smoothening of household consumption through use of savings; increase in income due to use of credit | Gram Sabbhas which are local people's institutions are strengthened when they own financial resources. | Building poor rural women' confidence in handling financial transactions. | Building local, people-owned and managed rural financial institutions | Providing the financial basis and discipline for livelihood promotion for the rural poor | Providing the financial resources needed for livelihood promotion for the rural poor women |
| 11 | Operational Set-up | | | | | | |
| a. | New organisational set-up established? | Yes, in the sense that the Bank itself was created by SEWA for the purpose of extending financial service | Yes, in the sense that the Kosh itself was created by ASSEFA for the purpose of managing Gram Sabha owned financial resources. | Yes, the SHGs were setup to provide a facility to the rural poor savers and borrowers and to link them with the SEWA Bank. | Yes, the coops are entirely new and created for the purpose of linking rural savers and borrowers in a local area. | Yes, the SHGs were setup to provide a facility to the rural poor savers and borrowers and to link them with commercial banks. | Yes, the SHGs were setup to provide a facility to the rural poor savers and borrowers. New ones have set up after RMK link-up. |
| b. | No of staff members engaged in handling BP | In the above sense, all 45 of SEWA Bank staff. | In the above sense, all 91 of SJS Kosh staff. | SEWA organisers in the districts spend part of their time to SHGs. SEWA Bank plans to dedicate 7 staff to SHGs | Three CDF staff devote their time to the coops. CDF staff inputs have reduced over the years as earlier members are able to play organising roles | PRADAN has 8* staff looking after the project PRADAN staff inputs have reduced over the years as earlier members are able to play organising roles | CRESA has 21 total staff who spend about half time looking after the project, while the rest is spent on other activities in the same villages. |

| S No. | Key Variables | SEWA Bank | SJS Kosh | SEWA SHGs | CDF Thrift "Coops" | PRADAN SHGs | CRESA SHGs |
|--------------------|----------------------------|---|---|--|---|---|---|
| B. Outreach | | | | | | | |
| 1 | Number of Units | 1 branch only | 39 branches | 228 SHGs | 6 clusters | 10 clusters, 318 SHGs | 3 clusters, 40 SHGs |
| 2 | Number of Districts Cover | 4 (SHGs have bulk accounts in the SEWA Bank in A'bad) | 7 in TN, 3 in Bihar, 2 each in Rajasthan and Maharashtra, one in Karnataka (total 16) | 4 | 2 | 2 | 2 |
| 3 | Number of States Covered | 1 | 5, as above | 1 | 1 | 1 | 1 |
| 4a. | Number of users of this BF | Over 18,000* shareholders; 36,000 depositors; 12,000 borrowers (cumulative) | Over 81270 shareholders as on 31.12.94; no of depositors and borrowers NA | 8171 members as on March 31, 1994 | 11,536 members as on March 31, 1994 | 5,386 members as on Sep 30, 1994 | Nearly 1600 members as on Jan, 1995 |
| 4b. | Number of women users | All borrowers and almost all depositors are women. | About 90 % of members, 40-60 % of depositors and about 30% of borrowers | SHGs are exclusively for rural poor women. | SHGs are exclusively for rural women, mostly from lower income groups | SHGs are exclusively for rural poor women. | SHGs are exclusively for rural poor women, from SC/ST, landless BC and fishing communities |
| C. Costs | | | | | | | |
| 1 Direct | | | | | | | |
| a. | Interest loss, etc. | Due to RBI restrictions on interest rates by banks till recently, the interest on loans was 16% pa for loans below Rs 25,000, which constituted all loans | Although as a non-banking financial company, the Kosh can charge higher interest rates than banks. It has in fact been charging lower rates: 12% pa uniformly. | SHGs charge between 2 to 8 % per month on loans. The SEWA Bank, however, lends to SHG members at 15% pa. | There is no external capital, so there is no question of interest subsidy. | In the early stages, PRADAN gave matching grants of Rs 2000/SHG. Now discontinued | In the early stages, CRESA gave matching grants but it has now discontinued this. |
| b. | Administration Costs | Administration costs incl depreciation ranged from 4 to 6 % of working funds & 9 to 12 % of average loans outstanding. In 1989-93 | Staff and other overhead costs came to 2.1% of the working funds and 6.2% of average loans outstanding during 1992-93. Figures for 89-94 could not be computed due to change in accounting. | Due to time-sharing by SEWA organisers, and use of SEWA vehicles and of district offices, costs of SHGs could not be separately calculated. | CDF maintains a limited degree of staff support which had a cumulative cost of Rs 0.75 million (inception till 31.3.94). This includes advocacy. | Initial 17 groups cost Rs 7360 per SHG over three years. PRADAN estimates support cost will be down to Rs 3000 per SHG upto cluster bank stage. | Total costs are estimated to be about Rs 16,000 per month. This works out to nearly 1 percent of the working funds. However, CRESA expects costs to double its program size without any additional cost |
| c. | Bad debt costs | Though no write-offs have been made but bad debt reserves ranged from 3.2 to 3.9 % during 1989-93 | *No data was available on bad debts, but overdues were reported to be 21.6% as on 31.12.94. This means long term loan loss of ~7%. | No separate data could be gathered on SHG bad debts. On-time repayment is higher than for normal bank loans. | Defaults were 2.2% of the loans outstanding on 31.3.94. Since the coops rotated their funds roughly three times a year these defaults are very low. | * Data not available. | The organisation stated that they have had no defaults so far. However, there are some skipped instalments, but no details |
| D. Benefits | | | | | | | |
| 1 | Total number of deposits | Over 36,000 * on 31.3.94 | NA* | 8141 members, all savers | 11536 members, all savers | 5386 members, all savers | 1600 members, all savers |
| 2 | Total amount of deposits | Rs 84.2 million on 31.3.94 (plus institutional Rs 25 mil. and rural SHG deposits Rs 1.46 million) | Rs 4.8 million on 31.3.93 (plus Gram Sabha funds of Rs 33.6 million) | Rs 1.43 million on 31.3.94 | Rs 3.89 million on 31.3.94 | Rs 1.27 million on 30.9.94 | Rs 0.7 million in Dec, 1994 |
| 3 | Total number of loans | Over 12,000 * cumulative borrowers till 31.3.94 | NA* | * Exact number not known | 18632 during 1993-94 | 8660 loans (cumu*) | no data overall. For RMK, 650 loans. |
| 4 | Total amount of loans | Rs 16.1 million, excluding loans to SHG members | Rs 38.6 million as on 31.12.94 | Rs 2.46 million on 31.3.94 | Rs 8.36 million in 1993-94 | Rs 4.6 million cumulative Rs 0.45 million in 1993-94 | For RMK portion, Rs 1.5 million, of which Rs 1.0 million is outstanding. |
| 5. | Other benefits | SEWA Bank deals with the insurance companies on behalf of SEWA members for accident and life insurance and also for household (fire, theft) insurance. | Kosh provides accounting and safe-keeping services for Gram Sabha funds. These amounted to Rs 69.6 million. The Kosh gets a 2 percent service charge. | In addition to savings and loans, SHGs are a forum for discussing economic activity potential and are being actively linked with rural commercial banks. | Thrift coops act as a basis for literacy and numeracy campaign. They also act as pressure groups and good counter-examples to regular coops | SHGs act as a basis for various other inputs for sub-sectoral livelihood promotion, e.g. dairy and poultry. PRADAN also gives activity grants | RMK loans are insured against borrower's death. |

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ANNEX D
USAID MICROENTNERPRISE INITIATIVE



USAID Microenterprise Initiative

Summary – June 1994

To support poor entrepreneurs around the world, the Microenterprise Initiative raises microenterprise development to a level of priority within the program of the U.S. Agency for International Development (USAID).

