USAID
FROM THE AMERICAN PEOPLE

USAID'S CONTRIBUTION TO MICROFINANCE

From Microfinance to Financial Inclusion

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for the Office of Microenterprise
and Private Enterprise Promotion

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Cover Photo: In ASEAN, women play an active role in all parts of the agricultural value chain, from production to marketing of raw and finished products. This woman sells whole and sliced pineapples in a street-side booth near Haiphong, Vietnam. USAID's MARKET project works with actors all along the fisheries and aquaculture value chain to improve the efficiency of the linkages, from small farmers to regional purchasing agents, so as to reduce prices and improve both producer and consumer welfare.
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FEED THE FUTURE
KNOWLEDGE DRIVEN AGRICULTURAL DEVELOPMENT

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TABLE OF CONTENTS

Photo: USAID sponsors 3,484 students through the Wings to Fly Scholarship Program. This program is helping talented young leaders achieve their potential to change Kenya's future. CREDIT: JOAN LEWA/USAID

LIST OF ACRONYMS

ADS	Automated Directives System
AIMS	Assessing the Impact of Microenterprise Services
ATI	Appropriate Technology International
AMAP	Accelerated Microenterprise Advancement Project
AMAP FS	Accelerated Microenterprise Advancement Project Financial Services
ARIES	Assistance to Resource Institutions for Enterprise Support
ASPIRES	Accelerating Strategies for Practical Innovation and Research
BRI	Bank Raykat Indonesia
CDC	Control Data Corporation
CEPEC	Centre d'Education à la Promotion Collective
CNPAR	Artisan Training and Credit Program of the Centre National de Perfectionnement de Artisans Ruraux
CGAP	Consultative Group to Assist the Poor
DAI	Development Alternatives Incorporated
DCA	Development Credit Authority
DFC	Development Finance Corporation
EGAT	Office of Economic Growth, Agriculture and Trade
FIELD Support	Financial Integration, Economic Leveraging, Broad-Based Dissemination and Support
FINCA	Foundation for International Community Assistance
FS Share	Financial Sector Knowledge Sharing Project
GEMINI	Growth and Equity through Microenterprise Investments and Institutions
HIID	Harvard Institute for International Development
HMMI	Haiti Mobile Money Initiative
IBAS	Indigenous Business Advisory Services
ICA	Institute for Cultural Affairs Kawangarwe Community Upgrading Project
IFC	Industrial Finance Corporation
IFI	Intermediate Financial Institution
IGP	Implementation Grant Program
ILO	International Labor Organization
IMCC	International Management and Communications Corporation
IPD	Institut Panafricain pour le Développment
K-REP	Kenya Rural Enterprise Program
LDC	Least or Lesser Developed Country
LEO	Leveraging Economic Opportunities
LIFT II	Livelihood and Food Security Technical Assistance II
LWA	Leader with Associates
MABS	Microenterprise Access to Banking Services
MBP	Microenterprise Best Practices
MD	Office of Microfinance Development
MFI	Microfinance Institution
MIP	Microenterprise Innovation Project
MMAP	Mobile Money Accelerator Program
MMBIDPO	Metro Manila Barangay Industries Development Program
MSI	Management Systems International
mSTAR	Mobile Solutions Technical Assistance and Research
MSU	Michigan State University
NGO	Nongovernmental Organization
OVC	Orphans and Vulnerable Children
PAGO	Pay As You Go
PAT	Poverty Assessment Tools
PEPFAR	U.S. President's Emergency Plan for AIDS Relief
PISCES	Program for Investment in the Small Capital Enterprise Sector
PRODEM	Partnership for Productivity
PfP	Fundación para la Promoción y Desarrollo de la Microimpresa
PVC	Private and Voluntary Cooperation
PVO	Private Voluntary Organization
RFA	Request for Applications
RFS	Request for Services
ROSCA	Rotating Credit and Savings Association
RRNA	Robert R. Nathan Associates, Inc.
SEAE	Small Enterprise Approaches to Employment
SEEP	Small Enterprise Evaluation Project
SIDO	Small Industries Development Organization
SSE	Small-Scale Enterprise Sector
STRIVE	Supporting Transformation by Reducing Insecurity and Vulnerability with Economic Strengthening
USAID	U.S. Agency for International Development
VP	The Village Polytechnic Program
WOCCU	World Council of Credit Unions

Since its beginning in the 1960s, the U.S. Agency for International Development (USAID) has recognized the role that financial access plays in economic development. The Agency's efforts in the 1970s and early 1980s to better understand microfinance models like Bank Rakyat Indonesia (BRI) Unit Desa model and the Grameen Bank group lending methodology laid the foundation for the capacity-building efforts that followed. In the 1980s and into the 1990s, USAID led industry efforts for "the commercialization of microfinance," i.e., the delivery of financial services to the poor through products, methodologies, and organizational structures that were cost effective and financially sustainable.

In the 1990s, USAID was a leader in the field of microfinance, funding over $1.8 billion in that decade alone. In addition, through collaboration with other donors, USAID supported policy changes and capacity building that continue to have global impact. With the basic foundations in place, from 2000 onward, USAID shifted its focus to its areas of comparative advantage and to remaining market failures. USAID was able to increase focus on underserved areas and populations, including areas of long-term conflict, like Liberia and Afghanistan, and chronically underserved rural areas, as well as broaden its approach to microfinance.

GLOBAL IMPACT

This paper describes the path that USAID followed in supporting the microfinance industry since its formation in the 1960s, primarily from the perspective of USAID/Washington. USAID's efforts to support microfinance coalesced under the Microenterprise Initiative, which began in 1994. Under the Initiative, USAID created the USAID/Washington Office of Microenterprise Development, which became the Agency's focal point for microfinance programming, providing technical direction and industry leadership. In the years that followed, an appreciation for the broader role that microfinance could play in USAID programming took hold with USAID Missions throughout the world supporting the development of microfinance institutions and working with host governments to create policies and legislation that enabled microfinance to take its rightful place in the banking sector. Today microfinance programming is evidenced throughout the Agency both formally, through economic growth activities, and informally, through programs designed to help some of the world's poorest populations meet their most basic needs.

TODAY

Today's efforts can be generally classified by three key objectives: mobilizing private capital, promoting digital financial services, and championing inclusive financial services. If "promoting digital financial services" can be more broadly seen as harnessing technology to improve incomes, then it can be said that each of these areas (which are not mutually exclusive) has been a thread throughout the Agency's history, all toward an end goal of increasing incomes and improving quality of life.

Jacqueline Wakhweya, USAID/Uganda, recently cited DCA as a major factor in that Mission's success in the field of microfinance. As she put it,

"Uganda was one of the first countries to manage a multi-institutional DCA. We had seven participating commercial banks with small and medium enterprise loan portfolio guarantee facilities. Of these banks, five were international banks. and two were local banks (Centenary and Nile Bank). The interesting thing was that microfinance institutions (MFIs) like the Foundation for International Community Assistance (FINCA), which were NGOs at that time, got their first break with a line of credit from these banks, covered under the DCA. So we got FINCA, Uganda Microfinance Union, Uganda Women's Finance Trust, and a couple of others that were the first recipients of USAID's DCA-guaranteed loans. These MFIs borrowed those funds from a large commercial bank (wholesale) and were able to use that money (retail) to lend. Our success was where the two programs, microfinance and DCA, dove-tailed" (Wakhweya, 2014).

MOBILIZING PRIVATE CAPITAL

USAID works in two ways to increase the flow of private capital. The most visible way USAID mobilizes private capital is through its Development Credit Authority (DCA). Since 1999, USAID has had the authority to use U.S. Treasury Funds to guarantee loans from private sources for an intended target.

Agreements between USAID and these entities (investors, local financial institutions, and development organizations) often delineate the target group to be reached by the guarantee, e.g., the agreement might be used to encourage lending to agriculture or certain types of crops or certain nonagricultural sectors (e.g., housing), to a previously underserved region, or for loan sizes smaller than the lender might have previously considered. DCA-guaranteed loans have also been used to link microfinance lenders to capital markets. The intention is to familiarize the lender with the target group and attenuate the perceived risk, with the intention that once the lender appreciates the bankability of this new client or sector, lending will continue without the guarantee.

With a DCA guarantee, the out-of-pocket cost to USAID Missions and operating units (i.e., USAID/Washington offices) is limited to the estimated loss over the life of the guarantee (net of fees received from bank partners), e.g., if the guarantee is for up to $1 million in loans and the estimated loss (non-repayment) is 3 percent then the out of pocket cost would be $30,000 minus the agreed-upon fee amount to be received from the bank. It is important to compare this approach to early guarantees provided by USAID when, if $1 million would be guaranteed, USAID would actually deposit $1 million in a bank account for this purpose, tying up considerable Agency funds for a number of years. In addition to the capital leveraged, the upfront due diligence provided by and paid for by DCA helps ensure that the loans will be properly screened and soundly managed. And often this is further enhanced with technical support to the lender and/or the borrower from a companion USAID project.

The second less visible but perhaps more profound way that USAID mobilizes private capital is through efforts to increase the savings of very poor people.

Each year USAID-supported programs have reached from 1 to 4 million savers; their small amounts of individual savings total $300 to 800 million in any given year.[1] Some of this savings is on deposit in formal microfinance institutions (MFIs), but much of it is informally circulating. Many early microfinance programs supported by USAID financed loans mainly through donor grants rather than member savings or commercial loans as they do today. This was in part because microfinance institutions (MFIs) were prohibited by law from on-lending savings until they obtained a banking or credit union license. But, it was also because ensuring the security of people's savings, in particular the savings of very poor people, requires the management capacity that the early microfinance providers simply lacked.

Credit unions are built on member savings. Credit unions are member-owned financial cooperatives with loan capital drawn from the member savings. Credit unions are often overlooked as microfinance players, but they have long been a part of USAID programming, particularly in working on agriculture and in rural areas. Especially through partnership with the World Council of Credit Unions (WOCCU), USAID has supported the capacity building of credit unions that have long served rural poor households. Because of the inherent structure of credit unions, with member savings being used for member loans, credit unions are recognized as sharia-compliant financial institutions and play a useful role for USAID programming in Islamic countries.

Photo: In Rwanda, 83 percent of the population lives without grid electricity. The pay-as-you-go approach used by Azuri Technologies, which connects people to finance through mobile phones, allows users to purchase new, clean energy at affordable prices. CREDIT: AZURI TECHNOLOGIES

Development Credit Authority has been a highly effective means for expanding microfinance throughout the Agency with 155 credit guarantees supporting more than 125,000 microfinance loans, making available up to $839 million in private capital for MFIs to lend to microenterprises (Metzler, 2014).

USAID anticipates a long continuation of leveraging private capital through its DCA in perhaps new and interesting ways. As recently noted by Michael Metzler, director of USAID's Development Credit Authority,

"As the financing needs of microenterprises and their consumers continue to evolve, we need to evolve with them. While banks and MFIs will always be core partners in our efforts to get private capital downstream to such borrowers, we will also continue to pursue opportunities to partner with other non-traditional partners—like insurers and leasing companies—who are providing the next generation of financial services to these borrowers. To this end, we are currently working on a transaction to guarantee financing from global impact investors to manufacturers and distributors of household technologies (e.g., cook stoves, water filtration systems, and solar power units) to bottom of the pyramid consumers. We are also looking to support the mobile payments systems those consumers could use to pay for those technologies and the services that come with them" (Metzler, 2014).

