

A N N U A L R E P O R T

on Microenterprise  
Development

2000

**Building Partnerships for  
Microenterprise Development**

Inter-American Development Bank  
Sustainable Development Department  
Micro, Small and Medium Enterprise Division

Washington, D.C.  
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**A**s the field of microenterprise development continues to undergo profound changes in Latin America and the Caribbean, the need for creative approaches is more apparent than ever. That is why, during 2000, the Inter-American Development Bank began to focus its attention on creating and strengthening partnerships to advance microenterprise development in the region. We know that it takes more than isolated projects to make a difference. In order to create a fruitful environment for microenterprise development, it is necessary to build partnerships among different types of institutions—local, national and international; for-profit and non-profit; and private and public. For the first time, in 2000, the Inter-American Forum on Microenterprise made such partnerships the center of discussion, and went beyond discussion by providing a space in which microenterprise practitioners, businesses and the public sector could expand their alliances and efforts on behalf of Latin America's microenterprises.

The IDB's philosophy and approach to microenterprise development are unique among development institutions. We start from a view of microenterprises as part of the continuum of businesses. Although very small businesses face obstacles peculiar to their size and the limited opportunities available to many of their owners, they are also an extremely diverse group that requires a wide range of services and an adequate policy and institutional infrastructure to ensure their prosperity and development. Our approach is based on creating the conditions necessary for that wide range of enterprises to prosper: financial conditions, institutional conditions, and policy and legal conditions.

After more than 22 years of support to microenterprise development, the IDB remains committed to overcoming some of the major remaining obstacles to the growth of the microenterprise sector by extending the reach of microfinance; improving the quality and sustainability of business development services; creating and strengthening strategic partnerships; and creating a favorable policy and regulatory environment.

Microfinance has become increasingly sophisticated, having grown from a market of credit providers to one offering savings products, insurance, and more. Yet demand for financial services for the microenterprise sector still far exceeds supply in Latin America and the Caribbean. The IDB will continue to promote the institutional development of microfinance institutions, with the goal of extending and deepening the reach of microfinance—to new client groups, new products, and new institutions.

In the area of business development services (BDS), the IDB has focused its efforts on expanding the range of nonfinancial services available to microentrepreneurs—not only management training and advice, but also technology transfer, marketing assistance, and other services. Recent experiences have pointed to the need to develop a market for BDS—building a dynamic BDS industry where many service providers sell relevant services to large numbers of enterprises. For services to be available to microenterprises on a sustainable basis, the challenges that remain are how to reach economies of scale, and how to take advantage of creative solutions such as partnerships through trade associations, clusters, or outsourcing. The IDB is looking toward building up the market for business development services in this regard.

The economic reforms that have taken place in the region over the last decade have opened up new opportunities for growth in the microenterprise sector and for the development of institutions to serve that sector. But many challenges remain for policy and regulatory reform to create equitable conditions for the region's smallest-scale economic activities, such as simplified tax regimes, licensing requirements, labor regulations, and contract enforcement. Reforms in property rights and registries, capital markets and supervision of financial institutions will also expand the range and depth of microenterprise access to financial services. The IDB will continue to promote favorable conditions through economic, legislative and regulatory reforms adapted to the context of each individual country.

In looking forward to the year 2001, the final year of our five-year *Microenterprise Development Strategy* (1997-2001), we in the IDB must critically assess our progress and plan our future contributions to microenterprise development in Latin America and the Caribbean. Our role as an investor in microenterprise support organizations will continue to evolve as we are increasingly called upon to help with policy and legal reforms, to transfer lessons from one country to another, and to serve as a bridge between private investors and practitioners. To carry out this role effectively, we will extend and strengthen the strategic partnerships we have built with the private sector, other donor organizations, our member governments, and civil society. We will also begin to explore and capitalize on natural synergies between successful experiences in microenterprise development and those in support of small and medium enterprises. Overall, the IDB will continue to widen and deepen its support to the microenterprise sector— which is central to the reduction of poverty and the growth of the economies of Latin America and the Caribbean.