POLICY COMMITMENT

The Microenterprise Charter makes microenterprise development a prominent part of USAID's economic growth strategy for reaching the poor. USAID has set a goal of devoting half of all its support for microenterprise programs to poverty lending programs or the poverty lending portion of mixed programs by the end of fiscal year 1996. Poverty lending programs are defined as those that serve the very poor, with reference to loan sizes below \$300 in 1994 dollars.

PROGRAM DESCRIPTION

- Increases in overall support for microenterprise from an estimated \$80 million in fiscal year 1993 to targets of \$130 million and \$140 million in fiscal years 1994 and 1995, respectively.
- A commitment that 35 percent of dollar funding for microenterprise (about \$38 million) will go through USAID/Washington in 1995 and 1996, while the majority of the program continues to be funded by USAID field missions. Central funding for microenterprise in 1994 has already grown to \$23 million.
- A Microenterprise Innovation Program of \$30 million for 1995 and again in 1996, with a new grant program to support microenterprise programs of non-governmental organizations (NGOs), private voluntary organizations (PVOs) and other institutions; matching funds to increase mission support for microenterprise; and expanded technical assistance in design, monitoring and evaluation.
- Increases in the existing PVO matching grant program (to \$8 million in microenterprise funding) and the Micro and Small Enterprise Loan Guarantee Program.

PROGRAM SUPPORT

- Designation of USAID's chief of staff as coordinator of the initiative; a strengthened Office of Microenterprise Development in the Bureau for Global Programs, Field Support and Research.
- Revised monitoring systems, including establishing performance indicators that are practical to measure and accurate reflections of results achieved. Review of central mechanisms of the initiative in 1996.

Charter of the USAID Microenterprise Initiative

The Microenterprise Initiative

Perhaps no aspect of development is more important than economically empowering the individual. Economic vitality is a crucial linchpin in improving living standards and generating the increased incomes that allow for better education, health care, family planning, environmental protection and community involvement. Microenterprise is one of the most important means by which vast numbers of people throughout the world seek to improve their well-being. In many countries, particularly lower-income countries, a third or more of the labor force is often engaged in microenterprise. This is particularly true in instances where other formal sector employment is limited. In launching its microenterprise initiative, the United States Agency for International Development (USAID) affirms that support for microenterprise will be a central component of an approach to economic growth that stresses increasing the economic participation of the poor. In particular, USAID is strengthening its capacity to support poverty lending programs.

The microenterprise initiative creates an enduring commitment to microenterprise by the agency. USAID has long been active in the microenterprise field and has made a number of important contributions to its progress, but microenterprise has not always been a consistent agency priority. Through the microenterprise initiative, USAID raises its

microenterprise activities to a level that is more closely in keeping with its importance to the poor and establishes microenterprise as a viable and integral part of the agency's sustainable development strategy.

The microenterprise initiative encompasses a number of activities. First and foremost, it involves support for microenterprise development programs carried out by local organizations that offer credit, savings, advocacy, training or similar services. A wide variety of organizations can effectively nurture microenterprise, including governmental organizations, private voluntary organizations (PVOs), non-governmental organizations (NGOs), associations, cooperatives, credit unions and financial institutions. The microenterprise initiative seeks to use each of these types of organizations' unique and comparative skills.

In addition, the microenterprise initiative seeks to foster greater awareness throughout the agency of the importance of microenterprise and the need to more fully integrate its consideration into the broadest range of USAID programs and policies, such as in agricultural development, economic growth, urban development and health. For example, macro-economic policy-making should be concerned about redressing policies and regulations at the national and local levels that constrain small and microenterprises.

The Goals of the Initiative

There are three primary development goals for the microenterprise initiative:

To assist the efforts of the poor to increase their income and assets. Microenterprises have been shown to be an effective means of increasing the income and assets of the poor in developing countries. This economic empowerment will, in turn, allow the traditionally disadvantaged to gain access to better standards of health, housing, nutrition and education. In the poorest countries, microenterprise can outperform more formal enterprises in this dimension.

To increase skills and productivity to enhance economic growth. Microenterprises develop entrepreneurial and managerial abilities among their proprietors. In some countries they are important sources of technical skills training for young people, and they have the capacity to spread innovation quickly. Also, growing microenterprises can serve as a primary source of new demand for labor.

To facilitate the development of "economic democracy." Through microenterprise programs a wide range of local institutions is created. Some of these are highly participatory community-based organizations, such as village banks or credit unions in which groups of villagers manage pools of savings and loans. Others are more formal such as partnerships between non-governmental organizations and commercial banks. Some are concerned with financial services, while others are focused on advocacy. In instances, the aim is to develop sustainable structures through which disadvantaged groups gain greater access to resources and establish the poor as more effective participants in their societies. These organizations are an important aspect of civil society. However, the crux of all microenterprise activities still remains basic financial viability, i.e., the institutional capacity to provide financial and other services without external subsidy.

A Focus on Results

Realizing the goal of better opportunity for microentrepreneurs requires direct action by institutions that serve or affect microenterprise, and this is the area where USAID will direct its effort. USAID's coordinated approach will focus on:

- Increasing access by the poor to credit and savings services provided by a variety of sustainable financial service institutions. The initiative seeks to catalyze major changes in the effectiveness, efficiency and scale of services provided.
- Providing innovative non-financial assistance, e.g., technical and management training, marketing and technology development, to microenterprise entrepreneurs in a cost-effective manner.

- Strengthening the capacity of local organizations, such as NGOs and associations, to have a voice in the policy process affecting microenterprise development at both the national and local levels.
- Fostering an enabling environment for microenterprise through institutional and economic policy change (e.g., improving the legal and regulatory framework, financial sector reform, tax code and administration) and access to local infrastructure and public services.

USAID will provide support through seed capital, institutional development financing, training, research and policy dialogue.