[1] Source Microenterprise Results Reporting. www.mrreporting.org

Photo: Rhoda Kamene Moses, HIV-positive, works in her tailoring stand in front of a shop on the main street of Garissa, Kenya. Her sewing machine was financed through a microfinance project that aims at helping people with HIV/AIDS.
CREDIT: MANOOCHER DEGHATI/USAID

As described by Jason Wolfe, U.S. Department of State,

"Participation in savings groups means changes in household money management and budgeting. This helps people understand how much money they need at a particular time of year to pay for regular expenses—schooling or food during the lean season. Households have better access to funds by leveraging their savings groups' credit as a means to smooth consumption or they can use lump sum savings they receive at the end of the savings cycle to make an investment. Hypothetically, this is where we are expecting to see the biggest impact. And, anecdotally so far, this seems to be consistent. We're also starting to understand the immense non-monetary value for vulnerable families—things like social connections, peer support, and dignity that are hard to quantify but so obvious when you visit and talk to these folks. I hear time and time again that widows or people living with HIV felt "lonely" or "isolated" before and now they feel like they have 'purpose' and 'people to rely on.' Since stigma is such a strong driver of so many problems in connection with the HIV pandemic, these are not just nice stories but potentially really important outcomes" (Wolfe, 2014).

In addition to the formal structure of a credit union, there are a variety of informal savings-led approaches that draw out or "mobilize" savings. These approaches have often been rolled out and championed by government programs and nongovernmental organizations (NGOs) that work with some of the world's poorest people, and they are often combined with other program objectives, especially health and education. Rotating credit and savings association (ROSCA) models such as tontines and susus are found in most cultures. NGOs have emulated these traditional models, encouraging group formation and savings while using the savings and lending groups as a base for health messages, business training, literacy skills, etc.

Very localized savings efforts, like ROSCAs, rely heavily on peer monitoring and peer pressure for sound management. Savings groups mesh well with USAID programming such as the U.S. President's Emergency Plan for AIDS Relief (PEPFAR), originally launched in 2003 by the George W. Bush Administration, by providing a structure for providing assistance and information on multiple cross-cutting issues. PEPFAR invests $40 to $50 million per year in savings groups (Wolfe, 2014).

Feed the Future is also making some selective and strategic investments that involve savings groups. And, as Jason Wolfe points out, USAID as a whole is making more investments in this area than people realize, and these investments are across different programs.

PROMOTING DIGITAL FINANCIAL SERVICES

Technology is increasingly being used to link some of the poorest people, including those in remote areas, to financial services. USAID's Microenterprise Access to Banking Services (MABS) program, which operated in the Philippines from 1997 to 2012, was one of the Agency's first programs to support "mobile money" beginning in 2004. MABS contributed to advances in regulations and policies for mobile banking, with the country continuing to be listed as one of the number one regulatory and policy environments for financial inclusion as rated by the Economist Intelligence Unit.

By 2012, USAID/Philippines had assisted 77 rural banks with more than 1,100 branches and banking offices to register more than 390,000 mobile phone banking clients.

In 2010, USAID entered into another partnership with the Bill & Melinda Gates Foundation, this time to support the Haiti Mobile Money Initiative (HMMI). Advances under HMMI enabled Haitians to send, receive, and store money using their mobile phones. By October 2011, two mobile money initiatives, Voilà's "T-cash" and Digicel's "TchoTcho Mobile," had each achieved 100,000 transactions.

CHAMPIONING INCLUSIVE FINANCIAL SERVICES

In addition to mobilizing private capital and supporting digital financial services, USAID will continue in its commitment to ensure financial inclusion. Financial inclusion refers to universal access to affordable and appropriate financial services, with no one being excluded because of location, gender, income, physical ability, or other factors that might hinder access.

Not everyone agreed then or agrees today that the commercialization of microfinance, which was heavily pursued in the 1990s, was the most appropriate or effective road to ensuring access to finance for the poorest of populations. Challenges came from finance providers who argued that poor clients with their low balance bank accounts and small loan amounts were too expensive to serve. With institutional models and products designed to serve clients with more wealth and larger businesses, administrative expenses did contribute to interest rates that are actually quite shocking; sometimes interest rates as high as 60 percent effective have been or are being charged. Meanwhile, client advocates argued that the poor could not afford to pay what some saw as the usury rates of microfinance institutions. Models were developed or expanded for self-managed groups, which allowed poor people, especially those in isolated rural areas, to pool their resources and take turns borrowing from each other. These models, referred to broadly as rotating savings and credit associations, provided a means for poor people to cobble together larger sums of money—more than they otherwise would have been able to access. Because of essentially zero administrative expenses, interest rates could be kept low, and any interest income that was obtained could be poured back into the group's loan funds or shared as profit at the end of a loan cycle. The challenge with this approach was that loan funds were limited to sums that the group could raise for itself. With USAID and other donor support, hybrid models were developed by NGOs like Freedom from Hunger, Save the Children, and Plan International whereby additional capital was injected into the loan pool, either as grant capital or, more sustainably, as a loan to the group from local credit unions or other microfinance providers.

According to John Owens, the project manager,

"[MABS] not only provided support to an extensive banking network but also leveraged millions of dollars in counterpart support from the rural banking sector, the telecommunications industry, the insurance industry, and other international foundations such as sub-grants from the Bill & Melinda Gates Foundation and the MasterCard Foundation. MABS also worked closely with the industry to engage with regulators in an extensive and ongoing public-private sector dialogue that led to many changes in regulations and policies that today support the financial inclusion efforts in the country" (Owens, 2014).

Photo: Nineteen year old high school student and street vendor in downtown Port-au-Prince, Haiti,
CREDIT: GATES FOUNDATION

Photo: Mobile phone banking in the Philippines.
CREDIT: MICROENTERPRISE ACCESS TO BANKING SERVICES (MABS) PROJECT, CHEMONICS INTERNATIONAL

Financial inclusion is supported sometimes in indirect ways, for example ensuring that poor and rural households have access to modern technologies and production information so that they are more "bankable." The Agency's efforts today to promote value chain development, especially value chains in which poor people tend to be active, is an indirect effort to support financial inclusion. By working to ensure that low-income farmers and other value chain actors have access to the best technologies, quality inputs, and active markets, USAID value chain projects increase the bankability of low-income people and make them a more attractive client group for commercial lenders.

One of the challenges of early microfinance efforts was that the targeted clients were not accustomed to questioning the interest rates being charged, nor did they (or do they) have the luxury of shopping around for the best rate or loan product whose size, term, or repayment schedule best suits their business or personal needs. While most markets today have at least one microfinance provider, encouraging new entrants into the microfinance market, e.g., through DCA-backed loans, is another way that USAID continues to support financial inclusion.

Much of the world's population, in both developed and developing markets, continue to have problems understanding the real cost of money or, more commonly, lack the savings instruments that would allow them to better time purchases, even recurring predictable purchases such as paying school fees or buying inputs. Paying for unexpected costs from illness or natural disasters is even more challenging and often forces poor households to sell off productive assets. Efforts to support financial literacy and financial planning, especially when linked to savings schemes, are one of the most important ways in which USAID today is working to support financial inclusion. Through groups organized for other programs, e.g., PEPFAR programming as described above, vulnerable populations are being helped to better understand money management.

Inclusive finance is at the heart of USAID programming that began in the 1960s and continues today. As the following pages describe, USAID programming evolved and developed over more than five decades, beginning with efforts to increase access to private capital, trying in various ways to understand the needs of the excluded, and developing programs to support their access to finance. Over the years, programs were designed to increase employment, study households and businesses, build the capacity of small enterprise, and increase the capacity of supporting institutions. Finally, in the 1990s, programs were striving to support a commercial financial sector designed specifically to meet the needs of poor households and microenterprises.

As a government agency, USAID relies on strong partnerships to achieve results. Partners include other governments, donors, consulting firms, private voluntary organizations (PVOs), universities, and many compassionate individuals who have dedicated their careers to challenging the status quo. The following pages tell some of this story.

Technology will continue to be integral to USAID's efforts to ensure financial inclusion. As stated by Kay McGowan, USAID/Global Development Lab,

"As a development community, we have a role to play in shaping these relationships so that digital financial systems not only flourish, but extend to meet the needs of the poor and create the financial rails for businesses and services at the base of the pyramid. Similar to USAID's long, proud legacy of support to the microfinance industry, the Agency has worked hard in recent years to contribute to the growth of safe mobile money systems that, at scale, can create the foundation for a new era of services designed to meet the needs of the poor and promote broad economic efficiencies" (McGowan, 2014).

USAID'S HISTORIC PATH SUPPORTING MICROFINANCE

THE 1960s. JUST GETTING STARTED

Microentrepreneurs have limited access to financial systems due to their small size and lack of collateral. Few microfinance institutions exist. The formal financial sector does not see microlending as a viable business model.

Photo: USAID was created in November 1961, when President Kennedy signed The Foreign Assistance Act.[2] (Source: http://www.usaid.gov/who-we-are/usaid-history).

Since its creation, USAID has recognized that access to financial services is a key to economic growth. In the beginning, USAID worked closely with the new governments of newly independent countries. At that time, in many countries the government was seen as the "engine of growth," and efforts focused on government-led industrial development. Development efforts were focused on import substitutions, i.e., replacing imported goods with those locally produced in an effort to increase local incomes.

[2] The Foreign Assistance Act of 1961 is Public Law 87-195 (75 Stat. 424).

USAID worked with host governments in efforts to increase access to capital for these industries in three ways: direct lending, rediscounting, and, beginning in 1974, loan guarantee funds (Blayney & Otero, 1985).

A. Direct Lending

Funds provided to host national institutions through two different delivery mechanisms: private industrial finance corporations (IFCs), also referred to as development finance corporations (DFCs), and private intermediate financial institutions (IFIs). These direct lending and equity investment schemes supported medium- and long-term industrial investment by responding to the deficiencies in the capital markets of each country.

B Rediscounting

To support small and medium industry and to increase capital flows, USAID also provided funds to host national retail banks to re-discount loans made by lending institutions, including commercial banks.

C. Loan Guarantee Funds

USAID served as a partial guarantor of loans to small, low-income entrepreneurs by commercial lenders. Programs involved central banks, which refinanced part of the approved loan, and the IFIs, which carried part of the loan and assumed the entire credit risk.

These efforts increased financial access for what is estimated to have been hundreds of smaller manufacturing industries that might not have otherwise had access to finance. However, the results were seen as limited. Host governments, in retrospect, were seen to have been too heavily involved, e.g., in setting interest rate ceilings, and the central banks of host countries were seen to be overly bureaucratic. Commercial banks did not use the funds, as intended, for rediscounting to reach small firms.

The limited success of efforts to increase access to capital to small firms, along with an increasing interest in the role of very small enterprises and the informal sector as employers, led the way for organizational and programmatic changes.

In May 1969, USAID created the Urban Development Office. This office would go on to support USAID's first concerted effort to understand and support very small enterprises.[3]

In their 1985 paper, authors Robert G. Blayney and Maria Otero, U.S. Department of State, concluded,

"In spite of [US]AID's efforts and success in relieving the critical constraints of the small and medium enterprises through capital support and technical assistance programs, and in providing strong encouragement and incentives to public and private institutions to lend to this clientele, these projects still tended to reach the larger among enterprises targeted. The smaller, low-income entrepreneurs did not benefit from these schemes as expected, and the microenterprises were left out altogether" (Blayney & Otero, 1985, pp. 3-4).

Photo: Maria Otero
CREDIT: U.S. DEPARTMENT OF STATE

[3] The trajectory of USAID's Urban Programs can be found in http://www.usaid.gov/sites/default/files/documents/1870/USAIDSustainableUrbanServicesPolicy.pdf (USAID, 2013).

THE 1970s. SUPPORTING EXPERIMENTS IN LEARNING

1974-1976

Early pioneers in microfinance, including Sewa in India and Grameen Bank in Bangladesh, begin to demonstrate the nascent potential of microfinance while bringing greater attention to issues of financial inclusion for the poor.

Dr. James Boomgard, Development Alternatives Incorporated, remarked,

"This was a time when we were all learning. We were surprised by the prevalence of small and microenterprises and their significant role in household income generation in rural and urban areas. The income generated by non-farm enterprises was far more important than most had understood. Households were complex economic units ... . We also learned a great deal about internal and external constraints and potential intervention points. This led us to look seriously at policy biases as well as the important dynamics driven by the industry or subsector" (Boomgard, 2014).

