

PC-AAA-199

February

73977

APP

**EMBARGOED UNTIL
NOVEMBER 19**

WHERE CREDIT IS DUE

**Report on AID's Compliance With
1988 Microenterprise Earmark**

by Danielle Yariv

**RESULTS Educational Fund
236 Massachusetts Ave. NE, Suite 110
Washington, D.C. 20002**

TABLE OF CONTENTS

I.	EXECUTIVE SUMMARY	1
II.	INTRODUCTION	3
III.	1988 LAW AND REPORT LANGUAGE	6
IV.	BACKGROUND ON COMPLIANCE	6
V.	RESEARCH METHODOLOGY	9
	Background	9
	Objectives	9
	Data Sources	9
VI.	FINDINGS	10
VII.	COUNTRY-BY-COUNTRY REPORTS	10
	INDONESIA	11
	JORDAN	13
	BOLIVIA	14
	KENYA	15
	PHILIPPINES	16
	SENEGAL	17
	COSTA RICA	18
	GUATEMALA	19
VIII.	FIELD STUDIES	20
	HONDURAS	20
	Demographics of Poverty	20
	Funding	21
	Programs	21
	Technical Assistance	22
	Credit Assistance	23
	Summary	25
	EL SALVADOR	25
	Demographics of Poverty	25
	Funding	26
	Programs	28
	Summary	28
IX.	CONCLUSIONS	29
X.	RECOMMENDATIONS	30

WHERE CREDIT IS DUE

Report On AID's Compliance With 1988 Microenterprise Earmark

I. EXECUTIVE SUMMARY

Congress earmarked \$50 million for microenterprise lending for the poor in fiscal year 1988 (FY '88). In report language Congress urged that up to 80% of the loans should be targeted to individuals in the poorest 50% of the population with special emphasis on businesses owned by women and the poorest 20% of the population. It was also recommended that loans not exceed \$300 unless necessary to fulfill the objectives of the program.

In a series of letters to the U.S. Agency for International Development (AID), Reps. Edward Feighan (D-OH) and Benjamin Gilman (R-NY) and Sen. Dennis DeConcini (D-AZ) requested data which would verify compliance. Although earlier letters from the Agency stated ". . . [we have] complied with, and indeed, exceeded both the letter and the spirit of the microenterprise legislation," the data to back up this claim was never provided.

Acting Administrator Mark Edelman eventually wrote the members of Congress and said, ". . . I regret that such information is not currently available. Collection of the data requested for FY 1988 and FY 1989 would be difficult to obtain. . . . Nevertheless, given your interest in keeping detailed records on the size of loans and gender of the recipients, I have asked that we investigate the development of a reporting system for future years. I think you should know, however, that I am concerned that such a reporting system would place an extremely heavy burden on AID/Washington and mission staff as well as intermediary organizations upon which we rely."

More than a year before the July letter from Edelman, the Agency spent \$450,000 to undertake a detailed study of AID's active microenterprise projects. The resulting study produced several reports with significant efforts at data collection, but failed to report statistics on loan size and gender for the majority of projects counted against the 1988 earmark. This failure brought into question AID's willingness and capacity to collect information which would show the specific proportion of its microenterprise resources that are reaching the groups targeted by the earmark -- the poorest and female entrepreneurs.

Based on data available from AID documents, phone conversations and field interviews, we conclude that AID has not complied with the earmark, despite Agency assertions to the contrary, and remains committed to assisting people "a few rungs up" from the very poor.

The data made available has shown contradictory and inappropriate figures for FY '88. Examples of programs which are inappropriate for inclusion in the earmark include:

- o Jordan - The project was described in an AID cable as "[expecting] that the average loan will be in the neighborhood of \$15,000-\$20,000."
- o Honduras - \$970,000 counted as technical assistance against the earmark was spent to send 100 microentrepreneurs to a three-week business administration course in the United States. That averages about \$10,000 per microentrepreneur.

Examples of contradictory counting of funds against the microenterprise earmark include:

- o Indonesia - \$8.3 million was reported by AID in a March 30, 1989 letter to Congress, but only two projects totaling \$230,000 were reported in a cable from the mission. \$2.3 million was reported in the 1991 Annual Budget Submission for FY '88 and \$2.19 million was reported in a 1989 cable from the mission.**
- o El Salvador - \$2.2 million was reported by AID in a March 30, 1989 letter to Congress. \$3.2 million was reported by AID/El Salvador in the 1991 Annual Budget Submission. In September 1989, AID/El Salvador acknowledged an error in the previous figures and reported a revised figure of \$230,000.**

In this report, we studied ten countries which comprise 50% of the global microenterprise earmark for FY '88. Of the \$31.8 million reported for the ten countries in the March 30 letter to Congress, RESULTS Educational Fund estimates that only \$5.2 million was spent in ways that would fulfill or approach Congressional intent.

Of the remaining \$26.6 million, \$18.5 million was not counted because of lack of data. Another \$8.1 million was not counted because the programs clearly did not comply with the intent of the earmark.

In all of the ten countries studied, AID reported different figures at different times regarding microenterprise activities counted against the earmark.

The data discrepancies and inappropriateness of programs counted against the earmark call into question AID's willingness and ability to directly reach the poor and AID's ability to work with intermediary institutions committed to making credit and other essential assistance available to the economic activities of the poorest people.

This report reviews the 1988 law and the background on congressional attempts to verify compliance, summarizes the documentable data which was uncovered, and presents conclusions and recommendations for ensuring future compliance with Congressional intent for the microenterprise program.

Recommendations

In light of insufficient documentable data and the strong appearance of non-compliance with the intent of Congress, RESULTS Educational Fund recommends the following actions:

- A. Congress should hold hearings after release of the GAO investigation called for by Reps. Feighan and Gilman and Sen. DeConcini.**
- B. AID should develop the capacity to reach the poorest of the poor by convening regional workshops led by experts in this field and by sending AID personnel and grassroots community leaders to learn from successful microenterprise institutions such as Grameen Bank in Bangladesh.**
- C. Congressional hearings should be held after submission of the April 1, 1990 AID plan for implementing the microenterprise program, as called for in FY '90 Senate report language.**
- D. Congress should consider the creation of a Credit for the Poor Foundation to guarantee credit assistance to the poorest people in the Third World.**

II. INTRODUCTION

The day she enrolled as a member, a wave of joy swept over Sakhina. She felt as if she had achieved something great. For the first time in her life, she had the experience of taking part in weekly meetings with several others. Besides, taking up a pen in her inexperienced hand to write her name was a very difficult task. But once she had successfully joined a group, all other formalities that followed seemed quite pleasant to her. With great enthusiasm, she learned to sign her name and thus her old belief that she was completely worthless was shaken at last. She understood that her existence as a human being was perhaps of some value in this society.