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Program Principles for Microenterprise Development

A decade of experience in the microenterprise development field has shown that principles are critical to the success of microenterprise programs. The following are integrated throughout USAID's initiative:

ment to significant outreach. Microenterprises are a global phenomenon, and only a small fraction of microentrepreneurs have access to the financial and other resources that microenterprise programs sponsor. USAID's microenterprise program will strive to achieve significantly greater outreach.

duced focus on women and the very poor. The microenterprise initiative will place a particular concern for very poor entrepreneurs, especially women, who may be difficult to reach, but who depend for survival on microenterprises. USAID is committed to allocating half of all funding for microenterprise activities to support microenterprise lending programs by the close of fiscal year 1996. In this context, poverty reduction programs are those that meet the needs of the very poor members of society, particularly women, and that provide loans smaller than a reference point of \$300.

ustainability and financial self-sufficiency. Fostering sustainability is essential, particularly in an era of shrinking foreign assistance flows. The USAID microenterprise initiative will support financial services programs to develop financially self-sufficient operations and identify more permanent sources of funds, including local savings, borrowing from local banks, and mobilizing U.S. private sector funds.

- Partnership with governmental organizations, PVOs, NGOs, associations, credit unions and other local institutions. USAID will seek improved local partnerships, working through a variety of mechanisms, including strengthening programs funded in Washington as well as those funded by USAID missions.
- Partnership with other multilateral and bilateral donors and other U.S. organizations, especially Peace Corps. USAID will strengthen linkages with other donors and U.S. government agencies to promote the expansion of microenterprise activities.
- Performance standards. The most experienced microenterprise institutions should be encouraged to push forward the frontiers of achievement, while the newer entrants should be urged to meet performance standards that move them up the ladder of sustainability.
- Improved information about the effectiveness of microenterprise programs and policy changes. Among concerns are the cost-effectiveness of services, the impact on enterprises (increased sales and employment) and the effect on the quality of life of microentrepreneurs and their families.

The microenterprise initiative will continue to support the high degree of innovation that has characterized the microenterprise development field and has contributed to its rapidly expanding levels of achievement.

Management Challenges

The microenterprise initiative will incorporate microenterprise development into agency programming at a level that is in keeping with its high priority in USAID's new development strategy. The initiative aims to increase USAID's technical and staff capacity in microenterprise development. The microenterprise initiative must both increase the knowledge of microenterprise development among key staff and deploy available technical resources efficiently.

USAID will develop mechanisms for greater cross-fertilization among its worldwide missions to ensure that its projects are based on the best models in the field. The microenterprise initiative also will strengthen funding mechanisms in Washington to channel resources more efficiently through NGO networks.

Improved monitoring of program performance and results is essential. At present, performance information is inaccessible and non-comparable across programs. Improvement in this area would lead to better programs, better allocation decisions about scarce aid resources and greater ability to demonstrate what aid accomplishes. Similarly, improved donor policy coordination in microenterprise, particularly in the areas of support for program sustainability and of advocacy for policy change, will result in a more effective program.

USAID also will seek to improve public education of development efforts by demonstrating that what the agency is learning in developing countries provides valuable lessons for microenterprise development at home.

Conclusion

The microenterprise initiative will be guided by the framework set forth in this charter, signed June 22, 1994, and serve as an agenda for economic empowerment through microenterprise.

| | | | |
|--|--|--------------|--------------|
| <p>_____ <i>J. Brian Atwood</i> Administrator U.S. Agency for International Development</p> | <p>_____ <i>Sam Gydomansky</i> Chairman Subcommittee on Economic Policy, Trade and Environment House Foreign Affairs Committee</p> | <p>_____</p> | <p>_____</p> |
| <p>_____</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |
| <p>_____</p> | <p>_____</p> | <p>_____</p> | <p>_____</p> |
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October 10, 1988

THE ADMINISTRATOR

A. I. D.

POLICY DETERMINATION

MICROENTERPRISE DEVELOPMENT PROGRAM GUIDELINES

A. Statement of Objectives

Microenterprise assistance is an important element of A.I.D.'s private enterprise development strategy. It is particularly important in advancing the goal of broad-based economic growth and, specifically, increasing incomes of the poor, providing opportunities for advancement of micro-entrepreneurs, and encouraging indigenous investment. The microenterprise subsector includes the whole spectrum of productive activities ranging from rural-based agribusinesses and handicraft production to urban-based trading, service, and manufacturing enterprises, many of which are labor-intensive.

The policy guidelines described below were developed to ensure that the resources provided under A.I.D.'s microenterprise development program benefit the many and diverse business efforts of the poor.* The program's objective is to help people with limited or no access to

* Many A.I.D. policy guidance documents identify important issues that need to be addressed in designing A.I.D.'s assistance to lower-income groups in both the formal and informal sectors in developing countries. The policy guidelines contained herein should be applied by Missions in concert with those in the A.I.D. policy papers on Financial Markets Development (August 1988), Cooperative Development (April 1985), Private Enterprise Development (revised March 1985), Women in Development (October 1982), and Private and Voluntary Organizations (September 1982); the Guidelines on Terms of Aid; and the guidance contained in cables 1986 STATE 259310 and 259314 on the private enterprise local currency lending program contained in sections 106 and 108 of the Food Security Act of 1985. Some of these policies are summarized in the annex to this guidance.

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capital achieve a level and quality of business activity that will permit increased access to formal financing and technical services and expand productive employment and incomes. Development Assistance funds, Economic Support Funds, and local currencies support programs that develop institutions that serve microenterprises and that provide microenterprises with credit, training, and technical assistance.

B. General Program Guidelines

1. Program Earmark and Funding Information. A.I.D.'s FY 1988 appropriations legislation required that A.I.D. make available not less than \$50 million of the Agency's FY 1988 DA and ESF appropriations to implement a microenterprise development program. A.I.D.'s FY 1989 appropriations legislation increased the earmark to \$75 million. Missions will be informed annually by AID/W of changes in the earmark level. Local currencies that result from nonproject assistance (such as cash transfers, CIPs, and PL 480 sales) may be used in lieu of dollars to achieve the objectives of the legislation. This earmark may be met through the funding of credit, technical assistance, training, or related activities directed at microenterprises. Missions should be creative in seeking funding and project approaches to implement this program.

2. Program Beneficiaries. There is no precise definition of a microenterprise. As a working definition, subject to the following exceptions, a microenterprise should have no more than approximately 10 employees and should have characteristics (assets, revenue, etc.) that fit well within the framework of objectives set forth below. Special emphasis should be placed on small-sized and individually-owned productive activities. An attempt to define or limit the size of a microenterprise too severely would exclude from the program some enterprises that Congress desired to receive the benefits of the program, i.e., enterprises made up of poor people, such as a rural, community-based firm owned and operated by 20 women or certain cooperatives. Furthermore, the objective of gradually advancing an enterprise to access formal sources of financing could be undermined with too severe a limit based upon the firm's employees.

Missions may well have to use a locally appropriate definition of microenterprise. This definition should be delineated in project or program documentation. Missions should focus on assisting new as well as existing

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enterprises. Programs should be designed ideally to (a) seek out the very smallest enterprises and, among them, those with the greatest potential for expansion; (b) help firms access formal systems of financing and technical services; and (c) make at least 50 percent of their resources (credit, technical, and training) available to women-owned and -operated enterprises.