**Marguerite Berger**



# 2000 HIGHLIGHTS

In 2000, the fourth year of the IDB's five-year Microenterprise Development Strategy (1997-2001), the Bank supported a range of efforts to help increase the incomes and productivity of urban and rural microentrepreneurs in 26 Latin American and Caribbean countries. In these efforts, IDB collaborated with different private and public sector organizations. The Bank employed a variety of instruments, such as loans, equity investments, and grant-based technical assistance. Some instruments strengthen capacity of local institutions serving microentrepreneurs. Others aim to deepen the financial resources available to the full range of the microenterprise continuum, from those owned by the poor to high growth start-ups. The common goal of all IDB support is to unleash the enormous potential of the hemisphere's 65 million microentrepreneurs.

## DEVELOPMENT IMPACT

Investments in microenterprise development have a widespread impact. They can:

**Reduce poverty by creating opportunities to generate income;**

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**Generate employment;**

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**Contribute to national income and economic growth;**

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**Improve income distribution;**

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**Develop the private sector; and**

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**Promote the entrepreneurial spirit.**

## PROJECT FINANCING

In 2000, the IDB invested US\$31 million in microenterprise development projects. These included:

**7 social entrepreneurship projects totaling US\$3.2 million, that help improve the livelihoods of low-income and marginalized groups throughout Latin America and the Caribbean (see p. 10).**

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**24 Multilateral Investment Fund (MIF) projects totaling US\$26.9 million, in support of microfinance and business development services in the region (see p. 12).**

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**7 research and best practice dissemination projects totaling US\$400,000 (see p. 21).**

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**In addition to this projects, the Bank financed a US\$300 million multisector credit program in Mexico that will benefit a broad range of businesses, including some microenterprises (see p. 16).**

In 2000, the IDB focused its efforts on a number of under-explored areas that hold enormous potential for expanding services to microentrepreneurs, including incentives for commercial bank downscaling, new financial products, and market solutions to business development services (see p. 9).

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# THE IDB MICROENTERPRISE DEVELOPMENT STRATEGY.....

The microenterprise sector employs more than half the region's labor force and accounts for between 10 and 50 percent of national output (see box 1). Microenterprises are also an important vehicle for low-income people to escape poverty through market-driven productive activities. For these reasons, the IDB has been a pioneer in the field of microenterprise development in Latin America and the Caribbean since 1978. The IDB continues to promote investments in and deepening of the sector to achieve two of the IDB's main development goals: reducing poverty, and developing the private sector in Latin America and the Caribbean.

The IDB has developed a five-year Microenterprise Development Strategy (1997-2001), known as MICRO 2001, with the objective of creating the conditions necessary for the growth and development of the microenterprise sector in Latin America and the Caribbean by promoting:

**Policy and regulatory reform to create an enabling environment for microenterprise development;**

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**The creation and strengthening of formal and non-formal institutions providing financial and business development services to meet the demand of microenterprises on a sustainable basis;**

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**Improved access to services for low-income and disadvantaged microentrepreneurs (including women and indigenous groups); and**

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**Expanded and permanent flows of resources for investment in microenterprise development.**

The Microenterprise Unit—now the Micro, Small and Medium Enterprise Division—in the IDB's Sustainable Development Department is responsible for leading the implementation of the Strategy, through the development of operations, policy research and the dissemination of best practices.