Said Jorimon, of Beltoil village, "Previously, we went hungry for days on end. I worked like a slave in other people's houses. I walked from village to village with a heavy load of firewood on my head, trying to get some money in return. We had no home of our own. People used to ignore us all the time. No one ever looked at us with grace or favor." But today she does not have to go from door to door for help, she does not have to go hungry. Jorimon does not have to put up with any affronts or insults. Only recently, she has added a new room to the house with the money from her profit and has also bought an aluminum jug, a bowl, a drinking glass and a cooking pot. Her comment, "God has showed us the path of happiness through the bank loan."

**Two Stories from *Jorimon of Beltoil*,
a book of interviews with female borrowers
from the Grameen Bank in Bangladesh**

As the 20th century draws to a close, hunger and hunger-related disease continue to take the lives of 13 to 18 million people annually, three-quarters of whom are children. Those dying these cruel, painful deaths live in conditions of extreme poverty from which there is often no path of escape.

At a time when governments talk of human rights, the right to food and health care and other basic needs, we must confront that a life in poverty is the negation of all rights; the poor are condemned to lives of indignity and despair.

To ask governments to secure the human rights of its citizens is a tall order, so we must ask: How can we create environments where people can secure their own human rights? One means of creating such an environment is to grant the poor access to credit.

Until very recently, this access has been restricted to those with collateral to guarantee their loans. Since those who have collateral are always the relatively rich, traditional banking has made the rich richer, and thereby exacerbated societal inequities.

In recent years, however, alternative credit delivery systems targeted at the very poor have shown that society's most marginalized members have an astounding ability to turn small amounts of credit (\$25, \$75, \$100) into a path out of poverty. People with no other alternatives are among the most disciplined borrowers in the world. For them, access to credit is a once-in-a-lifetime chance to secure their family's rights. By their

own ingenuity, sacrifice and hard work, they have been able to break through the economic, political and psychological manifestations of poverty. Their lives have been imbued with dignity and hope.

The Grameen Bank in Bangladesh has loaned to over 500,000 landless women in Bangladesh. Professor Muhammad Yunus, founder of the bank, has argued that credit itself should become a fundamental human right. He has said, "Credit will equip a dispossessed person to give a fight against the economic odds around him. Without the support of credit he only gets beaten mercilessly. [Access to credit] is basic for the economic emancipation of the poor in general, and poor women in particular."¹

The success of the Grameen Bank, which enjoys a repayment rate of over 98%, as well as Indonesia's Baden Kredit Kecamatan, the Rural Banks of Ghana, ACCION International, FINCA and numerous smaller programs, has demonstrated beyond any doubt that poor people can escape poverty if credit institutions are designed and implemented appropriately and in consultation and dialogue with the poorest of the poor. Comparing Grameen Bank's record of 98% repayment to the low repayment rates of other credit institutions, poor borrowers apparently take their responsibility to repay more seriously than traditional borrowers.

The challenge of the 1990s is to expand the reach of poverty-focused credit delivery systems so that millions more can make their way from a life of despair to one of dignity and hope. Institutions representing the poor the world over are turning toward self-help credit for the poor as a potent way to allow people to secure humane lives. But traditional aid institutions have been slow to catch up with the capacity of poor people to improve their own lives.

In 1987, in an effort to bring development approaches in line with the capacities of people, a coalition of citizen, religious and humanitarian groups called for a dramatic increase in support of alternative credit delivery systems from AID. In Congressional hearings, testimony was heard in favor of an earmark for credit for the poor. In a bill passed by the House and in a Senate bill with more than 50 cosponsors, a consensus emerged that loans should go to "the poorest of the poor" and should initially be under \$150. AID expressed its view that limiting the target group and loan size was restrictive and conflicted with its existing approach. AID's overall development strategy of defining development principally in terms of economic growth and employment generation has led the Agency to target its microenterprise programs to relatively larger and more established micro-businesses.

While this strategy may create more wage employment, it does not necessarily improve the poverty situation. Professor Yunus once observed, "Employment per se does not remove poverty. Unless designed properly, employment can turn into a handle to perpetuate poverty. Employment may mean being condemned to a life in squalid city slums. . . . Removal or reduction of poverty must be a continuous creation of assets. . . . Self-employment, supported by credit, has more potential of improving the asset base than wage-employment has." He argues further, "[The] capital cost for generation of each wage-employment is usually very high. With ever-increasing size of the labor force, it is quite unlikely that Third World countries can raise the investment to a level that

¹ Yunus, Muhammad. Credit for Self-Employment: A Fundamental Human Right. Dhaka, Bangladesh, 1987, p. 5

will create enough wage-employment to absorb the labor force. There is a strong case for self-employment based on sound economic reasons."²

With interest in this new approach, Congress agreed to an earmark of Foreign Assistance funds in the amount of \$50 million in FY 1988 and \$75 million in FY 1989. However, from data provided for FY 1988, there is little evidence that AID has increased its support for the credit needs of the very poor.

² Yunus, *ibid.*, p. 5

III. 1988 LAW AND REPORT LANGUAGE

In the microenterprise earmark passed as part of the 1988 Continuing Resolution, Congress directed that:

" . . .not less than \$50,000,000 shall be made available for programs of credit and other assistance for micro enterprises in developing countries."

The conference report language accompanying the law stated:

" . . .the conferees urge the Administrator of the Agency for International Development to target up to 80 percent of the loans in this program to individuals in the poorest 50 percent of the population in most AID assisted developing countries, with special emphasis on businesses owned by women and those owned and operated by the poorest 20 percent of the population. The conferees recommend that loan size not exceed \$300 unless there are indications that this loan size limit should be exceeded to accomplish the objectives of this program."

IV. BACKGROUND ON COMPLIANCE

The 1988 Continuing Resolution was not passed into law until three months into FY 1988. It is therefore unlikely that the programs undertaken during that year would meet the specific provisions of the new 1988 microenterprise earmark.

It would have been understandable if AID had said that the lateness of the earmark and/or its programming cycle did not allow time for compliance in the initial year.

Yet in a May 22, 1989 letter to Congress, AID asserted that it had:

" . . .complied with, and indeed, exceeded both the letter and the spirit of the microenterprise legislation."

The Agency's claim of full compliance with the 1988 law demanded documentation.

A series of letters were sent, beginning March 6, 1989, to AID by Reps. Edward Feighan and Benjamin Gilman, and Senator Dennis DeConcini requesting data necessary to determine if AID was complying with the intent of the earmark. Requested were the specific list of programs which were counted against the 1988 earmark, along with details on each program's funding, average loan size, and percentage of women beneficiaries. Over a period of four months and several letters, Congress made repeated requests for this data.

In the third Congressional letter to AID, Reps. Feighan and Gilman said:

" . . .We have exchanged several letters, requesting information which would enable us to assess current implementation of microenterprise assistance programs. However, AID's replies are disappointing.

