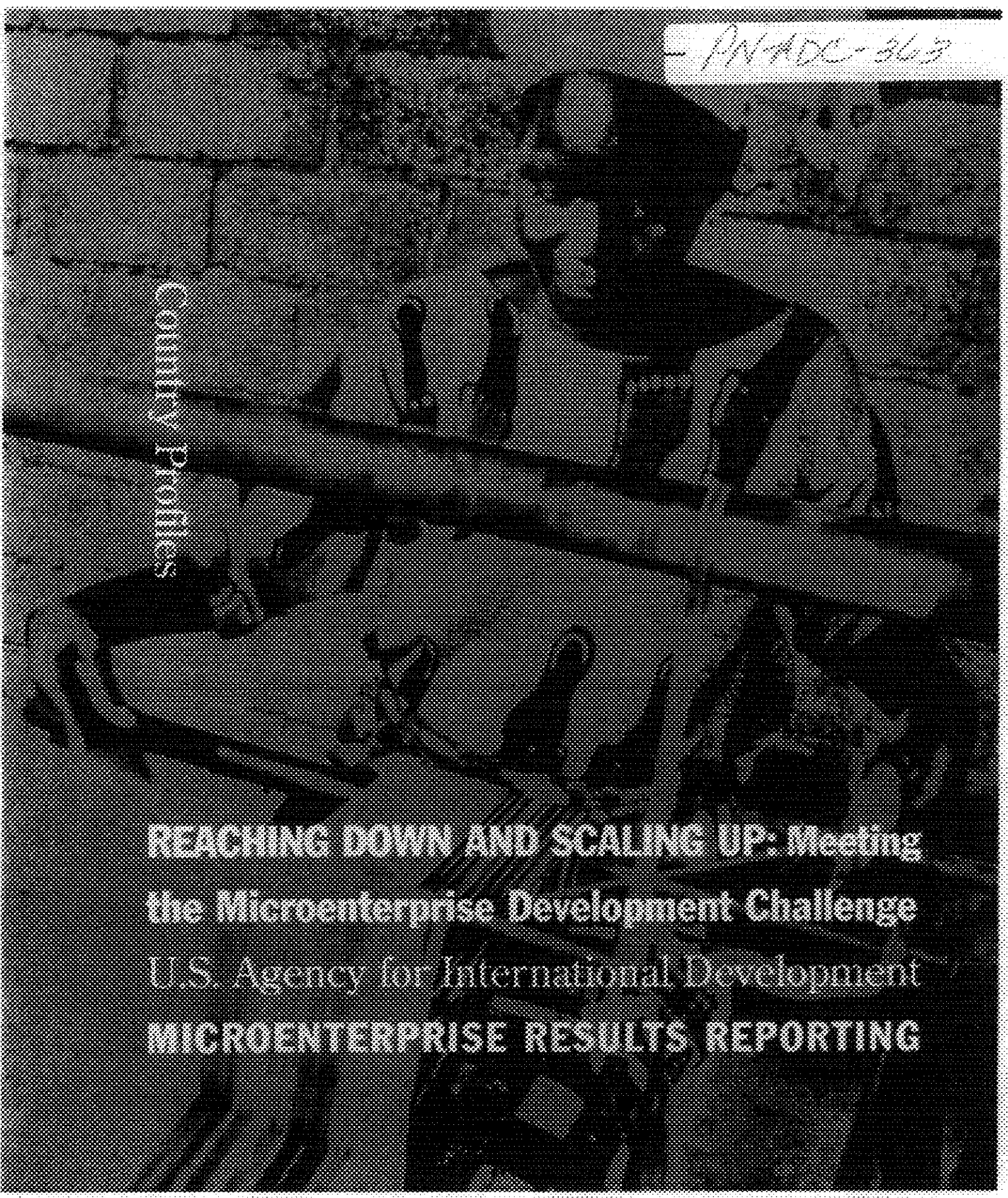
PN-ADC-363



Country Profiles

REACHING DOWN AND SCALING UP: Meeting the Microenterprise Development Challenge

U.S. Agency for International Development

MICROENTERPRISE RESULTS REPORTING

PN-ADC-363

January 5, 1999

Dear Mission Microenterprise Officers and Program Staff,

This notebook contains descriptions of USAID-supported microenterprise programs worldwide. We began compiling these descriptions for the use of field missions and USAID/Washington staff after recognizing that there was a growing demand for information on microenterprise field activities for briefing papers and Qs and As on the subject. Already we have had many requests for this information. Hopefully, the availability of these program descriptions will save you from having to respond to additional requests for information on your microenterprise activities.

Most of these program descriptions cover the following points: (These were outlined in the administrator's cable for reporting microenterprise obligations in February 1998.)

1. Why the mission does microenterprise (i.e. job creation, poverty alleviation, reform of the financial sector, etc.).
2. Primary foci for microenterprise assistance efforts; for example, rural vs. urban, specific groups (women, ethnic minorities, displaced persons, geographic regions).
3. Activities (including names of institutions used to carry out these activities).
4. Any local success stories of programs or beneficiaries.
5. Particular problem areas for microenterprise development in your country; for example, banking policy, export regulations, licensing of financial institutions.

This should be viewed as a working document. We have used the binder format so that we can periodically make updates as mission program changes occur. When there have been changes in your microenterprise program strategy, please forward a description of your program changes so that we may share these with other field missions and USAID/Washington offices. You may send your updates by e-mail to MRR1@G.EGAD.MD@AIDW. In addition, if we have not yet included a description of your mission's program, we would still like to do so.

Note that we have included a mission contact list which will also need to be updated periodically. Please let us know if the contact person for microenterprise has changed in your mission.

We greatly appreciate your assistance.

Sincerely,

Catherine Neill, Team Leader
Microenterprise Results Reporting

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Reaching Down and Scaling Up: Meeting the Microenterprise Development Challenge

U.S. Agency for International Development Microenterprise Results Reporting

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USAID

October 1998

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Contact List
for
AFRICA BUREAU FIELD MISSIONS
(as of January 1, 1999)

1. USAID/Benin:	Ruben Johnson
	Kristine Smathers
2. USAID/Eritrea:	G. William Anderson
3. USAID/Ethiopia:	Margaret Brown
4. USAID/Ghana:	Patience Asante-Odame
	Fenton Sands
5. USAID/Guinea:	Alpha Souleymane Diallo
	Joseph Van Meter
6. USAID/Guinea-Bissau:	Nancy McKay
7. USAIDKenya:	Zachary Retemo
	Dennis Weller
8. USAID/Madagascar:	Agnes Rakotomalala
9. USAID/Malawi:	William Mvalo
10. USAID/Mali:	Roger Bloom
	Damar Diakite
11. USAID/Mozambique:	Sidney Bliss
12. USAID/Namibia:	Joan Johnson
13. USAID/Senegal:	Massar Beye
	Woody Navin
14. USAID/South Africa:	Susan Fine
	Margot Ellis
15. USAID/Tanzania:	Sherry Z. Sykes
16. USAID/Uganda:	Lydia Ddamba
17. USAID/Zambia:	David Soroko
	Susan Gale
18. USAID/Zimbabwe:	Tichaona Mushayandebvu
	Martin Hanratty
19. Africa Regional Programs:	Louanne Douris

WHY MICROENTERPRISE?

The purpose of USAID/Benin's microenterprise effort is to promote an enabling environment for the private sector through the introduction of appropriate technologies and financial assistance to rural associations and individuals in order to generate more business initiatives, more employment opportunities, and more revenues for decentralized municipalities and communes.

USAID/Benin supports micro-enterprise development under its Special Objective for "Improved Governance and Reinforced Democracy."

PRIMARY FOCI FOR MICROENTERPRISE EFFORTS

Our microenterprise assistance efforts target lower income communities in both rural as well as urban areas. Women represent over 60 percent of the beneficiaries of micro-loans.

PROGRAM ACTIVITIES

USAID/Benin works with Appropriate Technology International (ATI) and Volunteers in Technical Assistance (VITA)

LOCAL SUCCESS STORIES

ATI's development and promotion of garden pumps and oil presses is a good example of USAID/Benin's synergistic approach to development. Three USAID-financed PVOs (Songhai Center, ATI, and VITA) put their resources together to manufacture and market garden pumps and oil presses to improve productivity. Songhai, which is a local training organization and a partner of our Basic Education SO, provided training and manufacturing facilities, ATI brought technical assistance and VITA provided loans to beneficiaries. In 3 months, over 70 pumps were sold and productivity of palm oil improved from 100 liters of oil to over 600 liters.

PROBLEM AREAS FOR MICROENTEPRISE DEVELOPMENT IN BENIN

In Benin, there are no major problem areas for micro-enterprise per se, especially in the areas cited. However, it could be noted that in general, micro-scale entrepreneurs in Benin are limited in their ability to start-up, diversify and expand businesses. This is in part due to major governance constraints, such as: a) ineffective dispute settlement facilities; b) poor provision and delivery of basic public services; c) weak revenue mobilization; d) the large size of the public sector relative to the resource base; and, e) pervasive corruption and outdated legal texts.

ERITREA

Not yet available

USAID/ETHIOPIA

WHY MICROENTERPRISE?

Currently the mission is involved in microfinance for poverty alleviation and in some cases for job creation under our Title II program, and reform of the financial sector under our Title III policy program.

PRIMARY FOCI FOR MICROENTERPRISE ASSISTANCE EFFORTS

The primary focus for USAID is assisting rural areas. The Title II program is also targeting populations most vulnerable to food insecurity. The CRS revolving credit scheme, part of the Title II program, targets women.

Under its Title III program, USAID has worked with the government of Ethiopia to ensure there is increased access to credit in rural areas.

PROGRAM ACTIVITIES

USAID/Ethiopia, through its Title II program, has supported Catholic Relief Services' program to organize rural women's revolving credit groups. Other Title II Cooperating Sponsors who have initiated formation of registered microfinance institutions include World Vision and an Ethiopian NGO, the Relief Society of Tigray (REST). Food for the Hungry International has proposed under Title II to work through an MFI (Amahara Credit and Savings Institution, ACSI) in order to have credit supplied by the MFI for FHI's Title II beneficiaries. CARE also received a grant from the Office of Microenterprise Development to work with an indigenous NGO which in turn has founded an MFI yet to be legally established.

POLICY REFORM EFFORTS

USAID/Ethiopia has been involved in policy reform related to microfinance in the following ways: First, USAID commissioned a few studies on rural finances, including one by ACDI. A second more rigorous study was aimed at credit for agricultural production. One part of this study looked closely at the existing regulatory and legislative framework and developed several levels of recommendations. One of the consultants also spent time working with the government task force on non-bank financial institution legislation.

Legislation adopted in Ethiopia allows share holding companies to be formed and take on banking operations, "accepting savings as well as demand and time deposits". Savings are defined as "non-withdrawable mandatory or regular savings of members of a microfinancing institution", where members are "shareholders of the microfinancing institution or signatories to any type of membership arrangement created by the microfinance institution." Deposits are defined as "any regular or irregular savings which may be withdrawn partially or totally at any time by the account holder."

LOCAL SUCCESS

Microfinance activities are still too young in Ethiopia to have sound success stories. The legal framework has just been revised and participants in the sector are just beginning to work out how to implement microfinance activities under this new legislation.

PROBLEM AREAS FOR MICROENTERPRISE DEVELOPMENT IN ETHIOPIA

New legislation has addressed the lack of any legal framework for working in mcrofinance in Ethiopia. In some ways, it is more restrictive than international organizations and NGOs had hoped for, but there does appear to be some flexibility now that Ethiopia has eliminated fixed interest rates.

Licensing an MFI can be very time consuming. There is little capacity to audit these MFIs and there has been a tendency for Ethiopia's federal structure to unknowingly allow the autonomous regions to set up what eventually could emerge as state-affiliated monopolies of MFIs. Each major region (state) has its "own" MFI whose share holders are comprised of the regional governments, women's associations and other "politically correct" members. Captialization has been from the government and it is unclear if these newly emerging MFIs have understood how to cost out such capital for their future needs. It is also unclear whether they will continue to depend on what is essentially cost-free capital.

USAID/GHANA

Ghana works with microenterprise under its objective to "increase private sector growth." USAID/Ghana obligated $4.5 million for non-financial credit activities in 1997. In addition, $100,000 was obligated under the USAID/Washington PRIME project in support of WOCCU. BHR/PVC obligated $133,000 for Freedom from Hunger/Ghana.

WHY THE MISSION DOES MICROENTERPRISE

USAID/Ghana's microenterprise activities form an integral part of the mission's economic growth portfolio which seeks to increase private sector growth. Under its recently approved five-year (1997-2001) Trade and Investment Reform Program (TIRP), the mission will assist Ghana to increase the international competitiveness of its private sector, that is to produce more and market more at competitive prices. Microenterprises form an integral part of Ghana's private sector.

The mission's private sector program focuses on trade and investment policy reform and the diversification of the country's foreign exchange earning sources by promoting the growth of private sector-led nontraditional exports. Traditional exports in Ghana are: cocoa beans, timber, mineral ores and electricity. USAID provides assistance to improve the managerial, technical and financial capacity of microenterprises and firms engaged in the production and marketing of NTEs and other high value products, to increase output, reduce costs and expand revenues. Forward and backward linkages between all the economic entities including microenterprises in the production and marketing chain are developed.

PRIMARY FOCI FOR MICROENTERPRISE ASSISTANCE EFFORTS

As stated above, the mission's microenterprise assistance efforts involves the improvement of entrepreneurial, technical, financial and marketing capacity of microenterprises engaged in the production and marketing of non-traditional export products. Specifically, assistance is given to largely rural-based men and women engaged in the production and marketing of artisanal handicrafts, home accessories, African garments and non-traditional agricultural export products.

PROGRAM ACTIVITIES

Technoserve/Ghana, a U.S. PVO is assisting organized groups of local farmers and food processors to add value to agricultural products and in so doing increasing family incomes and local employment opportunities in 8 Regions of Ghana. Technoserve also assists local institutions and business associations to work with farmer/processor groups. Technoserve promotes rural enterprise development along four themes: market linkages, financial intermediation, environmental enterprise development and institutional development.

Technoserve assists groups of farmers to enhance their incomes from cereal production through storage into the lean season when prices escalate from 70 to 250 percent. Farmers store their grain at harvest, and using this grain as collateral, receive commercial loans (inventory credit) to tide

them over until they sell these stocks during the lean season when they receive much higher prices. Technoserve is also assisting rural microenterprises in the establishment of small-scale intermediate palm oil mills throughout five regions of the country. These mills permit local oil palm farmers and food processors to convert highly perishable fruits into storable high value palm oil for sale in the local market.

Technoserve is also providing technical assistance and training to rural entrepreneurs in the production and marketing of high value non-traditional agricultural export products including cashew nuts, kola nuts, shea nuts, pineapples, medicinal plants and their derivatives.

AID-TO-ARTISANS, GHANA (ATAG) which is a local affiliate of AID-TO-ARTISANS (ATA) a U.S. PVO, promotes the development of entrepreneurial, technical and marketing skills of microenterprises engaged in the production of export-quality artisanal handicraft products. ATAG's activities include: a) working with Ghanaian handicraft producers to develop new product lines suitable for sale to the international market; b) increasing export sales of Ghanaian craft products by fostering links between producers and foreign buyers; c) assisting producers in understanding and meeting foreign market demands through ongoing production training workshops; d) assisting producers and exporters in ensuring business sustainability through ongoing business training workshops and marketing training

Local Credit Providers Begin Using Financial Ratio Analysis in Ghana

The lack of available credit is being addressed by TechnoServe and the 11 other non-governmental organizations that came together in 1996 to form the Micro Finance Institutions Action Research Network (MFIARN). Their aim is to promote innovative techniques for providing effective financial services to small- and micro-enterprises. Within Ghana, this network has established itself as an important forum for exchanging lessons learned and promoting micro finance best practices.

The MFIARN is collaborating with the U.S. Small Enterprise Education Program (SEEP) to improve the skills of Ghana's micro finance institutions in financial ratio analysis. Financial ratio analysis is an important tool for these institutions; it allows them to assess their organization's sustainablity, efficiency, and portfolio quality.

As part of this effort, TechnoServe/Ghana recently held two capacity-building seminars: the first was a "training of trainers" workshop for three MFIARN consultants; the second was a five-day workshop for 19 participants from MFIARN's member organizations, including Catholic Relief Services, Women's World Banking, Freedom from Hunger, Sinapi Aba Trust — an affiliate of Opportunity International, and Farmers Development Union — a local Nigerian savings and credit institution.

The participants used real financial data from member organizations to learn how to apply financial ratio analysis to improve the management of their micro finance activities. All of the participants assessed TechnoServe's workshop as very beneficial and very relevant to their needs. The participants have already begun using their new skills. For example, the Sinapi Aba Trust has begun using financial ratio analysis as a management tool and in reporting to donors. One of the participants from the Sinapi Aba Trust has written a brief paper entitled "There Are No Bad Borrowers, Only Bad Lenders," which will be published in Opportunity International's quality bulletin in the United States.

The trainers will continue to monitor the participating organizations in consultation with MFIARN and SEEP.

opportunities.

LOCAL SUCCESS STORIES

With Technoserve assistance, participating farm enterprises have moved from being passive "price takers" to become pro-active "price setters" auctioning their produce to the highest bidder rather than just relying on whichever buying agents happen to visit their villages.

As a result of Technoserve assistance, approximately $2 million worth of local agricultural production was sold, processed or stored by rural farm enterprises in 1997. Technoserve clients also stored maize with a present value of approximately $150,000 under its inventory credit program and entrepreneurs engaged in oil palm processing earned a gross revenue of approximately $350,000 with women oil processors earning 56% of the revenues.

To date, through Technoserve's assistance, rural entrepreneurs have produced and sold NTEs worth over $2 million since 1994. In 1997 alone, 77 Technoserve-assisted microenterprise groups sold NTE products worth $1.3 million, about 200% over the 1996 value of $445,339 and approximately 2700% over the 1994 value of $46,973. In 1997, Technoserve exceeded its annual target by leveraging approximately $380,000 of rural credit from the Agricultural Development Bank and private sector exporters. These linkages with the private sector further strengthen the financial viability and sustainability of assisted rural agricultural businesses. Technoserve interventions in the export sector have directly benefitted about 25,946 rural enterprises, over 51% of which are women-owned. Household incomes from these export-oriented businesses are estimated at approximately $1.5 million.

In 1997, ATAG-assisted rural artisans were linked-up with a large foreign buyer, MARMAXX, which purchased over $1.2 million of handicraft products from the artisans. Over 100 artisans including 40 women were organized and trained to produce the order from MARMAXX. Though credit for private sector business activities remained tight in 1997, with a partial guarantee from ATAG, a local bank financed the production of the entire MARMAXX order. Other Fair Trade organizations like OXFAM also purchased substantial quantities of products crafted in brass and wood in rural communities receiving USAID assistance. Handicraft exporters are increasingly buying from ATAG assisted rural artisans.

In general exports from the handicraft sector increased by 112% in 1997 over the 1996 level. The number of local handicraft exporters also increased significantly. The membership of ATAG's Trade Network of handicraft producers and exporters increased by 10% in 1997 over the 1996 level. One bead producer and beneficiary of ATAG-assistance paid his way to two international handicraft shows in the U.S. in 1997.

Pursuing microenterprise development as an integral part of a private sector program ensures that there is a ready market for the products of these enterprises and thereby increasing the incomes of the beneficiaries and their families. USAID-assisted microenterprises engaged in agribusiness and handicraft production generated revenues of over $2 million in 1997 representing an increase of about 200% over 1996 levels.

PROBLEM AREAS FOR MICROENTERPRISE DEVELOPMENT IN GHANA

Constraints in the macroeconomic policy environment, such as, high inflation (30% per annum) and high interest rates (40%-45%) limit the growth of the private sector including the microenterprise subsector. Bank lending for private business ventures is severely limited as banks prefer to invest in attractive, risk-free, and high yielding treasury bills and notes. Finance therefore remains a major problem for the microenterprise sector.

Many microenterprises lack entrepreneurial, technical and marketing skills needed to expand their activities. Our experience shows that, when provided with appropriate hands-on skills and linkages to formal sector businesses, microenterprises are able to improve their performance and incomes.

USAID/GUINEA

In 1997, USAID/Guinea obligated a total of $401,000 for financial and non-financial activities. Over the preceding five years, the mission provided an additional $10 million; the Office of Microenterprise Development in USAID's Global Bureau has also supported VITA's work in Guinea.

USAID/Guinea supports microenterprise development under its Strategic Objective for the "Increased Use of Sustainable Natural Resource Management and Practices."