## WHAT IS A MICROENTERPRISE?

Microenterprises, the smallest type of entrepreneurial enterprise, come in all shapes and forms, from subsistence businesses to firms that use relatively sophisticated production methods, display rapid growth, and are directly linked to larger firms in the formal economy. They include street vendors, bike repair shops, metal shops, bakeries, tailors, small agricultural producers, and more. Typically, microenterprises in Latin America and the Caribbean:

**Are run by an owner-operator, 30 to 60 percent of whom are women;**

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**Have ten or fewer employees;**

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**Rely heavily on family labor;**

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**Tend to mix household and business finances;**

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**Have fixed assets of US\$20,000 or less;**

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**Have limited access to the formal financial sector and to business support services; and**

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**Have little management and technical training.**

**BOX 1. *Microenterprises:  
A Powerful Source of Employment***

Some 65 million microenterprises (businesses with up to 10 employees) employ 110 million people in the region—providing more than half of total employment within Latin America and the Caribbean. By contrast, the rest of the private sector provides 36 percent of total employment, and the public sector provides 13 percent. In the poorest countries of Latin America, microenterprises comprise up to 80 percent of the workforce.

Sources: International Work Organization (OIT), Cerlalc.

***IDB ACTIVITIES IN THE YEAR 2000 TO PROMOTE  
MICROENTERPRISE DEVELOPMENT***.....

**T**he IDB is the leading international institution supporting microenterprise development in Latin America and the Caribbean. Over the past 22 years, it has financed hundreds of organizations working with microenterprises throughout the region and invested over US\$800 million in the sector. These investments are summarized in Table 1.

In 2000, the IDB approved US\$31 million in microenterprise development programs, using three major financial instruments: the Social Entrepreneurship Program, the Multilateral Investment Fund, and loans for micro and small enterprise development (see Annexes 1 and 2). Specifically, IDB projects and activities approved in 2000 included:

**7 social entrepreneurship projects totaling US\$3.2 million, that help improve the livelihoods of low-income and marginalized groups throughout Latin America and the Caribbean (see p. 10 and Annex 3).**

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**24 Multilateral Investment Fund (MIF) projects totaling US\$26.9 million, in support of micro-finance and business development services in the region (see p. 34 and Annex 4).**

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**7 research and best practice dissemination projects, totaling US\$400,000 (see p. 21 and Annex 5).**

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**In addition to these projects, the Bank financed a US\$300 million multisector credit program in Mexico that will benefit a broad range of businesses, including some microenterprises (see p. 16).**

IDB projects and activities in the year 2000 have supported the Microenterprise Development Strategy in the development of financial and business development services, the promotion of favorable regulatory environments, and research on and the dissemination of best practices to practitioners, donors and private investors.

**TABLE 1.** *IDB Microenterprise Projects Approved, 1978-2000* (US\$million)

Financial Instrument	1978-96	MICRO 2001	
		1997-99	2000
Social Entrepreneurship Projects	\$ 232.6	\$ 33.2	\$ 3.2
Global Loans	\$ 242.8	\$ 187.2	—
MIF	\$ 70.6	\$ 66.8	\$ 26.9
Other*	\$ 3.8	\$ 7.4	\$ 0.4
<b>Total</b>	<b>\$ 549.8</b>	<b>\$ 294.6</b>	<b>\$ 30.5</b>

\*Publications, conferences, and training

## **BOX 2.** *Innovations in Microenterprise Development*

The IDB is currently focusing on a number of under-explored areas that hold enormous potential for expanding services to microentrepreneurs.

**Commercial bank downscaling.** The IDB is offering incentives to commercial banks to expand their services to microentrepreneurs. For example, global microenterprise loans offer banks attractive financing and technical assistance in adopting microcredit technology. In this way, the IDB is encouraging these financial institutions to find out for themselves that microentrepreneurs can be profitable clients with manageable risk profiles—provided the loan portfolio is administered in an efficient way and takes the special needs of microentrepreneurs into account. This trend holds the potential to integrate microfinance more fully into the traditional financial sector in Latin America.