The 1970s is marked by three interrelated factors that influenced USAID's programs in microfinance for years to come. The first factor was congressional direction to increase focus on the poor; the second was an increased appreciation for the role of tiny enterprises for income and employment for poor people; and the third factor was a challenge to government control in lending programs.

In December 1973, Congress amended The Foreign Assistance Act, adding a requirement that USAID direct its programs toward the poor majority in developing countries. Following this directive, USAID shifted development assistance to programs that stressed a "basic human needs" approach, with focus on: food and nutrition, population planning, health, education, and human resources development. This shift meshed well with efforts at that time, both within and outside of USAID, to better understand the employment and economies of very poor people.

USAID and other donors and academics were increasingly coming to appreciate the income that was being generated by the very small enterprises of very low-income people, both for the families who ran the enterprises and for the people these enterprises employed. The International Labor Organization (ILO) was studying the issue of employment in several developing countries. The ILO studies documented the significant employment provided by very small, unregistered enterprises, and it was a 1972 ILO study in Kenya that first referred to the dynamic economic activity of these small firms as the "informal sector" (Bangasser, 2000).

USAID's Urban Development Office held a workshop in 1972 at which John Friedmann and Flora Sullivan delivered a paper that challenged the benefit of supporting large enterprises as a means to increasing incomes, finding that while "corporate enterprises" accounted for 10 to 30 percent of the labor force, small-scale family enterprises (those with 10 or fewer employees) employed some 35 to 45 percent of the urban labor force.

On the rural side, in 1975, USAID's Office of Rural Development launched the Off-Farm Employment Project with Michigan State University. The basic purpose of the project was "enhancing the ability of [US]AID Missions and host country institutions to identify and implement programs and policies that generate off-farm employment and income opportunities benefiting the rural poor" (Chuta & Liedhom, 1979). Field surveys of small-scale enterprises were conducted in Bangladesh, Jamaica, Honduras, and Thailand.

At the same time, efforts were underway to understand access to credit for poor rural households and to review the practice of government involvement in subsidized credit. The result was "The Spring Review," which many see as setting the direction for USAID's future work in microfinance (Robinson, 2001, p. 141).

1975 Partnering with Michigan State University, USAID begins researching rural, non-farm employment, leading to greater understanding of the role of microenterprises. This research accompanied a major shift in development focus from large-scale industry support to small-scale enterprise development.

1978 USAID begins investments in experimentation and learning that lead to dialogue and debate about best strategies, lending methodologies, and delivery channels for reaching the poor. Research and field testing with ACCION, Partnership for Productivity, and others helped to show that poor people are bankable.

Under the "Spring Review," over 60 separate project evaluation reports from 37 countries were compiled and reviewed, and 21 analytical papers were developed.[4] The "Spring Review" harnessed the knowledge and energy of USAID employees at headquarters and in the field, other donors, national agriculture credit officers, and contracted consultant experts who were mainly academics.

The "Spring Review" identified several factors that would guide USAID programs for the next 40 years (Bathrick, 1979):

- Artificially low interest rates discourage lending to small farmers
- Subsidized credit and "relaxed" repayment policies discourage lending
- Loan default and delinquency rates are at unacceptable levels
- Rural credit institutions should be broadened to include savings services
- Rural people/farmers need consumption credit in addition to agriculture credit
- Credit is a means to access new technologies
- Small farmers should be supported to graduate to commercial banks[5]
- People stuck in unprofitable farming activities need opportunities for non-farming activities.

The "Spring Review" challenged the policies and practices that seemed to favor the poor but, in the long run, squelched access to credit. In addition, the "Spring Review" called for a more commercial approach to lending, but it was still not understood how a commercial approach could be applied to reach very poor people.

In 1978, building on the learning and understanding from the earlier papers and studies, USAID launched the Small Enterprise Approaches to Employment project, designed to improve the Agency's understanding of the small-scale enterprise sector (SSEs) and to increase its capacity to formulate, implement, and evaluate projects that generate productive employment among the poor.

Under the Small Enterprises Approach to Employment (SEAE) project, Michigan State University studied policy issues relevant to small and microenterprises, and Development Alternatives Inc. developed a methodology for impact evaluation that was used to evaluate small-and-microenterprise projects in Indonesia, Peru, and Burkina Faso. In addition, a third subproject was carried out by ACCION with the Partnership for Productivity and Development Group for Alternative Policies. This was the "Program for Investment in the Small Capital Enterprise Sector," known as PISCES, which began in 1978 with a review of projects in over 20 developing countries. PISCES sought to "determine if it was possible to reach the very poor urban dwellers with assistance to their economic activities; assess which project approaches and methodologies in place at the time seemed most effective; and explore the implications of these findings for donor organizations" (Farbman, 1981).

Photo: Caroline Agbasonu, caterer and restaurant owner, client of ACCION Microfinace Bank in Lagos, Nigeria.
CREDIT: JOHN RAE FOR ACCION

As Elisabeth Rhyne, Center for Financial Inclusion/ACCION, described it, the "Spring Review" revealed

"... the waste and dysfunction of subsidized agricultural credit doled out by bankrupt government credit banks. These banks were swallowing hundreds of millions of development dollars annually. The Ohio State team's manifesto [via the Spring Review] was that financial institutions must make credit decisions based on risk assessments, not politics, and charge interest rates that would allow operations to be sustainable. That review launched a gradual shift by USAID, the World Bank, and other aid agencies away from public development banks" (Rhyne, The PISCES Project - Helping Small Enterprises Swim Upstream, 2014).

[4] The University specialists who authored the analytical papers included Dale Adams (Ohio State), Chester Baker (U of Illinois), John Brake (Michigan State), Richard Eckhaus (MIT), Cyntia Gillete and Normal Uphoff (Cornell), Claudio Gonzales Vega (Stanford and U of Costa Rica), Millard Long (Harvard Development Advisory Service), Marvin Miracle (U of Wisconsin), Judith Tendler (U of California), and Ronal Tinnermeir (Colorado State). Source: (Bathrick, 1979). On the non-Academic side was J.D. von Pischke of the World Bank.

[5] Before the microfinance industry was developed, it was generally thought that microfinance clients would "graduate" from microfinance programs and institutions and would eventually bank with commercial banks. Later it was recognized that these clients represented the best of microfinance clients and the base upon which a microfinance provider could become profitable and sustainable.

The PISCES teams argued that even marginal improvements in these areas could have significant meaning for microentreprenuers and their families, noting that,

"The difference in earning a dollar a day to meet the needs on average [of a] family of 5–8, and $2 a day is dramatic: children may be sent to school, the sick can see a doctor, housing can be upgraded, and it becomes possible to save for future investment in the business" (Hull, 1990).

Photo: Training women farmers on climate-smart innovations in Nyando, Kenya. CREDIT: V. ATAKOS/CCAFS

In its justification for funding PISCES, USAID noted that 30 to 70 percent of the urban labor force in developing countries was involved in the informal sector. Owners of enterprises in this sector were seen to have a near universal lack of access to financial services, as well as lack of management skills while operating in "a hostile environment and exploitive relations with middlemen and suppliers." There was interest in determining if direct assistance to the owners of informal sector enterprises would increase their income, employment, and access to services (Ashe, The PISCES II Experience. Volume II. Case Studies from Dominican Republic, Costa Rica, Kenya and Egypt, 1985a, p. vii).

Under PISCES Phase I, USAID gathered case studies of 23 projects in 13 countries and documented in a systematic way various approaches to supporting the economic activities of poor households, i.e., by providing resources, especially credit, technical assistance, and training. In addition, this first phase helped identify the most effective approaches to project design and implementation (Farbman, 1981).

ACCION was the prime contractor and technical lead for the PISCES project and in charge of the Latin America fieldwork and study results synthesis. The Africa component was subcontracted to the Development Group for Alternative Policies and the Asian fieldwork to Partnership for Productivity.

The PISCES case studies documented five factors affecting microentreprenuers:

1. A hostile policy environment
2. Lack of institutional credit
3. High interest rates charged by money lenders
4. Limited access to raw material and supplies
5. Marketing limitations

The field research and analysis of the 1970s would lay the foundation for some of USAID's most significant work that followed in the 1980s.

PISCES CASE STUDIES

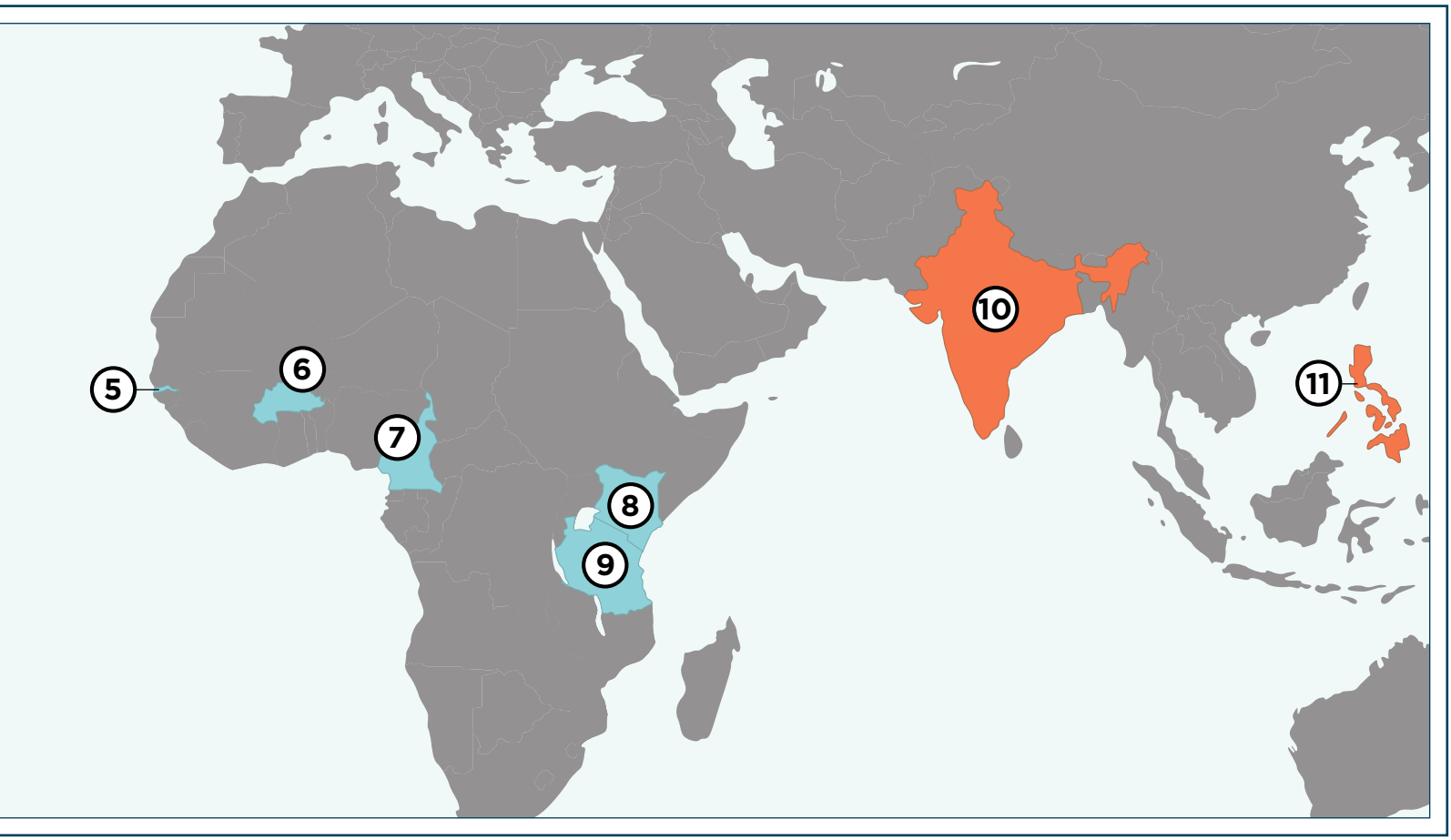
LATIN AMERICA

1 / EL SALVADOR
- Programa Integral de Desarrollo Comunal
- Federación de Cajas de Crédito