The goal of the Guinea Rural Enterprise Development Project/Activity (GREDP), is to promote sustainable economic growth in the rural sector, resulting in enhanced welfare of Guinea's rural population.

The purpose of the activity is to encourage the development of viable rural-based, small scale enterprises (SSEs). In conjunction with loans and various financial services it provides to SSEs, the project furnishes technical assistance and training in entrepreneurship, management and market development.

PRIMARY FOCI FOR MICROENTERPRISE EFFORTS

The target group of direct beneficiaries consists of men and women engaged in small scale rural for-profit activities. The activities include agricultural transformation and production, commerce, artisanal activities and transport. Mining and other activities likely to be harmful to the natural environment are excluded from the assistance. The program assures that substantial numbers of women and poor people benefit directly from the assistance.

PROGRAM ACTIVITIES

The project provides:

- Targeted training of entrepreneurs. This training is based on an entrepreneurship workshop delivered in both French and local languages.

- Financial services, in particular non-collateralized small loans with group guarantees, with the possibility of expanding the services to include savings

The activity's approach to credit is based on a program of ongoing training for all clients. In addition, VITA/PRIDE (implementors of the activity) offers a twelve-day entrepreneurship workshop to help Guinean entrepreneurs improve their business skills. More than 1,800 individuals have completed training in this area.

The entrepreneur workshop has been translated into three local languages. As a result of the translation and with a series of visual aids, the entrepreneurship workshop is now accessible to large numbers of non-literate micro-credit clients. As of early 1998, 48,000 loans have been made, totaling more than $11 million in value

The activity, whose headquarters is in Conakry, has established 12 branches in the interior of the country and 2 branches in Conakry. The activity has qualified Guinean managers and staff supported by the general oversight of an expatriate country representative from VITA.

GUINEA-BISSAU

Not yet available

WHY MICROENTERPRISE?

Microenterprise development falls under USAID/Kenya's economic growth objective related to the intermediate results of job creation and increasing incomes as a means of addressing poverty and enhancing food security for the poor.

Employment is one of the most significant challenges facing Kenya today. Numbering more than 11 million people, the Kenyan labor force is growing rapidly and is expected to reach about 14.6 million by the year 2000. Microenterprise development is a major strategy for addressing this challenge. USAID funded a national baseline survey of microenterprises in 1993. This was a hallmark study that is still used today. For the first time, the government and other stakeholders have reliable information and data about the dynamism of the microenterprise sector.

The growth trend of jobs created by this sector is currently about 10%. It employs well over 1.5 million Kenyans. During periods when the economy is in the doldrums (as in the early 1990s), the growth rate was more than 20%.

In a recent study, it was found that these microenterprises created about 10 times more jobs that did the larger firms in the formal sector, and where donors are invested, the cost to create them are one-tenth that of the formal sector.

We have evidence that microenterprises do more than act as a safety net that allow people income enough to survive. Microenterprises contribute about Shillings 45 billion to Kenya's GDP, about 14% of the total. Many of these enterprises -- especially the ones that are expanding--are providing incomes that are well above the national average.

USAID ASSISTANCE TO MICROENTERPRISES IN KENYA

USAID has been at the forefront of assistance to Kenyan microenterprises for more than a decade. We have invested about $20 million dollars with our Kenyan partners in promoting microenterprises.

Because of the employment challenge in Kenya today with so many more people entering the labor market than there are jobs available, such assistance has been geared to creating jobs. Over 30,000 jobs have been created through these USAID investments.

Much of our past success has been in assisting organizations to provide small loans to these businesses, most of which have only 1 or 2 employees. As non-governmental organizations, or NGOs, they have become more efficient at reaching larger numbers of people at lower cost. As a result, Kenya's micro-enterprise credit program has become well known, not just in Africa, but world-wide.

Microenterprise development is becoming well recognized by the Government as well as other donors as a strategy that supports economic growth.

PRIMARY FOCI FOR MICROENTERRPRISE ASSISTANCE EFFORTS

USAID/Kenya targets both the urban and rural poor. There is emphasis on

working with those programs where women are heavily represented, as in the agribusiness sector.

THE MICRO-PRIVATE ENTERPRISE DEVELOPMENT PROJECT

This is a five-year project, approved in September 1995 at $12m LOP

The micro and small enterprise sector is large and diverse, and the challenge for agencies hoping to stimulate employment growth in the sector is how to identify where the potential growth is, what constrains that growth and how to facilitate it. In assessing problems and opportunities facing micro enterprises, USAID/Kenya with REDSO/ESA and USAID/W assistance, engaged in a rigorous, participatory planning process involving sample surveys, focus group discussion with micro entrepreneurs, evaluations, consulting with partners, bringing in international experts, and years of one-to-one discussions between USAID staff and Kenyan business people. Emerging from this analysis are three major issues that drive the Micro-Private Enterprise Development (Micro-PED) interventions:

- Many micro-enterprises are constrained by policy, regulatory and infrastructure issues.
- Many firms are faced with diminishing market opportunities, increasing competition, and problems with the cost and availability of inputs.
- Microenterprises do not have adequate access to credit.

Based on the above constraints and opportunity analyses, the Micro-PED project is organized in three components, each addressing the above-mentioned key constraints to micro- enterprise growth: 1) Policy; 2) Non-financial Services; and 3) Finance.

The Micro-PED project is implemented through a bilateral Project Grant Agreement with the Government of Kenya, and a variety of instruments committing funds directly to Kenyan and US private sector institutions.

The *goal* of the Micro-PED project is to increase private enterprise employment. Private enterprises are defined as off-farm, private sector business activities. The *purpose* of the project is to increase microenterprise employment, where microenterprises are defined as firms with fewer than ten employees. The current annual employment growth rate in microenterprises in Kenya is 13%, averaged over ten years. The project is expected to contribute significantly to an increase in this rate to 18% per year. The *outputs* are:

a) An improved policy and regulatory environment;
b) An increase in cost-effective delivery of non-financial services to the agri-business sub-sector;
c) An increase in the sustainable delivery of financial services.

1. Policy: This is one of the newer initiatives in our micro-enterprise program. Despite positive GOK policies towards the informal sector, surveys of micro-enterprises and analyses by policy experts reveal that policy, regulatory and infrastructure issues represent significant constraints to microenterprise growth. Having accomplished many major macro-economic and agricultural reforms, however, the GOK

and the donor community are now focusing more on sector-specific policies, including micro enterprise policy. This creates an opportunity for USAID to assist the policy change process.

The key constraint or the purpose of the underlying activity is to stimulate policy and regulatory reforms related to microenterprises which will increase employment and generate incomes in Kenya.

The project activities include a series of policy fora, policy dialogues ("brainstorming workshops"), research and analysis, dissemination of work through a newsletter, and *capacity building for local policy research institutes.*

The program is expected to result in effecting positive policy changes, which will impact the micro-enterprise sector in Kenya. Specifically, the program is expected, through its various research and dissemination activities, to bring to the policy forefront key issues related to the micro and small enterprise sector, and *build* stakeholders' consensus on policies necessary to effect growth and development of micro entrepreneurs. *Already, the synthesized results of completed research are being used to update the GOK policy and strategy framework for micro and small enterprise development.* One priority policy issue focused on in the program is that of property rights (or the lack thereof) and how the lack of legal codification of land rights adversely impacts the activities of micro-entrepreneurs. This issue formed the basis of a brainstorming workshop, and is expected to be taken to the next step, a government structure to be put in place, and through which policy bottlenecks can be discussed on an operational level, and ideally, removed.

COMMERCIALIZATION OF SMALLHOLDER AGRICULTURE AND NATURAL RESOURCE MANAGEMENT PROGRAM

As a result of the liberalization of many agricultural policies, there has been improved productivity of maize. One of the effects of this policy change is that individuals who before may not have considered being in the trade business are now entering. They buy from wholesalers, and supply the marketplace, as highly competitive smallholders. Most who have ventured into self-owned business have great entrepreneurial spirit, creativity, and motivation.

Eveline Anyango has a large stall deep inside the marketplace. She is only nineteen years old and has two children under three years old. She began her business when she was just seventeen years old, before she was married. She started off by selling second-hand clothes, but began selling maize when policies were liberalized. She explained that she buys from a lorry that would bring the maize to the market and sell at wholesale prices; she would then sell to other retailers, and to those individuals who buy in small quantity. Her competition emanates from two major sources: First, there are the other microbusinesses in the market, and secondly, there is now available in the supermarket packages of cornmeal, ready for use. But, she adds, many Kenyans still prefer the form of maize that she sells. Eveline says that last year she made a substantial profit with her business. And while she has not done as well this year, she feels that things will improve.

The Government is a critical actor in implementing policy change. Although much of the policy research is being undertaken by private organizations, the capacity of the GOK to analyze and implement policy change is a key element in reforms taking place. Thus, the project plans to support efforts to strengthen the GOK policy analysis and implementation capability. Support for increasing analytical capability will be

targeted to the Trade and Industry Unit of the Kenya Institute for Public Policy Research and Analysis (KIPPRA), housed within the Ministry of Planning and National Development.

2. Non-financial assistance: This is the second area on which Micro-PED focuses. Here, we recognize that the micro and small enterprise sector is large and diverse. With the proliferation of the nearly one million of these enterprises, there must be a sub-sector focus in our investment to achieve and measure results. Therefore, we are targeting the agribusiness sub-sector in delivering cost-effective, non-financial assistance. Activities such as management counseling, training, market advisory services, product and technology development are included in this focus.

3. Finance Component: Credit is one of the earlier, more popular and successful interventions in micro-enterprise development, a component our assistance continues to support.

- An exciting difference between this project and our previous project is that we are supporting Kenya Rural Enterprise Program (K-REP), and perhaps other NGOs, in their transformation to becoming a bank, a bank that targets micro and small businesses. The advice among world experts is that to be sustainable, such institutions must be able to mobilize savings for making small loans, rather than continuing to be dependent on donors. In Kenya, only institutions such as banks can take savings for on-lending. So K-REP the NGO is also striving to become K-REP the bank. (USAID has supported K-REP since inception - 14 years ago.)

- Our Micro-PED investment is also in the process of identifying other micro-credit *non-government* organizations (NGOs) to continue their excellent work in micro-enterprise lending. We are looking at the NGOs that pay serious attention to sustainability and cost effectiveness as we select our partners.

- Capacity building is a long-term intervention. The project is providing technical assistance to microfinance institutions in order to increase their sustainable delivery of financial services to microenterprises. Part of the strategy is to link Kenya institutions to the world's best microfinance practices.

The other activity which fits in our micro-enterprise development strategy is the credit unions support program funded directly through the Global Bureau's Office of Microenterprise Development. It is a four-year, $3.1 million microfinance program designed to strengthen the institutional capability of at least 15 Savings & Credit Cooperatives to expand savings & credit services to their members. The program intends to regear a significant portion of the participating credit unions' portfolio to micro-enterprises. The World Council of Credit Unions (WOCCU), a U.S. PVO, is implementing this activity which started in January 1998. There is a potential to reach far more micro-enterprises using credit unions than NGOs. For example, NGOs combined portfolio is approximately $30 million compared to the credit unions' estimated portfolio of $150 million.

IMPLEMENTING AGENCIES

Policy: International Center for Economic Growth (ICEG) - International NGO

Non-financial Services: Technoserve - U.S. PVO
Appropriate Technologies for Enterprise Creation (ApproTEC) - Kenyan NGO
Kenya Management Assistance Program (K-MAP) - Kenyan NGO

Finance: K-REP Bank Limited - Kenyan Microfinance Bank (under formation)
Kenya Rural Enterprise Program (K-REP) - Kenyan NGO
Development Alternatives, Inc (DAI) - U.S. Private Consulting Group
National Council Churches of Kenya - Kenyan NGO
The Cooperative Bank of Kenya Limited - Kenya private bank
World Council of Credit Unions (WOCCU) - U.S. PVO

MICRO-ENTERPRISE DONOR AGENCIES IN KENYA

The key donors who have micro and small enterprise initiatives in Kenya include:

- USAID
- The British Department for International Development (DFID)
- The European Union
- UNDP
- The Netherlands
- The World Bank
- Germany (GTZ)
- JICA

USAID/MADAGASCAR

BACKGROUND

Madagascar is Africa's most important biodiversity priority, and among the world's top five for species diversity and uniqueness. Yet, pervasive poverty, high population growth and land-extensive agricultural practices have led a frontal assault on these unique national and global treasures. Despite years of economic stagnation, Madagascar holds tremendous development potential. Recently, the Government of Madagascar (GOM) initiated a major Structural Adjustment Program to reverse its economic decline and launch sustained growth and poverty reduction.

The U.S. interest in Madagascar lies in its globally unique biodiversity and its high potential to break out of its poverty cycle to become one of Africa's emerging market economies. Assistance to Madagascar advances U.S. interests by helping to establish a legal and policy environment which encourages private initiative and investment and by helping the Malagasy to manage one of the earth's most extraordinary sources of biodiversity.

The Development Challenge.

Over the last quarter century, the Malagasy people have experienced a marked decline in their standard of living. Real per capita income fell by more than 40% between 1970 and 1995, putting the country among the world's poorest today. During that period, Madagascar's policy and regulatory environment discouraged private sector investment and growth. Lax fiscal and monetary policies, inward-looking trade and exchange rate policies, heavy state involvement in the productive sector, marketing and price controls, weak legal commercial codes, and a poor tax administration contributed to the nation's decline. Madagascar also suffered from high population growth rates, intensive deforestation and soil erosion, declines in soil fertility, declines in health status (particularly among children), and political and social turmoil. The World Bank estimates that approximately 70% of Madagascar's population currently live in absolute poverty. Despite this bleak picture, it is also clear that donor unity on structural reform, carefully designed programs, and a focus on strengthening civil society netted remarkable results in 1997. These include: saving the Masoala tropical forest, achieving 99% coverage in the national polio campaign, and bringing the global communications revolution to this island nation through the Leland Initiative.

After four years of economic half-measures following Madagascar's successful transition to democracy, the government stabilized the economy and negotiated an ambitious Structural Adjustment Program with the World Bank and the International Monetary Fund (IMF). U.S. leadership is credited with having brought the International Financial Institutions, donors and government together on this key step leading to Paris Club debt reduction, enabling the debt-service ratio to fall from 46% in 1996 to 25% in 1997.

USAID anticipates being involved in Madagascar's economic development over the long-term. USAID is working to reduce poverty by encouraging sustainable resource use and conservation of the nation's rich biodiversity, the adoption of sound family planning and health practices, as well as the

establishment of a legal and policy environment. These interventions encourage Malagasy citizens and businesses to take private initiative, which increases their productivity and incomes. Working with civil society, USAID also supports greater public participation, accountability and the rule of law.

Other Donors

In FY 1997, ranking fourth among donors, the United States provided $16.4 million. France, the lead donor, provided $125.8 million followed by the European Union ($55 million), International Development Association ($22.5 million) and Japan ($8.6 million). Priority investment areas for donor support are transportation and communications, health and education, environment and agriculture.

WHY MICROENTERPRISE?

USAID/Madagascar's Mission goal is *Reduced Poverty*. The Mission's microenterprise activity, begun in 1993, supports Madagascar's national financial institution that targets low-income households -- the *Caisse dEpargne de Madagascar* (CEM), Madagascar's National Savings Bank. The strengthening of this financial institution is aimed at expanding the access of poor households to reliable savings services. Poor households need access to these services to help them manage the impact of variable income over the year; as a source of investment in family health and education; and as a source of financing for small-scale productive investment in household businesses. Savings mobilization is also of critical importance to the health and development of the nation's financial system. USAID has provided technical assistance, training, and commodities to improve CEM's financial management practices and policies to ensure financial sustainability, more efficient operations, enhance customer service, upgrade management information technology and systems, and guide its transition into an independent financial services institution.

PRIMARY FOCI FOR MICROENTERPRISE ASSISTANCE EFFORTS

CEM has the widest financial services network in Madagascar. With offices in 172 cities and villages nationwide, CEM's clientele includes family households, craftsmen, traders, farmers, small businesses, local governments, religious groups and educational establishments. CEM offers competitive interest rates and readily accessible savings products. Its most popular savings account requires a small minimum balance and allows unlimited withdrawals; this savings account appeals to low-income, young, and first-time savers. CEM also offers a savings product that requires larger deposits but yields a higher interest rates; this account draws larger depositors and small businesses. CEM's clientele has grown 65% over the last five years -- clients now number 420,602, roughly 6.6% of the adult population of Madagascar. No other microfinance institution in Madagascar approaches this number of clients.

PROGRAM ACTIVITIES

The CEM is USAID's sole partner institution in this sector. Eccles, Inc. a minority U.S. firm, has provided the bulk of technical assistance. Additionally, CEM has been the recipient of three U.S. technical advisors via the FMDAP (Free Market Development Advisers Program) program.

U.S. training of CEM personnel is implemented through the U.S. firm Development Associates, Inc., the Mission's Global Training Development contractor. Local training is implemented by two local Malagasy institutions: IMATEP and ISCAM. English language training has been implemented through USIS. Modernization of CEM's information systems has been carried out by the U.S. firm Eccles, Inc. and four local Malagasy firms: Alphatek, IBL, Blanche Birger, and Top Conseil.

LOCAL SUCCESS STORIES

Prior to USAID support and assistance, the CEM did not receive interest on its deposits at the National Treasury. By conditioning USAID assistance to the CEM on its receipt of market rates of interest on its deposits, USAID has enabled the CEM to offer its clients competitive interest rates and at the same time experience considerable growth in its assets base -- a necessary pre-condition for its disengagement and independence from the State. In real terms, the CEM's asset base, now almost *$15* million, has doubled since 1993.

CEM has undergone several transformations since it was established in *1918* as Madagascar's National Postal Savings Bank. French administration was transferred to the Government of Madagascar in *1975*. Ten years later, CEM became a public commercial financial institution. In *1995* CEM was transformed into a Societe *Anonyme*, a limited liability company governed by national banking regulations. Although ownership and control is still effectively in the hands of the State, steps are underway to move gradually toward privatization and genuine autonomy.

PROBLEMS FOR MICROENTERPRISE DEVELOPMENT

Official government and donor support for microfinance is growing. Nonetheless microfinance institutions remain embryonic in Madagascar. Unlike some African countries, there is no indigenous system of informal group saving and lending. Pilot networks of small nucleated rural savings and credit cooperatives *(Mutuelles d'Epargne et du* Credit/MECS) have been established in some areas with World Bank support. Expansion of MECS into three new regions is foreseen. MECS now include approximately *25,000* members. Private Non-MEC microbanks are also being founded, but are also embryonic and so far serve only about 6,000 clients. Microbanks now operate without an adequate regulatory or judicial framework. The GOM is drafting new legislation for microbanks, to include requirements for standardized accounting systems and norms for capitalization. Other recent initiatives in microfinance include French efforts to support regional associations of small savings and credit unions. The UNDP has begun a new microfinance program in two regions. USAID works closely with the World Bank, other donors, and a new interministerial committee for microfinance. At present, USAID is the only donor assisting the Caisse *d'Epargne de* Madagascar.

One challenge facing the CEM in the years ahead is the need to ensure its full profitability in the face of reduced interest payments on its deposits with the Treasury. The fall in the financial rate of return reflects the dramatic reduction in inflation made possible by tight monetary policy. While improved macroeconomic stability certainly favors the long-term viability and development of the CEM and other

microfinance institutions, it does impose short-term adjustment. With technical support from USAID, the CEM is responding to this challenge by analyzing its requirements for full profitability, tightening cost management, and lowering the nominal interest rate paid to clients. Depending on the findings of the necessary diagnostic work, future assistance may include support to help the CEM broaden its range of financial services.

USAID/MALAWI

USAID/Malawi includes microenterprise activities under its second goal of promoting sustainable economic growth. Malawi's SO 1 is "Increased Agricultural Incomes on a Per Capita Basis." SO1 has made a significant and positive contribution to the Mission Performance Plan through its direct promotion of broad-based economic growth in Malawi.

A farmer's ability to adopt improved practices is enhanced through access to rural financial services for both savings and credit. The ability to save for the future and to avoid high-cost credit for inputs has been enhanced by the Malawi Union of Savings and Credit Cooperatives (MUSCCO), which has had continued support from USAID. Total membership in the savings and credit cooperatives increased by almost 15%, from 43,685 to 49,990, during the reporting period. The value of savings increased by 56%, thus enabling an increase in new loans of 133%. Credit at reasonable rates is highly prized by the small producer and saving and credit cooperatives are able to grant loans at rates more favorable than the large, government-supported credit institutions.