**New financial products.** Microfinance goes far beyond microcredit to include an entire range of financial services. These traditional financial services have been unavailable to poor clients until recently. They range from savings accounts—a vital service for low-income clients seeking to smooth out their spending over a business cycle—to housing loans and insurance products. Additionally, financial institutions are offering products geared toward small enterprises. This includes leasing of equipment, which allows a small business to acquire productivity-enhancing machines, and factoring, which allows a business to procure a loan backed by the promise of its future revenues. The IDB will continue to support the development of these new products and services.

**Market solutions to business development services.** The IDB is looking toward business development services (BDS) as one of the principal areas of focus for the years to come. Among the new ideas for support to BDS are facilitating the development of a commercially viable market for nonfinancial services, and pursuing new focuses such as clusters (groups of enterprises in a particular sector that work collectively in certain mutually beneficial areas).

## THE SOCIAL ENTREPRENEURSHIP PROGRAM (SEP)

The Social Entrepreneurship Program is a key instrument in the IDB's effort to unite social impact and economic returns. At the same time that non-profit groups are becoming more businesslike in an effort to generate revenues, expand their services, operate more efficiently, and better achieve their missions, businesses are launching socially conscious ventures, either on their own or through foundations and partnerships. The IDB is committed to helping this new type of social entrepreneurship succeed. In support of the IDB's development focus and anti-poverty mission, the SEP has a special niche: to support projects that provide poor people, indigenous groups, women, youth, and others left out of the development process with financial, business, social and community development services in an efficient, sound, and sustainable manner.

The SEP provides low-interest loans of up to US\$1 million—plus technical cooperation grants of up to US\$250,000—to develop and strengthen innovative institutions and support their activities in serving the needs of microentrepreneurs. The SEP uses scarce resources strategically, financing a limited number of demonstration projects that prove to be innovative and have potential to promote cross-country learning or to be replicated elsewhere in the region (see Box 3).

### **BOX 3.** *Supporting Social Entrepreneurship*

The Social Entrepreneurship Program promotes business ventures with social benefits. SEP helps community organizations promote microenterprise development in such traditional areas as financial services, as well as in innovative areas such as environmental management, as the following projects, approved in 2000, illustrate.

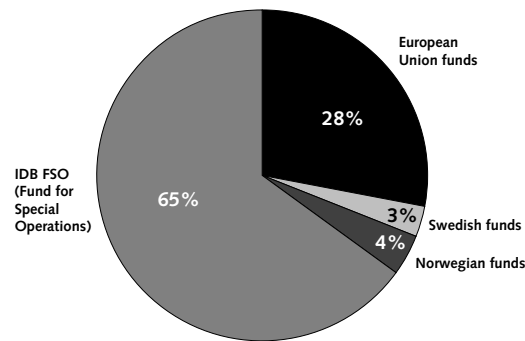
**Expanding and diversifying financial services in Mexico.** Low-income clients in the marginalized areas of Mexico City will benefit from more sophisticated credit and savings services, thanks to SEP assistance to the Center for the Support of Microentrepreneurs (CAME). IDB support of new product development and an expanded portfolio will help approximately 7,000 microentrepreneurs—85 percent of whom are women—improve their businesses.

**Renewable energy and rural microenterprises.** Seventeen micro hydroelectric power plants in isolated rural areas of Peru, serving some 8,000 to 10,000 people, will receive credit through SEP assistance. The project will also create employment and increase incomes in these communities by promoting 150 rural microenterprises that generate power from renewable energy sources.

The SEP is highly competitive. On average, some US\$10 million is available each year to fund projects in 26 Latin American and Caribbean countries. In 2000, because of resource constraints, the IDB approved seven social entrepreneurship projects with a total value of US\$3.2 million in loans and grants (see descriptions of projects in Annex 3).

The SEP resources are provided by the IDB's Fund for Special Operations, and by funds provided by the European Union, Sweden and Norway. The IDB's partnerships with these European donors have provided a means to leverage larger amounts of managerial, technical and financial resources for SEP projects. Figure 1 shows the sources of funding for the Social Entrepreneurship Program projects approved since 1997, during the implementation of the MICRO 2001 strategy.

