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MICROENTERPRISE

Laying the Foundation for Economic Development

February 2004

ECONOMIC PERSPECTIVES

Microenterprise: Laying the Foundation for Economic Development

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Successful small businesses are the primary engines of economic development, income growth, and poverty reduction in much of the developing world. These businesses can also build foundations for stable communities, civil society, and gender equality. However, poor infrastructure, weak public services, inadequate mechanisms for dispute resolution, and lack of access to markets and formal financing remain major impediments to small business growth.

The United States, the multilateral development agencies, and many bilateral aid donors are working to improve this situation by developing new programs that help microenterprises — small, locally owned businesses with up to 10 employees — contribute to dynamic, competitive industries. Over the past five years, America's average annual funding for microenterprise has been around $155 million. This support has reached more than 3.7 million microenterprises worldwide — whose activities include producing goods for export, such as footwear, furniture, agricultural crops, and other foods; providing services ranging from equipment repair to information technology; marketing raw materials to manufacturers; and trading a wide variety of goods. As these businesses expand and integrate into the formal economies of their countries, they empower the world's poor, create higher incomes and more jobs, contribute to economic growth, and strengthen democratic societies.

I am proud of America's key role in promoting microenterprise. U.S. objectives are threefold: to improve access to financial services for the world's poor; to support access to business services that specifically address constraints felt by poorer entrepreneurs; and to improve the business climate through regulatory, legal, and policy reforms. Our efforts are global, from Mali in Africa and Jordan in the Near East to Azerbaijan in Europe and Peru in Latin America. Our successes will be universal, with the concerted efforts of the international community. I hope you will join us in taking action towards that goal.

In this issue of Economic Perspectives, you will find insights from key government officials and leading scholars in the field of microenterprise on access to finance and enterprise development and its societal implications. I believe that these issues are more important than ever in the 21st century because microenterprise provides hope and concrete tools for the world's poorest to improve their own lives and realize the basic dignity of self-sufficiency.

Colin L. Powell
U.S. Secretary of State

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On the cover: A member of the Oromia Coffee Union, a microenterprise in Ethiopia, displays shade-grown organic coffee cherries.
Photo courtesy of ACDI/VOCA (Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance).

ECONOMIC PERSPECTIVES

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❑ THE ROLE OF MICROENTERPRISE ASSISTANCE IN U.S. DEVELOPMENT POLICY

By Emmy Simmons, Assistant Administrator, Bureau of Economic Growth, Agriculture and Trade, U.S. Agency for International Development

The U.S. government believes that a key component of its poverty reduction strategy lies in support for very small businesses called microenterprises, says Emmy Simmons, assistant administrator at the U.S. Agency for International Development (USAID). This support, she says, is now expanding to address some of the world's most difficult development challenges – rebuilding economies ravaged by civil wars and communities hurt by HIV/AIDS.

Simmons outlines key USAID strategies in support of microenterprise and how these efforts reduce poverty not only for the local entrepreneur but also for the local community. "As the predominant source of income and employment for hundreds of millions of people worldwide, the microenterprise sector's influence on individuals, households, and national economies is clear and profound," she says.

In many countries, microenterprises — small, informally organized commercial operations owned and operated mostly by the poor — constitute the majority of businesses. They account for a substantial share of total employment and gross domestic product (GDP), and they contribute significantly to the alleviation of poverty. They are often the chief economic defense of the most vulnerable households in high-risk environments, such as civil conflict, or during natural disasters. As the predominant source of income and employment for hundreds of millions of people worldwide, the microenterprise sector's influence on individuals, households, and national economies is clear and profound.

For the past three decades, support for microenterprise development has been an important feature of U.S. foreign assistance. The United States Agency for International Development (USAID), the U.S. government's lead agency for bilateral foreign assistance and humanitarian assistance, defines "microenterprise" as a firm of 10 or fewer employees, including unpaid family workers, that is owned and operated by someone who is poor. USAID promotes microenterprise development by:

- Providing financial and technical assistance to institutions and networks that extend credit and financial and sustainable business-development services to poor households.

- Promoting policy reforms that enable the smallest businesses to compete against larger firms and achieve their income and job-creation potential.

- Supporting experimentation and research to identify and promote best practices.

The Microenterprise for Self-Reliance and International Anti-Corruption Act of 2000 established microenterprise development as an integral part of U.S. foreign assistance. The law authorized grants by USAID to support poor microentrepreneurs, further specifying that half of all funds benefit the very poor, usually living on less than one U.S. dollar a day. USAID works with more than 700 U.S., local, and international organizations to implement this initiative. The great majority are private-sector providers of financial and business services to the vibrant microenterprise sector.

As the leading bilateral donor for microenterprise development, USAID over the past two decades has created a remarkably effective approach to reducing poverty in a sustainable manner. Its partnerships with U.S. private voluntary organizations (PVOs) and microenterprise practitioners have shown that microenterprise assistance can help alleviate poverty and be commercially viable.

As a result of U.S. government support, more than two million poor people throughout the developing world have access to credit from a wide range of financial institutions. Loan recipients use the money to increase their incomes, build assets, and improve their lives. They also prove their creditworthiness by achieving repayment rates that typically exceed 95 percent. More than three million poor people are depositing their savings in lending institutions, allowing them to better plan for their families' futures and cope with crises. Almost 670,000 clients benefit from USAID-supported business development services, which help them reach new markets, improve their skills and productivity, and raise their incomes.

WHY ARE MICROENTERPRISES IMPORTANT?

In many countries, especially those in Africa and Asia, the microenterprise sector constitutes the majority of the working population. A few statistics illustrate the key role that micro and small firms play in generating overall employment:

• Firms of five or fewer employees account for half of the non-farm workforce in Latin America and two-thirds of the non-farm workforce in Africa.

• Informal sector firms generate three out of every four new, non-farm jobs in Thailand and half of all new jobs in Indonesia.

• In Indonesia, firms with five or fewer employees account for almost half of total manufacturing employment while small firms account for an additional 18 percent.

• In Thailand, micro and small enterprises comprise more than 97 percent of all firms in the manufacturing and trade/service sectors. Micro firms generate 71 percent of total employment in the trade/service sector.

Many USAID-assisted microenterprise development programs have broad impacts on poverty as income from the enterprise increases and stabilizes household income. But the benefits are not just enterprise-related. Families often gain access to a range of financial services — for instance, specially tailored loans for school fees, medical emergencies, wedding and funeral expenses, insurance products, and remittance services that enable them to receive funds sent from abroad faster and at lower cost. Access to financial services is critical in helping poor households build up assets, cope with shocks, and seize new economic opportunities.

A 2002 study by CGAP (the Consultative Group to Assist the Poor, a 29-donor consultative group for microfinance) cited examples of diverse benefits in a range of countries. In El Salvador, for instance, the weekly income of Foundation for International Community Assistance (FINCA)[1] clients increased on average by 145 percent. In India, half of SHARE[2] clients graduated from poverty. The CGAP study revealed equally impressive gains in education, health, and nutrition. In Vietnam, clients of a Save the Children partner organization, reduced food deficits from three months to one. In Bangladesh, nearly all girls in Grameen Bank-client households received schooling, compared to 60 percent of girls in non-client households.

Statistics at the national-economy level are also compelling:

• Firms of five or fewer employees generate a substantial share of GDP in many countries.

• No fewer than 90 percent of workers in India owe their livelihoods to informal sector employment.[3] These workers contribute 60 percent of net domestic product and 70 percent of domestic income. More than half of the economically active population in the Philippines is employed in micro and small businesses.[4]

• Mexico looks to microenterprises for 32 percent of its gross domestic product and 64 percent of its total employment.[5]

• Approximately 49 percent of GDP in Peru and 70 percent in Nigeria and Egypt come from the micro-dominated informal economy.[6]

• In Ukraine, 2.6 million businesses — 87 percent of all businesses in that country — are self-employed individuals who produce, distribute, and/or sell goods in the local marketplace.

Microenterprises may also be integral to the success of key economic sectors. In South Africa, for example, the construction sector generates a third of GDP and includes 90,000 firms, of which 87,000 are micro- and small-scale. Outsourcing by large construction firms to specialized, small subcontractors is a very common feature of the industry. In Bangladesh, more than 90 percent of the firms engaged in the $350 million shrimp export business are microbusinesses. In Honduras, microfirms account for 30,000 of 40,000 horticultural firms that emerged in the wake of Hurricane Mitch. They partner with larger firms to compete in export markets and improve quality control and processing.

THREE AREAS OF USAID MICROENTERPRISE SUPPORT

USAID's microenterprise program focuses on three areas of strategic support: policy/enabling environment, business services, and microfinance.

A supportive policy environment, including a favorable business and investment climate, is critical to successful, sustainable microenterprise development. USAID supports reform of laws, regulations, and policies to facilitate the creation and operation of microenterprises and to expand access to financial and other services by the underserved poor. This can include helping countries streamline their business registration process; building the capacity of microentrepreneurs to work through independent business associations to advocate for policy reforms; and promoting anti-corruption efforts and tax reform.

A variety of organizations offer business development services (BDS) to help microenterprises increase revenues, build capacity, initiate new economic activities, or increase their leverage in the marketplace. Such services include marketing assistance, product development, business training, advisory or information services, productivity-enhancing technologies, and linkages to financial services.

USAID does not support direct subsidization of business services for microentrepreneurs. Instead, it supports the development of markets by helping BDS providers extend services that boost microenterprise income and competitiveness. Service providers often need help to tailor their services to poorer clients. Access to appropriate financial and business services enables microenterprises to seize new economic opportunities and increases the potential impact of sustained reductions in poverty levels.

Linking small producers to larger firms and lucrative markets is often the key to success. For instance, in Bangladesh the USAID-supported JOBS[7] program supports firms producing hand-made sandals for export to Paris. With project assistance, the larger exporters organized groups of smaller producers to supply this market, providing them with inputs, designs, and quality control in addition to export services. The business services facilitated by JOBS helped flexible, labor-intensive micro-firms enter emerging niche markets for which larger firms are not well suited.

In Haiti, 37 coffee-grower associations representing 25,000 small growers were assisted in development of a common logo for the "Haitien Bleu" premium coffee brand. Backed by consistent quality standards and a targeted market, Haitien Bleu has provided the micro producers returns significantly higher than they previously were receiving for coffee harvests without quality controls and premium designations.

Microfinance involves the provision of diverse financial services to families and firms excluded from the formal financial market. When this field was in its infancy, microfinance meant small loans for microentrepreneurs to use in starting or expanding their businesses. The predominant methodology was the group loan, based on the Grameen Bank model developed in Bangladesh, which required individual entrepreneurs to receive loans in groups, attend weekly meetings, and take responsibility for repayment by all group members.

Over the years, microfinance has grown to include a variety of lending methodologies. It now encompasses a wide range of financial services. Loans can be offered on a group or individual basis, with amounts and repayment terms increasingly flexible and tailored to client needs. Other microfinance services include savings deposit services, insurance, and transfer/remittance services. The list continues to grow as microfinance institutions develop new products in response to client demand.

Roughly two-thirds of USAID microenterprise funds support development of credit and financial services targeted to poor entrepreneurs and their households. These services typically include credit for working capital and investment, savings, insurance, and payments services of various types. USAID support led to the development of a number of successful microfinance methodologies over the past two decades, adapted to a wide variety of settings and client groups. Loan repayment rates typically exceed 97 percent.

USAID's support for microfinance focuses on two equally important objectives. The first of these is the development and expansion of strong microfinance institutions (MFIs) — those with effective governance structures and credible business plans to cover all operating expenses, including the cost of capital, through operating income within a reasonable timeframe. The second objective is the promotion of products and services with the potential to reach poor and very poor entrepreneurs, especially underserved populations such as rural residents, women, and those in conflict or crisis situations.

The majority of USAID funds support very poor entrepreneurs — those considered to be well below the poverty line in their countries.[8] Program features for these clients may include group guarantees as a substitute for traditional loan collateral and very small loan sizes with frequent loan repayments. By grouping clients, MFIs can achieve economies of scale and recoup their costs despite the very small revenue generated by each transaction. An important innovation permits clients to make frequent, very small savings deposits, reflecting the actual availability of cash in the household.

NEW DIRECTIONS FOR MICROENTERPRISE DEVELOPMENT

In recent years, USAID field-based microenterprise programs have moved toward integrating microenterprise development activities into broader programs that address problems faced by microentrepreneurs and their households, such as civil conflict and HIV/AIDS. For example, Constanta, a Georgian microfinance institution, was created in 1998 after the civil war, with assistance from Save the Children. It designed its products and outreach strategy to ensure service to women who were internally displaced persons (IDPs), typically supporting families on their own. Constanta now has more than 15,000 active clients and has served well over 20,000 very disadvantaged microentrepreneurs. It has received grants from USAID and other donors totaling just over $4 million for its loan capital and operations. A recent impact assessment of 828 clients documented that 72 percent of clients had been able to improve their families' nutritional status, 28 percent had improved children's schooling, and 22 percent had created new jobs through microenterprise. Of the 74 percent of respondents that reported income increases, 92 percent attributed the increase to credit access that enabled them to tap new economic opportunities. Results such as these suggest that microfinance can be a powerful tool for poverty alleviation in even the toughest economic and political environments. Support for microfinance is one of the strategies the United States will use to accelerate reconstruction in places as diverse as Afghanistan and Sudan.

In areas devastated by HIV/AIDS, such as in Zimbabwe, USAID missions are using microfinance to mitigate the economic impact on orphans and others affected by the disease. Currently, one in four people between the ages of 15 and 45 in Zimbabwe has HIV, and some 624,000 children under the age of 15 have lost one or both parents to the disease. USAID funds programs to provide training, business skills, and financial services to affected communities. It also assists the national microfinance network, Zimbabwe Association of Micro Finance Institutes (ZAMFI), as well as local affiliates of international networks. This support to national and multi-country networks has been a key component of the USAID mission's strategy for addressing the multiple needs of Zimbabwe's economically active poor in an integrated fashion.

Strategies for making microenterprise work are expanding. U.S. commitment for making microenterprise work is expanding. More than ever the delivery of well-tailored financial and business services to this important sector of the economy is showing its ability to pull huge numbers of people out of poverty. ❑

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1 The Foundation for International Community Assistance.

2 Society for Helping Awakening Rural Poor through Education, an associate of Women's World Banking.

3 (ILO), "Women and men in the informal economy: A statistical picture," p. 7 (no date) The International Labour Office defines informal sector employment to include both self-employment in informal enterprises (i.e., small and/or unregistered) and wage employment in informal jobs (i.e., lacking contract, benefits or social protection).

4 ILO, pp. 34, 36.

5 ILO p. 37.

6 "The Informal Sector: Refugees from Under-Performing Legal and Institutional Systems," presentation by Kate McKee, Washington, DC, 2002.

7 Job Opportunities and Business Support.

8 USAID Microenterprise Results Reporting, 2000, p. 26 (chart). Section 105 of P.L. 106-309 added a new Sec. 131 to the Foreign Assistance Act, which requires that 50 percent of all microenterprise resources be targeted to very poor entrepreneurs, defined in the law as those living in the bottom 50 percent below the poverty line as established by the national government of the country. The section also sets out loan sizes in different regions to serve as a standard for measuring the poverty level of clients, with loans in 1995 United States dollars of $1,000 or less in the Europe and Eurasia region; $400 or less in the Latin America region; and $300 or less in the rest of the world.

❑ PAVING THE WAY FOR ENTREPRENEURS TO ENTER THE MARKET ECONOMY

By Gaddi Vasquez, Director, U.S. Peace Corps

The Peace Corps focuses on underserved segments of countries in which it serves, particularly women and youth, in its support for community-based small businesses and microenterprises, says Director Gaddi Vasquez. By providing training in entrepreneurial, business management, and leadership skills, and establishing youth business clubs to help young people put their skills to use, Peace Corps volunteers are helping countries develop new links to domestic and international markets. "Where volunteers once constructed wooden bridges, the 21st century Peace Corps volunteer builds economic bridges by paving the way for entrepreneurs to enter the market economy," Vasquez says.

The U.S. Peace Corps is promoting development of community-based small business and microenterprise projects in many of the world's poorest countries. By combining traditional business management training with innovative information technologies, Peace Corps volunteers are nurturing new entrepreneurs and helping them create links between developing-country suppliers and domestic and international markets.

From Africa and Latin America to Central and Eastern Europe, the Peace Corps has provided assistance to hundreds of thousands of entrepreneurs for the past 43 years. What separates the Peace Corps approach from those of other development agencies is its cadre of skilled volunteers who understand the local language, culture, and markets, and who live and work in local communities where they integrate community members in every facet of their projects.

With the fall of the communist era in the late 1980s and the rise of market economies in Central and Eastern Europe and the former Soviet Union, the Peace Corps launched in the region a number of formal Small Enterprise Development (SED) projects. At the same time, volunteers continued to build on the cooperative movement in Latin America and advance the tradition of entrepreneurship in Africa and Asia. The goal of these projects was to impart entrepreneurial skills while strengthening the capacity of local organizations and service providers that assist micro and small businesses.

The Peace Corps now has stand-alone SED projects in 36 countries around the world and promotes SED activities in almost all of the more than 65 other country programs it operates. In fiscal year 2002, close to 1,000 SED volunteers assisted more than 80,000 individual entrepreneurs and 8,000 service providers and organizations. Where volunteers once constructed wooden bridges, the 21st century Peace Corps volunteer builds economic bridges by paving the way for entrepreneurs to enter the market economy.

BUILDING COMMUNITY SUPPORT

After 12 weeks of intensive language, cross-cultural, health, safety and security, and technical business training in Ukraine, Peace Corps Volunteer Jon Daigle was assigned to the Division of Economy in Khmelnytsky Oblast, or governmental region. With his newfound knowledge of the Ukrainian language and local business and cultural norms, as well as his understanding of the country's economic situation, Daigle worked with local colleagues to promote "economic cluster development," an economic model that encourages interdependence among local businesses within a particular industry.

Daigle assisted his colleagues to design and implement a seminar that promoted economic investment in the oblast and at the Ukrainian Stock Exchange in Kyiv. He also helped his colleagues develop an investment promotion program to attract funds from the United States and Europe. As a result of these efforts, the national Micro-Finance Bank opened a branch office in Khmelnytsky to provide seed loans to small- and medium-sized enterprises in the region. The next step for the oblast administration is to open a business-training center for potential clients of the Micro-Finance Bank.

A much smaller community in another part of the world, Dagana, Senegal, is a departmental capital (there are three departmental capitals per region, which is equivalent to an oblast) with a population of 25,000 located 80 miles from the regional capital of Saint Louis. Dagana is a cultural crossroads rich in traditional art of the Wolof, Peulh, and Moor ethnic groups. Unfortunately, few tourists visit the community and few festivals and other cultural events take place there. This makes it difficult for traditional artisans to sell their products or to create linkages that would allow them to reach larger markets.

After hearing about the work that other Peace Corps volunteers had done at an arts and crafts fair during Senegal's annual Saint Louis Jazz Festival, volunteer Erika Miller recognized an opportunity to promote both Dagana's artists and the city as a tourist destination at the next festival. With Miller's guidance, Dagana's mayor agreed to sponsor a promotional project with the modest amount of $320.

Part of the mayor's money was used to pay for a booth at the Saint Louis fair as well as transportation and lunches for the artists. Miller persuaded six artists to part from their families — a difficult feat in this rural area — and to bring their works to the festival. She helped each artist to create a publicity book, teaching them an important marketing principle. After the artists arrived, they toured local galleries to market their products. Another portion of the mayor's grant was used to create a Dagana tourism promotion committee, which produced a tourism promotional brochure under Miller's guidance. Upon her return to Dagana after the festival, the community hailed Miller's efforts in helping Dagana "get on the map."

Both Daigle in Ukraine and Miller in Senegal were successful in getting their communities noticed in larger markets and in attracting investment. They are representative of volunteers in practically all Peace Corps countries who leverage their understanding of local business environments and their cross-cultural skills to gain the trust of their local colleagues, identify new opportunities, and facilitate economic development.

A MODEL FOR MICROENTERPRISE DEVELOPMENT

The Peace Corps approach involves host country partners in the entire process — from project planning and training design to participation in pre- and in-service training and project implementation. Buy-in and ownership of Peace Corps activities by the Khmelnytsky Oblast administration in Ukraine and by Dagana in Senegal were essential to achieving sustainable results that met local needs.

Buy-in cannot be achieved unless the community sees a project's relevance to local needs, particularly underserved segments such as youth and women. The Peace Corps tries to ensure such relevance by managing projects not from Washington but through its individual country headquarters. It is the country offices that assign volunteers to work alongside host country counterparts. Both parties are involved in making sure that the work is relevant to local development needs and that the training of local staff is adequate to sustain project activities after the volunteers depart. These activities often include counterparts providing training in organizational management and business practices to members of international or local nongovernmental organizations or community-based organizations such as a farmers cooperatives or artisan associations, as well as to individual micro and small entrepreneurs.

In the developing world, women cultivate 80 percent of all the food produced and make up one third of the world's wage-labor force. As microenterprise managers, women in Africa, Asia, and Latin America produce and sell produce, processed food, and handicrafts. Volunteers often work directly with women's cooperatives, as well as with microfinance institutions, to help women access the appropriate training, business advice, and financial resources to start and expand their businesses.

For example, at the beginning of her tour in 2000 in Togo, one Peace Corps volunteer initiated a Tontine Tatchoyim, a revolving credit group for women. After three years of operation, the Tontine continues to grow and thrive. The group now has enough funds to open bank accounts, reinvest in businesses, and pay for the education of members' children. This system allows group members to keep their money safe from the social pressures (such as demands from family or community members for a share of the profits) to which small businesses often fall prey. Tontine Tatchoyim, which started with no funds, now has an annual income of 400,000 CFA, the common currency of 14 African countries, or about $800.

The world has some 1.2 billion youth between the ages of 10 and 19, and 87 percent of them live in developing countries. Despite shrinking government payrolls in many developing countries, young people often expect to be hired by the state upon completion of secondary school. In many of the countries Peace Corps serves, the lack of jobs for this growing demographic group has led to an increase in youth crime, particularly in urban areas.

To change attitudes and provide opportunities for the future, Peace Corps volunteers have been training out-of-school and in-school youth in entrepreneurial, business management, and leadership skills while establishing youth business clubs to help young people put their skills to use.

In coordination with Nicaragua's Ministry of Education, Sports, and Culture, volunteer Joran Lawrence developed entrepreneurial and business skills among youth in local high schools, youth centers, and homeless youth shelters. More than 300 young Nicaraguans took part in these training activities. As a result, a group of youth started a T-shirt printing business, and the profits were used to fund an educational campaign to combat the spread of HIV/AIDS.

INNOVATION IN PROJECT IMPLEMENTATION

Peace Corps volunteers are responding to a growing need for expertise in business sub-sectors such as Information and Communications Technology (ICT), microfinance, and ecotourism — growing areas that provide opportunities for local, regional, and international investment.

Volunteers find business solutions for microenterprises through the implementation of computerized accounting systems, inventory databases, and Internet access. They use local radios to transmit information about successful practices in business management to people around the country and disseminate current market prices to farmers. ICT helps lenders track client loans and uses the Global Positioning Systems (GPS) to provide virtual addresses where street names don't exist.

Peace Corps volunteers also help increase reimbursement rates for microfinance institutions by providing the necessary business training to potential clients and loan recipients, increasing the rates of on-time payments and business profitability. Volunteers also promote equitable community involvement in managing and operating ecotourism sites as businesses that serve both the needs of the community and of tourists. Microenterprises involved with the sites benefit from volunteer-provided training in the "4 Ps" of marketing — price, product, placement, and promotion — as well as in quality control, hospitality, and accounting.

PROMISING PRACTICES

During the two years that they normally spend in their host-nation communities, SED Peace Corps volunteers take as their guiding principle the old adage that teaching a man how to fish is better than giving him a fish to eat. But these volunteers go beyond teaching the basics "of fishing" to train women, men, and young people to create linkages between suppliers, producers, and buyers; explore opportunities for access to credit; market their products, and strengthen the organizations that will support their business efforts over the long term.

Whether assisting local staff to transform a school's resource center into a self-sustaining IT microenterprise in Panama or training members of a women's association in Nepal to sell their handicrafts on the Internet, Peace Corps volunteers have contributed to the overall development of hundreds of thousands of communities. Key to their success has been the ability and willingness of volunteers to become full members of their host communities. By speaking the local languages, understanding the cultural norms and mores, and living more or less as their neighbors live, volunteers are laying foundations for sustainable development and prosperity. Host country nationals, meanwhile, are gaining, along with a foothold in the global economy, a greater understanding of Americans. Open communication, mutual respect, and collaboration are the tools paving the way. ❑

❑ MICROCREDIT LOANS ARE CRITICAL TOOLS TO HELPING THE WORLD'S POOR

By Christopher H. Smith, U.S. Congressman from New Jersey

U.S. Representative Christopher H. Smith says he likes microenterprise programs because they directly help the poor help themselves, a bottom-up approach distinct from the top-down approach of most foreign aid bureaucracies.