2 / HONDURAS
- Asesores para el Desarrollo

3 / ECUADOR
- Banco del Pacifico
- Instituto Ecuatoriano de Desarrollo Social

4 / COLOMBIA
- Federación Nacional de Cruzada Social
- Cooperativa Multiactiva de Desarrollo Social



PISCES CASE STUDIES

AFRICA

5 / THE GAMBIA
- Indigenous Business Advisory Services (IBAS)

6 / BURKINA FASO
- Artisan Training and Credit Program of the Centre National de Perfectionnement des Artisans Ruraux (CNPAR)

7 / CAMEROON
- Centre d'Education à la Promotion Collective (CEPEC)
- Institut Panafricain pour le Développement (IPD)

8 / KENYA
- The Village Polytechnic Program (VP)
- Institute for Cultural Affairs Kawangarwe Community Upgrading Project (ICA)

9 / TANZANIA
- Small Industries Development Organization (SIDO)

ASIA

10 / INDIA
- The Working Women's Forum
- National Association of Educated Self-Employed Youth
- Bangalur Layout
- Calcutta "Y" Self-Employment Center

11 / PHILIPPINES
- Metro Manila Barangay Industries Development Program (MMBIDPO)
- Manila Community Services, Inc. Self-Employed Youth
- Self-Employment Assistance Program
- Carmona Social Development Center
- Philippine Commercial and Industrial Bank

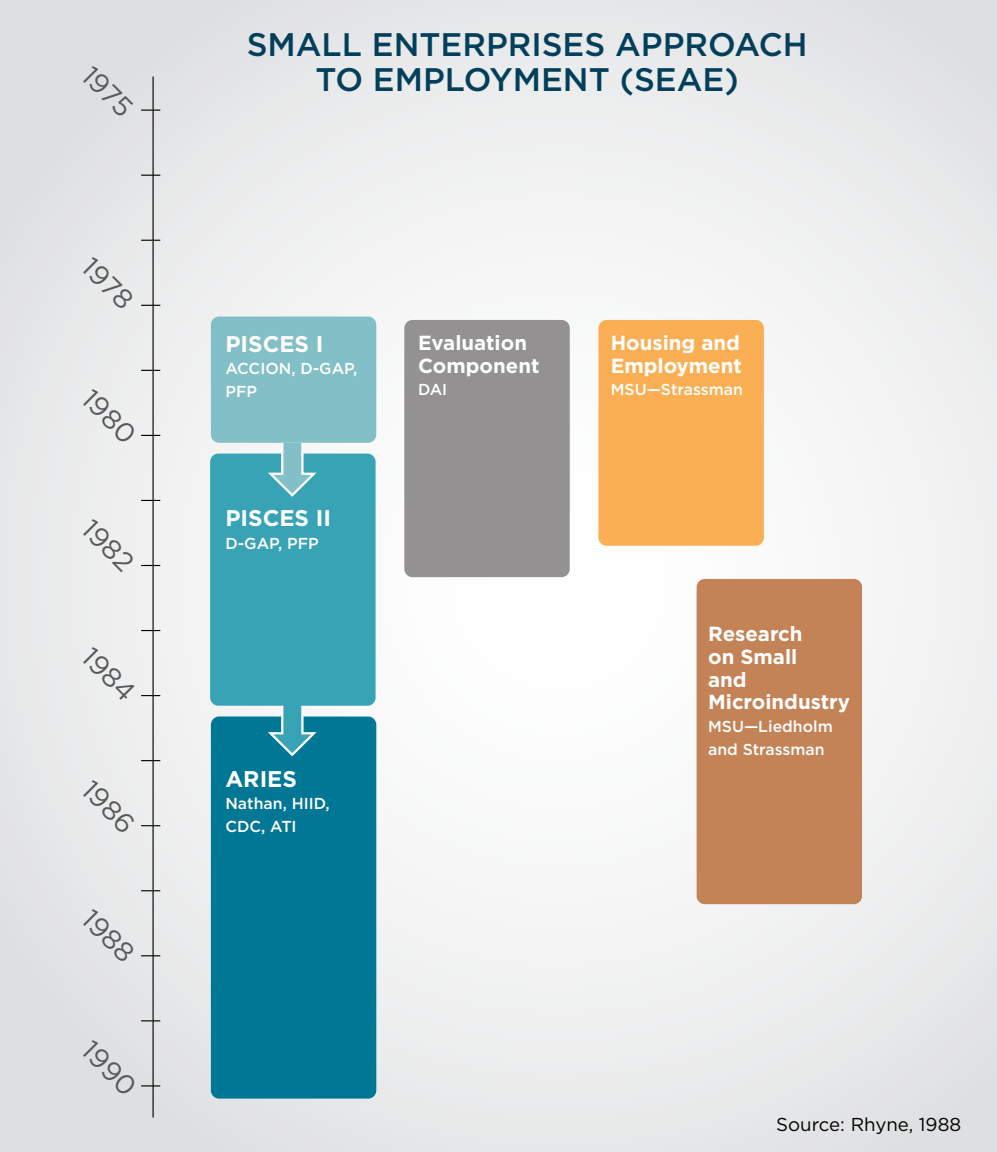
THE 1980s.
BUILDING LOCAL CAPACITY

1980

Demonstration projects with USAID Missions test various lending and technical assistance methodologies. Evaluations highlight the dual nature of programs with business and financial as well as social and humanitarian objectives, a debate that leads to the establishment of the Small Enterprise Evaluation Project (SEEP).

As described by Michael Farbman, chief of the Employment and Enterprise Development Division at the time,

"Events in the policy evolution inside [US]AID overtook the pace of progress of the relatively long-term PISCES [research and development] initiative. In 1981, the Agency overlaid a predominant "private sector" rationale on all aspects of operations, not so much replacing or subordinating the earlier objectives, as clarifying an important means through which to achieve them. In the end, this has proved opportune for the PISCES Project, for what this project has done is to shed light on strategies and approaches for promoting what is, arguably, numerically the largest component of the private sector in nearly all developing countries. In many cases, this sector includes some of the most dynamic, entrepreneurial and economically efficient firms. Given that [US]AID is interested in promoting development for the benefit of the poor in lesser-developed (LDCs), and that it is intent on doing it through the medium of private enterprise development, this report confirms the abundant availability of the requisite raw material and, perhaps more importantly, how to begin to work with it" (Ashe, The PISCES II Experience: Local Efforts in Microenterprise Development. Volume I, 1985b).



Source: Rhyne, 1988

The Small Enterprises Approach to Employment (SEAE) project continued through the 1980s, and comprised a sequence of activities: the Program of Investment in the Small Capital Enterprise Sector PISCES I, PISCES II, and the Assistance to Resource Institutions for Enterprise Support (ARIES). Each built upon the learning of the prior activity. The findings from the research in PISCES I were used to design pilot activities and case studies under PISCES II. And, when PISCES II identified the weakness of intermediary organizations as a barrier to enterprise development, ARIES was launched as an effort to build the capacity of those organizations.

1984-1990

USAID focuses on building the institutional capacity of international and local organizations engaged in small-scale rural business and lending. Projects such as the Kenya Rural Enterprise Program (K-REP) (see example below) and Programa de Desarrollo Emprendedor (PRODEM)/BancoSol would go on to play transformational roles in their regions, paving the way for others.

Photo (left): Bangladesh will research progress against child and maternal hunger and malnutrition. Other topics researched were country-led development efforts and agricultural investments. Visited sites included a USAID-supported fish project, a school supported by a Grameen bank microfinance project, and a cash-for-work road building project in the aftermath of Cyclone Sidr. CREDIT: BREAD FOR THE WORLD

The major activity of the PISCES team in Phase II was to help design and then evaluate projects funded by local USAID Missions. Team members worked with USAID Missions in Costa Rica, the Dominican Republic, Bangladesh, Indonesia, the Philippines, Kenya, Egypt, and Zimbabwe.

The demonstration projects were designed around key themes that emerged from PISCES I and were outlined by Dr. Rhyne (Rhyne, 1988):

1. Credit and low-cost delivery mechanisms were the cornerstone of support to small enterprises. Though undetermined was whether this should be credit only or credit plus technical and other assistance.
2. Groups were used by many of the most successful programs as a mechanism for delivery of credit and technical assistance.
3. Two paradigms for support were evidenced. A credit-only program for existing enterprises and socially oriented programs aimed at the very poor.
4. Quality management of the implementing organization is essential to project success.
5. Private and voluntary organizations, especially local organizations, should be engaged in order to avoid problems of corruption and excessive bureaucracy.

Photo: USAID/Indonesia targets micro and small borrowers through the Danamon Simpan Pinjam program. Since implementation, Bank Danamon has made over Rp 67 billion ($7.4 million) worth of small business loans under the guarantee.

Mr. Basri has run his auto-garage store in Banda Aceh for 12 years. He borrowed from Bank Danamon to increase the capital and grow his business. This is the third time he applied for the loan. With his loans, he was able to open a restaurant and employ 12 people. CREDIT: DANUMURTHI MAHENDRA/USAID

Photo: Studies show that when women have property rights, such as this Kenyan woman, they are more likely to invest their profits from increased production into the family—mainly in education and health.
CREDIT: NEIL THOMAS/USAID

Upon reviewing the PISCES II case studies the authors and USAID concluded that while microenterprises showed great potential to increase employment, income, and empowerment, the number of assistance projects was quite small and reached very few. "The challenge for donors," the report concluded, "is to constructively promote micro-enterprise projects on a wider scale. The starting point is to assist the organizations who are currently doing this, or interested in doing so" (Ashe, 1985b, p. 120).

Ashe added,

"Momentum is building, however, for much larger participation in the future. Donors are increasingly aware that these tiny enterprises make up the largest and fastest-growing part of the private sector in many developing countries, and that the majority of new jobs will be created in these businesses in the decades to come. The fact that micro-enterprises are owned by the poor and, at the smallest level, tend to be owned by women is an additional reason for [US]AID and other major donors' support for enterprises at this level" (Ashe, 1985b, p. 120).

From among the projects developed under PISCES II, four were sufficiently developed by the end of the project to be included in an evaluation: Costa Rica, the Dominican Republic, Kenya, and Egypt[6] (Ashe, 1985b).

The PISCES project aided considerably in understanding the best way to support access to finance by microenterprises. Among the findings that would influence future program design, and underpin the microfinance revolution to follow, were several key observations:

1. Risk of losing standing in community is a better guarantee of repayment than collateral of property, equipment, or cosigners.
2. Extensive pre-loan analysis of micro loans (under $1,000 or more commonly under $100) does not result in better repayment than not doing this analysis.
3. Post-loan business assistance increased the likelihood of repayment.
4. Risk to client and lender is reduced by starting with short-term loans (most often for working capital) and then working up to more significant inputs over time.
5. Those identified as "pre-entrepreneurial" required considerable upfront work to prepare them to borrow.
6. Collective enterprises will always require considerable up-front analysis, training, and orientation.

At the time, it was not unusual for enterprise development, rural development, community development, and other broad-based programs to also have a credit component. Though not true in all cases, some of these projects were actually incubating some of the future's strongest microfinance providers e.g., KREP.

6 The project in Bangladesh was funded but was very delayed in getting started, and when it began providing services, it was to a level of enterprises far larger than the PISCES target population. The project in the Philippines has just become operational; the project initiatives in Zimbabwe and Indonesia were never funded.