**FIGURE 1.** *Social Entrepreneurship Program: Funding Sources for Projects Approved, 1997-2000*



## DONOR COLLABORATION

IDB partnerships with European donors have allowed for the development of a large portfolio of innovative projects, focusing on the economic and social strengthening of low-income groups, particularly women and social minorities. These innovations have led to considerable transfer of lessons and experience among countries across the region.

The IDB executes projects financed by the following trust funds:

Two special trust funds granted by the European Union to the IDB support microenterprise development in the region. The **European Economic Commission Special Fund for the Financing of Small Projects in Latin America** was established in 1991 and has financed over US\$9.8 million for 20 projects. The **European Union Special Fund for Financing Microenterprises in Latin America**, established in 1997, provides the equivalent of approximately US\$14 million for microenterprise projects. To date, the fund has financed US\$9.3 million for 21 social entrepreneurship projects.

DONOR  
COLLABORATION *continued*

The **Swedish Trust Fund for the Financing of Small Projects** has financed 16 projects and their parallel technical cooperation for a total of US\$7 million. In 1993, Sweden also established a Trust Fund to Finance Microenterprise in Bolivia, which has financed 8 projects for some US\$4.7 million.

The **Norwegian Fund for Small Projects** has financed more than US\$7.5 million for 17 projects. The Government of Norway also established a **Trust Fund for Microenterprise Development** to support the IDB in its implementation of the Microenterprise Strategy. To date, 13 operations for more than US\$1 million have been approved.

## THE MULTILATERAL INVESTMENT FUND (MIF)

MIF was created in 1993 to promote private sector development in Latin America and the Caribbean. As part of its mandate, MIF provides a broad range of support to intermediary institutions serving the microenterprise sector. This support takes the form of grants for technical assistance, direct loans, and equity or quasi-equity investments.

In 2000, MIF approved 24 microenterprise projects for a total of US\$26.9 million. US\$3 million was invested in strengthening the capacity of microfinance institutions through the Line of Activity program. The remaining US\$23.9 financed a wide range of support to institutions serving the microenterprise sector.

### **Innovative MIF Projects**

MIF finances innovative microenterprise development projects that demonstrate the potential to be sustainable and replicated by private investors. Some innovative projects approved in 2000 are highlighted below and in Annex 4.

**Promotion of youth start-ups and entrepreneurship in Peru.** MIF financed a pilot project that actively involves the private sector and commercial banks in Peru in promoting job creation and entrepreneurship among youth—a neglected group that is higher risk, but that also has high potential. The project targets groups of university students and/or recent graduates whose start-up business ideas have been selected from a national competition among all universities and other institutes of higher learning. MIF financing will help establish a private guarantee fund that will be used to guarantee loans from commercial banks to the winners. The leading private sector companies in Peru will also contribute to the fund. An NGO, PROBIDE, will develop a tool kit that will help the students prepare their business plans, and will also provide training and technical assistance to the student groups in preparing and presenting their business plans.

**The Innovation Initiative.** This project will support the design and implementation of innovative financial and business development services, products and processes for the microenterprise sector in Latin America and the Caribbean through a competitive grant process, beginning in 2001. The first round of projects to be funded must focus on one of four themes: rural finance, risk management in microfinance institutions, business development services for start-ups, and commercialization services for small and medium enterprises.