" . . .Our objective has always been and continues to be to see that this program is implemented in a way that generates substantial new microenterprise assistance activities for those institutions willing and capable of reaching the poorest sector of microentrepreneurs. If AID is not able to make a commitment to redirect resources

to the most marginalized people in AID assisted countries, then perhaps the funding should be transferred directly to donors who are presently funding and strengthening the private community based organizations which represent this population.

"In conclusion, we would welcome receiving the specific data listed in this and our two prior letters at an early date. Barring receipt of that data, we expect to hear from you that compliance isn't fully satisfactory, and to see the beginning of a plan to assure staged improvements to assure compliance in the future."

From AID's reply, it became clear that such data did not exist. In a July 21 letter to Reps. Feighan and Gilman, Acting Administrator Mark Edelman said:

". . . In regard to your request for certain additional statistical data for FY 1988 and 1989, I regret that such information is not currently available. Collection of the data requested for FY 1988 and FY 1989 would be difficult to obtain.

". . . it would require a very complex matrix reporting format [and] would take considerable time for missions to collect this detailed information. Nevertheless, given your interest in keeping detailed records on the size of loans and gender of the recipients, I have asked that we investigate the development of a reporting system for future years. I think you should know, however, that I am concerned that such a reporting system would place an extremely heavy burden on AID/Washington and mission staff as well as intermediary organizations upon which we rely."

More than a year before the July letter from Edelman, AID had spent \$450,000 to undertake a detailed evaluation of its active microenterprise projects. The resulting study produced several reports with significant efforts at data collection, but failed to present statistics on loan size and gender for the majority of projects active in 1988.³ This failure brought into question AID's willingness and capacity to collect information showing the specific proportion of its microenterprise resources that are reaching the groups targeted by the earmark -- the poorest and female entrepreneurs.

RESULTS Educational Fund undertook an oversight analysis using data available from AID documents, phone conversations and field interviews. We conclude that AID has not complied with the earmark, despite Agency assertions to the contrary, and that AID remains committed to assisting people "a few rungs up" from the very poor in the hopes of creating wage employment.

3

The study resulted in several reports, each of which focused on slightly different data samples, and neither of which provided average loan size or percentage of female borrowers for the 1988 portfolio relevant to the earmark. The first set of data included 87 active projects (those which had an obligation or expenditure in FY 1988 or 1989). The resulting analysis, "A Statistical Look at AID's Microenterprise Portfolio," included 24 statistical tables which identified characteristics not germane to the earmark, such as: 1) type of implementing agency, 2) interest rates for various programs, 3) geographical location of programs, 4) sectors of the economy targeted (e.g., commercial, industrial, productive), etc. None of these tables had data on the breakdown of loan sizes and female borrowers for the active portfolio. The second set of data comprised a historical sample of 32 microenterprise projects supported by AID since 1977. The resulting report included average loan size (approximately \$1,500) and gender for most of the 32 projects.

While the report language for the 1988 earmark was less specific about Congress' commitment to reach the poorest of the poor, the Senate FY 1990 report language is very specific:

"In its report for fiscal year 1989, the Committee strongly encouraged AID to use these funds for loans to enterprises having 10 or fewer employees owned and operated by the poorest 20 percent of the population, and for loans of less than \$300. The Committee's intention was that while there are an incalculable number of small businesses in need of financial aid in the developing countries, these funds were to be used to provide credit to the smallest businesses, owned by the poorest people. By recommending that the loans be less than \$300, the Committee intended to target resources to the most marginalized people in AID assisted countries, and to strengthen the community-based organizations which serve this population. The Committee had as a model the Grameen Bank in Bangladesh and other similarly successful micro-enterprise lending institutions which make hundreds of thousands of loans averaging \$60, with a default rate of less than 5 percent. Since in most countries where AID operates, the average per capita income is only a few hundred dollars, loans of as much as \$300 were expected to be the exception rather than the rule.

"The Committee emphasizes that loan decisions are to be made in accordance with the original intent of the Committee in mandating this program.

"While AID is clearly a strong supporter of micro enterprise lending, the Committee is very concerned about reports that many of the loans financed under this program have been substantially greater than \$300. The Committee reiterates that its purpose in appropriating these funds is to make credit available to the poorest people who would not otherwise have access to it. The Committee directs AID to target this program to individuals in the poorest 50 percent of the population in AID-assisted countries, with clear priority given to the poorest 20 percent of the population. Credit and other assistance should be channeled through private community-based organizations. The loans should be less than \$300 per borrower.

"The Committee expects AID to report on its plans for implementing the microenterprise program in accordance with the above guidelines by April 1, 1990."

V. RESEARCH METHODOLOGY

- A. **Background** -- Working with data provided by AID/Washington to Congress and other data available in AID publications, RESULTS Educational Fund undertook a desk study of the ten countries which reported the largest proportion of AID microenterprise funds in 1988. Additionally, a three-week field study was conducted in August and September 1989, in two of those ten countries -- El Salvador and Honduras.

These ten countries accounted for \$32 million, or 56% of the overall \$57 million reported by AID for 1988.⁴

- B. **Objectives** -- The objectives of this research were as follows:
- o To verify the microenterprise program funding figures reported to Congress by AID.
 - o To determine whether 50% of the credit and other assistance was made available to women, and whether assistance was made available to the poorest 50% of the population with special emphasis on the poorest 20%.
 - o To determine whether loan sizes exceeded \$300 and where they did, to determine the rationale to support such exceptions.

Additional objectives of the three-week field study were to determine:

- o The extent to which grassroots/community-based organizations were benefitted and strengthened by program assistance.
 - o The extent to which the microenterprise program responds to and takes into account locally defined needs.
 - o How implementing agencies are selected and the degree of client participation in the design of programs set up to serve them.
- C. **Data Sources** -- In the next sections we describe our efforts to compute 1988 microenterprise figures. This was difficult for two reasons. First, our four primary sources of AID data used to determine compliance very often presented conflicting information. This will be described in detail in the next section. Second, except for Honduras, AID was not able to provide a list of the specific programs in the 39 other countries where microenterprise funding figures were counted against the earmark.

In order to identify projects which were likely to have been counted by AID in each of the ten countries in this report, the AID database, Congressional Presentation, Annual Budget Submission, and AID project design documents were thoroughly examined. Additionally, we reviewed copies of AID mission cables reporting 1988 microenterprise funding figures to AID/Washington.

⁴ This \$57 million was some \$7 million more than was required by the earmark. But even if we subtract the excess \$7 million from the \$32 million reported for those ten countries, the remaining \$25 million still represents research on 50% of the 1988 earmark.

VI. FINDINGS

Due to AID's failure to provide the data requested by Congress on loan sizes, beneficiary income and gender, this report concludes that AID's assertion that there has been compliance with the letter and spirit of the law is not documentable.