USAID/MALI

USAID/Mali supports microenterprise development through its Strategic Objective for Sustainable Economic Growth (SEG). This is one of three strategic objectives in USAID/Mali, comprising four results packages: Livestock, Cereals, NonTraditional Crops and Financial Services.

FINANCIAL SERVICES

The Financial Services Results Package aims to help Mali improve its rate of domestic savings mobilization, create a policy environment for improved operations of non-bank financial institutions, and improve the operational and financial sustainability of microfinance institutions. The Mission seeks to expand the availability of financial services to the largest segment of the population.

USAID Mali has supported several programs in microfinance, and in early 1998 four programs were active and being implemented through Freedom from Hunger, Save the Children, World Education, and CANEF (Centre d'Appui Nutritional et Economique pour les Femmes). These programs impact mostly on rural microentrepreneurs, 98% of whom are women.

In September 1995, World Education was awarded a three-year grant by the Office of Microenterprise Development to create a microfinance institution in Bamako. With this funding, World Education established the Programme Institutionnel d'Epargne et de Credit (PIEC). This institution was modeled on the successful Kenya Rural Enterprise Program (K-REP). The goal at the outset has been to reach significant operating and financial cost recovery within a five to seven year period.

USAID has prepared a database of its microfinance investments through a geographic information system, which shows that it is reaching over 21,000 Malians through 311 institutions, all of which are targeted on the poor and women.

MOZAMBIQUE

USAID/MOZAMBIQUE

In 1997, USAID/Mozambique obligated $2.4 million for non-financial microenterprise activities. BHR/PVC provided approximately $450,000 for two NGOs in Mozambique. In 1998, USAID/Mozambique plans to obligate $1.2 million for non-financial microenterprises activities, including $800,000 for business advisory services. It also plans to obligate $750,000 for financial services and $480,000 for rural financial policy.

USAID/Mozambique has recently become involved in enterprise and finance development, as the country recuperates from a long and devastating civil war.

- At an April 1998 national workshop, a working group of donors and practitioners analyzed the framework for promoting microfinance development in Mozambique. An Action Plan was adopted and is being promoted under the rural development agency, with World Bank and USAID sponsorship. The mission is working with banks, government agencies, its PVO partners, and other donors to see how it can best support an improved policy and regulatory environment for microenterprise growth.

- The mission funded a grant to CLUSA to develop a network of economically viable and democratically-managed rural enterprises in the agricultural province of Nampula.

- CARE, Africare, and World Vision collaborated in the promotion of agricultural technologies, notably edible-oil presses. In addition, Technoserve provides business advisory services to small businesses that are linked with a growing number of farm producer associations.

- World Relief pioneered village banking in Mozambique with funding from BHR/PVC in 1995, and recently received approval for a FY 98 grant. The program has 4,900 clients and a quarter-million dollar loan portfolio, making it the largest microfinance program in the country. BHR/PVC is also funding an extension of a Mennonite Economic Development Associates (MEDA) small business credit program in peri-urban areas.

NAMIBIA

Not yet available

SENEGAL

Not yet available

PROGRAM ACTIVITIES

Get Ahead Financial Services: (FY94-FY98) $2.1 million - USAID provided a grant to Get Ahead to support its stokvel (group lending) program. USAID funds have been used to provide loan capital through the stokvel program and training for microentrepreneurs, as well as administrative support for the program. USAID has supported this organization since 1987 through a series of grants. Our grant funding ceased in March 1998. USAID has played an instrumental role during the years in growing Get Ahead Financial Services to be the largest microenterprise organization in South Africa, currently serving 21,000 clients. It now looks ahead to making the transformation to become a a regulated financial institution with the capacity to take deposits.

VITA/ Microenterprise Support Project: (FY97-FY99) $3.5 million - This contract with US private voluntary organization, VITA, includes the following major project components: (1) a retail loan fund which will make working capital loans to growth-oriented historically disadvantaged black microentrepreneurs; (2) an interactive microentrepreneurial business skills training program that will deliver radio soap opera episodes with a core business theme and radio call-in/talk show programs that present a rapid discussion of issues microentrepreneurs face in their own businesses linked to that week's soap opera "lesson" via two radio stations that transmit in Zulu and Tswana; and (3) a study of the Policy, Regulatory and Administrative constraints encountered by microentrepreneurs.

VITA's loan program is making a major inroad into serving the "missing middle" -- serving microentrepreneurs with working capital credit requirements of between R5,000 and R50,000 ($833 to $8,333). These growth oriented entrepreneurs' capital requirements are too large for traditional survivalist microcredit institutions and are too small to secure financing from the formal traditional financial sector (in South Africa, the banking sector will only grant loans above R50,000).

World Education/ Ntinga Microenterprise Support Project (FY97-FY99) $2.9 million - World Education, a US-based private voluntary organization, in conjunction with two South African institutions, Khuphuka and Rural Finance Facility, and the Kenya Rural Enterprise Program (K-REP), are implementing this activity which is working with South African SMME support agencies and microfinance institutions (MFIs) to improve the quality and quantity of the services they provide to the microenterprise sector. The aim is to promote the long-term financial sustainability and viability of the partner microenterprise support agencies. Assistance falls into four broad categories: (1) improving the enterprise training capacities of SMME support agencies; (2) increasing the volume of small loans available to informal sector entrepreneurs through expanding the outreach capacity and lending systems of existing MFIs; (3) facilitating the access of SMME agencies, MFIs and entrepreneurs to relevant information about financial and non-financial services available; and (4) helping identify and address policy, regulatory and administrative contraints which impede the expansion of credit and other services to SMMEs.

IMALI (Improved Microenterprise Access to Liquidity): (FY99-FY01) $3.6 million - This cooperative agreement with ACDI/VOCA, and its partners, the Alliance for Microenterprise Practitioners, Africa Institute for Policy Analysis (AIPA) and the University of Pretoria, is to institutionalize village banking in six provinces of South Africa. Using the umbrella Rural Financial Services Organization (RFSO), over a period of three years, more than 50 financial services cooperatives (FSC) will be established in rural areas. With a focus on mobilizing savings in rural areas, the financial services cooperative will provide savings, loan and funds transfer and investment services to the previously unserved rural poor. The RFSO and FSCs will apply a rural microfinance approach that places a major emphasis on savings, cash management, capital formation and local ownership and empowerment to ensure that their microcredit programs are truly sustainable and their customers remain loyal.

TANZANIA

Not yet available

USAID/UGANDA

USAID/Uganda places microenterprise under its strategic objective of "increased rural household income" and works through the successful PRESTO (Private Enterprise Support, Training and Organizational Development) Project. Designed to address the need by entrepreneurs for secure savings and credit services, PRESTO established its Center for Microenterprise Finance (CMF).

USAID/Uganda has provided $8.6 million in funding to PRESTO in the past three years. This has been complemented by an additional $2 million from the centrally-funded PRIME Fund and $1 million from BHR/PVC through its Matching Grant program with Food for the Hungry/Faulu, Freedom from Hunger, FINCA, and World Vision/MED-Net.

PRIMARY FOCI OF MICROENTERPRISE EFFORTS

USAID/Uganda's efforts to expand financial services continue to target women, who comprise 70% of the microenterprise program's beneficiaries. USAID-assisted financial services are expanding deeper into rural areas, providing the rural poor with the means to further diversify household income (historically limited to the sale of agricultural products).

PROGRAM ACTIVITIES

The Center for Microenterprise Finance established by the PRESTO project is an information clearinghouse for NGOs and banks involved with microfinance. In three years, the CMF has successfully nurtured new NGO finance programs affiliated with FINCA, Food for the Hungry, Freedom from Hunger, PRIDE/Africa, and WorldVision; by the end of 1997, these programs were serving some 17,000 clients. Furthermore, the CMF has worked closely with the Uganda Cooperative Bank, the nation's only agricultural bank. The CMF also provides technical support to some 15 NGOs and banks in sustainable financial service delivery. The CMF design concept is being explored by other Africa missions as a model for accelerating microenterprise and microfinance development.

The PRESTO non-financial component is a Local Industries Facility for Training and Technology, assisting micro and small entrepreneurs to gain access to more profitable markets through trade fairs, workshops, and industry networking.

PROGRESS IN 1997

Through USAID-supported training and assistance, the number of sustainable financial intermediaries reaching out to micro and small enterprises has increased from zero in 1995 to five in 1997. Increasing access to credit and saving services has resulted in a dramatic increase in the number of households reached this year -- 13,808 new borrowers and 19,313 new savers, up from 5,250 and 7,500 last year.

This success can be attributed to USAID/Uganda's cutting edge micro-finance initiative, encouraging sustainable financial service delivery through more than 20 local institutions (consisting of banks and non-profit organizations). This initiative promotes international best practices through training courses, one-on-one technical assistance, and the provision of grants. A highlight of the financial-services

intermediate result is the achievement of the Cooperative Bank. It showed a net operating profit for the first time in over 10 years as a result of USAID's committed restructuring activity. Furthermore, the Coop Bank's first microenterprise agency reached 2,000 rural creditors in three months and raised over $150,000 in savings.

USAID/ZAMBIA

USAID/Zambia addresses the needs of microenterprises under its Strategic Objective 1: *Increased Rural Incomes of Selected Groups."*

USAID/Zambia has provided a grant to expand the outreach of Credit Management Services to poor women and to enable it to make the transition from a credit administrator for donors to a microfinance company which shoulders it own risks. PRIME funding from the Office of Microenterprise Development provides half of this funding. As part of this activity, work to remove key legal impediments to expansion - empowerment to take savings, and to establish appropriate Bank of Zambia regulation - is included.

Credit Management Services (CMS) was registered as a private for-profit company in September, 1992. It has provided micro and mini credit administration services to donor credit schemes in selected areas of Zambia since late 1994, and commenced the transition to direct provision of microcredit services in the second half of 1997. It provides services through donors and directly to poor women and men in rural areas of Zambia, for groups, individuals within groups, and individual borrowers. As of the end of 1997, it had a portfolio of loans with Kwacha 1.14 billion ($763,000) invested by 2,031 clients, with almost 900 in training or awaiting loans. The average loan size was $376, and over 65% were women borrowers. As of March 1998 the client group had grown to approximately 3,000 and the portfolio to Kwacha 5.7 billion, including the larger marketing loans.

USAID/ZIMBABWE

WHY MICROENTERPRISE?

USAID/Zimbabwe's Strategic Objective 2 seeks to achieve broadened ownership of poorer Zimbabweans in housing and business assets. Analysis completed in the early 1900s, which remains valid today, indicated that access by micro, small and medium businesses to debt and equity financing was a major constraint to their growth. Expanding the availability to credit finance to Zimbabwe's one million plus microenterprises is a key element in the Team's efforts to achieving broadened ownership.

PRIMARY FOCI FOR MICROENTERPRISE ASSISTANCE EFFORTS

The SO 2 Team's primary foci for microenterprise development is three fold:

- To increase microbusinesses access to capital through the testing of different models of microfinance delivery across different target markets and modes of operation.

- To foster growth of a microfinance industry in Zimbabwe through the creation of a policy environment that encourages the expansion of existing microfinance lenders and the establishment of new ones, the adoption of "best practices" to insure operational and financial sustainability in the largest number of microfinance vendors and the development of "professionalism" throughout the industry through broad based training and research.

- To coordinate the efforts of the major microfinance donors to reduce duplication, share lessons learned and assure the presence of clear and consistent donor policies and support mechanisms to enhance industry growth.

PROGRAM ACTIVITIES

USAID/Zimbabwe maintains a half-time professional position in support of its microfinance activities. Housed in the SO 2 Team, the Mission's financial sector advisor is responsible for coordination (of) all Mission activities and investments in support of microfinance sector growth. He is responsible for overseeing the following portfolio of activities.

- **Support for Zambuko Trust.** Since 1992, USAID has provided direct and indirect support to Zambuko Trust, Zimbabwe's leading microfinance vendor. Through a five year US$3.75 million Cooperative Agreement with Opportunity International, USAID/Washington has among other activities, provided Zambuko with technical assistance, staff training and helped to establish a US$ 100,00 revolving microenterprise loan fund. This matching grant will expire in 1998 and OI has approached USAID/Washington for an additional US$ 425,000 to continue its support activities through FY 2000. The basic grant was supplemented in 1996 with an additional US$ 50,000 to explore options available to Zambuko to move the organization

to financial and operational self-sufficiency. In 1997, Zambuko received an additional US$ 550,000 grant fron USAID/Washington to expand its pilot Women Trust Banking program nationwide. This was complemented by a US$ 15,000 grant from IRM USAID/Washington to install and test a pilot, computerized management information system to link Zambuko's head office with its regional and branch offices.

- **Support for Phakama Credit Development Company.** Since 1996, USAID/Washington through a US$ 715,000 grant to the **Mennonite Economic Development Associate (MEDA)** has assisted in the development of the **Phakama Credit Development Company.** Grant funds have been used to support staff training, to provide technical assistance and to capitalize Phakama's leading activities. This support was complemented in 1996 by a US$ 50,000 grant from USAID/Zimbabwe to jump start capitalization of the loan fund and to purchase initial equipment. The microfinance facility was evaluated in early 1997 and serious management deficiencies were identified. After protracted discussions on required structural changes, the SO 2 Team recommended termination of USAID support at the end of 1997. An orderly withdrawal is now underway.

- **Development of the Masvingo Credit Against Poverty (MCAP) Business Plan.**
USAID/Zimbabwe is currently assisting **Masvingo Credit Against Poverty (MCAP)**, a Grameen type institution funded by **Catholic Relief Services (CRS)** in developing a detailed business plan for consideration by interested donors. The SO 2 Team has expressed an interest in providing support.

- **Support for the Zimbabwean Association of Microfinance Institutions (ZAMFI).**
Based on discussions at the USAID supported National Microenterprise Conference in early 1997, the Zimbabwe Association of Microfinance Institutions was formed in November 1997. ZAMFI is a practitioner's body tasked with encouraging its members to adopt microfinance best practices, lobbying the Government of Zimbabwe for the creation of a legislative environment conducive to the development of a sustainable microfinance sector, enhancing the growth of "professionalism"within the industry through the provision of staff training and technical assistance and acting as a link with donors interested in supporting microfinance development in Zimbabwe. USAID/Zimbabwe has assisted ZAMFI in developing a three year business plan which is currently being reviewed by USAID/Zimbabwe and other interested donors. ZAMFI is composed of the following founding members: Zambuko Trust, Collective Self-Finance Scheme, Opportunity International, Masvingo-Credit Against Poverty, Canadian Cooperative Association, National Association of Co-operative Savings and Credit Unions, Phakama Economic Development Company (Pvt)Ltd, Zimbabwe Ecumenical

Church Loan Fund, Mennonite Economic Development Association, Care Zimbabwe and World Vision.

- **Participation in Zimbabwe Microfinance Donor Consortium.** In 1997, the SO 2 Team facilitated the establishment of , and now chairs, an 11-member donor consortium on microfinance. To date, the consortium has published a biannual survey of microfinance support activities and a draft "white paper outlining commonly acceptable "best practices" for microfinance institutions. Consortium members include: Australian AID(AUSAID), British Department for International Development (BDFID), Canadian International Development Agency (CIDA), European Union (EU), German Development Co-operation (GTZ), Humanist Institute for Co-operation with Developing Countries (HIVOS), Konrad Adenaeur Foundation (KAF), Royal Netherlands Embassy, Japanese Embassy, Swedish International Development Agency (SIDA), Social Development Fund of Government of Zimbabwe (SDF), International Labor Organisation (ILO), United Nations Development Program (UNDP) and USAID/Zimbabwe.

SUCCESS STORIES

The microfinance success story in Zimbabwe is Zambuko Trust. Zambuko is the Nation's leading microfinance provider with 84% of the market. Over 15,000 microentrepreneurs — 80% of them women — currently receive over US$ 1.8 million in financing annually through Zambuko's efforts. Since its inception in 1992, Zambuko has accomplished a number of significant milestones in establishing microfinance as a key to serving the needs of Zimbabwe's poor and moving steadily towards achieving its ultimate vision — Zimbabwe's first independent people's bank serving 50,000 poorer clients annually. Key milestones have included:

- restructuring its operations to more closely align its organizational structure to that of a commercial banking operation;
- decentralizing its decision making process and expanding its branch outlets from two to nineteen branches nationwide;
- a 60 fold increase in its client base from 269 in 1992 to 15,981 today;
- a 50 fold increase in annual loans outstanding from Z$468,000 in 1992 to Z$24.2 million in 1997; and,
- the attainment of 100% operational self sufficiency and 80% financial self sufficiency by 1997.

PROBLEM AREAS FOR MICROENTERPRISE DEVELOPMENT

USAID/Zimbabwe has recognized three critical issues facing microfinance development in Zimbabwe. These are:

- The need to have a strong microfinance advocacy body to promote the adoption of best practices by vendors, and the creation of a conducive regulatory environment to guide industry growth;

- The need to increase the number and capacity of microfinance institutions to enhance competition, improve service delivery and efficiency and expand coverage; and

- The need for improved donor coordination to improve the return on scarce technical and financial resources and to assure that internationally accepted performance standards are applied uniformly by each donor when accessing investment opportunities and individual vendor performance.

REGIONAL PROGRAMS

Not yet available

ASIA/NEAR EAST Bureau

1. Bangladesh
2. Cambodia
3. Egypt
4. India
5. Indonesia
6. Jordan
7. Lebanon
8. Morocco
9. Nepal
10. Philippines
11. Sri Lanka
12. West Bank/Gaza
13. Regional Programs

Contact List
for
ASIA/NEAR EAST BUREAU FIELD MISSIONS
(as of January 1, 1999)

1. USAID/Bangladesh:	Rowshan Akhter
	Raka Rashid
2. USAID/Cambodia:	Dennis Cengel
	Varony Ing
3. USAID/Egypt:	Ross Bigelow
	Magdi Khalil
4. USAID/India:	Gulshan Bhatla
5. USAID/Indonesia:	Firman B. Aji
6. USAID/Jordan:	Mohammad Yassien
7. USAID/Lebanon	James Stephenson
8. USAID/Morocco:	Jamal Dadi
	Abderrahim Bouazza
9. USAID/Nepal:	William Douglas
	Jane Nandy-Prudoehl
10. USAID/Philippines:	Gil Dy-Liacco
	Mahlon Barash
11. USAID/Sri Lanka:	Mahinda Gunasekera
12. USAID/West Bank/Gaza:	Johny Zeidan
13. ANE Regional Programs:	

BANGLADESH

Not yet available

USAID/CAMBODIA

WHY MICROENTERPRISE?

Cambodia continues to be one of the poorest countries in the world. It ranks 124 out of 157 on the United Nations Human Development Index, annual per capita income is less than $300, health statistics are the worst in Asia, and the population continues to grow at an unsustainable rate (2.7 percent per year). In recognizing these circumstances, the primary emphasis of USAID's microenterprise initiatives in the country is the alleviation of poverty. The poor and vulnerable, and in particular the rural poor and vulnerable in households headed by women, are the primary beneficiaries of agency funds channeled into the credit sector in Cambodia.

PROGRAM ACTIVITIES

USAID's current commitment to the expansion of rural credit facilities, which is intended to foster the growth of small microenterprise development among the rural poor in Cambodia, is characterized by three distinct, but complementary initiatives that are funded through PRIME and by the Mission. The first, undertaken in collaboration with the United Nations Development fund (UNDP) and the International Finance Commission (IFC) of the International Monetary Fund, provides technical assistance and training support for the formal transformation of the Association of Cambodian Local Economic Development Agencies (ACLEDA), the leading microfinance institution in the country, into a commercial bank. Parallel initiatives provide funding for two of the most successful poverty lending programs in the country, the Village Banking program of Catholic Relief Services (CRS), and the integrated microfinance and health Gateway II program of World Relief.

ACLEDA is commonly recognized to be the premiere rural credit success story in Cambodia. Since its inception in 1993, the organization has expanded rapidly and currently provides credit services, through 33 branches, to almost 50,000 clients, the majority of whom are women. In 1997, ACLEDA disbursed more than 60,000 loans, averaging around $200, to micro and small business entrepreneurs.

The credit outreach programs of CRS and World Relief have also been widely recognized. CRS has plans, over the next 5 years, to transform its village banking program into a wholesale lending institution through a subsidiary corporate structure that will provide financial and non-financial services to microfinance institutions and NGO credit and savings programs. This will allow the scope of coverage of the organization's poverty lending program to expand from 5000 to 25,000 women, whose rural credit needs will be serviced through 10 local partner NGO institutions. Throughout this transformation, CRS will continue to contribute support to its Training Support Team, which provides vital training and technical assistance on the principles of poverty lending to local NGOs.

World Relief's Gateway II program is an integrated Community Banking, Savings, Maternal and Child Health, and Community Organizing program that the organization implements in partnership with a local NGO, Cambodia Community Building. As a result of the initiation of this program, almost 300 community banks that serve the credit needs of over 8000 women living in squatter slums in Phnom Penh and in rural areas have been established. The outreach services of the

program are expected to expand further through the establishment of 500 village banks that serve 15,000 clients, with Cambodia Community Building becoming self-financing, by the year 2000.

A singularly important development that will affect the future growth of rural credit facilities, and the provisioning of rural credit, in Cambodia is the recent establishment of the Rural Development Bank. There have been assurances that the establishment of this Bank will not have a deleterious effect on the operations of current credit providers, but licensing and capitalization requirements are yet to be finalized, and the situation merits continued observation.

USAID/EGYPT

The USAID mission in Egypt is working with microenterprise under its Strategic Objective 1: Accelerated Private Sector-Led, Export-Oriented Economic Growth. Under this strategic objective, promotional work with small businesses in 1997 resulted in LE 230 million of credit extended.

PROGRAM ACTIVITIES: SMALL AND MICROENTERPRISE DEVELOPMENT

The Small and Micro Enterprise Development Project SMED is a $44 million project to expand the economic output of the Small and Micro Enterprise (SME) sector of the economy and to increase employment and earnings among low income residents. The purpose is to establish a viable credit delivery system for SMEs in Egypt using up to seven foundations as financial intermediaries. The project was designed and authorized in September 1988 by USAID to demonstrate to the GOE that the credit needs of the poor can be met on cost recoverable basis.

Three foundations serve as SME lending institutions in Cairo (ESED), Alexandria (ABA), and Port Said (SEDAN), and have reached operational break-even. Assist Foundation joined the program and initiated end-use lending in January 1996. An agreement with the Business Associations of Sharkia was signed on November 3,1996.

Increasing the volume of credit to small business while building up the institutional capacity of participating non-governmental financial institutions is a two-pronged approach that has been found to better serve clients. 41 institutions reached break-even in the past year. The Assist Business Association reached operational break-even in only 15 months of end -use lending from start-up.

Of particular note, two associations have reached a higher percentage of women's participation than most: Sharkia (18%); and Assist (20%). The overall percentage of women's participation has improved from 11% to 15%.

SMALL ENTERPRISE CREDIT

Goal and Purpose: The goal of the Small Enterprise Credit (SEC) project is to expand the economic output of the small entrepreneurs. The purpose of the project is to increase small entrepreneurs' access to credit and other banking services.

Description: The project was designed to be responsive to the immediate short term credit needs of small and microentrepreneurs (SMEs) in the greater Cairo area. Charges to borrowers are subject to change, as needed, to achieve financial self-sustainability and to prevent decapitalization of loan fund. The implementing entity is the National Bank for Development (NBD). Thirteen branch offices and a central office within existing NBD facilities were furnished and equipped to accommodate 250 full time SEC Project staff members. These include loan officers, supervisors and support staff. The principal features of the loan program are:

-Loan Approval Process: Loan officers regularly visit target neighborhoods seeking out potential borrowers, assisting them in calculating their loan requirements, and establishing their eligibility to participate in the program. Completed loan applications

are delivered to the branch offices for processing. Approved borrowers are required to place ten percent of the requested loan amount into an NBD interest bearing savings account. Loan officers return to successful loan applicants in their place of business to deliver loan documents and funds. Periodic follow-up visits, using mobile branches, are made to target neighborhoods at least weekly.

-Eligible Borrowers: Generally small entrepreneurs in the greater Cairo area, with less than 15 employees, and less than LE25,000 in fixed assets, excluding land and buildings.

-Loan Size and Term: LE250 to LE5,000 for 4-12 months.

Accomplishments:

- NBD established an efficient and effective SME lending program which is sustaining and expanding its activities based on reflows of principal and interest into the fund.

- As of October 30, 96, 86,000 loans valued at over LE 226 million had been extended to 35,000 Egyptian entrepreneurs in the greater Cairo Area. All of these borrowers had no prior access to credit from formal financial institutions.

-Project operational break-even was achieved ahead of schedule, and full financial self-sustainabilty was accomplished.

CREDIT GUARANTEE FUND

The purpose of the project is to assist in the delivery of credit to small businesses that lack sufficient collateral to obtain loans from domestic banks. A private, for-profit corporation, The Credit Guarantee Corporation (CGC) was formed under law 159 by ten domestic financial institutions. Each of the institutions purchased LE400,000 worth of shares as initial paid-in capital. The corporation qualified for LE60 million loan from the MIC's Special Account. The first loan tranche of LE20 million was received by CGC in February 1990 and the second tranche of LE20 million was received in March 1993. The third and final tranche of funds has been approved by USAID and MIC and is being released to CGC. Funds is invested in domestic financial instruments.

The project has provided both Egyptian and American technical services to the CGC over a period of two years. In that period of time, the CGC has been registered and twenty-seven banks have signed participation contracts. Nearly 2,200 participating bank employees have been trained on utilization of the CGC services.

An LE1.5 million grant, made to the CGC from the Special Account, was used to purchase office space, furnishings, and equipment. The office was inaugurated November 26, 1990.

CGC guarantees up to 50% of loan principal for small scale enterprises (SSEs), and is currently charging the banks a 2% fee. Small Scale Enterprise Loans approved by participating banks in the range of LE20,000 to LE1.5 Million are covered under this program. These loans would have not been issued without CGC providing sufficient guarantees to borrowers.

In Sept. 1991, CGC received $10 million equivalent from the Special Account for investment to support issuance of loan guarantees to Health Care Providers (HCPs).

These funds were allocated in conjunction with the Cost Recovery for Health Project (CRP).

Accomplishments:

Small business lending awareness has increased among Egyptian banks. Two banks established small business lending units.

By the end of June, 1996, 4962 loan guarantees issued to SSEs valued at nearly LE262 million for a total credit of LE60 million had been released by participating banks to SSEs. Under the CRP, 2162 loan guarantees issued to health care providers valued at LE91 million for a total credit of LE 133 million had been released by participating banks. Loan default rate reported has been less than 2%.

CGC has been able to formulate a leveraging policy which has been adequate to provide for growth and increase in loan guarantees.

BACKGROUND

In the area of microfinance, India offers great challenges and opportunities. It has an exceptional density of poor people and microentrepreneurial activity; and, a massive formal banking system, with about one-third of its 175,000 outlets in relatively poor rural areas. Of particular interest is the network of 196 Regional Rural Banks (RRBs), with over 14,000 branches and a staff 71,000. These RRBs along with a host of other institutions such as cooperative banks and rural branches of commercial banks, provide financial services to the rural masses of India. While the RRBs have done a good job of mobilizing rural savings, they have been incurring heavy losses on their lending. For example, official losses for the year ending March 1996 were equivalent of $135 million, with cumulative losses through that date equaling about $615 million. Actual losses are likely to be even higher since official accounts do not make adequate provisions for non performing assets.

PROGRAM ACTIVITIES

Recognizing the seriousness of the problems confronting RRBs, India's central bank , the Reserve Bank of India (RBI), initiated discussions with USAID concerning reform options for these institutions. These discussions focused on making RRB operations sustainable while maintaining their focus on lending to the rural poor. At the request of RBI, USAID engaged the services of the Harvard Institute of International Development (HIID) to do a needs assessment study. The objective of the study was to identify the principal constraints to profitable lending by these RRBs and come up with an action plan for their revival.

Not surprisingly, the HIID needs assessment study recommended introduction of "best practice" microfinance techniques into the rural banking system in order to improve its sustainibility. The HIID action plan covered two phases. During the first phase -- lasting 18 months -- a microfinance model will be developed and implemented in five RRB branches. The model will focus on an improved loan product, higher repayment rates, and better loan-related forms and procedures. The implementation of the second phase would involve replication of this model on a wider scale and would be conditional on the success of the first phase and a conducive policy environment.

Based on the findings of the HIID needs assessment study, USAID/India has designed an activity package that proposes: (i) design and implementation of a replicable and profitable microlending program in five RRB branches (Phase I); (ii) replication of this model at the bank level (PhaseII); (iii) improvement of forms and procedures, and loan related management information systems; and (iv) reorientation of the policy framework to make it more conducive to profitable microfinance lending. This activity package proposal was sent to the RBI for its approval in November, 1997. While RBI is in broad agreement with the parameters of the proposed activity and is supportive of its objectives, it has certain reservations with regard to some of the required policy changes. USAID is currently discussing this issue with the RBI and Government. of India. The activity will begin as soon as the necessary approvals are received.

PROGRAM ACTIVITIES

Endowment To Promote Sustainable Development through Local NGOs: Catholic Relief Services/Indonesia (CRS/ID) uses the Title II monetization of $1,866,763 through a seven-year term endowment program to support enterprise development, health and agriculture in rural areas of Indonesia. The endowment creates and finances a national foundation that will provide institutional strengthening services and technical assistance to eight local NGOs that promote programs in community savings and lending, basic heath cares services and environmentally sound agricultural practices. The USAID/I Title II program with CRS itself ended in FY 1995. Mission project management responsibility is limited to ensuring compliance of the endowment objectives and financial resources with USAID regulations.

BRI - International Visitor Program: The BRI Unit system is one of the world's greatest success stories in microfinance. Managed by a division within the Bank Rakyat Indonesia (BRI), a 100 year old government-owned bank, BRI extends throughout Indonesia through 15 regional offices, over 320 branch offices, and over 3,500 "Units" at the sub-district level. Originally built to be the Government's arm to extend subsidized agricultural credit in the 1970s, the Units have become the most profitable division in BRI. Current outstanding loans are over $1.5 billion, disbursed to 2.3 million borrowers. Savings reach $2.7 billion -- close to double the amount of loans outstanding, collected from savings in 5 million accounts. The Units are fully self-financing, and mostly computerized. Consolidated income statements of the 3,500 sub-district units operated by approximately 17,000 personnel are reported to the BRI headquarters within two weeks after the end of the month.

Between 1986 and 1991, USAID provided $9.2 million in assistance (technical assistance, training, commodities, hardware, and software) to BRI to develop its Unit system through the Financial Institutions Development (FID) project. The success of the BRI Unit system has already brought representatives of foreign governments, private banks, and other financial institutions to learn about sustainable microfinance services.

To cope with this high demand by visitors, the BRI Unit Division, with USAID assistance, implements a $1.8 million International Visitor Program (IVP), in which USAID/Indonesia (ARSSP) and USAID/Washington (MIP) jointly contribute half of the costs. This program builds staff and institutional capacity to share the BRI experience and knowhow with other developing countries. Starting in September 1995, the Program has been developing curricula, training and consultations for participants for a fully operational international-standard program by May 1998. To date, 31 delegations of 150 people have visited BRI to learn about the sustainable microfinance system. Visiting delegations include North and South American (United States, Bolivia, Ecuador, Dominican Republic, Columbia, Mexico), European (Switzerland, Poland), Asian (Nepal, India, Vietnam, China, Thailand, Bangladesh, Sri Lanka, Philippines, Bhutan, Japan, Kazakstan, Malaysia), and African (South Africa, Gambia, Egypt, Kenya).

CRS BPR Development: A Profitable Approach to Poverty Lending: In September 1995, CRS received a $2 million three year IGP Grant from USAID/Washington (MIP) to create PT. Ukabima (Usaha Karya Bina Mandiri), a financial company that will provide financial and technical assistance to small holder credit and savings banks, the Bank Perkreditan Rakyats (BPRs) in rural areas. The project was designed to transform and expand CRS's semi-formal poverty lending program into commercially viable financial institutions, from a program operated through 10 NGO partners serving 16,000 beneficiaries into 20 BPRs serving 32,000 clients, 80% of whom will be women. The project receives technical assistance from three sources: the CRS/Indonesia Enterprise Development Team, CRS Small Enterprise Development Technical Unit which is located in Baltimore, and the technical division of SIDI, which is a subsidiary of CRS/France.

Created in April, 1996, PT. Ukabima is expected to achieve break-even by the end of the third year of the Grant. PT. Ukabima is designed to provide equity investments, long-term loans, management training and technical support. It plans to create 10 new BPRs and expand the services of 10 existing BPRs so that these BPRs will be able to comply with GOI licensing and other regulatory requirements. PT. Ukabima participates in the BPRs' equity by taking a majority share (51%) in new BPRs, and a minority position (30%) in existing BPRs. Company revenues are expected to come from four sources: 1) investments from new BPRs; 2) investments from existing BPRs; 3) service fees for technical, management and training support provided to BPRs; and, 4) interest income from cash balances maintained on deposit at local banks. PT. Ukabima also forms partnerships with local organizations to provide on-site technical support and training to newly formed or existing BPRs as they re-structure and expand.

BPRs are privately owned, sub-district rural banks. BPRs provide savings and lending services to individuals, credit cooperatives, credit unions, and credit and savings groups. They provide loans from $5 to $2,500, repayable in 1-24 months. The average loan size is $150, and interest rates vary between 2% and 4% per month. A BPR can manage two types of savings instruments: short term deposits at market rates (now between 11% and 16%); and time deposits (between 18% and 22%) (After the July 1997 crisis it has increased by 5-10%). By law, BPRs must have at least $25,000 in paid up capital on deposit with the Central Bank (soon this will likely be increased as much as tenfold) . Start-up administrative expenses require another $25,000 for the first 12 months. Experience in Indonesia suggests that well-run BPRs are profit-making within the first two years of operation.

The Project invested an initial $54,000 to establish PT. Ukabima. To date, the Project prepared and approved the PT. Ukabima 3 year business plan, invested Rp600 million in 6 BPRs in Lombok, West Java, Central Java and East Java, soon to establish 2 new BPRs in Central Java and Bangka, and in partnership with the Muslim group NU (Nahdhatul Ulama) to create 9 new BPRs.

This activity promotes alleviation of poverty and empowerment of women, thus increasing their economic competitiveness. Although not a Mission project, the activity

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directly supports SO1 results framework, and conveniently serves to ground-truth policy work in domestic competition.

MICROFINANCE LINKAGES PROMOTION (MICROLINKS): USAID/Indonesia is interested in helping Bank Indonesia and the banking system to further refine and strengthen the system of intermediation between the large, commercial suppliers of credit and the system of rural banks (BPRs) which operate close to the end users and small and micro-credit. One idea is to support the creation of a business entity, which for discussion purposes here is called the new intermediary or INDO-BPR, to further operationalize the DABANAS linkage mechanism function. Conceptually, several functions can be identified for such an entity to perform for the benefit of small and micro creditors 1) leveraging various resources and serving as broker to channel commercial banks' KUK; 2) providing management services to the rural banking system (BPRs) such as support for initial operational set up including: operational manuals, loan application and approval procedures, accounting standards and financial reporting, standard hardware and software systems and procedures, customer and Government public relations; 3) establishing an information clearing house for the rural banking system; 4) facilitating loan guarantee and deposit insurance schemes; 5) providing internal supervision as needed; 6) developing human resources capacities through tailored training programs; 7) operating pilot BPRs in BPR-lacking areas; and 8) developing a franchising scheme to improve BPR performance and services. This is one scenario. There may be others. Ideally ownership structure of INDO-BPR is open. Initially, Dabanas, participating commercial banks, other interested investors, or even Bank Indonesia or Ministry of Finance contribute to the capitalization of INDO-BPR. Eventually, shares of INDO-BPR can be owned by participating BPRs as well as the general public. It is envisioned that this activity will take place for four years beginning in mid 1998. Benchmarks to be measured will include health performance of INDO-BPR and the implementing BPRs in terms of portfolio and outreach, interest rate policy, financial ratios and other analytic performance indicators. This will be performed on a quarterly basis and be used as a result reporting for USAID and concerned others. Discussion is now underway with BI and Bappenas for a technical assistant to proceed with the feasibility and design of this activity.

Loan Portfolio Guarantee Program in Indonesia: As early as ten years ago USAID/Washington (MSED) established a multi-million dollar loan guarantee program in Indonesia. It consists of 5 guarantee projects authorized as part of the LPG program. These guarantees established with privately-owned intermediate financial institutions (IFIs), cover loans the IFIs make to microenterprises and small businesses (MSEs).

The LPG Program focuses on increasing the amount of formal credit made available to MSEs, thereby ameliorating existing imperfections in the credit markets. USAID's guarantee is used by the IFI as a risk management tool as it reviews MSE loan applications. IFIs typically view MSEs as high risk transactions because they often lack sufficient collateral, credit history, or financial statements. The IFI uses the guarantee as a form of credit enhancement which helps to bridge the perceived higher

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risk of lending to MSEs. The LPG Program provides a 50% guarantee to credit worthy IFIs.

In March of 1997 five IFIs participated in the LPG Program in Indonesia to support them in their lending to small and microenterprises: PT. Bank Niaga ($3 million) for small businesses, PT. Bank Umum Nasional ($3 million) for small businesses, PT. Nusamba ($0.5 million) for microenterprises, PT. Bank Danahutama ($1.5 million) for small and microenterprises, and PT. Bank NISP ($1.5 million) for small and microenterprises. Together they make up a total of $9.5 million portfolio. Using the Central Bank definition of small and microbusinesses (maximum assets of Rp300 million), these banks have participated in the LPG Program as early as ten years ago and currently will expire as late as August 2002 (NISP). Since the beginning of their participation, there have been a cumulative total of 687 loans made to small and microenterprises with a total credit value of about $350,000. The median size of these loans ranges between $900 to $22,000.

Among these LPG banks, Danahutama is perhaps the most aggressive and innovative in utilizing the program. The Bank expands its network of borrowers by collaborating with a Foundation of a group of local rural banks (BPRs) in West Sumatra. This is one of the few programs by a private commercial bank, other than BRI, to expand significantly into lending for small and microenterprises off-Java.

OTHER ACTIVITIES

Policy Project for Microenterprise Development: Research on constraints, and models and techniques which can be used to overcome such constraints, to small and microenterprise development. Technical assistance to the Ministry of Cooperatives and Small Business in developing awareness of techniques for support of small business development.

Industrial Census/Survey of Small and Micro-business: Technical support for strengthening the existing industrial census and expanding it to include a detailed, periodic survey of small and micro-business establishments.

Research on the Role of Women in Microenterprise Trade: Research on the impact of gender on the patterns and operations of micro business to better plan programs to support micro business development. Research entity: PT Cemara Cipta, Jakarta

Microenterprise Lending Support: Technical support to Bank Rakyat Indonesia for the development of an international training center to demonstrate the methods and techniques of its highly successful microfinance operation (the Unit Desa program) to financial institutions from around the world. This activity is also sponsored financially by USAID's Global Bureau in Washington, DC. Technical support supplied by: Harvard Institute for International Development.

USAID/JORDAN

WHY MICROENTERPRISE?

USAID/JORDAN is supporting the development of sustainable miroenterprise finance in Jordan in order to increase economic opportunities for Jordanians (Strategic Objective 5). Specifically, the Mission is supporting reform of Jordan's financial sector (Intermediate Result 5.1) so that on-going, sustainable credit and attractive, liquid and safe savings programs are more readily accessible to poor micro- and small-entrepreneurs.

The Mission also promotes sustainable microfinance as part of our overall support for the Government of Jordan's World Bank-funded Social Productivity Program (SPP) and Economic Reform and Development Loan III. The SPP is designed to address the needs of the twenty percent or more of Jordanians who live below the poverty line (approximately US$ 369 per person/per year in 1992 prices) and the unemployed (approximately 15% of the formal labor force in 1997). The SPP is designed to alleviate poverty, create jobs and insure that the benefits of on-going economic reform are shared more equitably among all Jordanians. An important component of the SPP is increased services, including sustainable financial and business services, to poor micro-entrepreneurs.

PRIMARY FOCI FOR MICROENTERPRISE ASSISTANCE EFFORTS

Currently USAID/Jordan in conjunction with USAID/Washington's Office of Microenterprise Development (G/EG/MD) is funding programs to support sustainable microenterprise finance throughout Jordan, in both urban and rural areas. The mission's current program for support of sustainable microfinance seeks to have 25,000 active microenterprise borrowers by 2001. Of that number, the mission's initiatives are designed to assure that 50% of those active borrowers (approximately 12,500 clients) are poor women microentreprenurs and that 30% of microfinance loans (a minimum of 7,500 microloans) are provided to clients living outside of the metropolitan area of Amman.

PROGRAM ACTIVITIES

Beginning in late 1994 USAID/Jordan in collaboration with G/EG/MD began to support sustainable microenterprise finance in Jordan in a small way through two grants to the U.S. Private Voluntary Organization, Save the Children/Jordan (SAVE/JORDAN). The grants were awarded to support the expanded implementation of SAVE/Jordan's Group Guaranteed Lending and Savings ("GGLS") program for poor women in urban and rural Jordan. The GGLS program was designed by SAVE/US and adapted by SAVE/JORDAN to incorporate and apply worldwide lessons learned concerning best practices for providing sustainable microfinance to poor women microentrepreneurs via joint liability groups.

Since 1994 the overall SAVE/Jordan GGLS program has expanded from -0- micro-borrowers to 8,466 micro-borrowers in 1997. All clients are poor women microentreprenerus and all loans are provided at interest rates calculated to support operational sustainability within 5 years and full financial sustainability within 7 years. Historically, on-time repayment under

this GGLS program has been approximately 98 percent. Recently on-time repayment has dropped to 93 percent but was higher prior to Ramadan and the scaling-up of the Iraq crisis. Save/Jordan is addressing the underlying issues which have contributed to a decline in on-time repayment. In addition, in 1997 SAVE/Jordan helped to create a local NGO, Jordan Women's Development Society, which is now launched and implementing the GGLS program using SAVE/Jordan as a source of on-going technical advice and currently as the source of sub-grants for on-lending.

In July-August 1997, to further support the development of sustainable microfinance programs in Jordan, and as preparation for an expanded program, USAID/Jordan, in cooperation with G/EG/MD sent 12 professionals representing four local Jordanian NGOs and one U.S. PVO to the microfinance training offered by the Economic Institute in Boulder, Colorado. This cadre of Jordanian professionals is now providing a valuable intellectual core and an informed constituency for sustainable microfinance in Jordan. The Mission plans to replicate this training initiative for additional microfinance practitioners in Summer 1998.

Again, in mid-1997, the Mission in partnership with Jordan's Ministry of Planning, vetted a large, unsolicited proposal from the U.S. PVO, the Cooperative Housing Foundation (CHF). The proposal, entitled "Southern Jordan Access to Credit", sought capital funds and initial administrative funds to develop and implement a bank-linked micro- and small-enterprise business credit program targeted to poor, rural, micro and small entrepreneurs in the Southern Jordan Governorates of Kerak, Malan, Tafila and Aqaba. The proposal builds upon CHF's successful small loan program in another difficult area in the region, Gaza. It links CHF to some local banks and to a local NGO, Jordan River Development Projects ("JRDP"), in a four year effort to provide micro- and small-loans at financially sustainable rates to a large number of poor Southern business women and men. At least 50% of the borrowers will be women entrepreneurs. Under the proposal $4 million of USAID capital funds for micro- and small-lending will be supplemented by a minimum of $800,000 from the local partner banks: The Cairo Amman Bank, The Jordan National Bank and The Bank of Jordan. To support implementation of its proposal CHF was awarded a Cooperative Agreement in December 1997 and began operations in January 1998.

In July 1997, to provide performance-based technical expertise, training, commodities and policy studies to support the achievement of SO 5 (sustainable microfinance throughout Jordan and improved implementation of policy reform), USAID/Jordan issued a $13.8 million, fixed-priced, performance-based request for proposals (RFP). The RFP sought a U.S. contractor and subcontractors able to work effectively on a national basis in two key areas: development of sustainable microfinance and improved implementation of policy reform (both on the government side and through strengthening the policy analysis and advocacy capabilities of local private sector business associations). In the area of sustainable microfinance the contract requires the contractor, during the next four years to work to build a microfinance industry in Jordan with at least three institutions with 25,000 active microfinance borrowers, delinquency less than 5% and loan loss rates less than 2%, with 50% of borrowers being poor women microentrepreneurs and 30% of borrowers

from outside Amman. The contract will also be working to develop a viable model for linking microfinance to commercial banks and developing a cadre of at least 25 accredited Jordanian microfinance experts able to advise local and regional institutions on best practices. The contract for this work was fully competed, and during Fall 1997 was evaluated by a technical review committee including USAID/Jordan officers and representatives of the Ministry of Planning. In December 1997 the contract was awarded to the prime contractor, CHEMONICS, and its sub-contractors, FINCA, Sigma One, The Services Group and the Center for International Private Enterprise (CIPE). CHEMONICS and FINCA will be the lead implementers supporting the development of a sustainable microfinance industry in Jordan. Work began on February 2, 1998.

LOCAL SUCCESS STORIES

During 1997, the Mission has achieved strong results in expanding sustainable microfinance in Jordan through the on-going efforts of Save/Jordan and its local NGO partner, Jordan Women's Development Society. In addition, since the April 1997 approval by ANE of the mission's new Economic Opportunities Strategic Objective, the mission has set up the performance-based CHF and CHEMONICS initiatives and, with G/EG/MD, has provided additional PRIME and Mission funds to SAVE/Jordan for expansion of its program.

The Mission's clearest "success story" at this point is the strong performance and on-going expansion that has taken place under the Save/Jordan's Group Guaranteed Lending and Savings Program. A less noticeable success story is the growing constituency in Jordan for sustainable microfinance. This constituency has developed in large part thanks to the combined donor efforts of USAID/Jordan, the World Bank and the UNDP who have built an intellectual constituency for sustainable microfinance and presented a united front concerning the need to follow best practices for sustainable microfinance.

One major factor that contributed strongly to the increased interest in sustainable microfinance in Jordan is, in fact, the "best practices" microfinance workshop that took place in Amman, Jordan during March 1997. That workshop, co-sponsored by USAID, the World Bank, the UNDP and the European Union, focused greater attention on the value of sustainable microfinance in the lives of poor microentrepreneurs and on the need to assure sustainability through applying worldwide lessons learned in such areas as delivery strategies, sustainable interest rates. The widely attended conference demonstrated to officials from key ministries within the Government of Jordan, to commercial bankers, to local NGOs and to international NGOs/PVOs working in Jordan that microfinance lending could meet an unfilled yet high demand market segment in need of financial services.

CONSTRAINTS TO MICROENTERPRISE DEVELOPMENT

A January 1997 Private Sector Needs Assessment done for USAID/Jordan by CARANA Corporation, found that the main constraint to the development of micro- and small enterprises in Jordan was, and is, the lack of access to financial services. This is especially true for business persons that lack the large amount of collateral usually required of borrowers by banks or the

absence of well-to-do, or at least formally employed family members willing and able to co-sign for a business loan.

There are other constraints to microenterprise development in Jordan. The more formal constraints, which will be addressed under the CHEMONICS contract, include: the absence of a credit bureau; the inability to register security interests in personal property; a certain lack of quality production skills; the lack of marketing and administrative skills; an overabundance of regulations that affect micro- and small-business success; poor infrastructure in rural areas; banking policies which severely limit access to bank credit, especially for the non-landed poor and women; and a few laws which, if applied rigorously, might well prevent NG0s from providing loans at sustainable rates. In addition to these problems, the current legal environment in Jordan makes collecting on bad loans extremely difficult - especially if the borrower-defendant is poor or low income.

In the area of culture and religion, a fair number of Jordanians consider the charging of interest of any kind as being "haram", i.e. forbidden or sinful under Islamic law. While this point is debated among Islamic leaders in relation to microfinance, a broader aspect of this potential cultural constraint is the fact that many Jordanian Moslems and Christians have historically considered charging poor people interest, or at least high interest rates as usurious and highly unethical. In relation to these constraints, the Mission, working through CHEMONICS and FINCA, and in close coordination with the Ministry of Planning and other donors, will address some of these cultural issues through the "social marketing" of the benefits to the poor of sustainable microfinance. We will also support pilot initiatives that seek to apply Islamic banking principles to sustainable microfinance.

LEBANON

Not yet available

MOROCCO

Not yet available

WHY MICROENTERPRISE?

The Mission in Nepal supports microenterprise development as an important part of its efforts to contribute to poverty alleviation and to promote economic growth in rural Nepal. Nepal is one of the world's poorest countries. While agriculture remains a main source of livelihood for most rural households, only 14% of the country's land is cultivated, and the availability of new agricultural land is reaching a point of saturation. The food security span for many rural households is still only 3-9 months. Under these circumstances, the lack of access to adequate economic opportunities for off-farm income generation which would enable low-income families to provide better for themselves becomes another cause of rural poverty.

WHY MICROENTERPRISE SUPPORT TO WOMEN?

In Nepal as in other countries, a 'feminization' of the widespread poverty is taking place, visible not only in the large proportion of female poor, but also, and more importantly, in the severity of consequences for girls and women and the dimensions of their deprivation. Many factors constrain the advance of rural poor women in the economy, including limited education and mobility and, in some cases, cultural barriers restrict women's contact with institutions that may offer financial services. The high opportunity and transaction costs and the collateral requirements associated with traditional small-scale credit often renders this contact futile for the women, who rarely have title to significant assets. For the women entrepreneurs, the lack of access to credit limits the profitability and growth of their enterprises, and women's control over the household income is limited.

Microenterprise activities provide women with the opportunity to generate their own production assets which in turn enhances their influence in decision-making at home and increases spending on the well-being of the family. As studies show, income controlled by women is more likely to be spent on children and household needs than income controlled by men[1]. Access to economic opportunities like secure savings, non-collateral credit and business skills training provides women with increased disposable cash income and their contributions to the household income as well as their newly gained mobility as entrepreneurs enhance their self-reliance, visibility and influence at home.

To reduce the gender-biased poverty in Nepal, the Mission is focusing its microenterprise development program on rural poor women. To promote sustainable development for poverty reduction and social justice, USAID Nepal has adopted a Women's Empowerment strategy which supports women's economic participation in development by enabling them to start or expand their own income-generating microenterprises, and by enhancing their access to savings and credit services not only by strengthening their savings and credit groups in the short term, but also by building more sustainable, community-based

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[1] *Enhancing Women's Participation in Economic Development, A World Bank Paper*, The World Bank, Washington D.C., 1994.

microfinance institutions that can extend rural credit to women in the longer run.

PROGRAM ACTIVITIES

In 1997, nine "old generation" partners' grants ended, showing excellent implementation results for their final year, and four "new generation" partner agreements were signed, starting a three-year integrated program of women's empowerment (1997-2000) for a new cohort of 100,000 rural women across 24 districts in the southern plains and midwestern hills of Nepal. The main implementing partners are Pact, leading a group of three subcontractors (Save the Children US, World Education International, and Canadian Center for International Studies and Cooperation--CECI) in implementing the literacy and the economic components of the program, and The Asia Foundation implementing the legal rights awareness and advocacy component. All five of these INGOs will contract and work through national NGOs in the field.

The 100,000 women are being identified through an inventory survey of existing community-based economic groups in the target area, i.e. savings and credit organizations, credit unions, Grameen groups, natural resource user groups, advocacy fora, etc., that have more than 10 members and are engaged in an ongoing economic activity which involves monthly savings as a minimum. From this inventory, the implementing partner INGOs are selecting the program target group based on and favoring age, size and experience of the group, interest and need, market access and potential for product diversity.

Aggregating all IR-level interventions under the Strategic Objective of Women's Empowerment, an integrated package of assistance will, at a total annual cost of US$33.00 per woman, result in 100,000 women who have basic literacy skills, knowledge of their legal rights and advocacy skills as well as the skills to create, expand and sustain a microenterprise. To achieve this, the program targets 120,000 women for increased literacy, legal rights and advocacy skills; 101,000 women who will have access to savings and credit services; and 81,000 women who will report an average additional income to the household of Rs.100 (US$1.60) per month over at least three months, within 18 months of receiving credit.

To ensure the longer-term access by rural clients to microfinance services, the program also supports 200 community-based microfinance institutions (MFIs) with the aim of having them reach 75 percent financial self-sufficiency by the year 2000. The new generation program is putting in place a baseline of the new women's economic groups and a management information system to measure the empowerment success of the women individually and collectively in the economic groups over the next three years. For time and cost efficiencies, this effort has been built into one of the new partner arrangements.

Complementing the Women's Empowerment Program (WEP) are two important interventions funded by the Office for Microenterprise Development, namely the Sustainable Credit Delivery Program (SCD) implemented by Save the Children US in cooperation with the local Grameen replicate Nirdhan and several savings and credit associations, which will ensure access to microfinance services for 21,800 women; and the Center for Micro Finance in Kathmandu (CMF) implemented by CECI.

The CMF is established as a 'center of excellence' to further develop the microfinance sector and promote microfinance best practices by collecting, documenting and disseminating best practices and approaches specifically addressing the needs of women clients, through training, technical assistance and networking with practitioners, donor agencies and GON representatives. This program also monitors the progress of a plan for the divestiture of the five GON-owned Grameen banks whose subsidized credit continue to distort the market. Recently, a 3-year phased removal of interest subsidies to start in July 1997 has been proposed by the national bank. In addition, the CMF has just completed a compilation and analysis of microfinance best practices among community-based savings and credit organizations in Nepal. The newly started Center has hosted one study tour to MFIs in the South Asian region, and a possible link with the South Asian Network of Microfinance Initiatives, SANMFI, is being discussed.

PROBLEMS IN MICROENTERPRISE DEVELOPMENT IN NEPAL

The topology of Nepal and the under-developed infrastructure combined with the relatively scarce population and the very few market centers (towns) in the hills of the country makes microfinance service and microenterprise development difficult in and of itself, and discourages the existing banks to enter and cultivate the potential market. Aiming, as the Mission does, to extend microenterprise development to women in these hills who are generally illiterate, occupied by unpaid house and farm work for 10 hours of the day, and bound to the home, hearth and husband by tradition does not make the task any easier. Where as Grameen type microenterprise development works to some extend in the densely populated and more developed southern plains, this model cannot be relied upon in the hills. Here, a large number of small group-guaranteed lending schemes capitalize microenterprises, and the sustainability of these community-based models is being sought ensured by federating the groups into larger clusters as credit cooperatives.

Presently, the microfinance sector in Nepal consists of a plethora of organizations implementing and planning programs to extend the availability of microfinance services. Not all organizations have equal or sufficient experience, some programs are more sustainable than others, and a number of programs are not getting advice and support which conform to international best practices in the field. There are few standards set and the ones available are not necessarily agreed to by all. In addition, there is very little communication between the traditional 'blocks' of actors in the sector (government/central bank, commercial banks, NGOs, credit cooperative movement, donors etc.). This leads to problems in the field of competition among the few best practice-based microfinance programs and the substantial amounts of subsidized capital made available either as grants or seed money from donors or as priority sector arrangements from the government.

In short, the microfinance sector in Nepal is still in its infancy. There is, however, interest for and earnest attempts ongoing to elaborate the mechanisms by which programs may achieve the scale and scope required for a broad-based impact, and by which the actors in the sector may become more professional and committed to achieving best practice implementation and institutional viability - and USAID is a key

supporter of these initiatives.

PORTRAIT OF AN SO-3 WOMAN

To give readers an impression of the level of development from which most Mission microenterprise program clients start, the president of a small, but very well-functioning women's savings and credit group in a remote village in the hills of midwestern Nepal, Kaushila Chand, presents her story below. Her group, the Samaj Sewa Women's Group, has 75 (women) members, all saving regularly and taking loans from the group funds. The maximum loan size of the group is rs. 3,000 (US$47.00), and none of the portfolio is currently at risk. The group has also managed to obtain a loan from the Agricultural Bank of Nepal for a community water reservoir which enabled the village to install both a drip irrigation system and a micro hydropower turbine, boosting productivity for the farmers of high-value agricultural products under the auspices of the SO-1 Market Access for Rural Development Program.

Kaushila Chand is twenty-seven, and has a ten-year old daughter. Her husband left her seven years ago, and as Kaushila had no land of her own, she and her daughter had to move in with her uncle's family in the village of Ratikhola in the hills of midwestern Nepal. Through the Women's Economic Empowerment project supported by SO-3, new income generation activities had started in Kaushila's village, including a savings and credit group. Kaushila had been making a little money from raising goats, and joined the savings and credit to invest her earnings.

Kaushila took a loan from the group to buy a few goods from the larger market to sell in her village. Her "shop" is so small that Kaushila jokingly refers to it as "the shop I run from my handbag". Nevertheless, because of her initiative and active interest in the group, Kaushila was elected chairperson of the savings and credit committee this year.

Kaushila continued to invest her earnings in new activities, like buying improved breed goats to raise and sell at the big *Dasain* festival in October when goat meat is eaten all over Nepal, and the price is good. She persuaded her uncle to let her use three *ropani* (0.15 hectares) of land to grow vegetables for sale during the off-season. This activity is supported by the Market Access to Rural Development Project of SO-1. Last year was her first crop, and she made 20,000 rupees (US$ 317) from the sale of most of the vegetables. Still enough remain so that the family can eat vegetables with their meals too.

Kaushila proudly tells how she recently went to Dailekh Bazaar (a one-day walk from her home) to buy banana trees from the horticulture farm there to grow and sell. Kaushila explains that before her involvement with the savings and credit group she never went to the bazaar. Now she goes regularly to buy things.

But what excites Kaushila the most is that she ran for office in the last local elections. Even though she lost her bid to represent her ward in the village council, she says: "I never would've imagined running for the village council," but through her involvement in the savings and credit group she has gained the confidence to do many things she never dared to do before.

Kaushila is very concerned, however, about the education of her daughter. Kaushila says that through her role as chairperson of the savings and credit committee she has understood the need for education. She herself has great difficulties reading and writing as she never went to school, and she is desperate to improve her skills so that she can do a better job as chairperson. This experience has made Kaushila determined to give to her daughter the education she herself was unable to get. The money Kaushila is making now from her vegetables, goats and the shop is ensuring the education of her daughter. One month ago, Kaushila herself and 16 other group members signed up for the basic literacy class started under the Women's Economic Empowerment Program. When they master basic literacy, the business literacy course will start, and Kaushila is looking forward to this.

WHY MICROENTERPRISE?

An important component of the Government of the Philippines' Social Reform Agenda is poverty alleviation through the provision of greater access to credit by the poor. Consistent with this thrust, the Mission's microenterprise assistance portfolio deals with initiatives to improve the policy and institutional environment that will result in increased access by microenterprises (generally the lower income groups) to financial services from sustainable financial institutions. Furthermore, we are now concentrating our efforts on assisting the development of microfinance delivery mechanisms that are characterized by financial sustainability, full cost recovery, significant scale of operations, mobilization of available local resources, and adherence to market principles. While the Mission supports microfinance policy reforms at the national level, it has focused its institutional interventions in microenterprise development and microfinance in Mindanao.

PRIMARY FOCI FOR MICROENTERPRISE ASSISTANCE EFFORTS

Our primary foci for our microenterprise assistance efforts are twofold - policy and institutional level interventions:

1. At the national level, we are focusing our efforts on creating an enabling policy environment for an expansion of microfinance services by existing and future formal financial institutions

2. At the institutional level, we have focused our efforts in the Mindanao Area to assist three types of institutions: rural banks, credit cooperatives,and NGOs. We are also providing assistance to microentrepreneurs to develop and expand their businesses.

PROGRAM ACTIVITIES

Following is a summary description of microenterprise development activities that the Mission is currently supporting.

1. Microfinance Policy Improvement Program (M-PIP)

The M-PIP is a policy improvement program that is designed to assist the National Credit Council (NCC)in the creation of an enabling policy environment for the expansion of microfinance services through sustainable financial institutions. The activity is being implemented by the International Management and Communications Corporation (IMCC) under a USAID direct contract. Among others, this activity includes the conduct of a number of policy studies, the result of which provide factual basis for the advocacy efforts to encourage the adoption of proposed policy changes.

2. Microfinance Standards Project

This is a microfinance development project implemented by Tulay sa Pag-unlad Inc. Its main focus is the

development of a set of core standards in microfinance, evolved through the extensive review of field experiences, based on the results of a national survey of microfinance institutions and studies on international practices. The objective is to have these standards formalized and adopted, initially, by a group of more than 50 NGOs and concerned policy and donor agencies. This will be followed by enhanced advocacy efforts with national policy groups on the proposed standards as well as on specific reforms to create a favorable policy environment for microfinance.

3. Microenterprise Access to Banking Services in Mindanao(MABS-M)

The MABS-M Activity will provide training and technical assistance to expand banking services, including deposit and loan services, to microenterprises and other groups at lower socio-economic levels in Mindanao.

Together with the Rural Bankers Research and Development Foundation Inc. (RBRDFI), the action arm of the Rural Bankers Association of the Philippines (RBAP), MABS-M will encourage and assist a number of rural banks to significantly increase the services they provide to the microenterprise sector. As a result of experience gained through their participation in MABS-M, participating banks, and eventually other rural banks in Mindanao, will make service to microenterprises a regular part of their portfolios. The program is being implemented by Chemonics International under a USAID direct contract.

4. GRF's Dev Fi-Hublag Project

The Dev Fi-Hublag Project is a fully PRIME-funded grant to the Gerry Roxas Foundation to support GRF's efforts at strengthening the DEV FI-Hublag model with a voluntary savings program and simultaneously replicating both its credit-savings operations in Mindanao in partnership with other NGOs, PVOs and POs already in place and identified as receptive to change in their development philosophy as well as possessing the potential for sustainable microfinancing operations. A major objective of the program is to assist Dev Fi-Hublag in its efforts to transform into a formal financial institution.

5. Growth with Equity in Mindanao (GEM)

The GEM program is the principal element of the Mission's effort to help accelerate the economic growth of Mindanao, capitalizing upon the increased public and private investment that is starting to flow into Mindanao, attempting to assure that it continues, and attempting to assure that the benefits of this investment are shared as widely as possible among the people of Mindanao.

Under the program, microenterprise development initiatives include assistance to farmers organizations, fishermen's cooperatives and other microenterprise trade associations to

make them aware of emerging market opportunities created by new and anticipated business investments. Assistance is also provided to enable these groups to respond to those market opportunities by providing technical training, assistance in tapping new markets, and by facilitating access to bank financing .

Main host country counterpart for the GEM Program is the Office of the Presidential Assistant for Mindanao. Louis Berger International Inc. (LBII) is the USAID contractor tasked to implement the project.

6. Pearl S. Buck Foundation (PBSF)

The Pearl S. Buck Foundation activity is a grant to enable PBSF and a number of their local NGO partners to form a broad based coalition that will collaboratively create and implement programs to empower Amerasians and their families. Some 3,400 abandoned Amerasian children and their caregivers currently benefit from the programs of the PBSF which include educational support, medical assistance, livelihood generation, counselling, and peer group social activities. The grant includes a microcredit component which PBSF implements through six local organizations. (See MRR institutional questionnaires for a listing of the local organizations.) Credit at market rates of interest are made available to Amerasians and their caregivers to enable them to start or expand microenterprise activities.

LOCAL SUCCESS STORIES

Microfinance Advocacy efforts supported by USAID had several successes in 1997 in the effort to ensure the sustainability of microfinance programs. Thanks in part to these efforts, two legislative acts passed in December 1997 were positively affected:

Social Reform and Poverty Alleviation Act. The Philippine Congress passed this Act to ensure that GOP funding will be used for training and institutional development of microfinance lenders, to reduce dependency on subsidies (such as interest rates and equity infusion), to emphasize the mobilization of savings, and to strengthen the National Credit Council mandate to rationalize existing directed credit and guarantee programs.

Agriculture and Fisheries Modernization Act. The Philippines' goal of approving this Act is to adopt market-based interest rates, to phase out directed credit programs of the Department of Agriculture, and to eliminate the provision of credit subsidies.

In addition, USAID assisted the National Credit Council in drafting a ***National Strategy Paper on Microfinance.*** The strategy covers the role of formal financial institutions and has a market-based orientation. The paper was presented to other donors in the Philippine Consultative Group subworking

group on poverty alleviation in order to improve the quality of microfinance efforts across the board.

We believe that USAID/Manila's microenterprise/microfinance activities has had substantial impact in raising awareness about the value and principles of sustainable microfinance in the country.

PROBLEM AREAS FOR MICROENTERPRISE DEVELOPMENT

Microfinance, a significant component of microenterprise development, is presently undergoing a dramatic evolution in the Philippines. The evolution is mainly a shift in the concept of microfinance as purely a dole out mechanism for cheap sources of loan funds (such as those provided by donor grant money or subsidized funds from government) to the concept of sustainable microfinance which is anchored on the principles of market orientation, emphasis on savings mobilization and operational efficiency of microfinance institutions.

This is a critical stage for microenterprise development in view of the often conflicting mindset of people in government who, because of politically motivated concerns, may resist efforts to move away from the provision of government funded/ government run, subsidized credit programs using non-traditional conduits for these loan programs such as NGOs and government non-financial institutions. The M-PIP project, thus far has been successful in making significant strides towards the goal of establishing a policy environment conducive to microfinance. However, with the Philippine presidential and local elections in the horizon (May 1998), challenging times are ahead. Advocacy activities will have to be intensified with the new set of elected officials to insure that gains already made will not be cancelled and that the momentum that has been achieved so far will be sustained.

At this time, a number of other donors are also actively working on microenterprise development in the Philippines. Thus, there is a need for intensified effort in donor coordination. While a good number of donors operate along the lines and principles of sustainable microfinance, still a good number of donors offer loan facilities at highly concessional rates. Some also channel the funds through the government. Activities of the some donors negate those of other donors with the end result of a confused direction for microenterprise development.

SRI LANKA

USAID/ SRI LANKA

USAID Sri Lanka's Revised Country Program Strategy (CPS) was approved in February, 1997. The revised CPS was focused on a strategic objective for economic growth and a special objective for democracy and humanitarian affairs. The Sustained Economic Growth Program (SEGP) continued under the revised CPS framework as the key vehicle for planning, implementation and management of the mission's economic growth activities. The Microenterprise Support Activity (MESA) continued under SEGP. A high degree of synergy exists beween the mission's economic growth strategic objective and the democracy and humanitarian special objective. In view of this synergy, MESA will also coordinate microenterprise related activities which are planned and implemented under the democracy and humanitarian affairs special objective.

The mission is committed to a microenterprise program because of the years of experience in this field and the results which the mission believes to be significant and appropriate to Sri Lanka's development, whether in the area of economic growth or democracy and humanitarian affairs. The non-governmental organization community has been and continues to be extremely active and engaged in microenterprise development because it is aimed at people and their livelihood. USAID Sri Lanka's partnership with these organizations has gained much of its experience and learned many key lessons about microenterprise development. These lessons were applied when MESA was designed and used again as we assessed priority activities.

USAID Sri Lanka awarded its first microenterprise grant to the Women's Development Federation (WDF) to capitalize its poverty lending portfolio. The WDF has a membership of around 25,000 women who reside in one of Sri Lanka's poorest districts. The credit focussed program also promotes savings which is an important ingredient of the intermediary process. The WDF also conducts a training program for its members on animal husbandry, maternal and infant health, family planning and entrepreneurial skill development.

In 1997, MESA supported microenterprise activities through partnerships with AgroMart and with the World Council of Credit Unions (WOCCU) working with the Sanasa Federation and the Thrift and Credit Union.

WEST BANK/GAZA

USAID/WEST BANK

USAID/West Bank's strategic objective "Expanded Economic Opportunities" is designed to increase private sector economic opportunities for Palestinians. The Mission's microcredit activities under this Objective are aimed to increase access to sustainable, broad-based and long-term sources for formal credit. Such sources will improve private sector opportunities to achieve increased incomes.

The Mission's approach to microenterprise has evolved in response to changing conditions. It was originally anticipated that funding for NGO poverty-level microloan programs would be provided for a limited (1-2 years period) only, and USAID would concentrate on development of microlending through the banking sector over the longer term. With findings showing that poverty-level lending (loans of $300 or less) is not profitable for commercial banks, and, hence, not an attractive product for banks to offer, NGO programs must fill the gap at this level of loans.

USAID has expanded its support in this field in two areas:

Assistance to NGOs:

USAID increased funding for Save the Children's (SCF) Group Guaranteed Lending and Saving program, a program that targets women exclusively. Consistent with the Agency's "best practices" guidelines, SCF will also establish and fund loan capital for a local microfinance institution to ensure localization of microlending practices. They have adopted the group guarantee lending technique as a collateral substitute, and the loan amount starts as low as USD 210. The incentive for prompt repayment is the assurance of future access to higher loans. Understanding the importance of sustainability, SCF is charging an effective interest rate that ensures covering all operational cost, expected loan losses and cost of funds. Their repayment rate has been as high as 98%. Between 1998 and 2000, approximately 30,000 microloans will be provided through USAID-funded NGO program.

To expand the volume of credit available to micro entrepreneurs, the Mission granted loan capital to The United Nations Refugee Works Agency's (UNRWA) microcredit activity in Gaza, a program that has two components, the Solidarity Group Lending Program (SGLP) and the Micro Enterprise Credit (MEC). Each component differs in target group, guarantee requirement and loan amounts as illustrated in the following table:

	SGLP	MEC
Minimum Loan Amount	USD 270	USD 810
Maximum Loan Amount	USD 2,973	USD 6,486
Target Group	Only Women	Both
Location of Project activities	Rural & Urban	Rural & Urban
Guarantees	Group Guarantee	Two Guarantors

Assistance to Commercial Banks

The banking system offers an existing branch network through which microlending can be administered and an environment in which sustainability and expansion are more readily achievable. To expose bankers to successful micro-credit practices, in 1996 USAID sponsored a series of workshops for Palestinian bankers and visits to the Alexandria Business Association to demonstrate that organization's micro-credit methodology. These workshops and visits generated bank interest in microlending and led to USAID's commercially-base microcredit activity that began in August 1997. This two-year activity is implemented through two local banks (Arab Bank and Bank of Jordan) and one U.S. contractor (Chemonics). The banks have each committed to provide up to $3 million in loan capital and agreed to bear all commercial risks associated with the program. USAID is participating in the operational cost of establishing the microenterprise finance facility within the banks, and is providing the technical assistance needed, and other related MIS-commodities, to implement a state of the art program at initially four selected branches. Finding an appropriate Arabic MIS for the activity has been a challenging task. The market in the West Bank and Gaza, as in other places, lacks a comprehensive suitable MIS for the banks to use to monitor and mange the activity. Therefore, the contractor is modifying an existing MIS in Egypt to install in the local banks.

The loans will be given to micro businesses in the West Bank and Gaza for short-term working capital. Banks will exert their best effort that at least 75% of the loan portfolio for the first year will consist of loans less than USD 2,000. The lending program will emphasize that access for future higher loan amounts is the incentive for prompt repayment of existing loans. The total principal amount of a single qualifying loan made to one borrower may not exceed USD 10,000 or the local currency equivalent in Jordanian Dinars or New Israeli Shekels.

The combination of poverty lending through NGOs and larger loans through participating commercial banks gives USAID the opportunity to put sustainable programs in place that can scale up to meet the full demand for microloans.

REGIONAL PROGRAMS

Not yet available

EUROPE and the NEW INDEPENDENT STATES Bureau

1. Albania
2. Armenia
3. Azerbaijan
4. Bulgaria
5. Caucasus
6. Central Asian Republics
7. Georgia
8. Hungary
9. Kazakhstan
10. Kyrgyzstan
11. Macedonia
12. Poland
13. Romania
14. Russia
15. Tajikistan
16. Turkmenistan
17. Ukraine
19. Uzbekistan

Contact List
for
EUROPE AND NEW INDEPENDENT STATES BUREAU
FIELD MISSIONS
(as of January 1, 1999)

1. USAID/ Albania:	Michael Radmann
	Anila Arapi
2. USAID/Armenia:	Emily McPhie
	Craig Noren
3. USAID/Azerbaijan:	Diana L. Swain
	Craig Noren
4. USAID/Bulgaria:	Nikolay Yarmov
	Scott Kleinberg
5. USAID/Caucasus:	Diana L. Swain
	Craig Noren
6. USAID/Central Asian Republics:	Carol Jo Rushin-Bell
	Dianne Tsitsos
7. USAID/Georgia:	Diana L. Swain
	Craig Noren
8. USAID/Hungary:	Melissa Brinkerhoff
	Jim Dzierwa
9. USAID/Kazakhstan:	Carol Jo Rushin-Bell
	Gary Linden
10. USAID/Kyrgyzstan:	Carol Jo Rushin-Bell
	Glenn E. Anders
11. USAID/Macedonia:	Stephen Szadek
	Elizabeth Markovic
12. USAID/Poland:	Magdalena Wyganowska
	Tom Clarkson
13. USAID/Romania:	Peter Lapera
14. USAID/Russia:	Kevin Armstrong
	John Beed
15. USAID/Tajikistan:	Glenn E. Anders
16. USAID/Turkmenistan:	Glenn E. Anders
17. USAID/Ukraine:	Oksana Litvinovska
	Earl Gast
18. USAID/Uzbekistan:	Alexander Kalasnikov

ALBANIA

Not yet available

PROGRAM ACTIVITIES

Five service providers were engaged in microenterprise activities using USAID FY 1997 funds: (a) four under the Save the Children umbrella: World Vision, CARE, A&L Business Center, and Sisian Business Center; and (b) IESC. In addition, FINCA (under the Enterprise Fund) and ACDI/VOCA conducted operations using USAID funds from FY 1996. UMCOR, which receives USAID funds for other purposes, employed USDA local currency monetization funds to create a notable microenterprise credit activity. The FY 1997 Armenia microenterprise program of USAID totaled $835,000, of which about $174,550 was subobligated for credit awards to 100 borrowers. At least 65 of these beneficiaries qualify under the terms of "Poverty Lending". The remainder of the funding was devoted to technical assistance and training of beneficiaries and support of credit and technical assistance facilities.

1. World Vision International (WVI): Funding from USAID is subobligated under the Save the Children umbrella agreement. Additional funding came from the World Vision parent organization, German aid (GTZ), USDA and the Peace Corps.

At the close of the calendar year, about $163,250 was expended in 71 loans with carrying values ranging from $500 to $3,000. Approximately $70,000 of this amount was devoted to credits of no more than $1,000. Twelve percent of the beneficiaries were women. The program was devoted to support of businesses which are formally registered with the local government. No loan loss and no repayment arrearage was recorded since the program began in May 1997. While the program is not yet operationally or financially sustainable, WVI plans to continue it for at least 7 years until sustainability is achieved.

Non-credit activities for microenterprises in FY 1997 included technical assistance in marketing, training of potential beneficiaries, credit program monitoring, and grants (up to $500) to help businesses qualify for credit. The cost of these services was approximately $230,230. A total of 547 businesses (1,250 entrepreneurs) benefited.

2. CARE: Funds were subobligated under the Save the Children umbrella agreement to CARE with the objective: "To Relieve Human Suffering" (SO 3.1). About $110,000 was used by CARE to establish an "Agro-service Enterprise" (currently a micro enterprise) in the northern (Shirak) region as a credit management facility. As part of the development program, loans (in kind) for agricultural production purposes were made to farmers. The "Enterprise" is not yet self-sufficient, however the independence of the organization is expected in the next 5 years.

3. A&L Business Center: The Save the Children umbrella agreement subobligated $24,958 to the Business Center for the purpose of conducting business training. About $12,689 of this amount was used for start-up grants and for business training in the City of Vanadzor. Thirty-two businesses benefited from the training, and 70 new jobs were created as a result of the assistance.

4. Sisian Business Center: Both the A&L Business Center in the north of the Republic and the Sisian Business Center to the south were established by, and continued

to be assisted through, the Peace Corps. About $23,400 was subobligated by Save the Children for the micro credit program in the Sisian Center. Some $11,300 was awarded as loans to 29 micro businesses at 13 percent interest. The average loan value is $390. Only one of these credits has been repaid to date. Another $5,500 was devoted to beneficiary training and start-up grants. The average grant size was $198 and 23 entrepreneurs benefitted.

5. International Executive Service Corps: USAID/C microenterprise funds were also obligated under Strategic Objective 1.3 (SO #1.3): to "Accelerate Development and Growth of Private Business." The target of the program is small and medium size business, and this included microenterprises in FY 1997. Approximately $282,684 was expended in FY 1997 (out of $500,000 from USAID) to benefit 14 microenterprise firms of 10 employees or fewer. The total number of IESC clients during the year was twenty-five. The IESC program incorporates several activities: American Business Linkage Enterprise (ABLE) in which volunteer experts in the U.S. prepare market research reports, Volunteer Executive Projects in which retired US business experts who remain in the U.S. apply their expertise by mail to assist local firms, and assistance from volunteer executives who visit Armenia.

IESC provides only non credit (technical) assistance which is focused on fostering new jobs, new business practices and opportunities through strengthened private enterprise and business associations. IESC reports the following successes in working with microenterprise clients:

1) Beginning last year and continuing to FY 1997, The Armenian Business Support Center (16 employees) has successfully introduced an indigenous microenterprise training program into small towns in rural areas. Another consulting firm, Apricot Plus Training and Consulting (8 employees), used IESC and $30,000 from The Academy for Educational Development (another USAID funded contractor) to do the same in Yerevan. A self-help group titled the "Business Managers Club" was established as a forum to share information and to conduct additional training. Apricot Plus reports that 54 entrepreneurs achieved a higher level of management expertise as a result of hands-on TA, while 44 businesses benefitted from training programs. Twenty new trainers and consultants have been certified competent to perform business assistance training in Armenia.

2) Linza Optical Company (8 employees) increased sales by 30% as a result of expert advice received from IESC. A working capital loan was granted by a financial institution and new equipment was purchased as a result of the assistance.

3) Octa Records and Recording Studio (7 employees) increased its market share by 9% as a result of changes made with IESC assistance. Sales increased by 20%.

4) Aviem Tapem Poshin Waste Recycling (10 employees) increased revenues by 15% and added capacity which will take it out of the microenterprise sector in the next

year (12 jobs will be added).

5) Sed Marsed Consulting (4 employees) increased its sales of market reports by 20% as a result of the creative econometric analysis methodology introduced by IESC consultants.

6) CEDIT - Software Development (10 employees) was able to secure foreign capital investment of $800,000 in order to extend its services offshore. This firm is also expected to graduate from the microenterprise sector in the next year when it adds 4 new jobs.

Volunteers in Overseas Cooperative Assistance (ACDI/VOCA): Making use of $345,000 of USAID funds provided to the NGO in FY 1995 and 1996, VOCA has provided technical assistance to small and medium size businesses, including microenterprises for the preparation of business plans, marketing plans, feasibility studies and small start-up grants. To date, 17 microenterprises have been started and 23 additional enterprises have benefitted from the assistance.

United Methodist Committee on Relief (UMCOR): Making use of monetized funds derived from USDA commodity donations to Armenia, UMCOR has organized a successful micro credit program called AREGAK ("Sustainable Guaranteed Agricultural Assistance for Women"). A capital fund of $1.0 million is focussed in the southern town of Yeghegnadzor. The program, which began in May, 1997, has 600 outstanding loans with an average (and maximum) individual loan value of $300. Approximately one third of the credits (200 loans) are for purposes of agricultural processing and services. The remainder of the loans fund aspects of agricultural production. Loan terms include a 3 percent per month interest rate for up to 9 months. Ninety percent (90%) of the borrowers are women.

PROGRAM ACTIVITIES

World Vision International (WVI): Only WVI is engaged in microenterprise activities in Azerbaijan with FY 1997 USAID funding. The Save the Children umbrella program provided a sub grant to WVI of $154,889 for "Relief of Human Suffering" (SO #3.1). All of the borrowers (905 in 1997 and 247 in 1996) qualify as "Poverty Lending" beneficiaries. The average loan value is $171. In addition, hands-on technical assistance and on-going training is undertaken in such topics as the preparation of business plans, marketing plans and cash flow analysis. The microenterprise credit program benefits borrowers in Baku/Sumgait, Mingechevir, Gange and Gazakh. About 43% of the beneficiaries are women who are Internally Displaced Persons (IDPs). Some four percent of the outstanding loans were overdue or unpaid at year end. No losses have been written off to date. In keeping with the very successful credit programs WVI undertakes in the other Caucasus republics, the NGO intends to make the Azeribajan program self sufficient in 7 years or less.

Volunteers in Overseas Cooperative Assistance (ACDI/VOCA): VOCA has provided technical assistance in market research and institutional strengthening to six agribusiness microenterprises in rural Azerbaijan. This non credit program made use of about $345,000 of USAID funds provided to the NGO in FY 1995 and 1996 through the "Farmer to Farmer" program. Training was also undertaken in selected topics to improve business skills and general enterprise management.

BULGARIA

Not yet available

USAID/CAUCASUS
(Georgia, Armenia, and Azerbaijan)

WHY MICROENTERPRISE?

Until 1998, USAID/C undertook microenterprise activities largely as part of its Strategic Objective Number 3.1 (SO #3.1) "Reduced Human Suffering." The objective was Poverty Alleviation with a specific focus on internally displaced persons (IDPs) who became refugees as a result of civil unrest in the three newly independent states. Save the Children has been the umbrella organization for nearly all microenterprise activities in the region. To carry out these activities it has sub-obligated funds to international and local non-governmental organizations. In addition, the International Executive Service Corps (IESC) and Volunteers in Overseas Cooperative Assistance (VOCA) programs under the Strategic Objective Number 1.3 titled "Accelerated Development and Growth of Private Enterprise" have furnished technical assistance to small businesses that meet the definition of microenterprises.

In recognition of the improving economic conditions in the Caucasus, agreements with service providers for services under SO #3.1 are terminating in FY 98 . The rationale for microenterprise activities in the Caucasus beyond 1998 will fall under SO # 1.3. USAID's justification for the microenterprise program will increasingly be placed on achievements in job and income creation and the development of financial institutions serving microenterprises on a sustainable basis.

PRIMARY FOCI FOR MICROENTERPRISE ASSISTANCE EFFORTS

The focus of the Mission program in Georgia and Armenia is on both urban and rural enterprises (excluding enterprises engaged in crop production), while predominately rural enterprises have benefitted in Azerbaijan to date. In the Caucasus, microenterprise activities encompass programs of credits and grants to microenterprises as well as training and technical assistance to intermediary institutions and microenterprises themselves. The total FY 1997 Caucasus program of microenterprise assistance is valued at $2,940,000. Of this amount $427,439 was devoted to credit activities (14.5%) to benefit 1,260 borrowers.

TRANS CAUCASUS ENTERPRISE FUND

Shorebank/FINCA: The Trans Caucasus Enterprise Fund was obligated with FY 1996 carryover funds. The Strategic Objective under which this initiative falls is SO # 1.3, "Accelerated Development and Growth of the Private Sector." Under the Fund, Shore Bank and The Foundation for International Community Assistance (FINCA) were awarded a cooperative agreement to assist the business sector in the Caucasus. The role of promoting microenterprise development is assigned to FINCA. No sub-obligations have been made to assigned sectors of the business continuum pending the completion by the partners of their on-site analysis and Work Plan.

FINCA began operations in Georgia in April 1998. FINCA operates on the "Village Bank" principle of micro credit lending. FINCA loans have a carry-value limit of $1,000. According to its Operational Plan, FINCA will devote the first year to preparations leading to full scale savings and credit operations in 1999. FINCA is committed to award an estimated 500,000 loans throughout the Caucasus to reach 21,000 microenterprises by FY 2002 While the Georgia Government insists that local institutions accepting deposits of money from the general public are licensed, a special arrangement in the Georgia law which applies to NGO village banks is judged less onerous than parallel legislation in Armenia.

FINCA began operations in Azerbaijan in April 1998, and proposes to complete 100 microenterprise loan awards by the end of the first year.

USAID/CENTRAL ASIAN REPUBLICS
(Kazakhstan, Krygyzstan, Tajikistan, Turkmenistan, Uzbekistan)

USAID/Central Asia Republics (CAR) supports several microfinance projects in Central Asia. Implementing partners include Central Asian American Enterprise Fund (CAAEF), Mercy Corp., ACDI/VOCA and FINCA. Technical assistance to small business entrepreneurs and local governments regarding micro and small enterprises is also provided by Counterpart Consortium, AED Training and indirectly through other USAID/CAR programs.

NON-FINANCIAL MICROENTERPRISE ASSISTANCE–REGIONAL

USAID in the Central Asian Republics has been providing technical assistance throughout the region for policy reforms which improve the economic environment, thereby creating better opportunities for small enterprise development. Throughout Central Asia, training and exchange programs implemented by AED and Counterpart Consortium support small enterprise development.

USAID's Trade and Investment Team has noted some success in reducing import and export custom barriers which could effect the practices of small and medium businesses. The Team has also conducted a survey into the legal and credit barriers to small enterprise development and has worked to eliminate these barriers in much of the region.

CONCERNS REGARDING SME DEVELOPMENT

The overall challenge for the Mission in Central Asia is to ensure the proper implementation of responsible business related rules, regulations and codes by local customs and tax personnel and other law enforcement branches of local governments. The Mission is working towards these goals through technical assistance, training programs and monitoring of local Parliamentary sessions.

See the individual country headings for more details on country specific concerns.

PROGRAM ACTIVITIES

Eight service providers are engaged in microenterprise activities in Georgia with FY 1997 USAID funding: World Vision; CARE, IOCC, IRA; local NGOs CONSTANTA, ABKHAZETI and Georgia Arts and Culture Center; and IESC. In addition, FINCA, under the Enterprise Fund, and ACDI/VOCA have undertaken activities using USAID funds from FY 1996. The Georgia microenterprise program for FY 1997 totals $1,950,000 of which about $98,000 is sub obligated for credit awards to 255 borrowers. At least 200 of these borrowers qualify under the "Poverty Lending" limits for credits of no more than $1,000. The remainder of the funding is devoted to technical assistance and training of beneficiaries and general field support.

World Vision International (WVI): The Save the Children umbrella provides funding for the WVI Small Business Credit activity for purposes of "Relief of Human Suffering" (SO 3.1). It started under the Small Enterprise and Education Development (SEED) program, and in FY 1997 received funding of $198,000.

The focus of WVI's current microenterprise program is job creation or family income generation among IDP families. The demand for small business credit is strong; currently an average of 20 credit applications are submitted to WVI each day. Loan capital, however, is sufficient to provide only 10/12 new loans per month. WVI has established a 5 year program plan to make the small business credit program self sustaining. At present the program's progress is well ahead of the 5 year plan.

Beginning in May 1997 through to the close of the Calendar Year a total of 117 loans have been awarded to entrepreneurs. The new investment generated new employment for 460 vulnerable Georgians. A new job was created on average for every $337 of invested capital. About 39 of these loans, representing $79,200 of the $198,000 total investment, went to "Poverty Lending" purposes (loans under $1,000 in value). Twenty eight percent of the beneficiaries of the credit program are women. Only businesses which are formally registered with the government and pay taxes (profits are taxed in the 15% to 22% range) receive credits. The repayment period varies from 6 to 18 months (the current average term is 11.5 months), and the interest rate is 3% per month. WVI bases its decision to award on the borrower's character and collateral. The collateral requirement does not exceed 100% of the loan amount. Disbursements of loan funds and collections are made at a commercial bank. WVI monitors loan repayment based on reports issued by the bank. WVI judges that microentrepreneurs in Tbilisi are too scattered, isolated from one another, and have needs for credit which are too diverse to permit group lending as it is successfully pursued in a rural or small town setting. To date there are no loan losses and no repayment arrearage.

Non-credit assistance is a key to the success of the program. Candidates for credit must attend a basic business management training program where they learn to prepare a business plan and cash flow analysis. A team of WVI Business Consultants visits the entrepreneurs place of business to offer one-on-one assistance where it is needed.

The WVI credit program conditions are superior to local commercial bank programs which do not provide business training or business monitoring beyond the follow-up of late loans. Commercial banks charge up to 8% per month in interest for loans of 12 months or less. Banks often seek collateral at 200% to 300% of the value of the loans. Interest schedules frequently require payment of the entire principal (balloon) at the end of the loan term, making repayment difficult.

CARE: Microenterprise assistance by CARE, also funded through the Save the Children umbrella, was justified under the Objective "To Relieve Human Suffering" (SO 3.1). A total of about $589,000 was granted to CARE in FY 1997 which has, in part, assisted 320 private small agribusinesses in Imereti and Kartli regions of the country. At least 80 of these are microenterprises with fewer than 10 employees. Twenty four percent of the training and services has been extended to women business owner/operators. The CARE non credit program facilitated 81 loans to selected small businesses by means of an $800,000 Credit Guarantee Fund with a commercial bank. The Guarantee accepts 50% of the risk, and was seen as instrumental in encouraging the bank to evaluate loans on business characteristics and cash flow, rather than simply on pledged collateral. The loan term was 10 months and the interest rate was 24% per year. The average loan of $12,700 was used predominately for working capital purposes. At least 35 loans are under $10,000 in value. The interest rate is judged too costly for equipment procurement and related long term business improvements. The arrearage rate was one percent.

The program, which will run through 1998, focuses on increased household incomes for existing business owners/managers/employees and the generation of new employment opportunities. The project strengthens modern banking practices, economic viability and management capability of existing small businesses through the provision of training and technical assistance. As a result of its good experience, the Georgian commercial bank reports its willingness to continue the credit portion of the program without the risk insurance provided by CARE's Credit Guarantee Fund with the proviso that loan applicants continue to benefit from the training and oversight which CARE has provided. Other partners who are supporting the program include the Soros Foundation, the British Government and CARE USA.

Constanta: Save the Children made a grant to the Constanta NGO for the purpose of assisting the microenterprises of Internally Displaced Persons (IDPs) who are women. The Solidarity Group Lending Methodology was used. To date, 138 women in 17 groups of the Sabartale Region have received $100 loans for a total program value of $13,800. The authorized loan size is between $50 and $500, though a decision was made to standardize the initial loan values at $100. Small market vendors are the main beneficiaries of the program. Constanta aims to make the program self-sufficient within 7 years or less.

Abkhazeti: The Charity Humanitarian Center "Abkhazeti" in Kutaisi received $12,900 from Save the Children to improve business skills of IDPs from Abkhazia who were settled in the Kutaisi area. Abkhazeti training was conducted in the areas of business proposal writing, accounting, Georgian tax laws, inventory

management, quality control, cash management and loan repayment, pricing sales and marketing.

Georgian Arts and Culture Center (GACC): The GACC received a $25,000 Grant from Save the Children. Purpose of the Grant was to increase the household income of artisans in Tbilisi through training in product development, assistance to improve access to markets and in related business support services.

International Rescue Committee (IRC): Microenterprise activities of IRC were focused on the Imereti and Samagrelo regions. The IRC made use of $500,000 from Save the Children to provide support for 467 artisans with Income Generation Kits containing hand tools. Training was also provided to 236 entrepreneurs in cost analysis, cash flow, pricing and marketing. Individual credits were awarded to 33 beneficiaries with an average value at the "Poverty Lending" limit of $1,000. Losses in this program were estimated at 11 percent. Solidarity Group loans with an average value of $200 were awarded to two groups of 10 members each. The loss rate for loans to groups was nil. Approximately one third of the beneficiaries of the credit programs were women and some 136 new jobs were created.

International Orthodox Christian Charities (IOCC): The IOCC focused its non credit program in the south of the country among IDPs. IOCC conducted class room training for 400 employees and owners of new and expanding businesses with a $285,000 sub grant from Save The Children. In addition, 150 individual grants of $100 were made to 50 individuals, and 9 grants averaging $1,500 to $2,800 were made to businesses. IOCC reports that household income increased as a result of the program from 11% to as much as 74% (from very low rural levels). An evaluation of the program of IOCC faults the NGO for a failure to undertake hands-on technical assistance focused on the problems of individual beneficiaries.

International Executive Service Corps (IESC): Under the Strategic Objective of "Accelerating Development of the Private Sector" (SO No. 1.3), five cities in Georgia received the benefits of the IESC program - Tbilisi, Gori, Zugdidi, Telavi and Rustavi. A total of 16 Georgian companies were assisted of which 11 were microenterprises of 10 employees or fewer. Some $450,000 was obligated and about $326,000 of the IESC resources for the year were devoted to these 10 microenterprises. Assistance to the microenterprise element was concentrated in the business sectors of Agribusiness, Accounting/Audit Services, Marketing and related consultant services to trade and industry. Three enterprises received market feasibility studies and other services sent from volunteers in the United States. Following are some successful technical assistance experiences:.

Georgian Association of Innovative Technologies (3 employees): Volunteer experts developed a demand and feasibility study for "business incubator services." The firm seeks to help small businesses get started, and it is itself a microenterprise. As a result of IESC assistance, management of the firm improved to the point where the IESC volunteer feels confident in seeking funding support for the enterprise from outside of Georgia.

Calamus Graphics (10 employees):

A visiting expert was able to convince the entrepreneur of this firm of new methods to improve the "make-ready" time per printing project by 30%. This allows more work to be completed in a work-day. The firm was offered a lucrative printing job which would significantly improve revenues. The firm, however, feared it would be unable to meet commitments in a consistent manner because of press equipment limitations. The advisor showed the firm how to make the technical adjustments necessary to speed press operations. The adjustments enabled the firm to accept the contract. On his return to the U.S., the advisor has facilitated materials procurement for the firm which will result in a $100,000 equipment and supply order from U.S. vendors.

Volunteers in Overseas Cooperative Assistance (ACDI/VOCA): VOCA has provided technical assistance to organize the "Gori Credit Association" making use of about $350,000 of USAID funds provided to the NGO in FY 1995 and 1996. The Association is a microenterprise with 5 employees. Three loans under $10,000 in value were made with local currency generated from monetized USDA commodity credits.

HUNGARY

Not yet available

USAID/KAZAKHSTAN

USAID/Central Asia Republics (CAR) supports several microfinance projects in Central Asia. Implementing partners include Central Asian American Enterprise Fund (CAAEF), Mercy Corp., ACDI/VOCA and FINCA. Technical assistance to small business entrepreneurs and local governments regarding micro and small enterprises is also provided by Counterpart Consortium, AED Training and indirectly through other USAID/CAR programs.

MICROFINANCE

The CAAEF's program in Kazakhstan began in October 1997. To date, loans range from $1 to $25,000. This program targets established small businesses.

Poverty Lending: ACDI/VOCA lends money primarily to poor women in the region around Taldykurgan. This program, begun in December 1997, may be expanded to other regions of Kazakhstan.

PROBLEM AREAS FOR MICROENTERPRISE DEVELOPMENT

An area of possible concern is the Government of Kazakhstan's (GOK) effort in preparing regulations in microlending that could severely restrict lending practices (unreasonably low interest rates). USAID/CAR is presently investigating the GOK proposals and will continue to work with other donors closely to effect a positive result.

LOCAL SUCCESS STORIES

Tax Inspector Training: From July to October of 1997, the USAID/CAR Fiscal Reform Project in Kazakhstan conducted a series of training courses for tax inspectors on the transition to the new international accounting standards. The training was provided by the International Business School, a local private training firm, under the auspices of USAID/CAR contractor Global Training. The courses were timed to coincide with an amendment to the Kazakhstan Tax Code which introduced a compulsory change from cash to accrual accounting for tax purposes, and the recent adoption of International Accounting Standards. The tax inspectors will now use their newly acquired skills to train their colleagues throughout the Republic. (Reported: November 23, 1997)

State Tax Committee to Conform to International Standards. Following the recommendations of advisors from USAID/CAR, the State Tax Committee of Kazakstan recently announced its decision to reorganize itself along functional lines. Under functional organization, the core units of the organization will be structured according to the basic functions of tax collection--collections, processing, audit, etc.-- rather than by specific tax, as it currently stands. International experience has shown that a tax structure organized by function is proven to be most efficient. (Reported: February 23, 1997)

Central Depository: USAID/CAR technical advisors from Kazakstan Capital Markets Project recently assisted the government of Kazakstan to develop the organizational and operating requirements needed for a registrar, custodian and central depository in Kazakstan. The establishment of these institutions is necessary for the creation of privately owned and operated

security market entities. Such progress in financial markets will strengthen the Kazakhstan private sector by increasing the availability of capital financing for private corporations. (Reported: December 9, 1996)

Small-Scale Privatization Efforts: The closure of small-scale privatization work by USAID/CAR in Kazakstan marks the end of a highly productive three-year effort to privatize small businesses as a means to strengthen the Kazakhstan economy in this difficult transition period. The entire small-scale privatization process has now been turned over to local Kazakhstan professionals who will be able to continue privatization activities long after USAID/CAR departs from Central Asia. (Reported: September 6, 1996)

New Tax Codes: A new Tax Code in Kazakstan was signed into law on April 24, 1995 and became effective July 1, 1995. The codes represent the most comprehensive and systematic bodies of law dealing with taxes that have been introduced within the NIS. In more detail, the new code is the only instrument employed by the government to specify compulsory central, provincial and local government taxes. When fully implemented, the code will have a tremendous impact on the establishment of a sound fiscal policy through increasing budget revenues. Also of note, the fact that the Tax Code meets international needs will facilitate foreign investment, providing greater fuel for the economic growth in Kazakstan. (Reported: August 12, 1996)

Impacts of NET Training in Central Asia: According to an evaluation from early 1996, of the NET Training Project in Central Asia, returned participants are actively using knowledge gained in their work in Central Asia. According to returned participant surveys from Kazakstan, Kyrgyzstan, and Uzbekistan, 55 percent claim to have used their training to develop new legislation, 43 percent to have influenced government economic policy, 73 percent to have improved the functioning of their organization, 83 percent to be performing their jobs more effectively, and 97 percent to have shared the information gained in training, either through mass media, speeches and articles, or one-on-one training with colleagues. Together, these statistics portray an active, energetic, enthusiastic group of trained professionals, who will disseminate reform-oriented ideas and goals throughout Central Asia. (Reported: March 15, 1996)

MICROFINANCE

Poverty Lending: The FINCA "Village Bank" project focuses on providing small loans to groups of poor women who use the funds to generate income through small-scale production and trading activities. These loans currently average $100. The project is active in the three largest oblasts in Kyrgyzstan, and plans to expand to the remaining three oblasts during the coming year. Outstanding loans at present amount to over $1 million, and repayment rates from the cumulative lending portfolio are in excess of 99 percent.

The successful Village Bank program was highlighted during Mrs. Clinton's recent trip to the region. Of the FINCA-established village banks, 90% of the members are women. The village banks epitomize grassroots democracy in action. Specifically, members elect their own leaders, design their own by-laws, keep their books, manage their funds, and are responsible for loan supervision. Members have used their loans to expand their businesses and generate profits. These profits are reinvested into their businesses. Profits are also used to improve the lives of member's families, thereby breaking the vicious cycle of poverty.

PROBLEM AREAS FOR MICROENTERPRISE DEVELOPMENT

The challenge for USAID/CAR in Kyrgyzstan is to: a) create a reasonable taxation environment and reporting process for micro-lending and SME development, b) create a Streamlined National Bank policy with regard to licensing micro-credit lending and reducing obstacles for money handling, and c) reduce inconsistent application of import and export regulations by local customs and tax authorities.

LOCAL SUCCESSES

Mini-bank Creates Small Businesses: Small businesses are being created in Bokonbaevo. Members of a local NGO, "Shoola," who have received assistance from Peace Corps and USAID/CAR funded Counterpart Consortium, have created a mini-bank offering small credits for the establishment of businesses. To date, 42 loans have been given, and from these a new barber shop and a small shop have opened. There are plans for 72 more loans in the near future. (Reported: December 22, 1997)

"Village Banking" Is Proven Success: USAID/CAR grantee, FINCA, has been very successful in Kyrgyzstan with its micro-credit program involving establishment and use of "village banks." This program is targeted to groups of savers. On average twelve people form a savings group, and take out loans together. A mandatory requirement to participate in the FINCA village bank program, is for the clients to save 20% of the original loan into a savings pool. This pool earns interest at market rates, which is then used for more loans. The savings groups meet weekly to decide as a group whether to loan from their savings, to whom, and at what rate of interest. FINCA's savings groups are comprised of individuals who are self employed as merchants or traders. FINCA also provides small business management training to these clients. To date, using the original USAID grant, over $2 million in loans have been extended. Additionally,

because of growth of the savings pools, which are now larger than the portion of the original USAID grant used for loans, another $2.5 million in loans have been approved and extended. FINCA is providing micro-credit loans in 3 of Kyrgyzstan's oblasts to over 6500 impoverished clients organized in 550 savings groups, with no prior experience receiving credit. The clients have learned about credit, the need to repay loans, how to establish a credit history, how to use and trust a bank, and other aspects of business and banking that are new concepts to them. The lessons have been learned by evidence of the less than 1% default rate.

The World Bank, in cooperation with the UNDP, performed a country assessment and appraisal to investigate the need for micro-credit in Kyrgyzstan. Part of their findings were that the USAID/CAR funded FINCA microenterprise program was rated as the only existing micro-credit project to pass the test for reaching the intended audience for credit, that had systems in place to reach significant numbers of the targeted population, and charged market rates for their credit. A key component of FINCA's program is the "forced savings." FINCA requires borrowers to set aside a percentage of their loans in a savings account. Savings groups have the option to offer these funds to borrowers, either internally or externally to the savings group, and the savings groups determine what interest rate to charge. Now in year three, for every US $1069 of loans from the USAID/CAR-funded grant, US $1,822 is loaned from the savings pool. (Reported: November 30, 1997)

Yurt Venders Benefit from USAID/CAR Funded Loans in Bishkek: The First Lady arrived in Bishkek for a quick visit, highlighted by a visit to the Novo Pavlovka Market. The vendors who sell their wares from yurts (local, nomadic tent), many of whom were recipients of USAID/CAR funded FINCA loans, were quite happy to talk about their successes with Mrs. Clinton. One woman began her business selling soft drinks and snack items with a $600 loan. She has now made enough money to build a house, pay back the loan, and provide for her family. USAID/CAR FINCA loans have been made mostly to women and average one hundred dollars. Repayment rates on these loans are in excess of 99 percent. (Reported: November 16, 1997)

Key Commercial Legislation: The Kyrgyz Parliament passed two significant commercial laws which will help the Republic move forward with its transition to a market economy. The President has signed the Foreign Investment Law and is expected to sign the Bankruptcy Code shortly. The Foreign Investment Law, written with technical assistance from USAID/CAR's Trade and Investment Team, encourages foreign investment with protections from unreasonable government interference. It provides standard rights and protections, excludes special tax incentives which creates a more equitable tax regime, and is in line with the WTO requirements. Passage of this law brings Kyrgyzstan closer to becoming a member of the WTO. The Bankruptcy Law, also written with USAID/CAR technical assistance, allows streamlined procedures to liquidate failed businesses and it permits entry of new market participants. The law will also provide a clear provision to give reorganized, competitive businesses a fresh start. This new Bankruptcy Law compliments other laws recently adopted creating a reformed corporate governance and operating environment. (Reported:October 5, 1997)

Adoption of International Accounting Standards (IAS): The Ministry of Finance proclaimed that all enterprises in the Kyrgyz Republic will use international accounting standards (IAS) beginning January 1, 1998. The transition of the Kyrgyz economy to private ownership, and increased trade and investment has been constrained in part by enterprises with financial statements that discourage foreign investment and the confidence of local investors. As a result of the government's proclamation, USAID/CAR advisors will soon begin providing additional training and hands-on accounting conversion technical assistance to 800 private enterprises throughout the Republic, using its trained local accountants and auditors. Also included is technical assistance in bank accounting reform to the National Bank of Kyrgyzstan and nine commercial banks in further support of structural changes necessary to the process of creating a competitive financial sector.

In another USAID/CAR Program (the Banking Sector Accounting Reform Project), the National Bank of Kyrgyzstan, and 9 commercial banks it licenses to operate in the Republic, are also receiving technical assistance in bank accounting reform to achieve structural changes necessary to complete the process of creating a competitive financial sector. (Reported: July 28, 1997)

New Tax Code to Aid Foreign Investment: Kyrgyzstan's new Tax Code became effective on July 1, 1996. Compatible with international models of taxation, it represents one of the most comprehensive and systematic bodies of law dealing with taxes that has been introduced within the IS. As such, the new code will facilitate foreign investment, providing the fuel the economic growth in Kyrgyzstan. Also of note, the new code will have a positive impact in Kyrgyzstan on the establishment of a sound fiscal policy through increasing budget revenues. USAID-sponsored advisors assisted with the development of the draft Tax Code and helped secure its passage in Parliament. These activities and the resulting Tax Code strongly support USAID/CAR's work in fiscal reform. (Reported: July 8, 1996)

USAID/MACEDONIA

The development of rural credit institutions has met with mixed success in Macedonia. The Opportunity International/Moznosti program has made clear progress and has reached nearly four hundred micro-businesses throughout Macedonia. Growth of loan activity continues at a rate of approximately thirty new loans per month. Repayment rates are being maintained at a very impressive 95 per cent. In addition to the loan origination success, the activity is currently 70 per cent self-sustainable with full sustainability expected in 1 1/2 to 2 years. A second office has recently been established in eastern Macedonia and consideration is being made for a third location in the west.

USAID/POLAND

USAID/Poland has supported microenterprise development under its Strategic Objective entitled "Private Sector Development at the Firm Level." Funds have been provided to the Women in Rural Enterprise Development program of the Foundation for the Development of Polish Agriculture. As Poland is a close-out mission, no future funds will be provided.

Through the SEED Act funds have also been provided to the Polish American Enterprise Fund (PAEF). PAEF founded Fundusz Mikro in October 1994 to extend loans to the microenterprise community. PAEF set aside $20 million of its funds for loan capital, most of which were transferred in 1997 as lending began to increase. USAID also provided $4 million for operating expenses. The target clients are enterprises with up to five employees. From the beginning, Fundusz Mikro set out to employ best practices and reach full financial sustainability within six years. By the end of September 1997, Fundusz Mikro had reached 50 percent of its sustainability goal.

The program has expanded rapidly since its first full year of operations (1995-1996). In 1996, Fundusz Mikro opened 12 branches, followed by another 12 in 1997. By the end of 1997, 80 percent of the 6,000 clients were being served using a group solidarity methodology with four or more borrowers to a group. In 1998, the program will have 35 branches.

Fundusz Mikro is planning new products, including services for its most successful clients and products targeted to poorer clients. The program's annual report states that "we believe our parallel development both upwards and downwards will effectively balance the respective social and economic considerations."

ROMANIA

Not yet available

WHY MICROENTERPRISE?

Apart from the structural and legal changes Russian reformers are attempting to effect at the Federal, regional and local levels, there is a clear need to assist where possible Russia's desire to sew holes in its fraying social safety net. Further, experience in economies as varied as Latin America, East Asia, and Africa, shows that the gaps in production and distribution created by the conversion of a State-controlled system can be most easily filled by the growth of microenterprises. By creating the conditions for economic growth at the grassroots level, microenterprise development enhances the income of the self-employed, provides needed services to local consumers, and generates new jobs for workers. Even with overall access to credit for microenterprise and small business still extremely limited in Russia, the early experience and success of USAID-funded pilot finance programs, has demonstrated solid results and that microenterprise support can work in the Russian context.

PROGRAM ACTIVITIES

Perhaps the most mature of these programs is Opportunity International, which provides small-scale credit (loans up to $1,000) to women-led micro-businesses through group-lending. Through the creation of Russian NGO partner agencies, Opportunity International has pioneered women's cooperative lending programs and small credit programs in Western Russia (Arzamas, Nizhny Novgorod, Voronezh, Rostov on Don, and Novgorod Veliky). OI also has developed successful business incubator and leasing programs in Nizhny Novgorod and Rostov. OI credit programs have deployed over 2,000 loans/leases to Russian entrepreneurs. 87 percent of OI's borrowers are women, and OI has estimated that over 1,200 jobs have been created through these programs. Testifying to its successful track record, OI has attracted funding contributions from a variety of other funding sources, including the United Nations, CGAP, Mott Foundation, British Know-How Fund and private investors.

USAID supports several other programs providing financial and non-financial assistance to microenterprises. The Center for Citizens' Initiatives and the Alliance for Russian and American Women operate successful business incubators and small-scale finance programs in the Russian Federation. Counterpart International, in conjunction with Working Capital and the USAID-funded, but privately-managed U.S. Russia Investment Fund recently established a microenterprise finance program in the Russian Far East.

Two other USAID-supported programs which target small business finance, and to a certain extent microenterprises, include the $300 million EBRD Russia Small Business Fund, which has made over 16,000 loans through Russian banks. The Fund receives substantial support from USAID as part of the G7 commitment to the Fund. IPC is the primary consulting firm which provides technical assistance, training, and loan methodology for this program. The average size of the EBRD Micro Loan program is just under $7,000.

USAID also recently expanded the Global Bureau Loan Portfolio Guarantee program to Russia and has risk-sharing

agreements for small loans with two Russian banks, SBS Agro, one of the largest banks in Russia , and Novobank, a small commercial bank in Novgorod.

MICROFINANCE

The CAAEF operates a direct credit program in Tajikistan as well as a loan program through ACLC. They target small businesses for the purpose of business start-up, improvement and expansion.

PROBLEM AREAS FOR MICROENTERPRISE DEVELOPMENT

The challenge for microenterprise development in Tajikistan is the same as for any other USAID/CAR program at this time. Until the Peace Process has firmly taken hold, the possibility for further unrest will be the major obstacle to any program implementation.

LOCAL SUCCESSES

Promoting Private Business: The long-term effects of training in the States are best witnessed many months after trainees return to their home countries and put their new knowledge into practice. An excellent case in point is Mr. Fazlitdin Abdousamiev who, as a factory director, participated in a USAID-financed NET course on economic restructuring and development of the private sector in 1994. While in the States, he contracted with American-Russian Promotion, Inc. and with the joint-stock company Bakhit to help American companies invest in Tajikistan and to provide training for Tajik specialists in management, marketing, and banking. Upon his return and later promotion to Cannery Director, Mr. Abdousamiev increased salaries to motivate workers and spur productivity. The resulting gains in production allowed him to purchase new equipment from the United States and seek foreign partners to export local agricultural products. Through his encouragement, the Cannery also began to offer free English classes to children of employees. (Reported: July 29, 1996)

Farmer-to-farmer Programs Support Central Asia-American Enterprise Fund (CAAEF): A previous contribution to the ENI Weekly noted that CAAEF was up and running and is considering numerous proposals valued at well over $100 million. In this regard, it should be noted that a number of USAID-funded grantees such as IESC and the various farmer-to-farmer programs are playing a key role in assisting local firms in preparing business plans and presenting proposals. For example, Winrock International recently helped put together two business plans related to meat processing. Efforts are underway also to interest an American partner in joining the venture, underscoring yet again one of the ways in which the USAID program actively seeks to promote US trade and investment in the region. (Reported: April 27, 1996)

MICROFINANCE

The Central Asian American Enterprise Fund (CAAEF) also operates a small business loan program in Turkmenistan. They have a direct loan program and oversee another program implemented by ACLC. In the current fiscal year, almost $14 million in CAAEF loans, and $2 million in ACLC loans have been approved.

PROBLEM AREAS FOR MICROENTERPRISE DEVELOPMENT

USAID/CAR's primary challenge in Turkmenistan at present is to successfully implement USAID's technical assistance programs.

USAID/UKRAINE

WHY MICROENTERPRISE?

USAID/Kiev has been actively engaged in programs supporting the development of small and medium sized businesses since 1992. Much of the assistance in business skills development has included microenterprises (enterprises of ten or fewer employees). In late 1997 an assessment was conducted to review the state of microenterprise finance in Ukraine. That assessment concluded that the need for microfinance was substantial, but that number of programs focusing on providing financial services to microenterprises was limited. As a result of that assessment, the Mission decided to begin a new microenterprise finance initiative through the support on two programs, one operating with the EBRD through the banking system and the other through an NGO-led MicroFinance Activity.

USAID/Kiev supports microenterprise development for two reasons:

1. To provide finance and services to microenterprises which will in turn create new jobs in a growing private business sector, and

2. To develop and strengthen the capacity of banks, credit unions, NGOs and private firms to provide finance, training and technical assistance to microenterprises.

PRIMARY FOCI FOR MICROENTERPRISE ASSISTANCE EFFORTS

The primary foci of USAID/Kiev's microenterprise program are currently urban centers in Ukraine as well as women entrepreneurs. The Mission's agriculture development strategy has recently evolved to focus on micro, small and medium enterprise development in the provision of inputs and in agricultural processing. USAID/Kiev expects that its micro, small and medium enterprise development activities will grow over the short to medium term.

PROGRAM ACTIVITIES

- Microfinance Credit Line through Banks: European Bank for Reconstruction and Development with technical assistance provided by International Projekt Consult GmbH (IPC) and Development Alternatives, Inc. (DAI)
- Credit Union Strengthening: World Council of Credit Unions (WOCCU)
- Newbiznet, Business Support Center Project and Association strengthening: Development Alternatives Inc. (DAI)
- IFC Business Support Centers: International Financial Corporation (IFC)
- Counterpart Meta Center Incubator: Counterpart International
- BID Program Business Incubator: Loyola College
- Eurasia Foundation Small Business Lending program: Eurasia Foundation
- Western NIS Enterprise Fund Small Business Loan Fund: Western NIS Enterprise Fund
- Winrock International, NIS-US

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Consortium: Small Grants Project and Skills Training for Women

SUCCESS STORIES

NewBizNet

The USAID-financed NewBizNet Project provides assistance to 8 business service centers and in strengthening regional membership-based business associations in Ukraine. One such group is the Kiev Fruit & Vegetable Retailers Association (KFVRA), whose establishment was funded by the British Know How Fund in 1993. When the funding from the Know How Fund ended in 1997, NewBizNet recognized the potential of KFVRA and was solicited to provide assistance on their organizational development. The KFVRA received attention in Ukraine this past year when it successfully challenged a decree issued by the City of Kiev fixing the prices for fruit and vegetables.

NewBizNet is providing funding for a project, which was initiated and designed by KFVRA, to create public awareness of the association and increase membership. KFVRA, which has 43 members, estimates the potential membership level in Kiev at 280. The project, named "Golden Apple 99," is a contest open to all city shops selling fruits and vegetables and will select a winner based on product quality and range; customer service; overall shop appearance and operation; and, other factors related to successful retailing of fruits and vegetables. Prizes will be new equipment for their businesses to improve their efficiency and profitability. KFVRA expects the contest to substantially increase its membership.

Winrock International/NIS-US Consortium

The Winrock International/NIS-US Consortium is implementing a countrywide Women's Economic Development Training Project. Women face substantive obstacles to becoming entrepreneurs in Ukraine, including unequal access and opportunities in decision-making spheres as well as gender-based stereotypes which are often manifested in low self-esteem and economic dependence. The program provides training in business and leadership skills needed for women to move out of the ranks of the unemployed. The results of the program to date are as follows:

Women trained:	*321*
Women creating new or reorganized businesses:	*184*
New employment opportunities created:	*614*
Women receiving microcredit after training:	*51*

The NIS-US Consortium also facilitated a seed-grant competition for Ukrainian women NGOs. A grant was awarded to the Kharkiv Women's Fund for their "Business Incubator Project." The Project includes a strong training program and places each participant in a mentorship program with a successful woman entrepreneur. Of the 120 participants in the two year project, 90% have opened a small business. The Kharkiv Women's Fund is also involved in working with their network of over 200 women to lead advocacy campaigns at the Oblast and national level seeking gender equality in socio-economic spheres.

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PROBLEM AREAS FOR MICROENTERPRISE DEVELOPMENT

- The law governing non-bank lending currently prohibits the establishment of an NGO-led microcredit program which charges interest on loans
- The licensing of financial institutions is a difficult and lengthy process
- The banking system is thinly capitalized and focuses primarily on state-owned or large enterprises
- High collateral requirements, interest rates and notary fees
- The private sector is highly regulated and enforcement of the tax code is inconsistent and often corrupt. Tax authorities may freeze current accounts when business activities are under suspicion or audit, leading to a further lack of confidence in the banking system.
- The enforcement of other business regulations lacks transparency
- The judicial system is weak
- The provision of nonfinancial business services by the private sector is limited

USAID/ HONDURAS

One out of every four Hondurans earns a living working in a micro or small enterprise, mostly in urban centers. In recognition of the volume of transactions conducted in the informal sector in Honduras, the Mission has committed itself to support and strengthening microfinance institutions (MFIs) throughout the country. USAID/Honduras provides support to microenterprise activities under its Strategic Objective No. 1: "Enhanced Economic Participation and Increased Incomes for the Poor."

PROGRESS IN 1997

By the end of 1997, the USAID assisted PVO network had 60,313 active clients with a portfolio of $10.3M. These PVOs are servicing over 31% of all micro and small businesses in Honduras (excluding agriculture), an impressive accomplishment. Over 79% of the active clients are women. The network has 1,724 active village banks and 2,105 solidarity groups. The program clearly focuses on the poor; virtually all loans are for less that $300. The quality of the portfolio is excellent; only 8.9% of loans have one or more payments in arrears.

ON-GOING PROGRAM ACTIVITIES

One beneficiary of assistance, the Jose Maria Covelo (JMC) Foundation, has made remarkable progress as a result of Mission assistance. Between 1992 and 1997 the number of JMC clients receiving financial services increased by 369 percent. Their loan portfolio increased by 1158 percent in the same period with 93 percent of borrowers being women.

The Covelo Foundation is also building a sustainable financial intermediation system for micro and small business throughout Honduras. With the help of the USAID financed Incentive Fund, they provided lower than market cost resources to PVOs that restructure their financial policies to reflect market terms and conditions, incorporate best practices, and achieve planned financial and beneficiary impact targets. New loan technologies have reduced transaction costs and made the microfinance intermediaries sustainable. Five PVOs are now financially self-sufficient (FUNADEH, Covelo, World Relief, FINCA/Honduras and ODEF). Other donors have observed the success of this process and are incorporating successfull practices into their programs.

With the assistance of USAID financing, the National Foundation for the Development of Honduras (FUNADEH) is in the process of creating an MFI. FUNADEH is a private non-profit institution founded in 1983 that provides microcredit, technical assistance, and training for micro and small entrepreneurs in 20 cities across the country. With the assistance of ACCION International, it is now operating a solidarity group-lending program which has permitted FUNADEH to expand its services to microenterprises. In an eight month period, FUNADEH was able to reach 2,000 new microentrepreneurs. Currently, FUNADEH has over 6,500 active clients and a loan portfolio of US$3 million.

POLICY REFORM EFFORTS

The Covelo Foundation drafted a regulatory framework that will permit

qualified PVOs to mobilize resources from the public at large. When approved by Congress, the framework will require that the National Bank and Insurance commission provide prudential supervision of these PVOs to protect the depositors and the microfinance intermediation system. Taking a different approach, the National Foundation for the Development of Honduras (FUNADEH), is supporting the creation of regulated finance company with private sector investors. This will permit the new FUNADEH Finance Company to offer an array of financial instruments and services demanded by the micro and small business sector that it can not offer as a PVO.

WORKING WITH COMMERCIAL BANKING SECTOR

In addition, USAID has "educated" the commercial banking sector on microfinance opportunities. A substantial number of these banks have taken a keen interest in servicing this sector and have begun to develop products and services that will allow them to profitably reach this clientele. One bank and one finance company have opened branches in large, municipal-type public markets to serve these types of clients. Another bank is actively pursuing use of a credit card system as a cost effective mechanism to serve the small and microenterprises of Honduras.

PROBLEM AREAS FOR MICROENTERPRISE

The primary challenge in Uzbekistan for any program implementation is full currency convertibility.

LOCAL SUCCESES

First Lady's Visit to CAR Continues Providing Benefits: As a follow up to Mrs. Clinton's recent visit to Central Asia, USAID/CAR grantee, Aid-to-Artisans (ATA) reports that MEROS, the highly successful Artisan's NGO in Uzbekistan, has been formally recognized by the Government, and that they will now enjoy the tax exempt status previously afforded "official" artisan groups. Members of MEROS in Samarkand, will enjoy the tax-exempt category, on all their products, for the same five year period as the official government artisans' group, without joining the government artisans group, as previously required. This status was given them by the Hakim of Samarkand. MEROS gained much publicity during Mrs. Clinton's visit to Uzbekistan, and impressed the Uzbekistan President with their organization and knowledge of traditional crafts. This bolstered the confidence of the group who now feel comfortable approaching government officials to speak on their own behalf, on issues which effect the artisan community. (Reported: January 25, 1998)

Cotton Mill in Ferghana Valley Operational with Good Outlook for Future Sustainability: The Alisher Navo Cotton Spinning Mill in the Ferghana Valley in Uzbekistan is open and operating due to a direct equity investment by USAID/CAR funded Central Asian-American Enterprise Fund (CAAEF). The mill, now privately owned, is an old soviet era cotton spinning and cloth production facility and had been unable to avoid bankruptcy under previous ownership. New equipment was purchased and the mill now operates 24 hours per day and is expected to be a significant success. Privatization efforts continue in Uzbekistan with assistance from USAID/CAR. (Reported: December 7, 1997)

Tax Code Passes First Parliamentary Reading in Uzbekistan: At the December 24 session of Uzbekistan's Parliament (Oliy Majlis), a new Tax Code drafted with the assistance of USAID/CAR contractor, Barents Group, passed its first reading. USAID/CAR assistance was publically acknowledged and praised by Members of Parliament during the presentation of the draft Tax Code. The draft represents the results of a two year collaboration between advisors and counterparts at the State Tax Committee. With the exceptions of a few provisions, the draft Code meets international standards and is viewed as very satisfactory by the US tax experts. The tax advisors have been given the freedom to discuss the few provisions which still concern them, directly with Parliament. They had an hour and a half session with the Chairman of the Banking Committee prior to the introduction of the draft law resulted in at least one additional change. The draft Code will now be published in newspapers for public comment. This is a significant step in Uzbekistan towards USAID/CAR's goals of sound fiscal policy and management practices, as well as a more informed citizenry. (Reported: January 5, 1997)