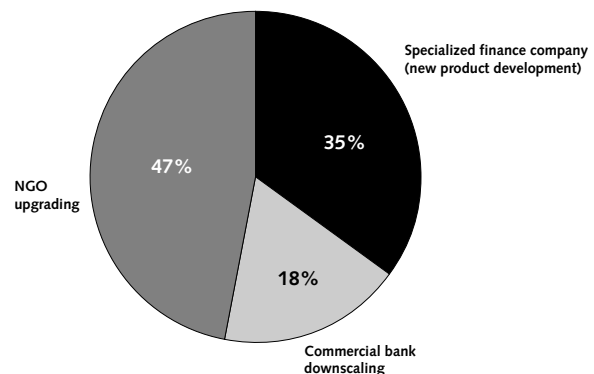
**Recovery fund for natural disasters.** When natural disasters strike, microenterprises and the microfinance institutions that serve them are particularly hard hit; they need emergency financing quickly and easily. This US\$10 million recovery program will establish a mechanism to guarantee the availability of such contingency resources and get both microenterprises and microfinance institutions back on the road to financial and operational self-sustainability.

### **Line of Activity for Strengthening Microfinance Institutions**

In 1998, MIF created a special program to strengthen the capacity of microfinance institutions to deliver sustainable financial products to the micro and small enterprise sector. During the first two years of operation, 24 projects were approved under the Line of Activity (see figure 2). The program has proven to be an agile funding instrument for extending the reach of microfinance. It provides technical assistance to nonprofit microfinance organizations that are seeking to formalize their activities, or to commercial financial institutions that want to create new financial services targeted to micro and small businesses. It also assists specialized finance companies that are entering new markets or developing new products. The range of projects approved in 2000 is illustrated below.

**FIGURE 2.** *MIF Line of Activity:*

*Type of Project by US\$ Amount Approved, 1998-2000*



*“The MIF Line of Activity has proven to be an agile funding mechanism to extend the reach of microfinance.”*

#### *Support to NGOs*

**Strengthening the Institute for Private Enterprise Development in Guyana.** Micro and small entrepreneurs in urban and rural areas of Guyana may benefit from better financial services, thanks to efforts to strengthen the institutional and technical capacity of Guyana's Institute for Private Enterprise Development (IPED). The Line of Activity will help IPED improve its efficiency and financial position, expand and deepen outreach to a larger number of microenterprise clients—particularly rural ones—consolidate its credit technology, and place itself on a path toward full financial self-sufficiency and long-term viability.

**Transformation of FINDE in Nicaragua.** MIF is supporting the Nicaraguan Development Institute Fund (FINDE) in its transformation process from a microcredit NGO to a regulated financial intermediary dedicated to offering financial services to micro and small enterprises that are excluded from the traditional banking sector. The eventual transformation of FINDE to a regulated entity will allow the financial intermediary to offer new products, such as savings deposits, and expand its operations further into rural areas, reaching new clients.

#### *Support to Regulated Financial Institutions*

**Extending the reach of two finance companies in Paraguay, INTERFISA and VISION.** The IDB's Global Microcredit Program in Paraguay successfully developed quality microfinance services in urban areas of the country. The five most successful participants in the Global Program competed for MIF support to extend microfinance services to rural areas. INTERFISA and VISION were chosen to receive Line of Activity projects, based on the quality, innovation, and reach of their proposals. MIF is supporting two strong institutions, with the idea of promoting competition within the rural setting.

**Supporting a commercial bank with a community focus in Guatemala.** Bancafe has initiated a program of village banking to provide financial services in rural areas. Village banks are established with minimal start-up capital and training, and then are managed by communities that save and lend their own resources. Bancafe's interest in microfinance is fueled in part by a desire to enter a new market niche and the opportunity to better utilize its widespread branch network. Microentrepreneurs that do not currently have access to financial services will benefit from the expansion and diversification of Bancafe's pilot program, through the Line of Activity support.



*GLOBAL LOANS FOR  
MICRO AND SMALL  
ENTERPRISE  
DEVELOPMENT*

Microenterprise global loans are one of the main tools that the IDB uses to improve financing for microenterprises on a national scale. Many of these global loans also target small enterprises. Through these programs, the IDB loans funds to second-tier financial institutions—often a country's central bank or development bank. This institution on-lends the funds to either commercial banks or retail microfinance institutions, which in turn lend to individual micro and small businesses. