



U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

**The USAID Microenterprise Initiative
Statement of Renewal
June 30, 1997**

The Microenterprise Initiative, 1994-1996

In 1994 USAID established its Microenterprise Initiative in order to raise microenterprise development to a priority within Agency programming that matches its importance for the poor. The Microenterprise Initiative is an integral part of USAID's broad-based economic growth strategy. The ultimate goals of USAID's support for microenterprise development are to assist the poor to increase their incomes, assets, skills and productivity, and to facilitate the creation of "economic democracies" in which all citizens participate fully in the economy.

The Initiative resulted from fruitful dialogue with Congress and practitioners, particularly the House International Relations Committee and the Microenterprise Coalition.¹ It was developed under USAID's general enabling legislation without any need for special legislative provisions.

USAID made commitments to deepen its microenterprise development capabilities and focus attention on reaching the poor, and it has worked conscientiously to fulfill them, though circumstances have required some adjustments in targets.

Funding. USAID proposed to fund microenterprise programs at \$130 and \$140 million per year in Fiscal Years 1994 and 1995. In fact, USAID's totals amounted to \$137.4 million and \$133.5 million in FY 1994 and FY 1995, respectively. The preliminary result for FY 1996, is \$118 million, reflecting revised targets following difficult budget cuts. Funding is distributed widely across all regions in 45 field missions.

Central Programs. USAID established the Office of Microenterprise Development in the Bureau for Global Programs, Field Support, and Research to manage the Initiative.

¹The Microenterprise Coalition is an advocacy group made up largely of U.S. private voluntary organizations that implement microenterprise programs around the world.

Accomplishments include:

- The Microenterprise Implementation Grant Program has awarded \$30 million to 17 U.S. PVOs and international organizations, expected to be serving over 400,000 clients by the end of the grants.
- The Prime Fund provided \$17 million to USAID field missions in 20 countries for institution-building, promoting an enabling environment for microfinance, and providing credit and savings services to over 300,000 clients.
- The Office has built a staff of technical experts who advise missions around the world. MicroServe, its technical assistance resource, has completed 20 assignments. The Office has trained 38 USAID staff and 104 counterpart staff in design of microfinance programs.
- The Microenterprise Best Practices Subgrant facility, which supports capacity-building, has awarded small grants to 13 organizations.
- A forward-looking research and information exchange agenda is being pursued through Assessing the Impact of Microenterprise Services (AIMS) and Microenterprise Best Practice (MBP).

USAID has also expanded the microenterprise activities of pre-existing central programs:

- The Matching Grant and Cooperative Development Programs of BHR/PVC have provided \$25 million to 16 U.S. PVOs and Cooperative Development Organizations for microenterprise development in 29 countries.
- The Micro and Small Enterprise Development loan guarantee program manages loan and guarantee facilities supporting microenterprise credit in six countries, as well as “bridge funds” for two U.S. PVOs.

Reaching the Poor and Women

USAID pledged to ensure that by 1996 half of its support to microenterprise credit programs would target the very poor through poverty lending, and that at least half the clients served would be women. USAID has made intensive investments in poverty lending programs, and is clearly the world's leading donor in supporting poverty lending institutions, particularly those sponsored by U.S. PVOs. A study of village banking programs identified 68 programs around the world sponsored by U.S. PVOs. USAID was a substantial source of funding for 90 percent of those programs. The central mechanisms of the Microenterprise Initiative are now directing over two-thirds of all funds toward poverty lending. Missions also manage substantial poverty-lending programs, including missions in Mali, Uganda, Nepal, El Salvador, Honduras, and other countries.

USAID surveyed the institutions it financed in 1994 and found that more than 80 percent of all clients received loans below \$300. The average (mean) loan size was \$306, and 34 percent of the loan portfolios of supported institutions took the form of loans below \$300. In addition, 68 percent of all clients served were women. Analysis of 1995 programming shows that about 42 percent of USAID's total microenterprise support was aimed at poverty lending, which amounts to over half of its support for microlending. USAID is preparing for a study of its 1996 portfolio, to be completed later this year.²

The Microenterprise Field Today

Interest in microenterprise development and microfinance is growing dramatically, as new microenterprise programs begin and donors start or expand funding. While the achievements of leading microfinance programs are impressive, this still-young field faces constraints in institutional capacity. As more funds enter the field, it is crucial that microfinance programs apply best practices and follow the emerging consensus on performance standards. As a recognized leader in microenterprise, with an unparalleled depth of experience, USAID has the potential to leverage its resources and knowledge to influence the future path of microenterprise development. It is with this challenge in mind that USAID has planned its renewed Microenterprise Initiative for 1997-1998.

Renewing the Microenterprise Initiative

During the period 1997-1998 USAID will maintain the core elements of the original microenterprise initiative (overall funding, outreach to the poor and women, and central programs), while emphasizing three new focus areas: a) enhancing microenterprise programming at the regional and mission levels, b) expanding USAID's leadership role at home and among other donors, and c) improving reporting on microenterprise programs based on results rather than inputs. The elements of the renewed initiative are:

1. Funding. \$120 million annually in Fiscal Years 1997 and 1998.

2. Regional Deepening. Each regional bureau is identifying specific actions to move microenterprise forward in its region.

Africa. The Africa Bureau will strengthen its microenterprise development efforts through: intensified dialogue between field missions and practitioners to identify support opportunities; increased attention to capacity building for microenterprise development institutions; microcredit funding through intermediaries funded by a portion of the Southern Africa Enterprise

²Local economic conditions in the ENI region require somewhat larger loans than in USAID's other regions. Accordingly, the ENI region considers loans up to \$1,000 as poverty lending in this region, and loans up to \$10,000 as microenterprise. This is in keeping with loan sizes prevailing in existing microcredit programs in the region.

Development Fund; and ensuring that larger policy reform activities include attention to the alleviation of legal and policy biases facing microentrepreneurs.

Latin America and the Caribbean (LAC). The LAC Bureau will build on its record in microenterprise activities by using missions to influence and leverage future programming by other bilateral donors and multilateral banks. In keeping with the agendas of the Summit of the Americas and the Microcredit Summit, these resources will target policy reform and links to formal finance sources. As a follow-on to the Summit of the Americas, the LAC Bureau will host a series of regional workshops to help prepare this sector for accelerated development.

Asia and the Near East (ANE). Strong microenterprise support programs in nearly all missions in this region provide the foundation for progress. The ANE Bureau has identified six models for microfinance that it supports and promotes throughout the region. In Morocco and Jordan, microenterprise will be at the heart of the missions' economic growth strategies. In India and Nepal, it will be tied closely to women's empowerment. In Bangladesh and Indonesia, mission programs will work to remove policy and regulatory barriers to microenterprises.

Eastern Europe and the New Independent States (ENI). The ENI Bureau will seek to increase the capacity of the region's nascent microenterprise institutions. It will support regional exchange and networking among practitioners; task regional policy projects to examine policy and regulatory problems affecting microenterprises and microlenders; support the Enterprise Funds to initiate or expand microlending programs; and train additional ENI staff in microenterprise program design.

3. Central Programs. USAID will continue the core central programs of the Microenterprise Initiative administered by the Office of Microenterprise Development and the Micro and Small Enterprise Development Program of the Global Bureau, and the Office of Private and Voluntary Cooperation of the BHR Bureau.

4. Leadership. USAID will advocate best practice standards among donors. It will work with donors to help them develop their microenterprise programming through the Consultative Group to Assist the Poorest, special committees of the Development Assistance Committee, and bilateral initiatives such as the U.S.-Japan Common Agenda. The Office of Microenterprise Development will take intellectual leadership in areas including: moving beyond credit to business development services and savings, expanding institutional capacity, and involving commercial financial institutions in microfinance. In the United States, USAID will support interchange between domestic and international microenterprise practitioners and among U.S. Government agencies such as the Community Development Finance Institutions Fund.

5. Results. USAID will ensure that at least half of the microenterprise clients of the institutions it supports are women and that at least two-thirds of clients receive loans of less than \$300. It will devote half of all microcredit funding to poverty lending. In addition, the average repayment rates for the institutions USAID supports will be at or above 95 percent, and every organization

will have charted a clear path to cover its costs within a reasonable time while maintaining the value of its loan capital. USAID will set a target for average growth of 15 percent per year in the number of clients served by microfinance programs it supports. Finally, USAID will strengthen its measurement systems for monitoring these results and report to Congress.