Using the data which was available, we found that:

- o For the ten countries studied, of the \$31.8 million reported by AID in the March 30 letter to Congress, RESULTS Educational Fund can count only \$5.2 million spent in ways that would approach or fulfill Congressional intent.
- o Of the remaining \$26.6 million, \$18.5 million was not counted because of lack of data. Another \$8.1 million was not counted because the programs clearly did not comply with the intent of the earmark.
- o In all of the ten countries studied, AID reported different figures at different times regarding 1988 microenterprise activities counted against the earmark.

VII. COUNTRY-BY-COUNTRY REPORTS

We conducted a desk study of AID's microenterprise portfolio in eight countries and more detailed field studies in Honduras and El Salvador. These two countries represent nearly 20% of the global earmark. Both the desk and field studies revealed that many of the programs AID titles "microenterprise" are not reaching the target population intended by the earmark. In fact, from interviews with AID/Washington and mission personnel, we learned that AID's definition of microenterprise largely excludes subsistence-level entrepreneurs, whose activities are considered marginal and therefore less promising as targets for assistance.

Following are country-by-country evaluations by RESULTS Educational Fund of AID compliance with the FY '88 earmark. In each case we give our rationale for including or excluding particular programs from our estimate of funding appropriately counted against the earmark.

When we question specific programs of private and voluntary organizations (PVOs) or consulting firms in the following section, we are not questioning the validity of the organizations or their work, but rather AID's reporting of the project against the microenterprise earmark.

INDONESIA

Reported for FY '88
(in millions)

Source of the Report

\$7.970

Letter to Congress from AID/Washington⁵

.230

1988 cable from AID/Indonesia to AID/Washington⁶

2.300

1991 Annual Budget Submission⁷

2.190

1989 cable from AID/Indonesia to AID/Washington⁸

RESULTS Educational Fund Estimate for Indonesia - \$230,000

The 1988 cable from AID/Indonesia to AID/Washington reported \$230,000 for two PVO projects making loans ranging from \$20-\$300, "Credit & Enterprise Development" and "Women's Cooperative Development." These two projects were sub-projects of PVO Co-Finance II.

The 1989 cable report is internally inconsistent. It reports \$2.19 million in 1988 dollar obligations and local currency expenditures, but details only \$1.55 million in 1988 dollar obligations for two programs: 1) \$912,000 for a portion of a PVO Co-

⁵ In a March 30, 1989 letter, AID provided Congress with a list of the 1988 microenterprise funding totals for each of the 40 countries counted against the earmark. For these countries, the total microenterprise funding reported was \$57 million.

⁶ In June 1988, AID's Bureau of Policy Planning and Coordination (PPC) sent a cable to all field missions requesting descriptive and financial information on 1988 microenterprise programs. For the ten countries studied, the cable reports contradicted AID/Washington funding figures reported to Congress.

⁷ The Annual Budget Submission (ABS) is prepared by AID field missions and is published in Washington. The ABS has a standard annex, "Micro, Small and Small Farm Expenditures," which reports dollar commitments and local currency expenditures.

Upon checking the 1988 estimates reported in the 1990 ABS, we concluded that these estimates were the source of the figures reported in AID's March 30 letter to Congress because both sets of numbers matched, dollar for dollar. A senior AID/PPC official confirmed that the 1990 ABS data was considered the most comprehensive and accurate and was therefore given precedence over the mission cables and other sources.

The 1991 ABS reported for the first time actual dollar commitments and local currency expenditures for 1988 which were in many cases significantly less than the estimates in the previous year's ABS.

⁸ In mid September 1989, AID/Washington sent a telegram to all missions, stating ". . . the Acting Administrator requires, on an urgent basis, information on AID-funded microenterprise activities that is not available in Washington." The outgoing telegram requested data on FY '88 and '89 dollar obligations and local currency expenditures, as well as data on loan sizes, percentage of loans to females and the poorest 20% of the population. For the ten countries in this study, four countries did not answer these questions on loan size and gender, and in many instances data reported contradicted previous information.

Finance project, and 2) \$630,000 for a program described only as "Development Studies." There was no information for the remaining \$651,000 of the \$2.19 million reported.⁹

The mission was unable to respond to any of AID/Washington's questions pertaining to loan size, percentage of loans to female borrowers and the poorest 20% of the population for the two programs reported. Without any new data substantiating that the amount reported in the 1989 cable fulfilled the earmark provisions, we can count only the figures from the two programs in the 1988 cable.

⁹

The cable also reported that the basic thrust of the mission's approach is at the policy level, and "...therefore, beyond the level where we would have direct, measurable impacts on individuals in the manner requested by [the AID/Washington cable requesting data]. . . . We feel that the more strategic and policy based approach is well within the latest PPC guidelines on the topic. We suggest that it be tried with Congress as well."

JORDAN

<u>Reported for FY '88</u> (in millions)	<u>Source of the Report</u>
\$2.575	Letter to Congress from AID/Washington
2.500	1988 cable from AID/Jordan to AID/Washington
0	1991 Annual Budget Submission report for 1988 microenterprise
.280	1989 cable from AID/Jordan to AID/Washington

RESULTS Educational Fund Estimate for Jordan - \$0.

The 1988 cable reported the "Small Enterprise Development Project" which, from its description in the cable, does not have a microenterprise focus. The cable stated ". . . that the average loan will be in the neighborhood of \$15,000-\$20,000." A June 1988 Project Paper¹⁰ stated that "[the] project objective will be to assist industries that earn or save foreign exchange [and that] assets of \$25,000 to \$50,000 would not be unusual for a micro-business with only 2-4 employees."

The 1989 cable further illustrates our contention that this program is not designed to provide credit access to the poor. The cable states, "Note that there is no provision in the project which dictates that funding must be channeled to micro as opposed to small enterprises. This is a decision being left to the financial market." The cable provided none of the information requested about loans, and explained, "Implementation activity for this project has been delayed substantially due to lengthy contract negotiations for technical assistance, research and training. The first loans. . . are now due in FY 90."

¹⁰ AID Project Paper, Doc.# PD-AAY-523, June 1988.

BOLIVIA

<u>Reported for FY '88</u> (in millions)	<u>Source of the Report</u>
\$2.470	Letter to Congress from AID/Washington
1.130	1988 cable from AID/Bolivia to AID/Washington
0	1991 Annual Budget Submission
2.980	1989 cable from AID/Bolivia to AID/Washington

RESULTS Educational Fund Estimate - \$500,000

Of the \$2.98 million reported in the 1989 cable from AID/Bolivia, \$500,000 in local currency expenditures were reported for "Privatization and Microenterprise Support." The funds went to PRODEM, a local PVO, for loans averaging \$75 to more than 10,000 microentrepreneurs. The cable reported that 95% of the loans went to the poorest 20% of the income strata, 80% of the loans to women, and 90% of the initial loans were under \$150.

The remaining \$2.48 million in dollar obligations is reported for a program called "Small Enterprise Development." The cable states that the project ". . .has not yet started disbursements. Therefore, the answers to questions [on loan data]. . .are none or zero."

The Small Enterprise Development program has three distinct components, only one of which is a microenterprise component implemented by PRODEM.¹¹ Yet 98% of funds obligated for the entire program has been counted against the 1988 earmark. Furthermore, PRODEM's U.S. affiliate, ACCION, reports that no funding was obligated in 1988 for PRODEM.

Our estimate for Bolivia is based on the \$500,000 of local currency expenditures reported for PRODEM. We could not count any part of the \$2.48 million reported for the Small Enterprise Development program because of lack of evidence that the microenterprise component of that program received 98% of the overall funding in 1988.

11

AID Project Paper #PD-AAY-400 describes a program with three distinct components: 1) a microenterprise component implemented by PRODEM; 2) a small enterprise component implemented by FENACRE, (the local affiliate of the World Council of Credit Unions); and 3) a policy research and analysis component of the projects to be implemented by FEBOPI (Bolivian Federation of Small Industries).

KENYA

Reported for FY '88
(in millions)

Source of the report

\$2.710

Letter to Congress from AID/Washington

--

No response to 1988 cable request

.365

1991 Annual Budget Submission

.809

1989 cable from AID/Kenya to AID/Washington

RESULTS Educational Fund Estimate for Kenya - \$162,000

The data in the 1989 cable is inconsistent. It reports \$426,000 for 1988 dollar obligations and \$383,000 for 1988 local currency expenditures, for a total of \$809,000. However, details in the same cable add up to only \$223,000:

- 1) \$162,000 obligation to "Private Enterprise Development" for loans averaging \$334 to 54% female borrowers;
- 2) \$61,000 obligation for "Human Resources Development Assistance" for which no data of any kind is included; and
- 3) \$0 in 1988 expenditures for "Kenya Commercial Bank Loan Program," described as AID/Kenya's only local currency project.

The only program we are able to count is Private Enterprise Development. One of the intermediaries of this program is REP, a Kenyan NGO which has assisted over 20 Kenyan NGOs with credit funds and technical assistance programs. The beneficiaries of these programs are 50% female, receiving loans under \$300.

PHILIPPINES

<u>Reported for FY '88</u> [in millions]	<u>Source of the Report</u>
\$2.000	Letter to Congress from AID/Washington
1.000	1988 cable from AID/Philippines to AID/Washington
.626	1991 Annual Budget Submission.
2.000	1989 cable from AID/Philippines to AID/Washington

RESULTS Educational Fund Estimate for the Philippines - \$738,000

In the 1988 cable to AID/Washington, AID/Philippines reported three non-governmental organization (NGO) programs receiving funding for microenterprise activities under the PVO Co-Finance II program channel. Only two of those three received obligations in FY '88 for a total of \$350,000. The average loan size in these two programs was under \$300.

Of the \$2 million reported in the 1989 cable:

- 1) \$592,000 was reported for "Enterprise In Community Development" for grants to NGO credit programs in which 12% of the loans were reported for women and none of the loans were under \$300;
- 2) \$1,295,000 was reported for "PVO Co-Finance II" for grants to NGO credit programs in which 15% of loans were reported for women and 30% of the loans were under \$300; and
- 3) \$114,000 in local currency expenditures with no details on how these funds were used.

The total counted in this study is derived from the \$350,000 verified from the 1988 cable, plus \$388,000 (30%) of the PVO program reported in 2) above.

SENEGAL

<u>Reported for FY '88</u> (in millions)	<u>Source of the report</u>
\$2.100	Letter to Congress from AID/Washington
--	No reply to 1988 cable request
2.700	1991 Annual Budget Submission
1.300	1989 cable from AID/Senegal to AID/Washington

RESULTS Educational Fund Estimate for Senegal - \$0

Of the \$1.3 million reported in the 1989 cable, \$1 million is counted for a program called "Agricultural Production Support." In a 1987 program review, AID described the program's aim as ". . . facilitating privatization of agricultural input distribution and cereals seed multiplication." The credit component of the program is intended to ". . . increase financing available for input supplier credit through commercial banks." As this description is not indicative of a poverty-focused credit strategy along the lines of the intent of the earmark, and because the mission was unable to respond in the cable to any questions from AID/Washington on loan size and percentage of female and poor borrowers, we are unable to count any part of this program.

The remaining \$300,000 was accounted for by two additional programs of \$150,000 each, reported in the 1989 cable as having no credit component. No information was provided on the nature of the assistance, nor the income or gender of the beneficiaries of that assistance.

COSTA RICA

<u>Reported for FY '88</u> (in millions)	<u>Source of the report</u>
\$1.905	Letter to Congress from AID/Washington
--	No reply to 1988 cable request
1.400	1991 Annual Budget Submission.
1.400	1989 cable from AID/Costa Rica to AID/Washington

RESULTS Educational Fund Estimate for Costa Rica - \$700,000

Of the \$1.4 million reported in the 1989 cable from AID/Costa Rica, \$863,000 was reported for 1988 dollar commitments. The funds went to PACT, a PVO which disbursed the funds in the form of grants to 30 to 40 local NGOs who make loans to small and microentrepreneurs. Loan information on the NGO programs was not available.

The remaining \$539,000 of local currency expenditures reported in this cable also included no descriptive data. We learned that the funds went to ACORDE, a Costa Rican PVO which finances courses and training for PVOs that provide technical assistance to microentrepreneurs.

The cable notes, ". . .there have been instances where there was some question as to whether beneficiaries considered small in Costa Rica could rather be considered as microenterprises by U.S. Standards." An AID/Costa Rica program officer added, ". . .In Costa Rica, what is called a small enterprise is really a microenterprise. [They have]. . .up to ten employees. Most have only three to four workers. . . .If they get a loan for \$3,000 to \$5,000, we call it micro."

In the absence of data about the actual loan sizes of the NGO programs which received AID funds, there is insufficient data to verify that the entire amount fulfills congressional intent for the earmark. Of the \$1.4 million reported by the mission, we are counting \$700,000 (50%) because we believe many of the NGO programs, such as FINCA, ACCION, and Save the Children, are delivering credit and technical assistance to females and the poorest people. FINCA alone has set up 148 village banks in Costa Rica.