Photo: Rosemary Onyango Oduol is a widow whose husband died of AIDS 10 years ago. She is currently supporting four children through her business of drying and selling small fish, called omena. USAID AMPATH has helped Rosemary and other women who are supporting orphans and vulnerable children through training and capacity buiding for the Khurialala OVC Caregivers Support Group. With the proceeds from her omena sales, Rosemary buys "shares" in the group. Members who have purchased enough shares are eligible to take loans from the group. The interest they pay on their loans gets distributed when the shares are paid out, enabling Rosemary to increase her savings. Rosemary's 16-year-old daughter, Pamela, recently completed Class 8 and has qualified to continue on to secondary school. Rosemary is proud to have saved enough money to pay Pamela's school fees. CREDIT: RICCARDO GANGALE/USAID

The findings from PISCES led to the development of ARIES. ARIES was designed to strengthen the support of microenterprises by U.S. organizations and those in assisted countries. Launched in 1985 and ended in 1990, ARIES included further research on institutional needs as well as training and technical assistance to institutions (Jansen, 2014). Many of the U.S. organizations targeted for support were receiving funds through the USAID Bureau for Food for Peace and the Agency's Matching Grant Program.

ARIES addressed the findings of the PISCES case studies, which found that the success of microenterprise and microfinance programs depended greatly on the capacity of the intermediary organizations providing them with support. This included U.S. private voluntary organizations, and other developing country government and nongovernmental organizations. It was the intent of ARIES designers to create or support well-managed organizations in order to improve the support they gave to microenterprises and microfinance organizations.

ARIES was a 5-year contract awarded to Robert R. Nathan Associates, Inc. ARIES also included subcontractors: Harvard Institute for International Development (HIID), Control Data Corporation, and Appropriate Technology International (ATI). A number of USAID offices provided funding for ARIES: the Bureau for Science and Technology's Office of Rural and Institutional Development and the Bureau for Food for Peace and Voluntary Assistance's Office of Private and Voluntary Cooperation (PVC).[7]

The PISCES studies challenged the approach of embedded credit programs, saying,

"The successful administration of the credit fund has proved to be the major stumbling block of many micro-enterprise efforts, since the organizations that carry out these projects—often small, private, voluntary organizations—have little experience in administering projects that require quick decisions, the efficient flow of information, and the accurate recording of large numbers of transactions. Ideally, these functions should be delegated to a bank or other financial institutions. Lacking this option, credit administration needs to be designed with great care."

7 Mission-funded technical assistance has been projected at $3.8 million, or almost three-fifths, of the 5-year projected budget of $6.8 million.

The ARIES contract had three major components: research, training, and technical assistance. These components were designed to inform each other. Research and training were focused on intermediary organizations providing support for microfinance and microenterprise development, and the technical assistance component was designed to provide short-term technical assistance to USAID Missions and intermediary organizations to assist small and microenterprise development (Barth, Mid-Term Evaluation of the Assistance to Resource Institutions for Enterprise Support Project Component, 1988).

A companion activity under the SEAE project was the DAI evaluation project. One of DAI's evaluation reports, "Searching for Benefits," unwittingly catalyzed the emergence of the Small Enterprise Evaluation Project, later to be called the Small Enterprise Education and Promotion network. The study critiqued a Partnership for Productivity (PfP) project in the Upper Volta for taking a more social than business approach to enterprise support. In response, U.S. NGOs banded together to challenge the findings and the economic/cost-benefit approach to project evaluation (Kilby & D'Zmura, 1984).

The PVO challenge led USAID to fund a 1-year project to develop an evaluation approach that these NGOs felt would be more suited to their program objectives. Their efforts eventually resulted in a guide to program evaluation, "Monitoring and Evaluating Small Business Projects: A Step by Step Guide for Private Development Organizations" (Buzzard & Edgcomb, 1987).

As Larry Reed, Microcredit Summit Campaign, describes "Searching for Benefits,"

"This paper, with its emphasis on counting a wide range of economic benefits but little else, motivated 25 development organizations to begin working together to form the Small Enterprise Evaluation Project and come up with a better way to evaluate programs designed to increase incomes and employment opportunities for those living in poverty" (Reed, 2014).

According to Elaine Edgcomb, one of the Guide's editors and coordinator of the effort, USAID was pleased with the product and, more importantly, with the professional development activities emerging around it. With continued USAID support, the original steering committee and coordinator went on to develop what is today the SEEP Network.

"From its beginning, SEEP offered a place where U.S. NGOs and their partners could build their capacity in enterprise development and microfinance. And USAID's Office of Private and Voluntary Cooperation offered partnership and financial support for years under its Matching Grant Program to ensure that this was achieved. As it funded SEEP, USAID also funded headquarter- and field-based technical assistance staff in many NGOs interested in delivering these services, along with systems development, technology infrastructure, and training that enabled organizations to build expertise. Those staff became their organizations' representatives to SEEP, and both 'gave and got' through their participation" (Edgcomb, 2014).

The SEAE project highlighted the many ways that microenterprise and microfinance could be supported, but left it to USAID Missions to design programs suited to their country context. A 1989 inventory found at least 87 programs that either focused solely on microenterprise or included microenterprise as a component of a larger private-sector project. It was estimated that the budgets for these programs were about $290 million over their total project life (Boomgard J. , 1989).

Photo: With training in agricultural production and distribution, farmers are making real changes in their incomes and reducing their exposure to poverty in Tanzania. CREDIT: WILLIAM CREIGHTON/DAI

As described in the ARIES Strategic Overview Paper,

"Well-managed organizations for development assistance are able to establish goals, set priorities, and adopt policies to ensure that goals are achieved and priorities maintained. They have the capacity to adapt to a changing environment and to make appropriate decisions about institutional change and growth. They are able [to] become self-sustaining and to monitor their finances effectively. In addition, well-managed institutions can attract and retain committed and effective staff as well as work effectively with other organizations. Finally, such institutions have the ability to learn from others pursuing similar objectives and share problem-solving ideas with them."

Photo: Through Feed the Future, USAID supports training activities in Asia to scale up adoption and use of agricultural technologies, such as during this Global Learning and Evidence Exchange field trip to Kamphaeng Saen, Nakhon Pathom, Thailand, on January 10, 2014. Better farming techniques, if introduced properly, can lead to greater harvests and reduce poverty.
CREDIT: RICHARD NYBERG/USAID

Photo: Local women in Kenya, like Joanne Musungo, come to the greenhouse and buy the tomatoes in bulk and then sell them, two or three at a time, in the community. Joanne is a young, single woman, supporting herself and two younger sisters. She purchases 400 Khs worth of tomatoes in the morning, and sells them throughout the day for 600 Kshs. This is her sole source of income.
CREDIT: USAID/RICCARDO GANGALE

The SEAE project initially focused on credit and, through its research and case studies, produced a body of literature that helped people understand finance from the perspective of the very poor and the smallest enterprises. Interestingly,

"SEAE chose credit more because the techniques for effective delivery were easier to establish, rather than because credit was known to be the greatest need. The decision to focus on credit was driven by beneficiary demand for it and by institutional capacity to supply it, rather than by a knowledge of its effectiveness. Studies of constraints affecting small businesses often reveal that problems relating to markets, inputs, production techniques, policy environment and business skills are as or more important than finance. However, these relatively intractable problems have not been the focus of SEAE" (Rhyne, The Small Enterprise Approaches to Employment Project: How a Decade of AID Effort Contributed to the State of Knowledge on Small Enterprise Assistance, 1988, p. 8).

In her thoughtful review of the SEAE project, Dr. Beth Rhyne identified the most significant outcomes of the SEAE project,the project comprising USAID microenterprise/microfinance activities of the 1980s.[8] She noted the following as being of high quality and having made "important contributions to educating its audience":

- The PISCES I and II reports (Farbman, 1981), (Ashe, 1985a), (Ashe, 1985b)
- The evaluation manual (Goldmark & Rosengard, 1985)
- The Michigan State University overview paper (Liedholm and Mead)
- The ARIES Strategic Overview Paper (Grindle, Shipton, & Mann, 1986)

SEAE had unearthed considerable knowledge about microenterprises and their use of finance. At the conclusion of the project, with the learning gained from PISCES I and II and ARIES, USAID was poised to provide increased and more direct support for micro and small enterprise development and was well positioned when Congress passed legislation that required the Agency to increase its microenterprise support activities. The Comprehensive Micro-Enterprise Credit Promotion Act of 1987 amended the Agricultural Trade Development and Assistance Act of 1954 and mandated that the President establish a bilateral microenterprise credit program, to be administered by USAID.

The legislation directed USAID to issue guidelines to ensure that women would be the major recipients of such loans and that financial intermediaries making such loans (1) consult with potential recipients in the interest of designing projects responsive to the credit needs of the recipients, (2) minimize obstacles to credit, and (3) encourage, when appropriate, cooperation among microenterprises as a mass means of fostering improved loan repayment rates. It also required that USAID seek to use indigenous nongovernmental organizations as financial intermediaries and to develop the long-term capacity of such organizations to provide credit for microenterprises.

The Act defined microenterprises as small enterprises owned by the country's poorest people, operating within the informal sector economy of a developing country and lacking access to credit at reasonable costs.

USAID would provide cross agency and industry support for microenterprise and microfinance development from a new project, titled GEMINI (Growth and Equity through Microenterprise Investments and Institutions). GEMINI would continue the research and learning supported by the SEAE project but, in addition, would take on a greater role in providing technical leadership and support to USAID field Missions and the broader microenterprise/microfinance community.

Photo: Mr. Bahari Musa has run his kiosk in Banda Aceh since 1988. He borrowed Rp 50 million ($5,000) from Bank Danamon to stock his store with sugar, cooking oil, rice, and other daily necessities. Since then, his income has increased; now, he can pay school tuition for all of his four children. CREDIT: USAID/DANUMURTHI MAHENDRA

8 Rhyne also identified two significant conferences "largely informed by SEAE results": The 1986 New Directions Conference (often called the Williamsburg Conference) and the 1988 International Conference on Microenterprise.

THE 1990s.
CREATING SUSTAINABLE INSTITUTIONS

1994 USAID establishes the Office of Microenterprise Development, highlighting the increased focus on microfinance both within the Agency and throughout the donor community. Focus shifts to reaching scale by building sustainable microfinance providers and an enabling environment to support them.

As stated by Maria Otero, U.S. Department of State,

USAID had to make the key out-of-the-box decision: Can the loan portfolio of an NGO, funded with USAID funds, be transferred to a for-profit bank in exchange for shares to be held by the NGO? No one had faced this type of question or decision before and you Rich [Rosenberg, USAID project officer] representing USAID said 'yes, do it.' Had you—USAID—said no, the transformation would likely have collapsed, (we simply could not raise equity capital from anyone at that time, you have no idea how hard we tried. We needed a total of US $5.6 million) and we lost plenty of nights' sleep over what USAID would decide. I can remember vividly learning of the positive decision. The lesson for donors is that in doing development they have to take risks...which most of their bureaucratic-minded staff abhor (Rosenberg & Otero, BancoSol: Moving Microfinance into the Mainline Financial System, 2014).

In the 1990s, USAID supported microenterprise and microfinance through two projects, the Growth and Equity through Microenterprise Investments and Institutions project (GEMINI) and the Microenterprise Innovation Project (MIP). These projects continued in conducting research but also provided a mechanism for USAID Missions to access technical support. In addition, under MIP, USAID/Washington directly funded the creation and development of MFIs through the Implementation Grant Program. From 1991 through 1999, USAID/Washington and Missions invested $1.18 billion in microenterprise and microfinance activities.

The nature of USAID's support for microfinance in the 1990s reflected a confidence that credit could be made accessible to large numbers of low-income people if appropriate lending methodologies were used and if providers charged market interest rates and operated in a cost effective manner.

During the 1990s, USAID provided key technical and financial support to microfinance providers that transformed from projects to NGOs to commercial banks. Two of the most notable institutions that resulted are BancoSol in Bolivia and K-REP in Kenya.

On February 2, 1992, BancoSol, officially left behind its project and NGO roots to become the first private commercial microfinance bank in the world. BancoSol's credit activities began under the NGO PRODEM (Fundación para la Promoción y Desarrollo de la Microempresa). USAID provided the necessary startup funding while ACCION provided technical support, and local staff and business people provided motivation, political pressure, and business acumen (Rhyne, 2001). In order for the transformation to proceed, USAID had to approve the transfer of previously awarded grant funds to this new for profit entity, an action that was unprecedented.

A few years later, K-REP followed suit. K-REP began as a USAID/Kenya project in 1984 and, with continued support from USAID, K-REP registered as an NGO in 1987 and transformed into the first regulated microfinance bank in Africa in 1999. USAID supported K-REP with financial and technical assistance from 1984 to 1996 and, as with BancoSol, approved the transfer of grant funds to a new for-profit microfinance bank. Kimanthi Mutua, who was K-REP's president for 12 years and is now the CEO of the K-REP Group, credited USAID initiatives like the GEMINI, ARIES, and PISCES with giving the organization a wider exposure than it otherwise would have had. In so doing, these initiatives enabled K-REP to become a regional and global leader (Sebstad & Mutua, 2014).

1995 USAID partners with other donors to establish the Consultative Group to Assist the Poor (CGAP), which develops innovative solutions for poverty reduction through practical research and active engagement with financial service providers, policymakers, and donor organizations. USAID launches Innovation Grant Program, which awards 80 grants over the next 15 years to promising microfinance approaches, such as village savings models and attracting private sector capital. Notable recipients include XacBank in Mongolia, CRECER in Bolivia, and Compartamos Banco in Mexico—all leading microfinance institutions today.

1999 USAID begins making partial loan guarantees through DCA, increasing the availability of funding for lending to microfinance institutions and microenterprises.

While field efforts advanced, significant research and technical support was being carried out under the GEMINI project.[9] Through GEMINI, USAID Missions accessed technical expertise for sector studies, surveys, case studies, project papers, project support, and evaluations.

Technical support under GEMINI is documented in over 100 working papers and technical reports produced in the project's 5 years, many of which are summarized in special publications edited by Eugenia Carey. (See Carey & McCord, 1993, and Carey & Rotblatt, 1995.) A great deal of support under GEMINI focused on non-financial services, including the development and application of sub-sector analysis, and a number of sector studies and project papers prepared for USAID Missions (Boomgard, Davies, Haggblade, & Mead, 1986).

On the financial side, several of the GEMINI papers were edited, or paper authors were re-engaged, to provide content for the book, "The New World of Microenterprise Finance: Building Healthy Financial Institutions for the Poor," edited by Maria Otero and Elisabeth Rhyne. Otero and Rhyne were able to organize the key lessons found in the GEMINI papers into a coherent publication that would go on to become a textbook for microfinance practitioners throughout the globe (Otero & Rhyne, 1994).

In June 1994, as the GEMINI project was winding down, USAID launched the microenterprise initiative, which was "designed to make microenterprise development a better established part of USAID's economic growth efforts." As outlined in the Microenterprise Development Policy Paper, USAID, under the initiative, committed to four principles in designing and implementing microenterprise programs:

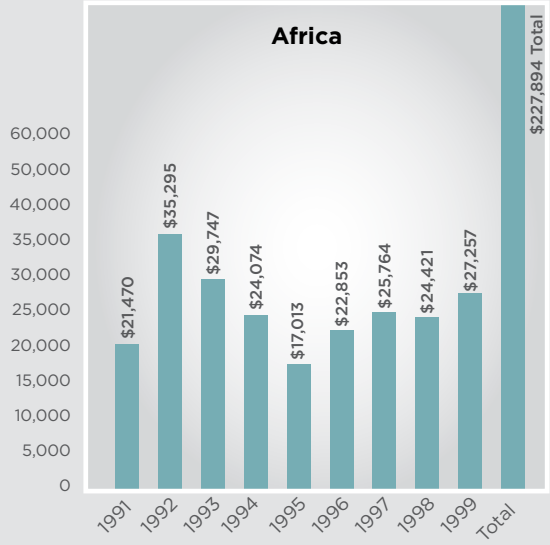
1. Maintaining focus on women and the very poor, particularly through support for poverty lending;
2. Helping implementing organizations reach greater numbers of people;
3. Supporting institutional sustainability and financial self-sufficiency among implementing organizations; and
4. Seeking improved partnerships with local organizations in the pursuit of microenterprise development (USAID, 1995) (Sillers, 1995).

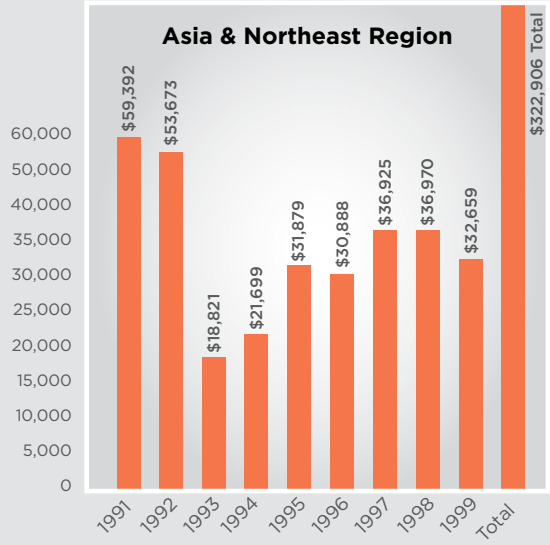
Policy guidance was communicated to the Agency through ADS 219. Since that time (October 1, 1995), the expectation has been that USAID-funded microfinance activities will have a plan to reach full financial sustainability within seven years of initial funding. Full financial sustainability means that supported finance providers will have the financial capacity to cover the costs of operating and of loan capital (interest paid for commercial loans, costs of using client savings, and/or earnings to cover any losses due to inflation).

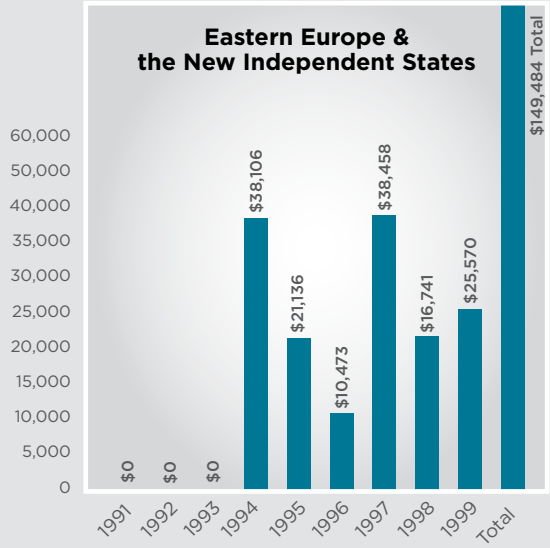
Photo: Sales clerks Hiwot Tefera and Beyenech Gossaye stand ready to welcome customers at the newly opened Bishoftu Farm Service Center, a one-stop shop for smallholder farmers in Ethiopia. CREDIT: CNFA ETHIOPIA COMMERCIAL FARM SERVICE

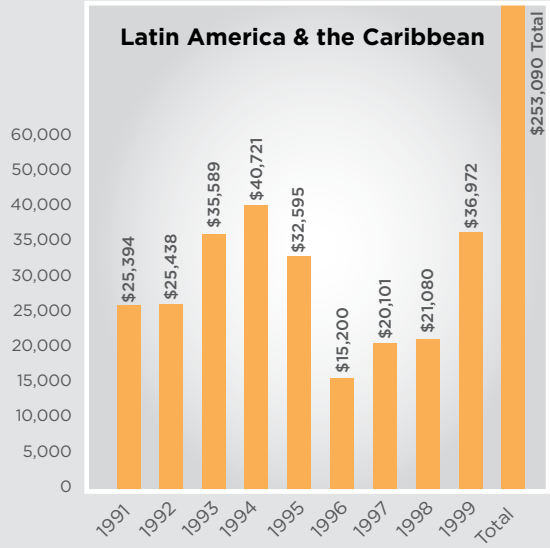
9 GEMINI was contracted to Development Alternatives, Inc. in October 1989 and ran through Sept. 30, 1995. DHR-5448-C-00-9080-00.

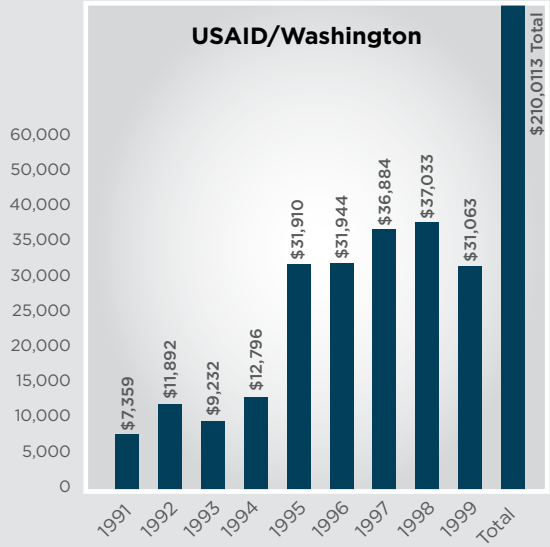
In the 1990s, USAID was a leader in the field of microfinance, funding over $1.8 billion in that decade alone.

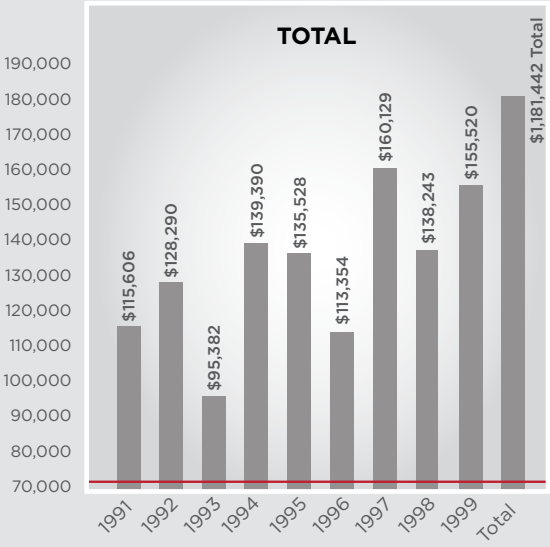












The Office of Microenterprise Development (MD), created as part of the Microenterprise Initiative, became the hub of Agency support for microfinance. The Office, under the leadership of Elisabeth Rhyne, created a framework for support called the Microenterprise Innovation Project (MIP).

MIP was a multicomponent project that included contracts and grants. The aim of the MIP contracts and grants was threefold: to continue research and learning (Microenterprise Best Practices, Assessing the Impact of Microenterprise Services [AIMS]); to provide technical assistance to USAID Missions and operating units (Microserve); and to competitively fund grants that supported innovation and capacity building by microfinance providers (Implementation Grant Program and MBP subgrants) (USAID, 1996).

The late 1990's was a period of direction shift for many programs that had previously been funded, sometimes generously, without a push toward financial self-sufficiency. Technical assistance for this shift was provided by contractors, through Microserve and MD staff. Support was provided to strengthen Mission microfinance programs, conduct sector assessments, evaluate activities, and provide guidance for Mission-funded programs. Mission staff and partners also received training through courses like those offered at the Boulder Training Institute. USAID supported Boulder training by providing staff to teach courses, through scholarships, and through direct funding support to the training providers.[10] Once a short-term training program, Boulder is now a nonprofit organization recognized as a leader in microfinance training and reports graduating close to 5,000 alumni from 151 countries.