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 population, (b) businesses owned by women, and (c) businesses owned and operated by the poorest 20 percent of the population.

3. Policy Dialogue. Microenterprises often face a macroeconomic policy and administrative environment that contains serious market access and entry barriers. Although A.I.D. may be able to address some of these problems through microenterprise assistance activities, Missions should seek to address these problems in their other policy dialogue efforts as well. Conversely, where successful policy reform efforts create private business opportunities in a given area, Missions should consider special emphasis in existing programs or new microenterprise activities to reinforce the policy change and exploit the opportunity presented in favor of microenterprises.

Some policies that have a particularly negative effect on microenterprises and inhibit their graduation to the formal sector are:

- o Interest rate ceilings that encourage financial institutions to ration credit towards favored large clients, discriminate against riskier microenterprises, and discourage savings mobilization;
- o Trade and investment policies that promote large-scale industry and are biased against agriculture (such as foreign exchange rationing and tariff systems);
- o Tax laws that often offer low tax rates to larger enterprises and encourage the use of capital-intensive activities; and
- o Restrictive regulatory and legal systems that create considerable obstacles for small firms, thereby encouraging informality and discouraging access to benefits afforded to legally constituted firms.

4. Access to Program Resources. In general, the provision of credit and technical assistance under this program is aimed at enterprises or entrepreneurs that cannot access formal sources of credit. Although special microenterprise programs may be developed with banking and other intermediate financial institutions (IFIs), an important objective of A.I.D.'s efforts is to introduce microenterprises into the formal financial system. Therefore, A.I.D.-financed technical assistance may be used to assist microenterprises to access the banking system even in the absence of a special microenterprise "window". In such instances, the microenterprises benefit even though they are not specifically targeted by a particular credit program.

5. Microenterprise Credit Activities. A frequent approach to assisting microenterprises is the provision of credit.

a. Loan Size. 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. For programs where prevailing country conditions make the \$300 limit unreasonable in terms of meeting program objectives, Missions should set forth the reasons for the higher loan size in project or program documentation.

Although the \$300 loan size was originally proposed by Congress as a mechanism for directing A.I.D.'s assistance towards new enterprises, such a limitation may (1) deny program resources to viable microenterprise program candidates, (2) be difficult for Mission programs to meet due to such factors as differing country conditions, and (3) bias policy against microenterprise growth to a viable size in some economic sectors. The loan size should be small enough to reach the target beneficiaries but sufficient to achieve the objectives of the program.

b. Interest Rates and Associated Costs to Microenterprises. The setting of interest rates is an important element in a program designed to promote viable microenterprises and financially viable and sustainable IFIs. Where practicable, the interest rates and associated fees charged to a microenterprise by an IFI should reflect the full cost of the credit provided. Such an approach will reduce the likelihood of decapitalization and increase savings mobilization. If interest rates, collateral requirements, or repayment periods are administratively imposed by the government, the terms agreed to in A.I.D.-supported activities will be part of a planned effort to

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encourage governments to move progressively toward market terms.

The interest rate to be charged on loans to microenterprises (1) shall, at a minimum, be at or near the prevailing interest rate paid on Treasury obligations of similar maturity (to the maximum extent practicable), and (2) should not be less than terms prevailing locally or a rate that approximates the opportunity cost of capital in that country. At a minimum, the interest rate to ultimate private borrowers should be significantly positive in real terms, i.e., when adjusted for inflation.

In many cases, the transaction costs of microenterprise loans are greater than similar costs associated with commercial loans. These costs include the costs of funds mobilized or borrowed; the normal premiums for the higher risks of term loans or devaluation risks for loans denominated in foreign currency; the administrative costs of providing loans to microenterprises; any extraordinary costs of non-bank services furnished the microenterprises or of supervising the sub-loans; and a reasonable profit margin for the IFI. Missions may wish to provide technical assistance to reduce loan transaction costs in the credit delivery system and to encourage greater linkage with the formal financial system.

It is recognized that, in most cases, most of the initial loan activity in this program will be short-term.

c. Terms to IFIs. The interest rate charged to commercial intermediaries that act as IFIs for this program (1) should be at least equal to the cost of local, nonconcessional sources of capital; (2) approximate the cost of lendable resources of comparable maturities from the local private capital market (if such resources exist); and (3) be based on the appropriate rate to the ultimate borrowers. If interest rates within a particular country are held down artificially by government policies, the rate charged to the IFIs should be set within the context of U.S. efforts to encourage adoption of free market interest rates.

IFIs should strive to develop more simplified application processes, where appropriate, as well as to link and accelerate the movement of borrowers into the formal financial system.

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PVOs and cooperatives should be encouraged to work with and through existing IFIs to handle credit components of the program. Where this is not feasible, grants may be made available to PVOs and cooperatives for certain startup costs of becoming IFIs under this program.

6. Technical Assistance and Training. Another common approach to assisting microenterprises is the provision of technical assistance, such as management, marketing, or production support. Many microenterprise projects involve training or extension services to microenterprises, either as a self-contained technical assistance and training project or as a component of a credit project. As past experience has demonstrated the value of charging recipients for technical assistance and training, programs offering these services should strive for increasing cost recovery over the life of the program.

Studies have concluded that training and extension services are a potentially effective vehicle for reaching the poorest or smallest enterprises if:

- o The training is simple and builds on existing knowledge relevant to microenterprise level needs;
- o They advise or serve as a broker in dealing with government regulations and licensing procedures; and
- o The recipients are organized into groups or associations, thus reducing the unit costs of reaching them.

Evaluations of successful technical assistance projects aimed at assisting microenterprises and small scale enterprises indicate a number of common traits:

- o Focus on a "single missing ingredient" rather than addressing multiple constraints;
- o Give priority to addressing the needs of particular industries and problems; and
- o Concentrate support on established enterprises, rather than attempting to create new enterprises.

7. Institutional Intermediaries. A.I.D. should maximize the use of private sector institutions (i.e., commercial banks, credit unions, cooperatives, PVOs/NGOs, village banks, and training organizations) when such institutions operate as intermediaries in this program.

Strong preference should be given to strengthening and working through local privately-owned and controlled

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institutions. When utilizing section 106 and 108 local currencies for microenterprise assistance, Missions should follow the provisions contained in cables 1986 STATE 259310 and 259314 on the private enterprise local currency lending program described in the Food Security Act of 1985. When utilizing funds other than section 106 and 108 local currencies, Missions should follow the guidance contained in the Private Enterprise Development Policy Paper (revised March 1985).

It is especially important that intermediaries work as directly as possible within the community of the beneficiaries of credit and technical assistance. When appropriate, credit could be extended through groups or similar mechanisms that use business or individual reputation in the community as a primary decision criteria in credit allocation. Encouragement of the participation of women in the decision-making and management of intermediaries should also be emphasized.

In selecting IFIs, A.I.D. should give particular attention to the existence of or plans to attain the following desirable institutional characteristics:

- o Financial soundness - demonstrates reasonable prospects for long-term viability;
- o Orientation toward microenterprise lending;
- o Market-based pricing policies - demonstrates a willingness and ability over time to operate in the market without reliance on subsidies;
- o Capital mobilization capability - demonstrates capability to mobilize capital from internal savings programs and/or from access to local capital markets;
- o Portfolio and client diversification - diversification relative to loan purpose and type of borrower or in other ways reduce exposure;
- o Complementary financing capability - demonstrates potential over time for providing other financial services to meet the diversity of borrower needs;
- o Support system - demonstrates potential, over time, for forming part of a network or system capable of providing financial, technical, and managerial assistance.

A.I.D should strive to obtain life of project funding for more than the three to five year norm and allow for the long-term assistance provided to the IFI to achieve the result necessary for sustained operations beyond project life.

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ANNEX

CURRENT A.I.D. POLICIES
RELATED TO MICROENTERPRISE DEVELOPMENT

The promotion of microenterprise development is consistent with A.I.D.'s emphasis on market-based growth and the involvement of the private sector in development. A.I.D. policy has reflected this orientation for some time. Policy papers on Financial Markets Development, Cooperative Development, Private Enterprise Development, Women in Development, and Private and Voluntary Organizations all play important roles in shaping A.I.D.'s framework for supporting microenterprise development. Some aspects of these policy papers are summarized below.

1. Financial Markets Development (August 1988)

The Financial Markets Development policy paper describes A.I.D.'s policy on financial markets development and provides guidance on the development of A.I.D.'s programs and projects in financial markets. A.I.D. tries to promote a system of financial markets that is integrated and relatively undistorted, one that relies heavily on competitive financial institutions, and on policies to facilitate competition. This system should be capable of effectively mobilizing private savings, allocating that savings to investments yielding maximum returns, and maximizing the participation of the general populace.

Among the subjects discussed are macroeconomic policies, encouraging and mobilizing domestic private savings, credit allocation policies, legal and regulatory constraints, tax policies, institutional development, credit policy, financial training and standards development, and new financial instruments and institutions.

Specific guidance is provided on the informal sector. The policy paper recommends that A.I.D. encourage host governments to adopt specific reforms that increase access to formal sources of credit and that A.I.D. should sponsor studies on the nature and functions of informal financial markets.

A.I.D.'s assistance to the informal sector has historically been in the form of project-based credit and technical assistance. Although many A.I.D. programs directed at microenterprises and informal sector enterprises have

demonstrated that these enterprises are reliable borrowers and can be reached cost-effectively, studies have shown that providing credit alone to microenterprises only rarely produced self-sustaining gains; increases in income were short-lived.

Informal sector enterprises often face a policy and administrative environment that contains serious market access and entry barriers. Some macroeconomic policies have a negative impact on informal enterprises and serve as entry barriers to the formal sector. These issues should be addressed within the framework of A.I.D.'s assistance to the informal sector.

A.I.D. should also continue to encourage formal financial institutions to serve the same clientele served by the informal financial markets. In the process, the more efficient formal markets gradually displace less effective informal markets. The best examples are those involving the extension of formal financial systems to better serve the growing financial demands of small farmers and small scale entrepreneurs. This approach depends for its success on the truth of an assumption that formal financial markets are more effective than informal institutions under appropriate circumstances. Although this assumption is generally borne out over the long run, it may not be correct in some markets in the short run.

To facilitate graduation to commercial borrowing, A.I.D. should foster the involvement of formal financial institutions in the informal system. For example, it may be useful to have a representative from a local private bank involved in an A.I.D.-sponsored informal sector lending program conducted through a PVO. This might facilitate an informal enterprise's graduation from the A.I.D. program to commercial banks by increasing the bank's familiarity with the borrower (and much of that segment of borrowers) while establishing a credit history in which the bank has confidence.

2. Cooperative Development (April 1985)

The Cooperative Development policy paper discusses the rationale for A.I.D.'s work with cooperatives and its objectives for the cooperative development. A.I.D. supports the development of cooperative organizations because cooperatives embody aspects of the principles of voluntarism, democratic choice and the economic effectiveness of private enterprise that historically have shaped our own nation's development.

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Two important points made are:

- o Cooperatives are able to reach and benefit sectors of the population that would not normally be served by other private sector institutions or direct government programs.
- o Cooperatives offer an attractive alternative to public sector programs. The paternalistic approach of governments and absence of competition provide little incentive to seek efficient methods of product or service delivery. A cooperative, because it is recipient owned, has an automatic incentive to maximize benefits to the members.

3. Private Enterprise Development (revised March 1985)

A.I.D.'s private enterprise initiative is directed at the development of the LDC's private sector. The policy paper states that the goals of A.I.D.'s policy toward private enterprise are:

- o to encourage LDCs to open their economies to a greater reliance on competitive markets and private enterprise in order to meet the basic human needs of their poor majorities through broadly-based self-sustained economic growth, and
- o to foster the growth of productive, self-sustaining income and job producing private enterprises in developing countries.

The Private Enterprise Development policy paper also identifies A.I.D.'s target group for private enterprise development activities. It repeats Sections 101 and 102 of the Foreign Assistance Act of 1961 (FAA), as amended, stating that one of the four principal goals of U.S. foreign economic assistance is ". . . the alleviation of the worst physical manifestations of poverty among the world's poor majority. . . .".

Consistent with this, it further declares ". . . that the principal purpose of United States bilateral development assistance is to help the poor majority of people in developing countries to participate in a process of equitable growth through productive work . . .". The policy paper directs that projects which implement A.I.D.'s private enterprise policy should clearly demonstrate the linkages between the activity that is to occur on the project and progress toward this primary FAA objective.

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Specific policy guidance in the policy paper addresses activities that include policy dialogue, legal and regulatory constraints, assistance to the indigenous private sector, private sector participation in the provision of traditional government services, parastatals and government authorized monopolies, capital saving technology, training, and infrastructure.

With respect to the informal sector, the policy paper stated A.I.D.'s belief that the operation of the heterogeneous, dynamic and largely unregulated informal economy provides a powerful argument in favor of eliminating uneconomic controls on the formal economy. In countries amenable to policy dialogue and related reforms, direct A.I.D. assistance to enhance the importance of the informal economy is a valuable complementary program to policy dialogue with the LDC governments. In countries that are reluctant to discuss policy, assistance to productive activities carried out in the informal private sector may be the only effective way to stimulate broad-based growth and development. A.I.D. has a strong interest in programs which support the informal private sector.

4. Women in Development (October 1982)

Poor women in developing countries bear major economic responsibilities, yet they are generally less well educated than men and have less access than men to modern productive resources. Thus, they often fill jobs which require little skilled work and are among the lowest paying. In the Women in Development policy paper, A.I.D. recognized that the productivity of women is important to personal, family and national well-being, and that women's productivity depends on their improved access to resources, e.g. land, improved farming techniques, information, and employment.

As a matter of policy, A.I.D. will:

- o seek to increase relevant knowledge and skills among women and girls where lack of education and training constrain women's effective access to more productive work;
- o support the development of labor-saving technologies which are acceptable and accessible to women where inefficient technologies reduce women's overall productivity; and
- o support efforts to alleviate the bias, through policy reform and/or experimental programs which

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demonstrate ways in which women can enter nontraditional types of work where systematic bias exists against females in the labor force, or in certain segments of the labor force.

Effective implementation of A.I.D.'s Women in Development Policy depends on the policy being reflected throughout A.I.D.'s portfolio. This is to be done primarily by:

- o introducing gender distinctions in the terminology employed in all of A.I.D.'s program and project documents in order to define more precisely the social context and impact of A.I.D.'s work;
- o disaggregating by sex data collected for A.I.D.'s country strategy formulation, project identification, project design and throughout the life of projects;
- o requiring A.I.D.'s country strategy, project identification and planning documents to explicitly describe strategies to involve women, benefits and impediments to women and benchmarks to measure women's participation; providing substantive analysis of these statements during the process for their review; and
- o evaluating and assessing the impact of A.I.D.'s programs and projects according to gender differentials - both in relative and absolute terms - with regard to improvements in access to and control over resources and predicted benefits and returns.

The policy paper discusses actions to be taken in both the formal sector and informal sector. Although general trends in developing countries show women's participation in the formal labor force to be low, increasing population pressures and the inability of the formal sector to accommodate the expanding labor force has pushed more people, especially women, into seeking employment in the informal sector.

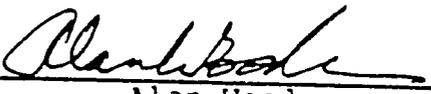
In the formal sector, the policy encourages attempts to break the pattern of women's relegation to low-productivity occupations with no growth potential. A.I.D. can accomplish this by designing into projects the expansion of employment opportunities in sectors where women have not traditionally worked, and in those relatively new sectors of the economy where gender-specific work roles are not yet entrenched. In addition, A.I.D. can support and fund occupational training programs for women.

In the informal sector, a variety of programs for small entrepreneurs and microenterprises have been successful, and can be adapted for women. A.I.D.'s decision to focus on technical assistance and/or provision of credit through financial intermediaries must depend on the particular situation. However, in many countries there are substantial numbers of self-employed women, particularly in micro and small industries, who will gain from enhanced managerial, administrative, and financial skills, as well as from the formation of cooperative institutions.

Specific policy guidance is also provided in such areas as women in agricultural development, human resources, education, energy and natural resource conservation, and water and health.

5. A.I.D. Partnership in International Development with Private and Voluntary Organizations (September 1982)

The policy paper on Private and Voluntary Organizations presents the rationale for A.I.D.'s work with private and voluntary organizations and the procedures that the Agency will follow in this area. The paper states that PVOs are a heterogeneous universe - diverse in their expertise, size, bases of support, and modes of operation. PVOs bring unique skills to the job of Third World development and can be a means for effectively engaging the rural and urban poor in their nation's development.



Alan Woods

10 October 1988

Date



USAID Microenterprise Program Highlights

The U.S. Agency for International Development (USAID) has supported small and microenterprise development since the late 1970s. USAID financial and technical resources have been the driving force leading to the emergence of institutions that bring quality financial and other services to millions of microentrepreneurs.

Among USAID's most important accomplishments are the following:

IN LATIN AMERICA

- Through the PISCES project, USAID supported ACCION International's development and application of a solidarity group lending model whereby members guarantee one another's loans. This allows poor entrepreneurs who lack collateral to qualify for loans and establishes a mechanism for reaching large numbers of people.
- USAID support has been critical for the establishment of leading microenterprise finance institutions across the Latin American region. For example, a \$5.9 million investment in PRODEM in Bolivia led to the launch of BancoSol, a private commercial bank dedicated to microenterprise, with a current portfolio of about \$30 million.
- Recently, USAID has supported the village banking methodology through grants to organizations such as FINCA El Salvador, which in a short three years has reached 30,000 borrowers, mostly very poor women.

IN AFRICA

- Through pioneering organizations like the Kenya Rural Enterprise Programme, the Get Ahead Foundation (South Africa) and the ACEP Project (Senegal), USAID has fostered the introduction of new methodologies for microenterprise finance. These organizations have grown and spawned a new generation of larger programs.
- USAID-sponsored surveys of microenterprises throughout Africa have been critical in convincing top policy-makers to recognize microenterprise as a major source of jobs and incomes for their populations.

IN ASIA

- USAID assistance enabled financial institutions in Indonesia to provide credit and savings services to large numbers of micro-businesses on a self-sustaining basis. With USAID assistance, Bank Rakyat Indonesia (BRI) created a network of nearly 4,000 units, which lend to microenterprises and mobilize deposits. This system serves 1.9 million borrowers and 11.2 million depositors and is profitable to its parent bank.

CONTRIBUTIONS TO THE MICROENTERPRISE FIELD

- USAID has supported and financed the creation of the Small Enterprise Education and Promotion Network (SEEP), a membership association of U.S. private voluntary organizations (PVOs) involved in microenterprise. SEEP has been responsible for a great deal of progress in the PVO community as well as coaching new entrants into the microenterprise field.
- Under USAID's GEMINI project, the subsector approach to microenterprise development has led to new ways of linking microenterprise producers to growing markets. For example, in Thailand the women who make silk in their villages are increasing their access to the growing international market for Thai silk.
- Other donors consult USAID as a leader in microenterprise, particularly when they seek techniques to reach more people and create sustainable institutions. By emphasizing sustainability and knowledge dissemination, USAID has leveraged a relatively small amount of funding into a major worldwide effort.
- USAID's many other successful projects include revitalizing credit union systems in countries such as the Dominican Republic and Malawi, creating many local non-governmental organizations serving microenterprise and changing the behavior of banks to begin financing microenterprises. The number of countries involved is well over 50.
- USAID support has enabled Peace Corps to develop small enterprise as a major area of its strength, training more than 4,500 people as small business advisors.

MICROENTERPRISE INNOVATION PROGRAM

The Microenterprise Innovation Project addresses USAID's three broad areas of concentration -- strengthening markets, investing in people and expanding access and opportunity in the following ways:

- ◆ increasing access by the poor, especially women, to credit and savings services provided by a variety of sustainable financial service institutions.
- ◆ providing innovative non-financial assistance --technical and management training, marketing and technology development, to micro entrepreneurs in a cost-effective manner.
- ◆ strengthening the capacity of local organizations, such as NGOs and associations, to have a voice in the policy process affecting microenterprise development at the national and local level.
- ◆ fostering an enabling environment for microenterprise through institutional and economic policy change.

PROJECT GOAL: To promote the expansion and ensure the effectiveness of microenterprise services in facilitating entrepreneurial activities of the poor, especially women, and thereby improving the quality of life of poor people and their contribution to economic growth of the country.

COMPONENTS: The project components are inter-related and carry through several themes embodied in the Microenterprise Initiative. These themes are:

- ◆ achieving greater outreach and significant scale
- ◆ financial viability of financial services
- ◆ cost effectiveness of non-financial services
- ◆ local institutional development and long-term viability
- ◆ inclusion of women and the very poor

The Implementation Grant Program: to expand microenterprise service provision by strengthening local institutions to build capacity, increase effectiveness and improve financial viability of services to microenterprises. The Implementation Grant Program is intended to support USPVO and other experienced organizations microenterprise programs that provide financial services, non-financial services or innovative pilot efforts in more than one country.

The Mission Co-financing Program: to improve the quality and increase the quantity of Mission support to microenterprise programs. The Mission Matching Grant component is intended to support Mission microenterprise projects with local NGOs, government organizations, associations, credit unions and other local organizations.

The Technical Assistance, Training, Research and Information Exchange Component: to increase the capacity of implementing organizations and USAID Missions to undertake microenterprise programs, to expand the knowledge base of the field, and to improve the design and implementation of AID-supported projects. This component will advance the "State of the Practice", provide access to training and technical assistance to and from NGO/PVO implementors and develop an action research agenda.

The Impact Component: to develop better tools for monitoring the performance of microenterprise programs and to assess the impact of programs on microentrepreneurs, their enterprises and their families.



USAID's Microenterprise Initiative

The economic growth strategy of the U.S. Agency for International Development (USAID) emphasizes poor peoples' economic empowerment. Microenterprise development is an important means to this end.

ARTICULATING GOALS

Administrator Brian Atwood has issued a charter outlining the goals of the initiative and directing agency staff to pursue them. The goals are: 1) to assist poor people to increase their income and assets, thereby gaining the basis to improve their welfare, nutrition, health, housing and education; 2) to increase the skill and productivity base of the economy, so that economic growth is enhanced; and 3) to develop sustainable institutions through which disadvantaged groups gain greater access to resources, fostering a social fabric that more effectively weaves poorer people into their societies as participating members.

In pursuing these goals, USAID will be committed to:

- **Focus on women and the very poor.** USAID has pledged to devote half of its support for microenterprise programs to poverty lending programs (and the poverty lending portion of mixed programs) by fiscal year 1996. Poverty lending programs are defined as those that serve the very poor, with reference to loan amounts below \$300 in 1994 dollars.
- **Assist implementing organizations in reaching greater numbers of people.** Because the scale of need is great, involving tens of millions of entrepreneurs around the world, the agency's approach is designed to reach as many people as possible.
- **Sustainability and financial self-sufficiency.** Through sustainable institutions, more people can be reached and services can continue over time, becoming permanent parts of local economies.
- **Partnerships with local organizations.** USAID will seek improved partnerships with governmental and non-governmental organizations, associations, credit unions and other institutions.

IMPLEMENTING THE INITIATIVE

Creating Change at USAID

The heart of USAID's program lies in its field missions, and microenterprise development programs are best designed and managed in the field. USAID is restructuring incentives for missions to strengthen their commitment to microenterprise development.

- Mission strategies increasingly include microenterprise as an area of concern.
- Despite budget reductions in other areas, USAID plans to increase total funding for microenterprise during the next few years, to \$130 million in fiscal year 1994 and \$140 million in fiscal year 1995. Bureaus will be asked to ensure that their programs reach these targets.

- The administrator has asked Dick McCall, the agency's chief of staff, to ensure that all parts of USAID work together to move the initiative forward.

USAID will develop expanded central mechanisms to support the initiative both financially and technically. Central support is crucial to ensure that new programs receive the benefits of cross-fertilization, high standards of performance and cutting-edge innovation.

- The administrator has bolstered the Microenterprise Development Office with a significantly larger staff to act as the hub of the initiative. For 1995 implementation, that office will design a Microenterprise Innovation Program, with the following elements:
 - Financial resources to leverage mission programming in microenterprise, particularly where such leverage can spark important innovation.
 - Financial resources to support selected organizations directly, such as U.S. private voluntary organizations (PVOs), non-governmental organizations (NGOs) and credit unions, for innovative, cutting-edge programming.
 - Expanded capacity to provide technical assistance to missions and other organizations. The office also will perform essential research, training, monitoring and evaluation duties.
 - Development of better tools for monitoring the performance of USAID-supported programs and assessing their impact on entrepreneurs.
- The existing PVO Matching Grant Program and Micro and Small Enterprise Loan Guarantee Programs will expand the portion of their funding that supports microenterprise, under the guidance of the coordinator of the initiative.

FISCAL YEAR 1994 START-UP

To begin the initiative quickly, USAID has expanded three existing microenterprise programs in 1994. Despite severe budgetary constraints, central funding for microenterprise activities for fiscal year 1994 will be between \$20 million and \$23 million.

- A facility for leveraging mission programming will be available for 1994, based on a revision of the existing Anti-Poverty Lending Project (APPLE) authorization.
- The Bureau for Humanitarian Response's Office of Private and Voluntary Cooperation PVO Matching Grant Program will give increased support to microenterprise. This year the program expects to allocate approximately \$8 million to microenterprise development compared to \$4.2 million in fiscal year 1993.
- The Micro and Small Enterprise Development Program will increase support to microenterprise this year. With its \$1 million in subsidy appropriation, it can leverage approximately \$25 million in lending to the micro and small business sectors in 1994. Programs with substantial funding for microenterprise this year include the West Bank, Sri Lanka, Indonesia, Bangladesh, South Africa and a regional program in Latin America.

GEMINI PUBLICATION SERIES

GEMINI Working Papers:

1. "Growth and Equity through Microenterprise Investments and Institutions Project (GEMINI): Overview of the Project and Implementation Plan, October 1, 1989-September 30, 1990." GEMINI Working Paper No. 1. December 1989. [not for general circulation]
- *2. "The Dynamics of Small-Scale Industry in Africa and the Role of Policy." Carl Liedholm. GEMINI Working Paper No. 2. January 1990. \$5.50
3. "Prospects for Enhancing the Performance of Micro- and Small-Scale Nonfarm Enterprises in Niger." Donald C. Mead, Thomas Dichter, Yacob Fisseha, and Steven Haggblade. GEMINI Working Paper No. 3. February 1990. \$6.00
4. "Agenda Paper: Seminar on the Private Sector in the Sahel, Abidjan, July 1990." William Grant. GEMINI Working Paper No. 4. August 1990. \$3.00
- *5. "Gender and the Growth and Dynamics of Microenterprises." Jeanne Downing. GEMINI Working Paper No. 5. October 1990. \$10.50
6. "Banking on the Rural Poor in Malaysia: Project Ikhtiar." David Lucock. GEMINI Working Paper No. 6. October 1990. \$3.30
7. "Options for Updating AskARIES." Larry Reed. GEMINI Working Paper No. 7. October 1990. \$3.50
- *8. "Technology — The Key to Increasing the Productivity of Microenterprises." Andy Jeans, Eric Hyman, and Mike O'Donnell. GEMINI Working Paper No. 8. November 1990. \$3.60
9. "Lesotho Small and Microenterprise Strategy — Phase II: Subsector Analysis." Bill Grant. GEMINI Working Paper No. 9. November 1990. \$15.50
- *10. "A Subsector Approach to Small Enterprise Promotion and Research." James J. Boomgard, Stephen P. Davies, Steven J. Haggblade, and Donald C. Mead. GEMINI Working Paper No. 10. January 1991. \$3.10
11. "Data Collection Strategies for Small-Scale Industry Surveys." Carl Liedholm. GEMINI Working Paper No. 11. January 1991. \$1.30

*Publications of general interest

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12. "Dynamics of Microenterprises: Research Issues and Approaches." Carl Liedholm and Donald C. Mead. GEMINI Working Paper No. 12. January 1991. \$6.50
13. "Dynamics of Microenterprises: Research Priorities and Research Plan." Carl Liedholm and Donald C. Mead. GEMINI Working Paper No. 13. August 1990. [not for general circulation]
14. "Review of Year One Activities (October 1, 1989 to September 30, 1990) and Year Two Work Plan (October 1 to November 30, 1990)." GEMINI Working Paper No. 14. January 1991. [not for general circulation]
- *15. "The Process of Institutional Development: Assisting Small Enterprise Institutions to Become More Effective." Elaine Edgcomb and James Cawley. GEMINI Working Paper No. 15. February 1991. \$9.70
16. "Baseline Surveys of Micro and Small Enterprises: An Overview." Donald C. Mead, Yacob Fisseha, and Michael McPherson. GEMINI Working Paper No. 16. March 1991. \$2.60
17. "Kenya: Kibera's Small Enterprise Sector — Baseline Survey Report." Joan Parker and C. Aleke Dondo. GEMINI Working Paper No. 17. April 1991. \$6.40
- *18. "A Financial Systems Approach to Microenterprises." Elisabeth Rhyne and Maria Otero. GEMINI Working Paper No. 18. April 1991. \$3.00
- *19. "Agriculture, Rural Labor Markets, and the Evolution of the Rural Nonfarm Economy." Steve Haggblade and Carl Liedholm. GEMINI Working Paper No. 19. May 1991. \$2.50
- *20. "The Microenterprise Finance Institutions of Indonesia and Their Implications for Donors." Elisabeth Rhyne. GEMINI Working Paper No. 20. June 1991. \$3.40
21. "Microenterprise Growth Dynamics in the Dominican Republic: The ADEMI Case." Frank F. Rubio. GEMINI Working Paper No. 21. June 1991. \$3.10
- *22. "Credit Unions: A Formal Sector Alternative for Financing Microenterprise Development." John H. Magill. GEMINI Working Paper No. 22. September 1991. \$3.80
23. "A Proposed Subsector-Based Monitoring and Evaluation System for CARE/Thailand's Silk Promotion Efforts." Steven Haggblade. GEMINI Working Paper No. 23. September 1991. \$3.60
24. "Steps to the Creation of a Viable Financial Institution for Microenterprise Development in the Philippines: Notes on a Process for the Staff and Board of Tulay sa Pag-Unlad, Inc." Doug Salloum and Nan Borton. GEMINI Working Paper No. 24. November 1991. \$2.00
- *25. "Village Banking: A Cross-Country Study of a Community-Based Lending Methodology." Sharon L. Holt. GEMINI Working Paper No. 25. December 1991. \$12.60
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- *27. "Opportunities for Intervention in Thailand's Silk Subsector." Steven Haggblade and Nick Ritchie. GEMINI Working Paper No. 27. January 1992. \$3.20

- *28. "Apex Study of the Asociación de Grupos Solidarios de Colombia." Arelis Gomez Alfonso, with Nan Borton and Carlos Castello. GEMINI Working Paper No. 28. April 1992. \$4.60. [See Technical Reports No. 36 and No. 39 for apex studies in Senegal and Thailand.]
29. "The Subsector Methodology, A Field Orientation for CARE/Egypt, January 20-February 7, 1992." William Grant. GEMINI Working Paper No. 29. April 1992. \$9.50
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35. "BancoSol: A Private Commercial Bank. A Case Study in Profitable Microenterprise Development in Bolivia." Amy J. Glosser. GEMINI Working Paper No. 35. February 1993. \$8.60
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38. "Should Principles of Regulation and Prudential Supervision be Different for Microenterprise Finance Organizations?" Rodrigo A. Chaves and Claudio Gonzalez-Vega. GEMINI Working Paper No. 38. April 1993. \$3.40
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42. "Review of Years 1-3 Activities and Workplan for Years 4 and 5 (December 1, 1991 to November 30, 1992)." GEMINI Working Paper No. 42. June 1993. [not for general circulation]
- *43. "CARE and Subsector Analysis: A Report on CARE's Formative Experience." Marshall Bear. GEMINI Working Paper No. 43. October 1993. \$2.00

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- *52. "State-Owned Agricultural Development Banks: Lessons and Opportunities for Microfinance." Claudio Gonzalez-Vega and Douglas H. Graham. GEMINI Working Paper No. 52. September 1995. \$4.80
- *53. "Where the Microfinance Revolution Began: The First 25 Years of the Bank Dagang Bali, 1970-1994." Marguerite Robinson. GEMINI Working Paper No. 53. September 1995. \$4.00
- *54. "Nigeria 1961-1991: Closure, Survival and Growth of Small Enterprise." Peter Kilby and Monibo Sam. GEMINI Working Paper No. 54. September 1995.

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2. "Bangladesh Women's Enterprise Development Project: PID Excerpts and Background Papers." Shari Berenbach, Katherine Stearns, and Syed M. Hashemi. GEMINI Technical Report No. 2. October 1990. [not for general circulation]
3. "Maroc: Conception d'une Enquête pour une Etude du Secteur Informel." Eric R. Nelson and Housni El Ghazi. GEMINI Technical Report No. 3. November 1990. \$12.50

4. "Small Enterprise Assistance Project II in the Eastern Caribbean: Project Paper." James Cotter, Bruce Tippet, and Danielle Heinen. GEMINI Technical Report No. 4. October 1990. [not for general circulation]
5. "Technical Assessment: Rural Small-Scale Enterprise Pilot Credit Activity in Egypt." John W. Gardner and Jack E. Proctor. GEMINI Technical Report No. 5. October 1990. \$4.00
- *6. "Developing Financial Services for Microenterprises: An Evaluation of USAID Assistance to the BRI Unit Desa System in Indonesia." James J. Boomgard and Kenneth J. Angell. GEMINI Technical Report No. 6. October 1990. \$9.00
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