Author of legislation signed by President George W. Bush to expand and reform the U.S. federal government's microenterprise program, Smith says the new law both increases the level of spending and directs more money to the poorest of the poor. Smith is vice chairman of the House of Representatives International Relations Committee and chairman of the U.S. Commission on Security and Cooperation in Europe.

Baulia Parra Pruneda may never become a household name. She may never make the cover of a leading financial news magazine, nor will she likely earn significant attention in the world of finance.

But Baulia, a resident of Monterrey, Mexico, has her own success story that is remarkable because it is the tale of a woman who, with a small amount of financial assistance and a significant amount of determination, was able to improve life for herself and her family.

When her husband lost his job in 1998, Baulia was determined to support her six children. Even though she had never worked before and could not read or write, she taught herself to sew by following designs that she saw in magazines.

A $150 microenterprise loan supported by the United States Agency for International Development (USAID) provided capital for her to purchase the necessary supplies to launch her endeavor into self-sufficiency. After building her small business through a series of U.S.-sponsored microloans, she now sells over 100 items per week. The money she earns not only provides food for her children but has also enabled her to install running water and a second floor in her home.

As inspiring as Baulia's story is, it is thankfully not unique. When given the opportunity and the seed capital to produce, people can turn their economic situation around in a dramatic way. The goal now is to build on past successes that have reached tens of thousands of people and apply lessons learned to efforts aimed at developing an even better U.S. foreign-aid microcredit program.

In June 2003, President George W. Bush signed into law my bill, the Microenterprise Enhancement Act (PL 108-31), which will expand our existing microenterprise program so that more people can share in the hope that has already proven so fruitful to women like Baulia, who are living in some of the world's poorest countries. The law places an increased priority on microenterprise funding by authorizing a $25 million increase in the program's budget — to $200 million — for the 2004 fiscal year.

My new law also establishes a new framework to ensure that more funds go to the poorest of the poor through the development and implementation of easy-to-use and cost-effective poverty assessment programs and techniques.

Previous legislation failed to accomplish the goal of directing 50 percent of the money to the poorest of the poor. The program had relied on only a single measurement tool — average loan size — to evaluate and rank poverty outreach efforts.

The administrators had assumed that only the poorest people would apply for such small loans and that, therefore, making so many small loans was accomplishing the goal.

But with currency values varying from country to country, and loans varying depending on the type of business being established, the "average loan size" methodology has failed as a measure for evaluating both outreach efforts and poverty.

Accordingly, PL 108-31 requires USAID to devise new, more meaningful poverty-assessment tools and give consideration to low-cost, easy-to-implement tools. Identifying and targeting the poorest potential clients who would stand to benefit the most from microenterprise loans has proven to be more difficult than originally anticipated. I am hopeful that once developed, these poverty assessment techniques may prove more useful not only for microenterprise, but also in other areas of foreign aid.

It is important to note that over two million clients are benefiting from USAID-assisted programs that provide the necessary capital through these small loans, which sometimes total only $200, $300, or maybe $400. While these awards may seem small in our society, the microcredit loans are key to the individuals who receive them. These loans can make the difference by helping them develop their own businesses, build their own homes, and care for themselves.

About 70 percent of the loans are awarded to women business owners, helping them to overcome the many added obstacles women still face in developing countries. The loans and the businesses they foster empower women and give them the means to support themselves and to break the cycle of poverty and discrimination that has made them vulnerable to the perpetrators of slave labor and human trafficking that run rampant through many poor nations.

Another remarkable statistic is that an estimated 97 percent of all of the loans are repaid. This high rate of return payment helps replenish the pot of funds so that more individuals can apply for and benefit from microcredit loans.

One of the reasons I am so enthusiastic about microenterprise programs is that they are fundamentally different from traditional foreign-aid programs. They are based on a bottom-up, grass roots approach rather than a top-down model. The assistance goes directly to the people in need rather than to government agencies that may get sidetracked or bogged down with their own political agendas.

Studies on the effects of microenterprise programs find they promote higher household income and increased family well being, including improved nutrition and education among children.

With success stories like Baulia and many others, I am excited about the potential of microcredit loan programs. I look forward to continuing to champion the cause of microcredit in the Congress so we can ensure the money continues to flow to those in need. ❑

❑ FINANCING DEVELOPMENT: BANKING ON MICROENTERPRISE

By Katharine McKee, Director, Microenterprise Development Division, U.S. Agency for International Development

Only 5 percent of low-income households around the world have access to financial services. Yet these services are now considered critical to small business development, income, and employment growth in all countries, says Katharine McKee, director of the Microenterprise Development Division at the U.S. Agency for International Development (USAID).

McKee outlines key strategies used by USAID in its support of microfinance, which is now at the forefront of global anti-poverty strategies. Innovative approaches to serving low-income entrepreneurs and households, she said, include finding substitutes for traditional collateral, promoting flexible repayment schedules, and offering a broader range of financial services such as insurance and flexible savings accounts.

To grow and prosper, businesses of all sizes and in all countries need access to financial services. Such access is a particular challenge for poor families around the world that need loans, credit, and savings to establish, sustain, and expand small businesses and microenterprises. Once considered peripheral to mainstream development policy, access to microfinance is now at the forefront of a global anti-poverty strategy that has tremendous potential to generate income and expand employment at both the local and national levels.

Financial services are equally important in protecting against the unforeseen consequences of illness, incapacity, or death of a breadwinner; natural disasters, war and other crises. With financial services, poor families can send their children to school, buy medicine, and get through lean times when cash and food are scarce.

Despite the importance of financial services for both poverty reduction and equitable economic growth, experts estimate that only 5 percent of low-income households around the world have access to such services. The international development community, with a vision it calls "financial sector deepening," is promoting the extension of diverse financial services by a wide range of bank and non-bank financial institutions to ever larger numbers of low-income and middle-class households around the world.

Support for microfinance has been a focus of U.S. foreign assistance programs for more than 25 years. The United States Agency for International Development (USAID) annually provides over $100 million for projects that create large-scale, effective, and sustainable microfinance services for the poor in developing and transition countries.

The United States complements its direct investments in microfinance development through its support for international financial institutions (IFIs) such as the World Bank, the International Finance Corporation (IFC), and regional development banks. Several IFIs, including the Inter-American Development Bank, the Asian Development Bank, and the European Bank for Reconstruction and Development, have strong track records in supporting financial services for micro and small enterprises.

The results of USAID's investments over the years are impressive: (see microenterprise investments table).

In some countries, support for microfinance over the years has transformed the national financial landscape by incorporating hundreds of thousands of bank-ready clients and stimulating innovations that change the way mainstream banks do business. Microfinance customers now make up the majority of financial services clients in countries as diverse as Kyrgyzstan, Uganda, and Bolivia. In Bolivia, for example, USAID's microfinance program has been instrumental in a massive expansion of financial services in terms of the number of borrowers and savers as well as the overall performance of the country's financial markets.

According to information collected by USAID based on data furnished by central banking authorities, the dollar assets of microfinance institutions (MFIs) — those groups that lent money principally to small businesses and low-income households — operating in Bolivia rose nearly 300 percent between 1992 and 2001, a rate of growth

USAID Microenterprise Investments

	1999	2000	2001	2002
Loan clients	1,997,839	2,175,198	2,904,152	2,723,146
Total loan portfolio	$655,906,588	$883,273,258	$934,253,554	$1,269,622,200
Savings clients	3,069.604	3,155,100	3,514,200	3,196,300
Total savings portfolio	$349,663,487	$533,500,000	$424,800,000	873,400,000
BDS* clients	401,530	254,809	835,458	668,808
Women clients (MF)	69%	70%	73%	69%
Women clients (BDS)	61%	75%	47%	48%
Very poor clients (MF)	67%	67%	69%	59%
Very poor (BDS)	29%	18%	30%	53%

*BDS Business Development Services
MF Microfinance

more than eight times that of commercial banks. By 2001, the number of borrowers from MFIs was more than double the number of borrowers from commercial banks, and 797,000 Bolivians held savings at MFIs compared to just 658,000 in commercial banks.

USAID provides the majority of its microfinancing through its field "missions" in developing and transitional countries. Currently, approximately 50 USAID missions support microfinance and microenterprise development programs. Funding is divided roughly equally among the four USAID regions — Africa, Latin America and the Caribbean, Asia and the Near East, and Europe and Eurasia.

RESPONDING TO LENDING REALITIES

Enterprises need working capital loans, longer-term financing for equipment and other investments, and savings and payment services in order to create jobs and to take advantage of new economic opportunities. Families need access to flexible savings accounts, remittance and payment services, insurance, loans for housing, school fees, emergencies, and so on, to be able to increase their income and assets, reduce their vulnerability to crises, and meet obligations related to such events as births, deaths, and weddings. USAID has invested in developing a wide range of services to meet these disparate needs.

One key lesson from its work is that careful market research is critical before financial institutions introduce new financial services. For too long, for example, most MFIs offered only short-term working-capital loans. Faced with new competition for clients, the MFIs now understand the importance of tailoring product features and service delivery techniques to meet the needs of various clients. An MFI seeking to serve farm families in remote rural areas, for example, must adjust its loan repayment terms and savings services to the cash flow cycles of the families and community, which can vary dramatically by season and agricultural cycle. The same MFI might find that, instead of setting up a fixed branch office, it needs to employ mobile loan officers who travel throughout the countryside to serve its clients.

Microfinance has come a long way from the days when few believed that poor families' repayment of their loans for business and household needs could rival the performance of the most high-performing banks. Nor did many believe that poor families could be successful savers, building up financial assets of their own. How were these breakthroughs in microcredit and microsavings achieved? A few key principles have been critical to the successes — charging interest rates that cover lending costs, managing delinquency carefully, and tailoring flexible financial products in terms of collateral and repayment schedules (see box on "Best Practices in Microenterprise Development: A USAID Perspective).

MFIs recognize that few new clients have the kind of collateral many banks require to secure loans. Therefore, MFIs have developed collateral substitutes — products designed to create strong incentives for repayment. One such technique is a system of "stepped loans." Initial loans are small and short-term, but larger loans of longer maturities become available to borrowers with perfect repayment records. Another collateral substitute is a group loan program that requires clients to essentially guarantee the repayment performances of other group members; if one borrower misses a payment, others will be unable to borrow, motivating fellow members to both pressure and support each other.

Another initiative would base access to credit on a household's entire income rather than just from the real or projected revenue of the business for which the loan is sought. This recognizes that cash is fungible within households.

Innovations have not been limited to credit programs. Savings innovations include the deployment of mobile staff to collect savings on a daily basis from vendors and the introduction of rural automatic teller machines (ATMs) that use thumbprint recognition technologies to enable illiterate clients to access their accounts.

LINKING FINANCIAL INSTITUTIONS WITH MARKETS

USAID's second key microfinance strategy is to invest in diverse retail financial institutions able to serve different markets. With USAID support, many nongovernmental organizations (NGOs) and associations and credit unions, as well as commercial banks, are now able to specialize in offering microcredit and microsavings services, as well as other financial products, to poorer clients and smaller enterprises.

In countries with little microfinance experience, USAID often supports the creation of "market leaders" — financial organizations that demonstrate that the poor are creditworthy and responsible users of diverse financial services. Equally important, the initiative proves that financial services to this market segment can be profitable, which encourages other commercial players to enter underserved markets.

USAID has provided grants for initial operating funds, loan capital, and management information systems to help hundreds of specialized MFI market leaders get started. Follow-up grants have enabled these institutions to grow and achieve sustainability, in which revenues from operations fully cover the costs of offering the services, including loan losses, inflation, and costs of financing future growth through borrowed funds.

Providing young MFIs access to specialized technical assistance and training has been a critical ingredient for their success. The leading international microfinance networks such as ACCION International, FINCA International, and Opportunity International have helped their affiliates become market leaders and demonstrate the viability of microfinance in diverse countries around the world. With USAID support, the World Council of Credit Unions' "savings first" approach, in which communities mobilize their own savings to serve as the capital for loans, is operating successfully in more than a dozen countries to support networks of local credit unions that offer a compelling model of how to provide viable savings, credit, and other services to low-income and working-class families.

Loan guarantees and other credit enhancements, provided through USAID's Development Credit Authority, have enabled successful MFIs to access local and international capital markets to finance rapid growth through debt and bonds. Targeted small grants and technical assistance have also helped banks and other mainstream financial institutions begin offering microfinance services, often delivered through a specialized affiliate that tailors its products and delivery methods to the needs of smaller businesses and poorer households in a community.

SUPPORTING MARKET INFRASTRUCTURE AND REGULATORY REFORM

In some countries with more mature microfinance markets, USAID has shifted from supporting individual retail institutions to a strategy of giving broader support to the microfinance industry as a whole and to the market infrastructure it needs to thrive. This often entails competitive grant funding to help providers with new product development, or investments in specialized institutions such as credit information bureaus and microfinance ratings agencies. The resulting increased competition can be an effective path to product innovation, greater efficiencies, and better services and prices for clients.

Undergirding USAID's three strategies are efforts to improve the legal and regulatory environments for microfinance. If interest rates are capped, for example, financial institutions might not be able to charge enough to cover the higher costs and risks of serving poorer and more remote clients. Laws passed to protect the poor might block their access to the financial services they need. Banks may be unable to serve them if loan documentation and reserve requirements are not adjusted to reflect the distinctive risk management and cost-control methods employed in successful microfinance. Successful

NGO MFIs with proven ability to lend over the long term in this market might be good candidates to offer the flexible savings services that poorer customers typically demand. However, without changes in banking laws, they may be prohibited from offering deposits to the general public.

USAID assistance in the policy arena has sought to remove those legal and regulatory barriers that currently restrict NGOs and other specialized providers from providing microfinance. USAID funding has also helped build the capacity of bank and credit union regulators to protect poor people's savings. Well-trained regulators help to ensure that microfinance providers are adequately overseen. As top-notch NGO microlenders transform into regulated depositories, bank supervision agencies may need to adapt their rules, systems, and staffing.

SUPPORTING GROWTH OF SUCCESSFUL MICROENTERPRISES

Attention has begun to focus on a new gap in the finance market — the "missing middle." As the most successful microenterprises expand, they may need growth capital beyond what MFIs and microfinance programs can provide. In many countries, small- and medium-sized firms find that their access to appropriate financial services is even more limited than it is for microenterprises and self-employed individuals. Recent U.S. foreign assistance efforts have taken aim at the missing middle — trying to ensure that successful micro-, small- and medium-sized firms in developing and transitional economies are not starved of the capital they need to create new jobs, increase productivity, upgrade technologies, and tap new markets and export opportunities.

One major initiative addressing this financing gap is the new Africa Small Business Fund. This $225 million pilot program is a joint venture between the World Bank's concessionary lending arm, the International Development Association, and its private-sector affiliate, the IFC. The Africa initiative builds on a strong microfinance track record, in particular the successful collaboration between the European Bank for Reconstruction and Development, IFC, USAID, and others to create high-performing specialized micro- and small-business banks in transition countries such as Georgia, Kosovo, Serbia, and Russia.

The first project to be approved under the Africa Small Business Fund is a $32 million World Bank credit for Nigeria. In response to the Nigerian government's request for assistance to enhance its bottom-up economic growth, the small business loan program will direct funds to strengthening local financial and non-financial institutions that support small businesses so they can operate more effectively and deliver sustainable commercially based services.

The United States government is committed to helping create vibrant financial sectors in developing and transitional countries around the world. Financial services spur broad economic growth, promote job creation, and generate new opportunities for all citizens. As such, they represent a critical element in the worldwide battle to eradicate poverty. ❑

BEST PRACTICES IN MICROENTERPRISE DEVELOPMENT: A USAID PERSPECTIVE

Microenterprise development activities should respond to demand

The design and delivery of credit, savings, and other financial products and services should respond to the diverse financial needs of individuals and entrepreneurs. Ideally, careful market research should precede product development.

• The terms of microloans, for example, need to reflect the realities of the client's business opportunities, cash flow, and collateral. Whether a program offers individual or group loans, amounts are likely to be relatively small and repayment schedules short-term, collateral requirements flexible, and transaction costs low. Tailoring products to the very poor and rural households is particularly important in order to maximize microfinance's potential to reduce poverty. Market research often reveals that clients demand products beyond credit such as flexible savings or remittance services.

• Donor support for business services should facilitate linkages between private-sector providers of a wide variety of services — from accounting and information services to veterinary services and product design services — and the entrepreneurs who need them to maintain their competitiveness. For example, market access services should address microenterprises' needs to link both to suppliers of inputs for their goods and to buyers of their finished products.

• Payment mechanisms should take into account the levels and timing of clients' cash flows. For example, poorer clients may not be able to pay large, up-front fees for business services. This issue can be addressed by grouping clients for service delivery and payment, building fees into the margins of the products they sell to their buyers (who provide them services beyond marketing), or breaking up services such as training so that fees can be lower.

Service providers must cover their costs and achieve commercial sustainability

Few developing and transition countries can afford to subsidize business and financial services for their citizens on any substantial scale. Thus, if microenterprises are to have access to the services they need to succeed in business, those services must be offered on a sustainable basis. Fortunately, sustainability has proven achievable in a wide variety of circumstances.

• Microfinance institutions (MFIs) must charge interest rates high enough to enable them to cover all their costs, including loan losses and the cost of raising new capital to expand. MFIs should achieve sustainability within five to seven years by charging adequate interest rates, controlling operating costs, and maximizing their efficiency. Business service providers must offer their services on a commercial/fee-for-service basis or cover their costs by embedding them in other transactions. Offering these services on a non-commercial basis distorts the business services market and threatens its long-term sustainability.

• Efforts to promote specific business services should be consistent with the larger objective of developing broad, sustainable business services markets that strengthen linkages within and between commercial sub-sectors.

A businesslike approach is key

• Delinquency management is critical to the development of sustainable microfinance institutions and a healthy financial sector in which poor people can rely on consistent access to financial services.

• To ensure that microenterprises have access to the business services they need in order to be competitive, donors should promote a strong business services sector by facilitating linkages between microenterprises and private-sector service providers — not by subsidizing the services themselves.

Services alone may not be enough. Achieving maximum impact of investments in microenterprise development may require addressing policies that constrain small businesses and compromise individuals' access to financial services.

• Limits on the assets poor people can use as collateral against credit can block their efforts to improve their lives.

• Onerous business registration requirements and regressive tax policies are just two examples of the kinds of policy barriers that disfavor microenterprises and can inhibit economic growth on a national scale, particularly in those countries in which microenterprises contribute substantially to the national economy. ❑

❑ BUILDING AN ENABLING ENVIRONMENT: A LONG-TERM PERSPECTIVE OF MICROENTERPRISE

By Charles Cadwell, Kathleen Druschel, and Thierry van Bastelaer, The Center for Institutional Reform and the Informal Sector (IRIS) at the University of Maryland

Microenterprise works best in countries where the political, economic, and social environments allow small entrepreneurs to succeed beyond the level of basic survival, say Charles Cadwell, Kathleen Druschel, and Thierry van Bastelaer from the IRIS Center at the University of Maryland.

Drawing on the last two decades of experience, the authors suggest that donors should focus more on the fundamentals that "enable" successful microenterprise development. These include solid legal and financial institutions, regulatory reforms, governments that respond to the needs of their citizens, and business groups that can advocate changes to policies and practices that hurt their members' ability to build and expand their businesses. Effectively addressing the problems of today's poor, they say, requires a better understanding of the mechanisms that perpetuate poverty and the processes by which those mechanisms can be improved.

In Kabul, Afghanistan, new microenterprises, having sprung to life in the early hours after the Taliban fled the capital city in 2001, sell previously banned items such as music and radios as well as scarce necessities such as food, clothing, and fuel. Across Bangladesh, millions who lack education, capital, or information about distant markets nonetheless carry on business activities that demonstrate remarkable resilience and contribute to significant portions of that country's exports. In Africa, communities ravaged by HIV/AIDS still have active markets, with ever-increasing income generation activity, as families burdened by adopted children and ailing adults struggle to survive.

While there is wide acceptance of the critical role small businesses and microenterprises play in providing jobs and raising national income, the poorest countries are often found lacking in this outcome. The greatest gains from entrepreneurship are found in places where the political, economic, and social environments allow entrepreneurs to succeed beyond the level of basic survival. This "enabling environment" for microenterprise depends to a large degree on good governance. In countries where citizens have only a limited control over the policymakers and the public sector, the enabling environment is often weakest.

It is not always clear what can usefully be done to promote opportunities for microenterprises so that they can prosper. While donors have often aimed support at microfinance, or increasingly, delivery of business development services, these efforts have not been adequate to broadly improve standards in poor societies. Even as initiatives such as the Grameen Bank – the Bangladesh bank that introduced and popularized the idea of giving small loans to microenterprises – have expanded, the majority of poor people continue to lack access to a range of market-supporting services, including credit and savings services, from both government and the private sector. These enterprises most often cite as obstacles to their growth: lack of police protection from crime, access to other government services based on favoritism rather than merit, collection of illegal payments by government officials, unpredictable regulatory and enforcement practices, and a lack of government support for private agreements and collective arrangements between and among individuals and firms. In light of these challenges, how should policymakers in poor countries re-think their approach and how can donors influence this process?

Two decades of experience suggest that donors need to put more resources into those programs and policies that "enable" – create the conditions for – successful microenterprise development. An "enabling environment" comprises institutions: laws, policies, and informal rules, as well as the bodies that implement them. These institutions support transactions that rise above the simple exchange observed in street trade. The common example of an economic institution is credit, where repayment requires some means of enforcing a contract. The peer pressure for loan repayment that is central to group lending practices represents a rudimentary form of contract enforcement. But development depends on a variety of complex forms of agreement, which permit not only the extension of small, local credit but also the mobilization of savings, the accumulation of capital within firms, formal degrees of ownership, and transparent processes by which to access information.

The weakness of the enabling environment in the poorest countries has many causes. Poor effectiveness and low credibility of the state and its officials undermine policies across the board, including those essential to microenterprises. A lack of specific policies and low capacity to implement them also hinder improvement in specific areas of a microenterprise-enabling environment.

These gaps are difficult for external donors to fill easily or quickly. Narrow “technical assistance” services (such as training of entrepreneurs or facilitated access to markets) have not been the solution; even when such programs have been available to host countries at low or no cost, governments generally fail to implement them. This is one of the reasons that donors are increasingly paying attention to the incentives, which motivate action on the part of officials, policymakers, and other economic and political actors. Attention to how economic decisions are taken, by whom and with what end is an essential part of the work needed to improve the environment for microenterprises. Steps to facilitate access to credit by small firms will founder if credit contracts are not routinely enforced by courts, or if property registries are non-existent or corruptly run. So it is important to understand why courts in some places provide better contract enforcement services and why some local governments prey on firms while others encourage enterprise.

If any interaction with the government – from entry into school, to access to health care, to access to business licenses – requires a bribe, then the obstacles facing microenterprise are merely examples of more fundamental governance problems, as has been suggested above. Communications and transportation infrastructures are much more likely to be underdeveloped and poorly distributed in places with weak governance institutions. Services central to microenterprise, such as the issuance of land titles and enforcement of contracts, will also be lacking. Private providers of some of these necessary services, who might try to step in to fill a gap left by government, are themselves often stymied by the same entry barriers that result from weak or corrupt governance mechanisms. So another aspect of such a "market augmenting government" – a government that works to increase the reach of the markets rather than replace them – is the scope it provides for markets to evolve their own institutions, or for government decisions to be informed by markets. Where these mechanisms are suppressed, citizens will seek economic and political opportunities in other ways – by emigration, withdrawal into the sector of the economy that is not officially recorded or recognized, and political and social dissent.

These observations suggest that, in an era of diminishing donor resources, a focus on improving the enabling environment for micro, small, and medium enterprises is likely to affect significantly larger numbers of enterprises – and at a lower per capita cost – than reliance on targeted programs of enterprise support. As an example, in the fiscal year that started October 1, 2001, the U.S. Agency for International Development (USAID) spent just under $170 million in microenterprise efforts. Ninety two percent of that amount provided direct support to microfinance initiatives or business development services. The remaining 8 percent was devoted to improving the enabling environment for microenterprises, much of which funded the development of policies related to provision of microfinance rather than the broader environment for microenterprise. This is not to suggest that USAID misunderstands the nature of the challenges facing microenterprises – indeed its staff includes leading thinkers and practitioners in the field – but rather to recognize that the agency faces significant pressures from Congress and interest groups to pursue programs that more closely reflect a concern for short-term humanitarian assistance than for long-term development.

There is no doubt that many or most of the recipients of aid are better off for it. But it also is quite obvious that the main causes of economic and social distress often remain unaddressed in the very same places where diligent microfinance or business development efforts have been under way for a long time. A program of support for microenterprise has to be refocused.

A growing number of donor initiatives are starting to reflect this reality and translate new thinking into practice on the ground. The joint World Bank-International Financial Corporation Small and Medium Enterprise Capacity Building Facility has supported efforts in building business organizations that advocate changes to policies and practices harmful to their members' ability to build and expand business. In Malawi, the National

Association of Business Women advocated for changes to the land law policy, which would allow women to obtain property titles and thus secure commercial loans. In Belarus, 18 local business associations work together to garner media attention about stifling enabling environment policies. USAID is working at this, too, by conducting research on how policies interact with poverty, implementing programs that target the microenterprise environment, and increasingly emphasizing governance concerns, especially in the fragile and failing states, which are often home to the poorest of the world's citizens.

Tackling these larger problems will take more time – the issues are complex, and change of governance is not yet a well-understood process. Only a few countries have improved their enabling environment quickly (and some would suggest that countries such as Poland or Slovenia are special cases). In most places, bettering this environment remains a difficult matter. Bad policies have beneficiaries who cling tightly to their benefits, even if those beneficiaries might be better off in the long run with change. Organizing microenterprises to overcome this inertia is a difficult task everywhere, but especially in places with little interaction between the state and citizens.

If our concern is development (or if we believe U.S. national security concerns make poverty reduction an even more urgent task than it currently is), then policies and programs need to be effective in their overall impact on broader economic and social goals, not just successful in meeting the needs of direct recipients. This calls for significant re-thinking in our microenterprise approach. It requires long-term commitment to the policy environment and to governance mechanisms that support that environment.

If donors accept this broader perspective of poverty reduction, they will need support from those who advocate for the poor and for microenterprise. They will need support from those who purport to advocate for private sector development. Donors will need to develop better understanding of the processes by which actual improvements are made in the enabling environment. Which policies can be initiated by local governments, even in countries with repressive regimes? What options are there for organizing advocacy groups? Are there ways to support private provision of "public" goods such as dispute resolution or commercial standard-setting?

These are issues that we have worked on at the University of Maryland's IRIS Center since our founding by development economist Mancur Olson in 1990.

Because the poor and microenterprises bear the fullest brunt of poorly conceived policies and inadequate governance, attention to the governance and institutional environment offers a powerful response to the poor's real needs. To effectively address the problems of today's poor, we need to understand much more about the mechanisms that perpetuate their poverty and the processes by which those mechanisms can be improved. ❑

Note: The opinions expressed in this article do not necessarily reflect the views or policies of the U.S. Department of State.

❑ WOMEN AND MICROFINANCE: OPENING MARKETS AND MINDS

By Susy Cheston, Senior Vice President for Policy and Research, Opportunity International

The microfinance industry has been at the forefront of recognizing women as a force in international development and a market worthy of attention but can do even better if it addresses ongoing barriers to women's participation and empowerment, says Susy Cheston, senior vice president at Opportunity International, a non-profit organization that supports microenterprise development.

Cheston points to phenomenal progress, as shown by estimates that the number of very poor women with access to microloans reached 32.7 million in 2002, but argues that many women worldwide are still unserved or underserved.

She says there are tremendous opportunities for innovation in microfinance if new incentives focus on reaching new markets, such as women who are currently excluded, clients in rural areas and, above all, the very poor; delivering new products, including expanded savings services and client training to promote business, personal, and social development; and new ways of doing business, such as addressing continued obstacles to women's empowerment and including more women in the leadership of microfinance institutions.

Giving loans to women was once considered revolutionary. In just three decades, however, a series of breakthroughs has shown that women — especially poor women — are creditworthy and make excellent consumers of financial products.

Today the majority of microfinance clients worldwide are women, and this is especially true for programs targeting the very poor. Not only is microfinance good for women, but it also turns out that women are good for microfinance. Women are highly motivated savers and repay their loans at a higher rate than men. A big breakthrough for microfinance was in its ability to identify the characteristics of women's businesses and their use of financial services and then design products to fit their needs. In the classic study *Financial Services for Women,* C. Jean Weidemann lays out the basics of how to provide credit to poor women: provide small, short-term working capital loans that work for trade and service businesses; overcome mobility restrictions by going to women where they live and work; overcome legal obstacles by using "solidarity," or group, guarantees and character references rather than collateral; rely on relationships and group processes rather than paperwork so that illiterate women can participate; and provide education on how to be a good credit consumer. Recently, the industry has also given more attention to women's long-expressed need for savings services and for other financial services such as consumption, housing, and education loans.

ECONOMIC AND BUSINESS GAINS

The bottom line on microfinance is whether or not clients are working their way out of poverty. According to research by microfinance impact assessment specialist Suzy Salib-Bauer on Sinapi Aba Trust, an Opportunity International microfinance institution (MFI) in Ghana, 42 percent of mature clients (those in the program two years or more) had an improvement in their poverty level — either moving from "very poor" to "poor" or from "poor" to "non-poor" status, as measured by a standard household asset and income index. ASHI, an MFI in the Philippines that exclusively targets poor women, found that 77 percent of incoming clients were classified as "very poor"; after two years in the program, only 13 percent of mature clients were still "very poor."

Poor women are focused not only on investing in opportunities for income and growth, but also on managing risks and reducing their vulnerability by protecting against emergencies and planning for events such as marriage, childbirth, education for children, and funerals. They therefore value savings services and tend to be more careful about investing than men, with the result that their businesses do not usually grow as fast as those of men, but tend to be around for a longer time. Most of what we know about business growth is based on how women invest working-capital loans, as to date far fewer women have been able to access larger asset-based loans. In 2001 Lisa Kuhn Fraioli, a microlending product manager and gender advisor for Opportunity International, analyzed the changes women in Ghana experienced in their businesses as a result of increased working capital. She found the women had greater control over their businesses, improved relationships both with suppliers and with customers as their businesses became better supplied and more reliable, greater diversification, expansion into more profitable product lines, and increased power and prestige in the marketplace.

Even small gains can make a difference. A $50 loan allowed a single mother of eight children in El Salvador to sell rice in addition to beans — a little diversification that improved the stability of her business and her ability to feed her children. There are also plenty of exceptions to the slow, incremental growth paradigm, such as a woman in the Philippines who started out selling bundles of wood on the sidewalk and leveraged a series of working-capital loans into a full-fledged lumberyard with 10 employees and a delivery truck. When asset loans are available, women can make strategic investments. A Ghanaian woman used her asset loan to buy a freezer and after only one month was able to produce and sell 500 ice creams a day.

PERSONAL IMPACT AND FAMILY BENEFITS

Many impact studies have found that in some cases simply having cash in hand — and greater control over that cash — can lead to empowerment for women. Indeed, studies from all parts of the world have consistently found increased self-esteem to be among the most striking impacts of microfinance.

This increased self-confidence goes hand in hand with improved status at home. Ghanaian women clients of Sinapi Aba Trust (SAT) found that their financial contributions helped them earn greater respect from their husbands and children, negotiate with their husbands for help with housework (especially doing laundry), avoid family quarrels over money, and gain increased respect from extended family and in-laws. Women have even been able to stop domestic violence. Working Women's Forum (WWF), a union/cooperative of poor women in India, found 41 percent of its members who had experienced domestic violence were able to stop it due to personal empowerment and 29 percent were able to stop it through group action. Women have also increased their participation in decision-making. One example comes from the Women's Empowerment Project (WEP), a program in Nepal incorporating savings, credit, and literacy. WEP showed 68 percent of women had greater power over family planning, arranging their children's marriages, buying and selling property, and sending their daughters to school.

Empowerment effects have been especially well documented in "credit plus" and group-based programs that combine credit with other activities such as education, leadership development, community problem-solving, and business development.

The benefits don't end with individual empowerment. Providing financial services to women brings about a "multiplier effect" because, simply stated, women spend more of their income on their families, leading to better housing, nutrition, health care, and children's education, especially for girl children. Sylvia Chant, a professor at the London School of Economics, carried out studies in Latin America, which are echoed by studies in Africa and Asia, that show that men typically contribute 50 to 68 percent of their salaries to the collective household fund, whereas women "tend to keep nothing back for themselves."

COMMUNITY PARTICIPATION

While most research focuses on business, personal, and household impact, there is also evidence of changes in how women perceive themselves and how others perceive them within their communities. These changes in perceptions have led to increased participation by women in community leadership and, in some cases, political positions.

Freedom from Hunger, a "credit with education" network, found that its clients in Ghana were much more likely to give business advice after entering the program and that its clients in Bolivia were significantly more likely to have been candidates for public office or to have been members of the community's sindicato, or labor union, than non-clients. WWF in India found that over 89 percent of its members had taken up civic action for pressing problems in their neighborhoods. At AGAPE, Opportunity's MFI partner in Colombia, Las Américas Trust Bank organized, negotiated, and raised funds to bring electricity to their barrio.

AN UNFINISHED PICTURE

Not surprisingly, however, traditional microfinance by itself cannot lead to women's full economic, social, and political empowerment. In fact, in many cases microfinance works not because it has changed the prevailing laws or culture but because it has worked around them. While some husbands help with housework or the business, in most cases women clients have not been able, or even tried, to challenge the existing status quo and are often taking on responsibilities that lead to a heavier workload and greater exhaustion — although for most the increased income and independence make this trade-off worthwhile.

In some cases, as women's income goes up, men's contribution to the household goes down. Some women are pressured to pass their loans to their husbands or another male relative, increasing their burden but not always their benefits. Some MFIs report increases in domestic violence once women become microfinance clients. However, researchers Syed Hashemi and Sidney Schuler, who have studied the impact of credit on women in Bangladesh for over 10 years, found a lower incidence of violence against women who were members of credit organizations than among the general population. Despite the increased prestige individual women experience in the community, there has not usually been change at the macro level leading to increased power and opportunities for women in general in the marketplace and within society.

The very microfinance industry that has served women so phenomenally well nevertheless runs up against the same cultural barriers found throughout society. Grameen Bank in Bangladesh, a groundbreaker in reaching women clients, for many years has maintained between 5 and 10 percent female loan officers. Grameen is not alone. Many MFIs accept rather than creatively challenge cultural reasons (in their various guises of concerns for safety, comfort, capacity, education, etc.) that exclude women from serving as loan officers. One typical example from Zimbabwe is the stigma against women driving motorbikes, which is a requirement for many loan officers. While many men have served as treasured loan officers to women clients, anecdotal evidence suggests that a woman loan officer can bring added benefits to the job by serving as a role model and "sister." The industry in general has not made a priority of ensuring that women are involved in MFI leadership, either on boards or in senior management. In many MFIs, 85 percent or more of clients are women yet fewer than 25 percent of the leaders are women.

Worse, some MFIs essentially ignore women as a market. Many women-owned businesses are still regarded by loan officers as income-generating activities rather than serious businesses with growth potential. When MFIs do not intentionally take women into account in marketing their financial products, women often understand themselves to be excluded. A Trust Bank program in Colombia showed this phenomenon clearly when, after having served exclusively women, it was opened for the first time to both women and men — and 13 of the 14 potential clients who showed up at the introductory meeting were men. Further, lending programs designed for women are often so committed to tried-and-true, one-size-fits-all methodologies that they don't respond to deeper information about their clients' assets and needs, with the result that many women are inadvertently excluded from participation or are unable to make the progress they are capable of.

Even basic knowledge about the nature of women's businesses and the best ways to provide financial services to support them is sometimes ignored or lost in the face of new contexts and new pressures. The U.S. Agency for International Development (USAID) commendably commissioned a gender assessment of its programs in Serbia and Montenegro that expressed concern that the "basics" of providing financial services to women are being disregarded, in part due to the emphasis on SME (small and medium enterprise) lending. In another example, many individual lending products worldwide still require collateral even for women who have proven themselves creditworthy through increasingly larger group loans — this despite widespread knowledge that women have less access to collateral and personal guarantees than men — essentially preventing them from "graduating" to more sophisticated financial products.

THE NEXT WAVE OF BREAKTHROUGHS

All of this suggests directions for further innovations that could be as significant as the breakthroughs in reaching poor women over the last three decades. The industry has had incentives that have led to tremendous advances in the financial sustainability of MFIs, the ability to reach large numbers of clients, the ability to grow very quickly, and the development of new financing sources. Yet there is tremendous untapped potential that will require stronger incentives for understanding the program elements that lead to increased client impact — holistic approaches such as the ones just described that have brought increased empowerment benefits for women; outreach to women for advanced financial services, including enabling women to graduate into higher level loan products; meeting women's needs for safe and accessible savings services; focusing on the importance not only of increasing income but also of building up assets and social capital; reaching clients in rural areas; using microfinance groups as a vehicle to address the HIV/AIDS crisis; including women in the leadership of microfinance institutions, and, above all, providing financial services to the extremely poor.

This last point of targeting the very poor cannot be over-emphasized when talking about women and microfinance. A client-centered agenda for the industry includes understanding whom is being excluded from our services and testing known limits to see if these women and men, too, can be profitably reached. The industry has developed a dogma — despite some evidence to the contrary — that suggests that microfinance best serves urban or near-urban clients among the moderately poor and vulnerable non-poor. This may be what microfinance experts know best for now — but only 20 years ago few of us dreamed it would be possible for MFIs to be able to cover the cost of borrowed funds.

One has only to look at microfinance in Egypt to understand that the difficulties can be addressed. According to a USAID report in fiscal year (FY) 2000, six Egyptian microfinance institutions reported a total of 72,634 clients, with an average loan size of $506. Only 17 percent of these clients were women. In FY 2002, these same institutions reported 115,345 clients (a growth of 59 percent) with an average loan size of $372 and 54 percent of these clients were women. The secret? The USAID mission strongly encouraged its long-time grantees to add a new group-lending product specifically designed for women, which now accounts for virtually all of their growth — a classic example of what can happen when women are taken seriously as a market. In the case of PSHM, Opportunity's MFI partner in Albania, outreach to women increased from 22 percent to 44 percent in just six months as a result of a new individual lending product targeted to women that features smaller loan sizes, flexible guarantee requirements, and new marketing techniques. These examples of striking progress in a short time suggest that long-standing barriers to women's participation can yet be toppled.

My own experience suggests that most players in the industry — practitioners, donors, academics, policy-makers — would welcome the opportunity to reach more women and ensure the greatest possible impact for them and their families. But it simply is not as high a priority as are so many other pressing issues. Practitioners are strapped by the survival realities of the day while donors are shy of leading the agenda on behalf of women or appearing cross-culturally heavy-handed.

It has been said that the first step toward change is realizing it is possible. Over the past several decades, we've seen that it is possible to reach women, including very poor women, and to bring about economic, social, spiritual, and political transformation for the client, her family, and her community. Providing financial services to women has turned out to be an excellent idea — and the best may be yet to come. ❑

(This article draws heavily on research and writing originally done in collaboration with Lisa Kuhn Fraioli. For a more extensive review of the impact of microfinance on women, see "Empowering Women through Microfinance" by Susy Cheston and Lisa Kuhn Fraioli, published in *Pathways Out of Poverty: Innovations in Microfinance for the Poorest Families* by Kumarian Press in 2002.)

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MICROFINANCE AND THE GLOBAL DEVELOPMENT CHALLENGE

By Alex Counts, President, Grameen Foundation USA

It has been clearly shown that microfinance can have a major impact on reducing poverty at both the local and national levels, says Alex Counts, president of Grameen Foundation USA, an organization that provides financing and technical assistance to financial institutions that offer loans to the world's poor. One key to a successful microfinance operation, he says, is government regulatory policies that support small business development.

Counts, a former Fulbright Scholar in Bangladesh who worked closely with Dr. Muhammad Yunus, founder of the Grameen Bank, examines the essential building blocks of the microfinance sector today. Among his findings are that women-run businesses often are associated with the best credit risks and more likely to funnel earnings into their children's education and that formal business training is not always a prerequisite to successful business development.

With 1.3 billion people living in abject poverty worldwide and an internationally accepted goal to reduce that number by half by 2015 (as part of the Millenium Development Goals), targeted, scaleable, and sustainable pro-poor strategies are needed as never before.

Poverty is arguably both a cause and an effect of many international problems, including global hunger, environmental degradation, overpopulation, illiteracy, civil strife, economic stagnation, and armed conflict. If the international community seeks to address these interrelated issues in a serious and holistic manner, then approaches such as micro-finance should be at the forefront of the global agenda.

The microfinance industry has its origins in experimental efforts in the 1970s to provide financial services, mainly loans, and non-financial business advisory services to the poor. One of the earliest pioneers was the Grameen Bank Project of Bangladesh. Initiated by Professor Muhammad Yunus in 1976 as a response to the 1974 famine, which had devastated this newly independent nation, it was essentially an intensive trial-and-error experiment to find out how the economic activities of the poorest people in one of the world's least developed nations could be supported. Loans of as little as $25 were provided to finance livestock-raising, trading, all manner of cottage industries, and services. Those who repaid were able to access larger loans and take advantage of other investment opportunities. Other methods were tried, but providing financial services, especially individual loans delivered through a group mechanism, was the one that stuck.

By 1983, enough had been learned and sufficient promise had been shown that the Grameen Bank Project was converted into an independent bank specializing in providing financial services to the landless poor, especially women. During the pilot phase (1976-1983), outreach grew from fewer than 100 clients to more than 45,000. Once the bank was launched, a period of sustained growth resulted in outreach of 850,000 by 1990, 2.4 million by 2000, and 3.0 million as of December 2003. Some 200 other providers in Bangladesh, many of them successful Grameen imitators, today reach another nine million families.

Astonishingly, a poor woman in Bangladesh is three times more likely to be a member of a private institution that provides her access to convenient and affordable financial services than she is to be excluded from this access. Worldwide, fewer than 15 percent of poor women are so fortunate. Of course, this shows the growth potential if sustained and leveraged investments are made on a country-by-country basis. With less than 1 percent market penetration in Pakistan, for example, the priority goals for the years ahead come into sharp focus.

By the mid-1990s, according to independent and highly credible research, some 120,000 Grameen families were crossing the poverty line each year, usually in the fifth or sixth year after beginning to participate. So while microfinance is hardly a quick fix or a panacea, it was achieving levels of poverty reduction on the micro level that were unusual, if not unprecedented. Furthermore, in most years, Grameen Bank turned a modest profit. Grameen, like most microlenders, has maintained a repayment rate between 95 percent and 99 percent for most of its history and does so at present. (Natural disasters and other shocks have pushed it lower on a few occasions, most recently in the late 1990s.)

The lessons of Grameen Bank's pilot phase, which have been studied and debated by the development profession and independently confirmed by other pioneers, were the essential building blocks of the microfinance sector today. They can briefly be summarized as follows:

• Only if the poorest women are actively sought out and targeted through effective marketing strategies – house-to-house "motivation" campaigns by local loan officers, means tests, or other similarly effective strategies – are they likely to benefit from microfinance programs.

• Perhaps counter-intuitively, even the poorest people (i.e., those earning less than $1 per day per capita) do not, in general, need formal training before launching a business supported by a microfinance institution (MFI). Their "survival skills," honed in an environment where there is neither a safety net nor wage employment to fall back on, are well developed, though severely undercapitalized. Providing capital, in a structured format where peer accountability is emphasized, is the most efficient and respectful means of ensuring rapid progress. Costly business training and technical assistance programs can therefore often be dispensed with or used only in exceptional cases.

• Women are often the best credit risks, and they are much more likely to use their profits to benefit their children by making investments that are most likely to break the generational cycle of poverty. In one World Bank study of the Grameen Bank and two other large MFIs in Bangladesh, a direct and positive relationship was found between the amount a woman borrowed and the likelihood that her daughter would go to school. A similar relationship was not found in the case of male borrowing.

• Microfinance can be provided in a business-like manner and still materially benefit large numbers of poor families as long as the overriding poverty reduction objective and social empowerment vision remain paramount in the minds of MFI leadership and field staff. Incentives for front-line employees (by management) and for MFIs themselves (by their stakeholders, including donors and boards) are essential to ensuring this. I was recently asked to join the board of Bank Fonkoze, Haiti's first bank for the poor, so that I could serve as the "conscience" of this new institution (which evolved from its roots as an non-governmental organization) and help ensure that mission drift be minimized even as it becomes a commercial financial institution.

Essentially, the lesson of microfinance in the 1980s was that poverty reduction could be franchised, under certain conditions. This discovery has led to impressive growth of the microfinance movement globally. According to the Microcredit Summit Campaign (www.microcreditsummit.org), some 67.6 million families are benefiting worldwide. Of those families, an impressive 37.7 million were among the "hard core poor" when they started participating. This is no longer a single success story driven by a charismatic leader (if it ever was), but rather a growing international effort to attack poverty in a systematic manner.

Grameen Foundation USA, established in 1997, has been at the forefront of helping MFIs to expand their operations and improve qualitative performance by providing financing, technical assistance, and technology consulting (often through volunteers).

The lessons of the two decades after Grameen became a bank provide policy-makers with the tools they need to create enabling environments. Those environments in turn will allow microfinance to reach its full potential to reduce poverty as it arguably has in Bangladesh, where more than two-thirds of poor families are benefiting from one of the 200 MFIs there. Some of the lessons learned include:

• Not only do we know that the poor desperately need credit and can borrow on terms on which the MFI can lend profitably; we have also learned that the poor are eager to have convenient savings and insurance services. By providing these services, MFIs can create new and sustainable sources of capital and at the same time mitigate their risk as lenders. Regulatory support for these activities is rare but critical to the continued if not accelerated growth and sustainability of MFIs.

• Microfinance is perhaps best thought of as a platform, rather than simply as another intervention. It creates an infrastructure where the poor, previously seen as isolated and without material assets or social capital, can be mobilized in large numbers and provided finance to participate in economic and social initiatives. Critical mass can be achieved and brand loyalty engendered much faster when operating through the microfinance channel.

Creating a network of poor and formerly poor families with convenient access to financial services allows them to participate in social and commercial schemes in large numbers, either as vendors or consumers, or both. For example, the Grameen Bank joined with Telenor of Norway and established a mobile telephone company in 1997. Today, 45,000 Grameen borrowers in 45,000 villages (two-thirds of Bangladesh's total) have taken loans to buy mobile phones and establish pay phones serving their villages. They do so profitably – for themselves, for the Grameen Bank (the lender), and for GrameenPhone, which, providing the infrastructure and the service at a wholesale rate, earned a $45 million pre-tax profit last year. Grameen Foundation USA's Grameen Technology Center has just launched a replication of this project in Uganda. Another company, Grameen Kalyan, has opened 15 health clinics alongside Grameen Bank branches and has allowed borrowers to have a yearly insurance premium of under $2 automatically deducted from their savings accounts. This initiative has produced improvements in public health. Moreover, the clinics have achieved 70 percent cost recovery in a few years' time and expect to break even before long.

• Governments have an important role to play in microfinance. But they should not focus on providing microfinancial services to the poor directly because such action tends to be politicized and inefficient. Rather, they can create supportive regulatory frameworks and allocate financing to MFIs through wholesale funds or other mechanisms that are not subject to politicization. The case of Morocco is instructive. In 1997, it was one of several Arab nations whose microfinance sector had total outreach of about 10,000 clients. By instituting a series of mostly supportive regulatory measures and allocating $10 million through the Hassan II Fund, the Moroccan microfinance sector leap-frogged Egypt (which had led the region in outreach and other indicators) and passed the 200,000 client mark in 2002. During the same period, Lebanon and Jordan, for example, experienced very modest increases, if any, in their sectors' outreach. Similarly, the level of microenterprise development in China is hampered largely by the lack of a supportive regulatory environment, according to a recent paper issued by Grameen Foundation USA. (See http://www.gfusa.org/chinareg.htm). A summary of GF-USA's recommendations for creating a pro-microfinance regulatory regime can be found at http://www.gfusa.org/gbrp/whitepaper.htm.

Information and communications technology has a critical role to play in the recent and future growth of the microfinance sector. Automation of the microfinance process, which traditionally was done manually, has tremendous potential to increase efficiency as well as reduce the scope for error and fraud among loan officers, of which Grameen Bank alone has more than 7,000. Technology can also be a tool to allow the poor to create more profitable businesses, as the GrameenPhone case clearly suggests. Finally, standardizing data transmission protocols will make it more transparent that the poor and the institutions that serve them are good credit risks. In turn, private capital markets will increasingly invest in microfinance on a commercial basis, particularly in nations such as India where there are regulatory incentives to invest in anti-poverty programs. It has now been clearly shown that microfinance can have a major impact on poverty at the microlevel and at the national level but only if policy-makers and others – mainly government officials (especially banking regulators) and private and public donors – make it a priority. If they choose to do so in a manner consistent with best practices, they will be seeding an industry that can sustain itself without indefinite subsidies and that can work synergistically with other poverty-reduction efforts. Perhaps no better investment can be made in reaching the Millennium Development Goals and achieving a measure of true security – in the broadest meaning of the word – for all in our lifetimes. ❑

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❑ CREATING AND BUILDING A SUCCESSFUL MICROFINANCE ORGANIZATION

By Gregory F. Casagrande, Founder and President of South Pacific Business Development Foundation

Small loans, often not more than a few hundred dollars, have helped improve income and employment growth for many Samoans and others in the independent Pacific island nations, says Gregory Casagrande, founder and president of the South Pacific Business Development Foundation (SPBD).

SPBD, an independent, not-for-profit, charitable microfinance institution, provides unsecured loans for the creation of simple and sustainable businesses such as sewing operations; various food processing businesses; pig, cow and chicken farms; trading businesses, and taxi and distribution services. The author outlines some of SPBD's loan strategies that have resulted in a nearly 100 percent repayment rate by its borrowers.

Despite decades of development initiatives, the economies of Samoa and the other independent Pacific island nations continue to generate few economic opportunities for the vast majorities of the local populations. It is clear that a new paradigm for development is critical to the region. The South Pacific Business Development Foundation (SPBD), an independent, not-for-profit, charitable microfinance institution (MFI), provides just such a paradigm. Though only a few years old, SPBD's efforts suggest that a well-conceived microenterprise scheme providing unsecured credit and entrepreneurial training and operated by local staff can have a significant impact on family and community income, living conditions, and education.

SOUTH PACIFIC BUSINESS DEVELOPMENT FOUNDATION

SPBD was founded in the independent nation of Samoa in January 2000. My mission in creating the foundation was to empower poor families via the provision of training, unsecured credit, and ongoing guidance and motivation to help them create sustainable businesses that enable them to significantly improve their living conditions. Since our launch, SPBD has worked with over 2,600 poor families and has distributed over $1.1 million in unsecured credit, mostly to women. In 2003, less than 1 percent of our creditors were one week or more in arrears. SPBD, while relatively small by international standards, is now the largest and most successful microfinance organization in the Pacific island region and growing steadily.

PACIFIC ISLAND ECONOMIES

Despite several previous failed attempts at microfinance in the region, there was significant need in Samoa and in the other independent Pacific island nations. According to the United Nations Development Programme (UNDP), Samoa is one of the world's 49 least developed countries and has a 48 percent rate of poverty. The economy is nascent, and most persons have little hope of finding formal wage employment. Lack of employment coupled with a lack of access to credit leaves most people with little meaningful opportunity. Most scratch out a subsistence living in rural villages and hope to get a family member to immigrate to New Zealand, Australia, or the United States. These ex-pat family members, often among the poorest in their new societies, are expected to send remittances home.

Typical living conditions of a family prior to joining SPBD include life in a grass-roofed hut with no walls and a pebble floor, remote access to clean running piped water, substandard outdoor sanitation, and limited access to electricity. Many children do not attend school since public schooling is not free. Families have meager incomes, usually generated by erratic sales of fish or produce and some casual labor for about $0.50 per hour. Children frequently grow up in dilapidated homes that are often marred by domestic violence.

Prior to 2000, there had been two well-funded microenterprise initiatives and failures in Samoa and well over a dozen failures across the region. Many academics believed these failures were due to the very small size of the national economies and to a non-business oriented, traditional communal culture, which undermined capitalistic solutions. I believed that the previous failures were largely driven by weak management practices and decided to embark on SPBD despite lack of support from the major development players in the region (UNDP, South Pacific Commission, NZAID, AusAID, Asian

Development Bank). Several of these organizations had already suffered from failed microfinance initiatives in the region and were reluctant to support yet another.

PLANNING FOR SUCCESS

From the start, SPBD needed a clear vision of what would constitute success. Our long-term goal was to create an "institution permanently dedicated to serving the financial needs of the poor." To achieve this goal, SPBD focuses on:

- Working exclusively with the most needy in Samoan society.
- Ensuring a positive measurable impact on the lives of our members and their families.
- Continually striving to achieve financial self-sufficiency.

The financial self-sufficiency objective is critical to serving massive numbers of poor on a permanent basis.

Once we defined success, we developed tools to measure whether we were achieving our three objectives.

We created a very simple, cost-effective "social metrics survey" to measure objectively the poverty level of all new SPBD applicants so as to ensure that the foundation works only with the needy. This quantitative tool measures the quality of the applicant's housing, sanitation, access to clean running piped water and electricity, and the quality of their children's education. This enables us to compare family poverty levels objectively and to specifically omit the non-poor from the program. Furthermore, by measuring each family once a year, we can determine whether the family is progressing and whether SPBD is making an impact.

Planning for financial self-sufficiency is not unlike business planning in a typical commercial business. SPBD follows the approach of establishing a target "Affordable Business Structure" (ABS). The ABS is our planned cost structure at break-even, in which interest revenues equal total costs. It is our financial guiding light. An ABS for microfinance institutions will vary from country to country depending upon local demographic and economic conditions.

Revenues vary with the number of clients served, the average loan size, and the interest rate charged. Costs can be broken into three broad categories: administrative, bad debt expenses, and financing costs. The ABS sets a target level for each revenue and cost component. These targets, which we confirm against industry-wide, best-in-class benchmarks, must be internally consistent with one another and supported by an operating strategy to achieve them.

BUILDING MFI ORGANIZATIONAL CAPACITY

Sustainable organizations require a team that is trained, empowered, and motivated to carry out the work. SPBD recruits and employs local workers at competitive local wages. We have not used expensive consultants but have benefited from the donated services of many U.S.-based volunteers. We recruit staff members that value our mission and are interested in growing with SPBD. We motivate staff by providing ongoing development opportunities, a good career path, and annual merit increases and quarterly bonus packages to high performers. All staff members have clear job descriptions and sign up to specific goals each year. Performance is regularly reviewed, and middle and senior management positions are subjected to annual reviews by all staff members.

Beyond our formal staff, SPBD has built a network of relationships. These relationships include the matai (chiefs) in each village in which we operate, leaders across Samoan society, and practitioners, funders, and leading thinkers in the global microfinance industry. SPBD actively works on all of these relationships to assist with our operations in the village, to attract funding and volunteers, and to keep us on the cutting edge of microfinance practices.

In our ongoing effort to build capacity, we have taken great care to document our own set of operating and financial processes in a set of manuals. These manuals, which are continually updated and refreshed, provide a basis for ongoing, controlled process improvement and for staff development.

SPBD's financial, human resource, and administrative processes are not much different from what you might see in a typical commercial bank. While not unique to an MFI, they are critical to the success of an MFI and should not be overlooked. Two specific areas of importance are management information systems (MIS) and internal control. A good MFI MIS system will have a specialized loan portfolio management system and a separate basic accounting package. These are worthwhile investments. A reliable internal control system is vital to detecting and, more importantly, preventing fraud.

Perhaps because we are a charitable, cash-intensive organization, some people viewed us as a soft target. We were tested many times, especially early on. Whenever we have detected fraud, we have acted swiftly and decisively, and because of these actions, fraud is no longer a significant issue for SPBD although we remain vigilant.

Our operating processes are unique to the field of microfinance and ensure that we maintain very high loan repayment rates and that our members are successful at operating their businesses. These processes include:

- SPBD provides all members with extensive upfront and ongoing training. The two weeks of upfront training includes an in-depth understanding of how the SPBD program works and the basics of small business management. The training is followed by a test on which the applicants must score 80 percent in order to become a member. This test weeds out people who are not fully committed to the program. Members who show a sincere interest in running a business but have not managed to pass the test are given additional training and an opportunity to retake the test. SPBD also provides ongoing mini-training sessions at regular weekly meetings held in each village.

- SPBD members form self-selected groups of four to seven members that self-guarantee each other's loans. Self-selection is critical since village people will know each other well and are best suited to judge the creditworthiness of one another.

- Loan products are specifically designed to be appropriate for the local market. Loan sizes, periodic repayment amounts, and repayment frequency are all important considerations. In Samoa, it is important to be aware that new members are likely to be pressured by their community to get as big a loan as possible – regardless of their ability to repay. Frequent payments, while administratively expensive, help members to develop new habits and keep the MFI and the member well connected. SPBD ensures that loan repayments do not exceed 30 percent of a member's expected total weekly income.

- Members must run successful businesses. This is at the heart of what we do. Our members create businesses around existing livelihood skills and provide simple services and products for which there is already a demonstrated demand. Their business plans must pass the scrutiny of their own self-guarantee groups, which have the power to reject loan applications.

- Loan utilization checks are performed to ensure that the loan has been used as stated on the loan application. Loan misuse often leads to failed businesses and is a stress on the system. When loan misutilization is detected at SPBD, the member is removed from the program.

- The rules governing subsequent loan sizes provide incentive to members to adhere strictly to all principles of the program. Most members are interested in further rounds of financing to expand their business or to improve their homes or children's education. At SPBD, maximum-sized subsequent loans are available only to members with perfect repayment records and perfect weekly meeting attendance and in groups with perfectly functioning group guarantees. There is a reduction in the size of the subsequent loan for each infraction committed. If the problems are too significant, the member may become ineligible for a subsequent loan.

There are many other considerations, but tackling the above is a good start.

SPBD's program has had a direct positive impact upon the lives of thousands of poor Samoans. By providing meaningful opportunity via credit and training, SPBD has helped women initiate simple and sustainable businesses such as sewing operations, bakeries, and various food processing businesses; village-based general stores; pig, cow, and chicken farms; vegetable gardens and small plantations; trading businesses; and taxi and distribution services, and countless others. These small businesses have generated significant additional cash flow for the families and have empowered our members to improve their lives in significant ways. We also provide unsecured credit to successful SPBD microentrepreneurs for housing improvements and childhood education. These products help ensure that the benefits of the business are directly translated into tangible benefits for the entire family. A less tangible but equally real benefit is the increase in self-esteem that accompanies a woman's success in business. It is true that success breeds success. Our members demonstrate it every day through their increased confidence and are actively passing this sense of vitality and optimism onto their children and throughout their village. The future is bright for SPBD members, their families, and their communities. ❑

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PROFILES OF MICROENTREPRENEURS

Fatouma Dijbril Issifou
Parakou, Benin

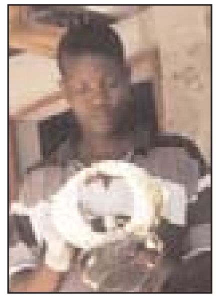
Fatouma Dijbril Issifou began selling vegetables when she was just five, working alongside her mother in a crowded market in the poor West African country of Benin. When she grew up, Fatouma inherited the stall and was poised to live hand to mouth, just as her mother had.

But Fatouma wanted to give her children a better life and the chance to go to school. She knew that if she grew her business, she would be able to save enough to make her dreams a reality. She tried to put a little money aside at the end of each day, but it was hard to save much.

Then a friend of hers told her about PADME, an ACCION partner program in Benin. PADME saw that Fatouma had the drive to succeed and approved her for a loan of $130. She used it to buy vegetables in bulk at a lower cost, boosting her earnings. A second loan for $260 allowed her to buy even more inventory and continue to save. Now, she earns about $2 on a bushel of carrots and a little more for a kilo of potatoes.

These may seem like small profits, but for Fatouma and her family they have meant big changes. Before the loans she was able to save just $13 a year to invest in her tiny stand and she struggled to support her three children. Today, two of them are in school and the youngest is eager to follow in their footsteps.

“The loans have helped me a lot,” she says. “I can buy medicine and there is enough food for the children. Now, I don’t worry anymore.”



Jean-Exuvara Jolimeau
Croix-des-Bouquets, Haiti

Flowing lines and intricate shapes are created with humble materials and basic tools in the hot and dusty Haitian town of Croix-des-Bouquets. The transformation takes place with the dedication and skill of extraordinarily talented metal sculptors, whose clank and clatter have attracted buyers, designers, and collectors for 50 years.

In the early 1950s, sculptor Georges Liautaud began creating sinuous, elegant two-dimensional scenes of Haitian life, mythology, and fantasy. His ability to make internationally recognized art from recycled oil drums and scrap metal gave birth to a school of artists and artisans whose younger members today discover new techniques and subjects every day.

Jean-Exuvara Jolimeau is one of those artisans. Jolimeau learned his craft from his brother who, like so many others in Croix-des-Bouquets, is a superb independent artisan. Jean-Exuvara Joileau works from 6:00 in the morning to 6:00 at night creating works that exude his love of quality. On his angels and plates, which feature gold leaf applied to the recycled metal, a process taught him by Aid to Artisans (ATA) design consultant Frederic Alcantara, you will not find better craftsmanship. There are no rough edges, no sharp points on which you might cut yourself. Even with his primitive tools — iron chisels, hammers, metal brushes and good old-fashioned sandpaper — Jolimeau creates works of art that sell extremely well in the United States and Europe.

Jolimeau’s gold leaf works have become so popular that he has had to train other artisans in the intricate, time-consuming process. And that is what ATA is all about — creating and increasing employment for talented artisans who share their love and craft with the rest of us.

Tatyana Panova
Otradniy, Russia

Tatyana Panova lives in Otradniy, a town of 50,000 located two hours from the Russian regional capitol of Samara. A professional chef, Tatyana worked as a cook in one of the main restaurants in the town for 16 years, but health problems forced her to quit her job in the restaurant. Tatyana's husband worked in the oil industry, but he rarely received his wages on time, so the family—including the two children—could not count on a steady income. Because they needed more income and because Tatyana wanted her children to have an education, she began her own small business. She cooked some small pies, went to the local market, and sold the pies to traders there. Her pies sold well, and she thought she could make a go of it. Then, a few years later, her husband was laid off at the oil refinery. Tatyana's pie business was feeding the family of four. She was working long hours but was always short of money. "Russian women are used to working hard because they feel a strong responsibility for taking care of their children," she says. Then, in the summer of 1999, she was given an opportunity to make her hard work more productive. She heard about the Foundation for International Community Assistance (FINCA), and decided to join one of FINCA Russia's first groups, "Talisman." She invested her first loan in meat, sugar, and other raw materials and started cooking full lunches to deliver to the market. She engaged a number of permanent clients, who waited patiently every day for her lunches to arrive. With her second loan, Tatyana invested in the raw materials to make pastries—particularly kurniki—a traditional Russian pastry with meat and potatoes inside. She found some cafes who agreed to carry her products, and now sells 200-250 pastries and 40 lunches each day. Her husband has returned to work at the oil refinery, and their son has also found work there. Thanks to her mother's earnings, Tatyana's daughter can now attend the technical college. When she is not studying, she helps Tatyana with her business. Tatyana dreams of buying a new, modern gas stove with her next loan and perhaps purchasing a small car in the future to help her deliver meals to her clients. Of her connection with FINCA, she says, "FINCA does the right thing helping women—they are always the main bread-winners in the family."

Lola Tasuna
Manila, Philippines

Lola Tasuna's tenement in Manila faces a sidewalk sewage ditch. She and the five people she lives with are squatters. Like their neighbors, they live in shelters constructed from scrap materials. At 72, Lola should be enjoying a comfortable retirement earned through her life of hard work, but Lola knows she will eat only if she works every day.

Her business is making kerosene lamps, a necessity in a neighborhood where blackouts are frequent. With a loan from Opportunity International, she buys clean jars at 5 cents a jar, paints the lids, adds wicks, and attaches metal handles. She sells them for 10 to 25 cents, depending on the size. With the help of family members, she can make as many as 300 lamps a day, which net $30.

Life is easier for Lola than it was before she could afford to buy clean jars. Then she had to search through garbage dumps every morning to find jars. She washed them in a bucket of cold water, scraping off the labels and the filth with her fingernails.

Lola's pride in her handiwork and in her ability to earn her livelihood shines out, despite her grim surroundings. She does not feel poor, act poor, or talk poor. In a land with no safety net of social services, Lola knows she is a survivor. ❑

Note: The stories and photographs in the above profiles were provided by ACCION International (www.accion.org; photo by Rohanna Mertnes), Aid to Artisans (www.aidtoartisans.org), the Foundation for International Community Assistance (www.finca.org), and Opportunity International (www.opportunity.org).

❑ MICROENTERPRISE QUICK FACTS

• The U.S. government defines "microenterprise" as a firm of 10 or fewer employees (including unpaid family workers) that is owned and operated by someone who is poor.

• The Microenterprise for Self-Reliance Act, passed by the U.S. Congress in 2000, mandates that half of all USAID microenterprise funds go to the very poor, currently defined as those living on less than $1 a day, or those determined to be in the bottom half of the population living below their country's poverty line.

• The U.S. government strategy for supporting microenterprise development centers on policy and regulatory reforms that support conditions for business development, access to business development services, and delivery of microfinance.

• Firms of five or fewer employees account for half of the nonfarm workforce in Latin America and two-thirds of the nonfarm workforce in Africa.

• In Indonesia, firms with five or fewer employees account for almost half of total manufacturing employment while small firms account for an additional 18 percent.

• In Thailand, micro and small enterprises comprise more than 97 percent of all firms in the manufacturing and trade/service sectors. Micro firms generate 71 percent of total employment in the trade/service sector.

• In Bangladesh, more than 90 percent of the firms engaged in the $350 million shrimp export business are microbusinesses.

• USAID's average annual funding for microenterprise over the past five years has exceeded $160 million. This support reached more than 3.7 million microentrepreneurs in fiscal year 2002, more than two-thirds of whom are women.

• In South Africa, 87,000 of the 90,000 firms in the construction sector are micro- and small-scale enterprises.

• According to a study conducted by the Consultative Group to Assist the Poor, a consortium of 29 public and private development agencies: the weekly income of members of El Salvador's FINCA, a microcredit lending institution, increased on average by 145 percent; half of the members of SHARE, a microcredit group in India, brought their incomes above the poverty threshold, and nearly all girls in Grameen Bank-client households in Bangladesh received schooling, contrasted with 60 percent of girls in non-client households.

• Borrowers of very small loans from institutions providing microenterprise support typically show repayment rates exceeding 95 percent.

• According to Opportunity International, a non-profit humanitarian agency that provides small loans to the poorest of the working poor in 25 developing nations around the world, 96 percent of its 176,147 poor clients in 1999 repaid their loans on time and at market interest rates. It said that 276,886 jobs resulted from these loans.

• In September 2003, The Agha Kan Fund for Economic Development (AKFED) received a banking license for the First MicroFinance Bank (FMFB) in Kabul, Afghanistan. The institution, with an initial capital of $5 million, will be the first of its kind to be established under the country's new regulatory structure. It will focus on microenterprises and small businesses, particularly underserved populations and those in rural mountainous areas.

• The access to Credit for Southern Iraq (ACSI) program is designed to provide financing to micro, small-, and medium-scale businesses, with a particular focus on women-owned enterprises and firms. Implemented by CHF International, ACSI currently operates in the governorates of Jajiaf, Karbalah, Babil, and Baghdad and will soon expand to Basra and Qadissiya. Through January 2004, a total of 1,025 loans had been disbursed totaling $2.35 million.

• The UN General Assembly designated 2005 as the International Year of Microcredit and has invited governments, the United Nations system, concerned nongovernmental organizations, and others from civil society, the private sector, and the media to join in raising the profile and building the capacity of the microcredit and microfinance sectors. ❑

USAID MICROENTERPRISE FUNDING BY COUNTRY AND REGION 2002

(Thousand of dollars)

Region	Country	Microfinance	Financial policy	Business Development Services	Enabling Policy	Total
AFRICA	Benin	$900	$100	$973		$1,973
	D.R. Congo	$1,187				$1,187
	Eritrea	$600		$300		$900
	Ethiopia	$200		$1,281		$1,481
	Ghana	$294		$2,947		$3,241
	Guinea			$953		$953
	Kenya	$101	$280	$1,725	$200	$2,306
	Malawi	$541				$541
	Mali	$796		$718		$1,514
	Mozambique			$3,264		$3,264
	Namibia			$95		$95
	Nigeria	$3,300				$3,300
	Senegal	$3,236		$1,224		$4,460
	South Africa	$1,298	$300	$1,225		$2,823
	Tanzania			$1,993	$550	$2,544
	Uganda	$882		$750		$1,632
	Zambia			$886	$135	$1,021
	Zimbabwe	$1,300		$500		$1,800
Total		**$14,636**	**$680**	**$18,834**	**$885**	**$35,035**
ASIA	Bangladesh	$344		$1,400		$1,744
	India		$1,300			$1,300
	Indonesia	$334	$636	$200	$714	$1,884
	Mongolia	$1,300		$820		$2,120
	Nepal	$600				$600
	Philippines	$3,798	$447	$389		$4,634
	Vietnam	$350				$350
Total		**$6,726**	**$2,383**	**$2,809**	**$714**	**$12,632**
EASTERN EUROPE	Azerbaijan	$3,714		$1,930		$5,644
	Bosnia	$750				$750
	Bulgaria	$2,710				$2,710
	Croatia	$864				$864

Region	Country	Microfinance	Financial policy	Business Development Services	Enabling Policy	Total
	Eastern European Region	$500				$500
	Kazakhstan	$2,007	$7		$1,318	$3,332
	Kosovo	$692				$692
	Kyrgyzstan	$2,206	$116		$480	$2,802
	Moldova	$1,528				$1,528
	Poland	$31				$31
	Romania	$959				$959
	Russia	$5,852	$1,800			$7,652
	Tajikistan	$1,735	$279		$200	$2,214
	Turkmenistan			$520		$520
	Ukraine	$1,949		$4,090	$1,500	$7,539
	Uzbekistan	$2,820	$205			$3,025
Total		**$28,319**	**$2,407**	**$6,540**	**$3,498**	**$40,763**
LATIN AMERICA AND CARIBBEAN	Bolivia	$1,750		$750		$2,500
	Brazil	$750				$750
	Ecuador	$4,347	$145			$4,492
	El Salvador	$1,976	$704	$4,500		$7,180
	Guatemala	$801		$1,700		$2,501
	Guyana				$1,600	$1,600
	Haiti	$3,000				$3,000
	Honduras	$251		$581		$832
	Jamaica	$1,000		$500		$1,500
	Mexico	$2,900	$600			$3,500
	Nicaragua	$1,400				$1,400
	Peru	$4,094		$9,300		$13,394
	Trinidad	$97				$97
Total		**$22,365**	**$1,449**	**$17,331**	**$1,600**	**$42,745**
NEAR EAST	Egypt	$21,000				$21,000
	Jordan	$3,150				$3,150
	Morocco	$696				$696
	West Bank/Gaza	$650				$650
Total		**$25,496**				**$25,496**
MULTICOUNTRIES		**$11,931**	**$38**	**$1,182**	**$38**	**$13,188**
GRAND TOTAL		**$109,472**	**$6,956**	**$46,696**	**$6,735**	**$169,859**

Source: USAID Microenterprise Result Reporting, 2002

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KEY INTERNET SITES

UNITED STATES GOVERNMENT

U.S. Agency for International Development
Microenterprise
http://www.usaidmicro.org

INTERNATIONAL ORGANIZATIONS

African Development Bank
http://www.afdb.org/

Asian Development Bank
http://www.adb.org/microfinance/default.asp

The Consultative Group to Assist the Poor (CGAP)
http://www.cgap.org/about/microfinance.html

European Bank for Reconstruction and Development
http://www.ebrd.com/country/sector/fi/index.htm

Inter-American Development Bank
http://www.iadb.org/exr/topics/micro.htm

International Finance Corporation
http://www2.ifc.org/sme/

International Labor Organization
Business Development Services
http://oracle02.ilo.org/dyn/bds/bdssearch.home

United Nations Capital Development Fund
http://www.uncdf.org/english/microfinance/index.html

World Bank
Rural, Micro Finance & Small Business Development
http://wbln0018.worldbank.org/networks/fpsi/rmfsme.nsf/

MICROENTERPRISE INFORMATION RESOURCES

Glossary of Terms from ACCION International
http://www.accion.org/micro_glossary.asp

Microcredit Summit Campaign
http://www.microcreditsummit.org/

Microfinance Network
http://www.bellanet.org/partners/mfn/

MicroRate - a Rating Agency for Microfinance
http://www.microrate.com/

The MixMarket - Global Information Exchange for the Microfinance Industry
http://www.mixmarket.org/

Small Enterprise Education and Promotion Network
http://www.seepnetwork.org/

Virtual Library on Microcredit
http://www.gdrc.org/icm/

A SAMPLING OF MICROENTERPRISE AND RELATED ORGANIZATIONS

ACCION International
http://www.accion.org/default.asp

ACDI/VOCA
http://www.acdivoca.org

Aid to Artisans
http://www.aidtoartisans.org/

Appropriate Technologies for Enterprise Creation (ApproTEC)
http://www.approtec.org/index.shtml

Center for Institutional Reform and the Informal Sector
http://www.iris.umd.edu/default.asp

Counterpart International, Inc.
http://counterpart.org/programs/edevpt

Development Alternatives, Inc.
http://www.dai.com/practice_areas/fbe/mse-finance.htm

Foundation for International Community Assistance (FINCA)
http://villagebanking.org/home.php3

Fund for Support of Microentrepreneurship (FORA)
http://www.forafund.ru/?pageId=31

Grameen
http://www.grameen.com/

Katalysis
http://www.katalysis.org/index.html

Microfinance Centre for Central and Eastern Europe and Newly Independent States
http://www.mfc.org.pl/

MicroSave-Africa
http://www.microsave-africa.com/

Opportunity International
http://www.opportunity.org/

South Pacific Business Development Foundation
http://www.spbd.ws/spbdteam.asp

Trickle Up
http://www.trickleup.org/index.asp ❑

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