In 1995, the Agency released a report that profiled 11 microfinance providers and analyzed them using two lenses: "outreach," the degree to which large numbers of poor people and women are reached; and "sustainability," the degree to which the providers were able to operate independently of government, donor, or private charitable funding (Christian, Rhyne, Vogel, & McKean, 1995). With evidence from the USAID "Maximizing Outreach" study and other sources, The the Office of Microenterprise Development managed a large grant program, called the Implementation Grant Program (IGP).

IGP was based on the following premise: Low-income people could be reached with microfinance services, and the best way to ensure long-term access to such services would be to support the establishment of financially viable providers. However, there was no consensus, nor even a perceived need for consensus, on what type of institutional form the provider would take. Nor was there consensus on what type of loan methodology the provider would use. The mantra of the day was "Let a Thousand Flowers Bloom," and a range of approaches were supported, including credit unions and lending models for individuals and for groups.

In 2002, some of MBPs most significant papers, as well as a few new, commissioned papers, were published in a book titled, "The Commercialization of Microfinance: Balancing Business and Development," edited Deborah Drake and Elisabeth Rhyne (Drake & Rhyne, 2002). As the book and the MBP studies document, the late 1990s were a period of change and of managing NGOs through their transformation to for profit banks. With that came numerous supervisory and regulatory concerns.

AIMS rigorously studied microfinance at the household level in three countries, Peru, Zimbabwe, and India. Reflecting on that time, Monique Cohen, the project's designer and manager said,

"The AIMS project contributed to USAID's role as a thought leader. Aside from the rigorous measurement of impacts in India, Peru, and Zimbabwe, the AIMS studies were among the first to focus attention on understanding clients and their use of financial services. Many strongly held but untested premises about clients' behaviors were examined. The studies found that clients use a range of formal and informal financial services, that microcredit was additive, that over people's life cycles their financial needs evolve and require a range of products including savings, insurance, and loans, and that the most common credit product— short-term working capital — cannot be all things to all people.

A key finding was that households adapt microcredit to their needs. Microcredit's value was not simply in its use as an input to enterprise growth but also as a tool for managing people's vulnerability and helping households meet cash flow demands such as school fees and emergency expenses. These conclusions were subsequently verified and explored further in a paper commissioned by the World Bank that shaped the 2000/2001 World Development Report on poverty" (Cohen, 2014).

10 Originally held in Boulder Colorado, the Boulder Institute moved to Turin, Italy, after obtaining U.S. visas for the many participants from around the world became onerous.

Photo: Thanks to technical assistance from Winrock International's USAID-funded Farmer-to-Farmer Program (which supports Feed the Future), this member of the Community Based Fisheries Management (CBFM) group increases his income and better feeds his family with bountiful fish yields. Community-based aquaculture in the floodplain area of Monirampur Upazila, in the Jessore district of Bangladesh, is a shining example of long-term aquaculture sustainability and is an excellent business model for rural, poor farmers who depend greatly on the floodplains for their livelihoods and household food security.
CREDIT: SK. AHMAD-AL-NAHID, WINROCK INTERNATIONAL

USAID Missions supported the transformation of a number of organizations in a process that was often long and sometimes emotional. As noted by Rich Rosenberg, most often the charismatic, energetic leaders who energized a community and were able to garner government and donor support were not the same people who could oversee the day-to-day operations of a commercially oriented business. (Rosenberg & Otero, BancoSol: Moving Microfinance into the Mainline Financial System, 2014).

In addition to the contributions made by USAID-supported projects, it is important to note the many ways that USAID staff and funding supported efforts that advanced the entire industry during the 1990s. Among them are the Agency's contributions to the Committee of Donor Agencies for Small Enterprise Development; the formation of the Consultative Group to Assist the Poorest;[11] support for and participation in Boulder training; and hosting, presenting, and attending at a number of workshops and meetings throughout the world.[12]

The 1990s reflected a geared-up effort to reach the very poor and to require financial responsibility on the part of the lenders. Middle-income people were not excluded from USAID-supported microfinance programs, but generally the size of the loans and the repayment schedules were not attractive to this economic group.

11 Later the name was changed to Consultative Group to Assist the Poor.

12 In 1996, the Committee of Donor Agencies produced "Micro and Small Enterprise Finance: Guiding Principles for Selecting and Supporting Intermediaries," aka "The Pink Book" (Steel, 2001). As a member of the Committee, USAID partnered with other donors to communicate the importance of self-sufficiency to ensure long-term access to finance for the world's poorest people. "The Pink Book" was published in four languages and became a standard for funding microfinance providers. The content of this guide was built upon for the CGAP donor guideline publication, "Building Inclusive Financial Systems: Donor Guidelines on Good Practice in Microfinance."

Microenterprise Innovation Project at a Glance

Source: Microenterprise Brief No. 13

COMPONENT	SHORT DESCRIPTION	IMPLEMENTOR
Implementation Grant Program	Provides co-financing for U.S. PVOs and other experienced organizations to implement Microenterprise Projects	MD
The PRIME Fund	Provides co-financing for Mission microenterprise projects	MD
Microenterprise Best Practices	Undertakes a core action research agenda & manages a small subgrant fund for training & information exchange among practitioners & to support pilot projects on a limited basis	DAI, with subcontractors: ACCION, FINCA, HIID, IMCC, Opportunity International, Oregon State U., SEEP
MicroServe	Provides short-term technical assistance (<6 mos.) to Missions, Regional & other bureaus and implementing agencies on a request for services (RFS) basis	Chemonics Weidemann Associates, et al.
Assessing the Impact of Microenterprise Services	Undertakes survey research, develops indicators & tools to assess impact	MSI with HIID, SEEP & U. of Missouri
Linkage Component	Leverages other donors' involvement in microenterprise	MD

FROM 2000 ONWARD. BEYOND MICROFINANCE

2004

Once a USAID project, the Small Enterprise Education and Promotion (SEEP) Network now serves as a global network of over 124 organizations engaged in participatory research, applied learning, documentation, and training on microenterprise development and microfinance.

Photo: Flavio Garcia and his wife show off their cocoa beans on their farm in Peru. CREDIT: USAID

By the year 2000, there were few countries without some form of microfinance. While there remained (and still remain) many pockets of unserved or underserved regions or populations within a country, by the turn of the century, basic microfinance methodologies were well known throughout the world.

The Implementation Grant Program, which began under the Microenterprise Innovation Project in 1994, continued through to 2009. Eighty grants worth a total of just over $95 million were awarded over the 15-year lifespan of IGP. Many grantees won multiple awards through the years for their work in several countries. For example, with IGP funds, The World Council of Credit Unions (WOCCU) went on to support credit unions in Latin America, Eastern Europe, Asia, and Africa; FINCA spread the village bank methodology through five countries in Africa and two in Latin America; and Freedom from Hunger introduced Credit with Education to Mali, Uganda, and Bolivia.

The IGP grants would be used to draw out and support promising microfinance approaches, knowing that some would be more successful than others. The first request for applications, issued in 1995, cast a wide net, stating: "Types of financial service programs eligible include poverty lending, village banking, solidarity group lending, individual lending, savings mobilization, and other program methodologies that demonstrate a capability to serve the poor." These were methodologies identified through earlier USAID projects—PISCES, ARIES, and GEMINI—and documented and described in "The New World of Microenterprise Finance" (Otero & Ryne, 1994).

Efforts supported by the MD office and USAID Missions were complemented by the Office of Private and Voluntary Cooperation (PVC). The PVC office supported the development of U.S. PVOs, especially through its Matching Grant Program, which began in 1979 and ran through 2001. The funding awarded competitively to U.S. organizations enabled them to try out new technologies and expand their programs. To some, PVC is seen as "the initiating force behind the microfinance movement and as the source of support for some of the most imaginative microfinance skills" (The Work of the Office of Private Voluntary Cooperation. Thirty Five Years of Change and Accomplishment, p. 10). A 2000 study reported that, of the Matching Grant programs active at that time, "Nearly half of the current Matching Grant recipients used a Matching Grant to offer microenterprise products for the first time, and that number increases to 80 percent when only the multisectoral organizations involved in the study are considered" (Detwiler & Ashe, 2000).

From 2003 to 2008, USAID/Washington's main microenterprise mechanism was the Accelerated Microenterprise Advancement Project (AMAP). AMAP was a set of contracts designed and contracted by the Office of Microenterprise Development to pursue further learning and to carry out all aspects of microenterprise and microfinance activities. Separate contracts were issued to address the topics of financial services,

business development services, enabling environment, and support services.[13] Most contracts ran from 2003 to 2008, with a couple lasting longer; e.g., ACDI/VOCA, the Agency's lead on value chain framework, was contracted from 2003 to 2012.

The AMAP Business Development Services contracts originally focused on traditional forms of non-financial support to microenterprises, in particular training and technical assistance. But this work, especially by ACDI/VOCA under the leadership of Jeanne Downing, eventually evolved into the Agency's lead mechanism for the development of the value chain framework. The value chain framework provided the Agency a market-based model for supporting the agriculture sector, which resonated well with USAID Missions. By 2007, largely because of investment in value chain activities, microenterprise funding for enterprise development programs ($89 million) nearly equaled funding for microfinance ($94 million). The following year, enterprise development exceeded microfinance investment and began a trajectory that continues today.

Under the AMAP Financial Services (AMAP FS) agreements, contracted to Chemonics, DAI, and Abt Associates, USAID documented learning in the AMAP-identified topic areas. The topics help underscore the fact that many of the basic issues related to microfinance had largely been tackled, and what remained were more nuanced and reflective issues of a maturing market. Research under AMAP FS focused on topics such as the use of technology, remittances, credit scoring, and HIV/AIDS responsive products and services.

In addition to MD, other offices within USAID's Bureau of Economic Growth, Agriculture and Trade (EGAT) were also supporting advancements in financial services. They included the Office of Agricultural Development and Food Security whose BASIS project, led by Lena Heron, advanced learning on rural finance. In June 2003, USAID hosted Paving the Way Forward for Rural Finance: An International Conference on Best Practices.[14]

The conference brought together some of the leading professionals in the field. The conference participants laid out the key constraints impeding rural and agricultural finance and identified frontier opportunities for expanding finance to the sector. The conference proceedings remain a guide to programming in the rural finance sector.

One of the big wins under the AMAP Support Services contract with QED was the development of www.Microlinks.org. Microlinks is a community of practice that captures new learning in microenterprise development; disseminates it among practitioners, USAID Mission staff, and other donors; and connects those actors to each other in order to improve development outcomes around the world. Originally launched in 2004, Microlinks received two web and design awards, first in 2005 and then again in 2012. Today, the website has nearly 6,000 global subscribers and draws an average of 5,800 unique visitors each month. Popular pages and spaces on the website include those of the value chain wiki and training module, where visitors can access tools and guidance on market access approaches and best practices. Other hotspots include a robust learning library of tools, resources, and blogs, which includes contributions from the Microlinks community, and the recently launched microfinance and inclusive finance retrospective blog series upon which this document is built. (https://www.microlinks.org/retrospective).

According to Lena Heron, USAID/Washington, the Paving the Way conference "heralded a re-engagement with the sector, and improved integration of programming to improve financial services into the broader agricultural/rural development agenda." Organized in collaboration with the Department for International Development and the World Council of Credit Unions, this was the largest event that USAID had hosted on rural finance in more than 20 years, i.e., since the "Spring Review." As stated in the Paving the Way conference synthesis executive summary:

"Now is a propitious time for USAID and other donors to rethink rural finance with the goal of enabling the deep and broadly-based rural financial markets needed to achieve these growth and poverty reduction goals. Given the unique challenges of the agricultural economy, and the diversity of rural clients, it is unlikely that any single institution can achieve these goals. For example, microfinance has a role to play in expanding the reach of the financial system to clients with needs for small loans and lacking collateralizable assets. At the same time, there is space and need for financial institutions that can lend on the conventional collateral of agricultural and other rural enterprises. The key is to find a set of policies and programs that will induce the entry, assure the sustainability and facilitate interlinkages along a continuum of rural financial institutions poised to provide credit, savings, insurance and other financial services" (Ford & Waters, 2004).

13 AMAP Financial Services (Chemonics, DAI, Abt Associates*); AMAP Business Development Services (Louis Berger, DAI, ACDI/VOCA); AMAP Support Services (QED, Weidemann Associates) AMAP Enabling Environment (IRIS, MSI, DAI). *The Abt agreement was first awarded to Price Waterhouse Coopers, before being transferred to IBM, and then to Abt Associates.

14 The conference organizing committomee comprised USAID, (Lena Heron, senior rural development advisor; Martin Hanratty, senior advisor, Office of Microenterprise Development; Eleni Pelican, rural finance conference liaison), BASIS CRSP (Michael Carter, director; Danielle Hartmann, assistant director), and WOCCU (Lucy Ito, vice president; Brian Branch, vice president; Catherine Ford, project manager, Rural Finance Best Practices; and Ursulla Schiller, international conference assistant.)

ACHIEVE TRANSFORMATIVE RESULTS

2010-2013

USAID teams up with the Bill & Melinda Gates Foundation to create the Haiti Mobile Money Initiative in the wake of the devastating earthquake, which left a third of bank infrastructure in shambles. Simultaneously, USAID invests in regulatory and policy reform in Colombia, Afghanistan, Liberia, the Philippines, and elsewhere to create the enabling environments for lower-cost, technology-enabled delivery methods.

The Financial Sector Knowledge Sharing Project (FS Share), funded by the EGAT's Office of Economic Growth from 2008 to 2012, complemented the work being carried out under AMAP. FS Share identified financial sector best practices and aggregated those into field friendly products available online (http://egateg.usaidallnet.gov/fsshare). USAID contracted the FS Share project to Chemonics International, and Bill Baldridge led the project on the USAID side. Topics for FS Share-developed toolkits were based on USAID Mission demand. Toolkits, such as the "Agriculture Lending Toolbook" and the "Strengthening Agricultural Value Chain Toolkit," provided best practices information, diagnostic tools, and model scopes of work for use by USAID Missions and other donors and practitioners (Chemonics International, 2012).

Photo: Jean Louis Thomas writes a text message to a friend. Many people living on less than $2 per day already have access to a mobile phone. But very few people know about the new mobile technologies that are making it possible for poor people to save the money they earn. Port-au-Prince, Haiti. CREDIT: BILL & MELINDA GATES FOUNDATION

The MD office awarded FIELD-Support Leader with Associates to AED in 2005. With the dissolution of that firm, the award transferred to FHI 360 through a novation in 2011. FIELD-Support was designed to be an alternative to the Matching Grant Program and to provide a mechanism for USAID Missions and operating units to enter into cooperative agreements with some of the leading PVOs and NGOs in microenterprise and microfinance. Many of these organizations, including ACCION and FINCA, had been partners with USAID since the early years. During the 9 years of FIELD's operations, FHI360 and its consortium partners implemented over $400 million in programs. In addition to direct program implementation, FIELD-Support carried out pilot studies, strategic learning initiatives, and quantitative and qualitative analysis. Among its achievements are partnering with the Bill & Melinda Gates Foundation for the establishment of cell phone-based financial services in Haiti and establishing a commercially viable rural finance system in Afghanistan.

FIELD-Support LWA also provided support for the Poverty Assessment Tools (PATs), which were first rolled out in 2006. The underlying premise of the Microenterprise Initiative launched in 1994 was that poor households would be best served through financially viable (self-financing) microfinance providers, because it was always recognized that

2013 Once a USAID project, the Small Enterprise Education and Promotion Network now serves as a global network of over 124 organizations engaged in participatory research, applied learning, documentation, and training on microenterprise development and microfinance.

2014 Since inception, DCA loan guarantees have unlocked $839 million for lending to microenterprises, enabling 125,536 microentrepreneurs to obtain financing, with a default rate of only 2 percent.

TODAY The global private sector microfinance industry has 94 million active borrowers with a loan portfolio of $94 billion serviced by 1,160 formal microfinance institutions that employ thousands.

financing through private capital was more sustainable than financing through government or donor-subsidized credit programs. The renewal of the Initiative in 1997 included a number of quantitative targets, including:

- At least half of all the USAID funds provided to microfinance institutions will be used to support poverty lending.
- At least two-thirds of the clients of the USAID-supported microfinance institutions will receive poverty loans.

For a number of years, loan size was used as a proxy for client poverty. During that time, reporting on loan size was used to monitor the degree to which USAID-supported MFIs were reaching the poor. However, amendments to the Microenterprise for Self-Reliance Act of 2000 and the Microenterprise Results and Accountability Act of 2004 prompted USAID to develop client Poverty Assessment Tools (PATs), which would more directly measure client poverty levels. In developing the tools, USAID focused first on the countries with the most microenterprise funding and availability of household data. By June 2007, USAID had developed and certified poverty assessment tools for 17 countries. The main work on the development of the PATs was carried out by the IRIS center at the University of Maryland. FIELD-Support Leader with Associates provided training support for users and also later hosted a user help desk.[15]

The FIELD-Support Leader ended September 30, 2014, after having successfully issued 27 Associate Awards with a total award ceiling of up to $482 million. Of the 27 awards, 13 remain open, with several remaining active through 2019. The funding ceiling for these open awards totals $274 million ($117 million obligated to date). These awards demonstrate USAID's ongoing efforts to support the very poor, while integrating the use of new technologies and private sector initiative. Of these awards, eight are multi-country, primarily focused on the financial inclusion of very vulnerable populations, including HIV/AIDS-affected households, orphans, and other vulnerable children. Increasing savings is a key theme running through many of the ongoing activities. One active award, La Idea, is a business plan competition in Latin America. La Idea will apply the successes and lessons learned from the Africa Diaspora Market Place, a business plan competition managed by FIELD-Support with funding from USAID and Western Union, from 2009 2011. The remaining awards are in Haiti, Jordan, Iraq, Ukraine, Malawi, and Ethiopia. Workforce development and youth employment are key areas being supported under these awards, including in Iraq and the African Union through the global Workforce Connections Project. And mobile technology, a USAID priority, is being supported by the Mobile Solutions Technical Assistance and Research (mSTAR) activity, funded by USAID/Washington, and the Mobile Money Accelerator Program (MMAP), funded by USAID Malawi.

USAID's efforts to support microfinance can no longer be pinned down to a single initiative or project or office. Rather, microfinance is now part of the Agency's very fabric. As recently noted by Eric Postel, USAID/Washington,

> Today, microfinance has spread throughout the Agency, as a means to achieve broader goals—food security, value chain development, improved health and nutrition, investments in housing and education, as well as enterprise development. Microfinance has given way to the broader global agenda for financial inclusion. This is a significant paradigm shift that now concentrates on mobilizing private capital, engaging a wider set of institutions in providing financial services, and utilizing digital technologies to lower costs and reach wider and deeper into hard-to-reach markets at an unprecedented scale (Postel, 2014).

15 http://www.povertytools.org/

FIELD-Support leaves behind a legacy of projects and products that will help ensure the continued delivery of microfinance services, support for savings, and new models for reaching the very poor, as well as legacy products, such as mSTAR's "Digital Financial Services for Development Handbook," designed for use by USAID personnel to maximize the Agency's use of and contribution to the growth of digital financial services in emerging markets around the world (Grossman & Nelson). Also in high demand are several documents for supporting value chain development, including the following guides which collectively to date have been viewed over 5,000 times (3.363 unique hits):

- FIELD Report 11: Behavior Change Perspectives on Gender and Value Chain Development: Tools for Research and Assessment,
- FIELD Report 13: Value Chain Finance Guide: Tools For Designing Project Interventions that Facilitate Investment in Key Value Chain Upgrades, and
- Integrating Very Poor Producers into Value Chains: A Field Guide.

The breadth of USAID programs now builds on shifts in economic development, with renewed focus on agriculture and rural development, increased engagement with the private sector, and advances in technology that increase market and financial opportunities for poor households. The decreased emphasis on microfinance, relative to other microenterprise programs, reflects USAID's appreciation for the economic complexity of poor households and the need for a broad based approach in order to reduce poverty.

In 2014, the USAID Microenterprise and Private Enterprise Promotion office (MPEP) issued the Leveraging Economic Opportunities (LEO) contract.[16] LEO is a 3-year contract with ACDI/VOCA to support programming that fosters inclusive growth through markets. LEO continues to support the building blocks of value chain development. In so doing, LEO is using a market systems approach to support the complex interrelationships among and between market actors and also to address the more complex issues affecting value chains and value chain actors, such as climate change, nutrition, poverty and inclusion.

CONCLUSION

USAID's efforts to support microfinance began well before the term "microfinance" became a common term. Beginning with efforts to bring private capital to small firms in the 1960s, USAID has worked with a variety of partners, including national and local governments, for profit and non-profit firms, and universities to better understand both the supply and demand issues of finance and to address the constraints that hinder the free flow of capital to businesses and households. While this document has primarily focused directly on finance, through the years other factors that also affect financial access were simultaneously addressed, such as input and technology access, business acumen, and legal and regulatory issues.

The 1970s and 1980s were a period of learning and experimentation. The Small Enterprise and Assistance Project of the 1980s (and, later, the Microenterprise Innovation Project of the 1990s) provided a private sector approach for the support of very low-income households that had broad support. The Agency's thoughtful and

Photo: The majority of families and small businesses in Tanzania are kerosene-dependent, but the vast majority of adults own a cellular phone, and an ever-growing number use mobile money platforms for bill payment and money transfer. Angaza leverages these broad market trends to provide a low-cost, scalable implementation of pay-as-you-go (PAGO) pricing for solar power. Angaza customers take home a PAYGO-enabled solar device for a nominal upfront fee, then prepay for energy by using mobile money to send micropayments to Angaza on a flexible schedule. CREDIT: ANGAZA

16 The Office of Microenterprise and Private Enterprise Promotion (MPEP) was created in 2012 through a merger of the Office of Microenterprise Development and a portion of the Office of Economic Growth.

studied approach laid the groundwork for a heavy but sound emphasis on commercialization in the 1990s. The success of commercialization efforts that began in the 1990s was evidenced by a maturing sector and the transformation of multiple projects and programs into commercial finance providers. This transformation drew worldwide attention with the initial public offering of Compartamos in 2007, which began as an NGO in 1990 and was serving 60,000 borrowers just 10 years later (Rosenberg, 2007). Other successes to which USAID contributed were the transformation of K-REP bank (Kenya) and Bancosol (Bolivia).

From 1997 to 2013, USAID invested over $1.5 billion in the development of microfinance, including direct investment in microfinance providers and support for the development of new products and delivery channels; institutions such as rating firms, training providers, and industry networks; and government policies and regulations. The industry has continued to build links between poor households, microfinance providers, and private capital sources. In addition, new mobile technologies offer promising approaches for building a low-cost, universal conduit for financial flows.

With the microfinance sector on firm footing, USAID support shifted to other areas of microenterprise development, as reflected in Microenterprise Results Reporting (MRR) data.

Efforts today to integrate finance into other programming, such as value chain development, support to HIV/AIDS-affected households, and promotion of food security, reflect the Agency's focus on addressing remaining market failures and humanitarian needs. Today's microfinance industry has the capacity to advance on its own with very little donor support. However, the market is not yet financially inclusive, and microfinance clients continue to benefit from demand-side support, such as efforts to increase client protection and financial literacy.

The breadth of programs today builds on shifts in economic development, with renewed focus on agriculture and rural development, increased engagement with the private sector, and advances in technology that increase market and financial opportunities for poor households. The decreased emphasis on microfinance, relative to other microenterprise programs, also reflects USAID's appreciation for the economic complexity of poor households and the need for a broad based approach in order to reduce poverty.

Photo: A citrus vendor in Mozambique's Beira Corridor using simple mobile technology to access market information and improve market linkages. CREDIT: CNFA

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