GUATEMALA

Reported for FY '88
[in millions]

Source of the report

\$2.100

Letter to Congress from AID/Washington

--

No response to 1988 cable request

\$1.600

1991 Annual Budget Submission (reported as local currency commitments not expenditures)

\$4.400

1989 cable from AID/Guatemala to AID/Washington

RESULTS Educational Fund Estimate for Guatemala - \$500,000

The 1989 cable reported \$500,000 for funding for ACCION/AITEC, a PVO which made loans averaging \$254. The cable reported that the borrowers are from the poorest 20% of the income strata. The cable also reported \$3.9 million for a local currency program administered by the Guatemalan Office of the Vice Presidency, in which average loan sizes were \$1,360 for terms of two to three years and 19% of borrowers were female. The cable provided no data on percentage of funding going to the poorest 20% of the income strata. An AID field assessment of this program¹² states, ". . .microenterprises are eligible for loans of up to \$2,222. Almost all loans are over \$370." Among criteria for program eligibility listed in the report are: microenterprise must be in business for at least two years, have less than \$4,444 in assets, have fewer than six employees, and be in the manufacturing and service industry (commercial activities were purposely excluded).

Due to the high loan size reported, the low percentage of female borrowers, and the lack of data on income level of beneficiaries, we cannot count this program.

12

A.I.D. Microenterprise Stock-Taking: Guatemala Field Assessment, p.A-3, March 1989.

VIII. FIELD STUDIES

Field studies were carried out in Honduras and El Salvador from August 19 to September 9, 1989, with many on-site interviews. Because of the opportunity to visit and speak firsthand with representatives from many sectors, the following sections include demographic data, and a qualitative as well as quantitative description of the programs reported by AID. In the summary of each country, we offer conclusions about the microenterprise programs in these countries and the validity of counting them against the earmark.

We begin each section with a brief consideration of the conditions experienced by the poor in these countries.

HONDURAS

A. Demographics of Poverty

Sixty percent of the population of Honduras is rural. According to the latest study on the incidence of poverty and critical poverty conducted by the United Nations Development Program (UNDP) in Honduras,¹³ 99.7% of the 2.6 million rural inhabitants live in "poverty," and of those, 80.5% live in "critical poverty." Critical poverty is defined as the situation where the family lacks sufficient annual income to permit them to satisfy even half of their nutritional requirements. As a consequence, they are generally unable to use any portion of their income for other needs such as education, health, and housing. Of 1.3 million urban inhabitants in Honduras, 70.6% live in poverty and 39.8% live in critical poverty. Of Honduras's approximately four million inhabitants, we can deduce from the above data that 2.6 million of them live in critical poverty.

According to a UNDP official, the poorest 20% of the Honduran population is comprised of peasants owning less than one hectare of land and landless agricultural workers. The annual income for individuals in these groups is estimated to be less than \$60 per year.

B. Funding

<u>Reported for FY '88</u> (in millions)	<u>Source of the report</u>
\$5.735	Letter to Congress from AID/Washington
7.475	1988 cable from AID/Honduras to AID/Washington
7.510	1991 Annual Budget Submission.
7.885	1989 cable from AID/Honduras to AID/Washington

RESULTS Educational Fund Total Estimate for Honduras - \$2,285,000

¹³ UNDP-SECPLAN; Incidencia de la Pobreza y Extrema Pobreza en Honduras, Tegucigalpa; Abril 1989 (Proyecto RLA-86--004).

The 1988 microenterprise earmark reported for Honduras was larger than that of any other AID-assisted country. The programs and figures reported in this section are based on the \$7.5 million reported in the 1991 ABS. During our field study, we received an exact program breakdown provided by the AID/Honduras Private Sector office. According to that breakdown, of the \$7.5 million reported in the 1991 ABS, \$6.1 million was for technical assistance and training, and \$1.37 million was for credit assistance. In this study, we were able to count only \$2,285,500¹⁴ of the total reported for Honduras.

C. Programs

1. Technical Assistance.

Under the Central American Peace Scholarship program, a \$970,000 training grant to a U.S.-based PVO was used to send 100 microentrepreneurs to a three-week business administration course in the United States. This comes to about \$10,000 per microentrepreneur. Fifty percent of participants are female. Candidates for the program must: 1) own a business from which more than 80% of family income is derived, 2) have a net family income of less than \$5,000, and 3) never have visited the United States before. This program is scheduled to receive an additional \$730,000 in microenterprise obligations for 1989.

RESULTS Educational Fund Estimate - \$0

A Washington D.C.-based consulting firm received an obligation of \$5.15 million in 1988 for its services as Project Technical Coordinator for the "Small Business Development II Program."¹⁵ This program's microenterprise component, totaling 60% of the obligation or \$3.09 million, was counted by AID against the earmark.

The firm maintains a permanent staff of nine consultants in Tegucigalpa who provide managerial, computer, policy and other expertise to the institutional players in AID's micro and small business assistance activities. A significant portion of the firm's work is the development of policy recommendations for the Honduran government based on AID's assessment of the needs of the micro and small business sector. There is no participation by the poor in the institutions undertaking this "policy dialogue."

¹⁴ Included in this amount, but not described in the report, are two programs: 1) a \$273,000 grant to AITEC, and 2) \$43,000 for the Peace Corps.

¹⁵ Both the small and micro components of the Small Business Development II program are targeted to entrepreneurs higher up the ladder. For example, the firm has devoted considerable technical assistance to the Honduran Central Bank in setting up the Fund for Small and Microenterprise (FOPEMI). The average loan size for microenterprises (defined as firms of fewer than 10 employees) in the program's first six months (January through July of 1989) was \$10,000. The maximum loan size of the overall program was reduced after the first six months from \$125,000 to \$60,000. This program was not counted toward the earmark in 1988, as it didn't begin making loans until 1989. In estimates provided by AID/Honduras, \$1.6 million of FOPEMI loans have been counted against the 1989 earmark.

The firm could not provide us with any data which would allow us to determine funding amounts for overhead; delivery of training and guidance in line with the intent of the earmark; and developing policy, computer, and other business assistance activities under the Small Business Development II program. Without a program and budget breakdown demonstrating that the work of the firm was targeted to the poorest Hondurans, we are not able to count these funds.

RESULTS Educational Fund Estimate - \$0

A grant of \$1,225,000 for technical assistance and training was awarded to the National Association of Honduran Industrialists (ANDI)¹⁶ for its Program for Small and Micro Enterprises (PYME).

PYME provides a business assistance system, policy advocacy, networking, information exchange, and human resource training for the micro and small enterprise sector at large. It also provides training for a group of 23 Honduran NGOs who deliver credit and technical assistance to entrepreneurs, including many poor and female borrowers. According to information provided by PYME, loans range from \$350 to \$12,000 for terms of six months to three years.

PYME reports the following indirect impact of its training program for NGOs: \$1.45 million disbursed in 2,277 loans and 2,928 people trained in 448 courses or seminars.

PYME was unable to provide information which would allow us to determine the amount of its funding used for overhead; training and guidance to the NGOs; and policy, networking, and other business assistance activities under the Small Business Development II program. Without this data, we are unable to count ANDI/PYME's entire 1988 grant against the earmark. Our estimate of 50% of the total obligation is based on the recognition that some of the NGOs receiving technical assistance from ANDI/PYME make very small loans to women and to people in the poorest income strata.

RESULTS Educational Fund Estimate - \$612,500 (50% of total)

2. Credit Assistance

Two projects received the major portion of the \$1.37 million in microenterprise credit assistance reported for 1988.

ASEPADE

In 1988, AID awarded a grant of \$555,000¹⁷ to ASEPADE which disbursed in 1988 approximately \$826,000 in loans averaging \$444 to groups and \$320

¹⁶ ANDI, a membership association representing large industrialists in Honduras, has received AID funding to boost private enterprise in Honduras by facilitating the marketing of exports. ANDI has been selected by AID to develop and coordinate one of the major components of AID's "Small Business Development II" program.

¹⁷ Of this amount, \$277,000 was for credit and \$278,000 for technical assistance.

to individuals. In 1988, 10,364 microentrepreneurs were active (making loan payments) including 526 new borrowers. Approximately 35% of the clients were women. ASEPARE estimates that it costs them \$400 to create one job.

RESULTS Educational Fund Estimate - \$555,000

Rural Technology Project.

The Honduran Ministry of Economy's Rural Technology Project (RTP) was programmed at \$1.07 million.¹⁸ As part of a broad cooperative effort begun in 1979 between AID and various Honduran government institutions, RTP's objective was to increase the incomes of rural farmers and entrepreneurs through the introduction of improved production technology, management practices, and the provision of credit.

Over the life of the project, approximately \$3.2 million of credit was distributed directly through RTP, or indirectly through banks and NGO intermediaries to an estimated 4,659 farmers and 447 enterprises. A 1988 AID project evaluation¹⁹ reports a \$600 average loan size, 20% of which went to female beneficiaries, and a 9.6% default rate.

The evaluation also reported that: ". . .approximately 32% of RTP's operating budget during the last two years (1987 and 1988) has been spent in administering and supervising credit. In per-capita terms this represents [\$274] per credit user. The amount of interest due or received from loans for the entire portfolio, by contrast, is [\$110] per capita. This hardly suggests sustainability."

One of the authors of the evaluation stated in an interview, ". . .the program was not intended to reach the poorest of the poor. Rather it was intended to reach small commercial farmers who, while poor, had access to land and capital and the ability to respond to price signals [in the market]."

In spite of the \$600 average loan size, the problems cited above, and the apparent lack of participation of poor and grassroots representatives in the program design and implementation we have given the benefit of the doubt and counted 75% of the total reported.

RESULTS Educational Fund Estimate - \$800,000

D. Summary

Of the \$5.7 million reported by AID/Washington to Congress (and the \$7.5 million reported by AID/Honduras in the 1991 ABS) we can estimate only \$2,285,000 as

¹⁸ Of this amount, \$870,000 was for credit and \$200,000 for technical assistance.

¹⁹ Final Evaluation of The Honduras Rural Technologies Project, DAI, Inc., Institute for Development Anthropology, and Research Triangle Institute, December 1988.

fulfilling or approaching the intent of the microenterprise earmark. We question spending 10% of the entire global earmark on technical assistance in Honduras.

A few select, private-sector institutions are disproportionately benefitted by the millions of dollars in program assistance, allowing them to upgrade their offices and program staff, develop computer information services, and increase their policy leverage in the Honduran political environment, along with other associated benefits of what AID calls "institutional strengthening."

Many directors of private-sector and government agencies selected by AID to implement the program repeatedly indicated that their programs were intended to reach the poor, but not the poorest. They asserted that it is not possible to financially sustain a program or institution by making and collecting loans of less than \$300.

The grassroots and community-based self-help groups which are committed to credit access for the poorest 20% of the population are generally viewed by AID as unsuitable partners for the serious business of development.

EL SALVADOR

A. Demographics of Poverty

The Salvadoran government's Ministry of Planning (MIPLAN) reported that in 1989, 61% of the population lives in poverty. Of the total population, 31.5% live in "relative poverty;" i.e., those families that can meet their minimal caloric needs, but have no income or access to satisfy other basic needs such as water, housing, health, and education. The remaining 29.5% live in "extreme poverty;" i.e., those families who cannot meet even their minimum caloric and nutritional needs and generally have no income or access to fulfill other needs. From an estimated population of 5.7 million,²⁰ the above figures suggest that some 3.5 million (61%) live in poverty. Of those, 1.7 million (29.5%) live in extreme poverty.

The ministry also reported the following data for households: 34% without electricity, 70% without potable water, and 78% without sanitation. A Salvadoran economist interviewed at the University of Central America (UCA) expressed the view that the government's figures substantially underestimate the number and condition of people living in poverty.

B. Funding

<u>Reported for FY '88</u> [in millions]	<u>Source of the Report</u>
\$2.200	Letter to Congress from AID/Washington
1.100	1988 cable from AID/El Salvador to AID/Washington
3.200	1991 Annual Budget Submission.
.290	1989 cable from AID/El Salvador to AID/Washington

RESULTS Educational Fund Estimate for El Salvador - \$90,000

During our field study in El Salvador, the AID mission office could not provide an exact breakdown of the \$3.2 million reported in the 1991 ABS. After our return, they provided by telephone the following breakdown of those funds:

- o A \$500,000 obligation to the Coordinating Committee for the Economic Development of the Eastern Region (COMCORDE) for a pilot project to create and administer village banks.
- o A local currency expenditure of \$2.7 million for a microenterprise credit line. The credit was reported to have been channeled through the Central Bank of El Salvador (BCR) to the following three government financial institutions: The Federation of Credit Branches (FEDECCREDITO); The Agricultural Development Bank (BFA); and The Guarantee and Investment Fund for Small Enterprises (FIGAPE).

²⁰

The last reliable census was taken in 1970. Since 1980, it has been generally accepted that El Salvador's population surpassed five million. A more recent population estimate of the Institute of Human Rights of the Central American University (UCA) is 5.7 million.

Repeated requests for clarification on the \$2.7 million micro credit line elicited AID/El Salvador's eventual acknowledgement that the funds had been frozen pending a "memorandum of understanding" between AID and the government of El Salvador, and that the reporting of the funds in the 1991 ABS was in error.

A few days later, we received a copy of AID/El Salvador's 1989 cable to Washington, which reported total 1988 microenterprise funding of \$290,000 and which conflicted with both the 1991 ABS and the data conveyed by telephone. The cable reported:

- o Only \$90,000 in obligations (including \$30,000 to the COMCORDE program and \$60,000 to Save the Children) rather than the \$500,000 previously reported.
- o A \$200,000 local currency expenditure for 1988 funding to FEDECCREDITO, reported for the first time.²¹

C. Programs

FEDECCREDITO

FEDECCREDITO is a Salvadoran government institution utilized by AID to administer programs of rural credit and economic revitalization in the war zones as part of the government's counter-insurgency campaign.²² That campaign, referred to in AID documents as the "National Plan," has two principal components: "Chalatenango '88" and "Oriente '89" (the names of the two regions of the country which are targeted for counter-insurgency activities). In an interview, the FEDECCREDITO Program Coordinator for the regional campaigns stated that AID explicitly designated that funds obligated to FEDECCREDITO were to be used only for the Chalatenango '88 and Oriente '89 regional campaigns.

The 1989 cable reported approximately \$200,000 in 1988 and \$3.8 million in 1989 for ". . . support[ing] the development of rural enterprises in conflictive zones." The average loan size reported was \$1,200, and approximately 30% of the loan recipients were women. The \$1,200 average loan size reported by FEDECCREDITO disqualifies this program from being counted against the earmark.

RESULTS Educational Fund Estimate - \$0

²¹ It was reported to us by phone that no part of the funding for FEDECCREDITO would be counted against the 1988 (or 1989) earmarks because this program was counted toward a separate Central Bank line of credit targeted for economic reactivation of the Eastern region.

²² For more information on AID's involvement in the Salvadoran counter-insurgency and economic reactivation plan, see AID's Internal Impact Evaluation; Research Triangle Institute, Sept. 1988.

COMCORDE

COMCORDE was selected by AID to pioneer a new project in "village banking." The organization was established with the help of a subsidiary of Salvadoran Foundation for Economic and Social Development (FUSADES). FUSADES, generally known as the official think tank of the political party now in power (ARENA), is the largest non-governmental recipient of AID funds in El Salvador.²³

COMCORDE's executives, board of directors and members are large agricultural and industrial producers committed to channeling credit, technical and marketing assistance to the private sector, and to search out investment opportunities for industry in eastern El Salvador (in line with AID programs to support diversification of agro-exports).

At the time of our visit, COMCORDE had initiated eight village banks, each receiving initial capital of \$10,000. The loans made by these banks to their members were all under \$300. Although COMCORDE was initially reported to have received a 1988 obligation of \$500,000, the most recent cable reported a 1988 obligation of \$30,000. The bank members participate in the management of their local bank by electing representatives to the board of directors and credit committee of each bank.

RESULTS Educational Fund Estimate - \$30,000

Central Bank Microenterprise Credit Line

AID initially reported \$2.7 million for this program in 1988. They later reported the program had not yet been activated. Therefore, the following is not relevant to fulfillment of the 1988 earmark but is reported because of its expected inclusion in future years.

The Central Bank's microenterprise credit line resulted from an agreement between AID and the government of El Salvador to program 40 million colones of local currency generations (approximately \$8 million) for lending to micro-entrepreneurs. The credit line was to be made available for member institutions of the Central Bank for loans to microentrepreneurs, defined as those firms with fewer than ten employees having a maximum of \$20,000 in assets. The conditions of the credit line were to have been jointly negotiated by a credit committee comprised of officials from the Central Bank, AID and the Ministry of Planning.

AID/El Salvador reported three state financial institutions as intermediaries for that credit line: FEDECCREDITO, BFA, and FIGAPE. Our own interviews in El Salvador failed to verify any AID credit funds distributed to these institutions, with the exception of a separate multi-million dollar credit program for FEDECCREDITO which is described on the previous page.

RESULTS Educational Fund Estimate - \$0

²³

The Christian Science Monitor reported in an August 28, 1989 article that ". . . AID pumped about \$67 million into FUSADES between 1985 and 1987."

C. Summary

The village banking programs of COMCORDE and Save the Children are the only programs reported by AID/El Salvador which have been counted in this study.

AID/El Salvador is currently writing a Private Sector project paper for a new microenterprise program expected to receive an initial obligation in 1990. The life-of-project funding for this program is estimated at \$10 million. The project paper, which has been under development for one and a half years, originally contained a component for promoting village banks. However, the most recent formulation of the project excludes village banks entirely and indicates a commitment to loan sizes that will begin at \$300.

IX. CONCLUSIONS

- A. AID has insufficient data and reporting systems to assert compliance with the microenterprise earmark.**
- B. AID's evident lack of compliance, in face of assertions to the contrary, demonstrates its lack of determination to fulfill the earmark.**
- C. AID's broad definition of microenterprise (as firms with fewer than 10 employees) fails to ensure compliance with the intent of the earmark to direct 80% of assistance to the poorest 50% of the population, and to give special emphasis to enterprises owned by women and the poorest 20%.**
- D. AID's implementing institutions often do not have the type of partnership with the poorest people essential in operating alternative credit delivery systems. AID is not giving sufficient priority to finding and supporting institutional channels that are participatory, committed to and representative of the poorest sectors.**
- E. The overall development philosophy guiding AID's microenterprise program design, as described in AID project papers and in discussions with AID officials, is:**
 - 1. The primary objective of microenterprise assistance is to generate employment and increase production;**
 - 2. The poorest microentrepreneurs are unlikely to generate any new jobs; and**
 - 3. There are no viable institutional channels capable of making and recovering loans of less than \$300 to the poorest sector of the population. Therefore, costs can't be recovered on a sustainable basis for this level of lending.**

These technical and financial considerations call into question AID's ability and willingness to direct microenterprise assistance to the poorest of the poor and its ability to fulfill the intent of the earmark.

X. RECOMMENDATIONS

In light of insufficient documentable data and the strong appearance of non-compliance with the intent of Congress, RESULTS Educational Fund recommends the following actions:

A. GAO Investigation

We concur with and support the recent request by Reps. Feighan and Gilman and Sen. DeConcini calling for an in-depth analysis by the General Accounting Office (GAO) to determine AID's compliance with the FY '89 microenterprise earmark. In addition we urge Congress to call for hearings when the GAO report is released.

B. Develop Capacity to Implement Microenterprise

AID should develop the capacity and expertise to reach the poorest of the poor by convening regional workshops led by experts in this field and by sending delegations of AID personnel and grassroots community leaders representative of the poorest sectors to visit successful microenterprise credit institutions, such as Grameen Bank in Bangladesh.

C. Hearings on April 1, 1990 Report from AID to Senate

Congressional hearings should be held after April 1, 1990 to investigate AID's report, called for in the Senate FY '90 report language, on the Agency's plans for implementing the microenterprise program in accordance with guidelines established in Senate FY '90 report language.

D. Credit for the Poor Foundation

Congress should continue its leadership role in promoting a credit revolution for the poorest of the poor in the Third World by considering the creation of an independent Credit for the Poor Foundation modeled after the Inter-American Foundation.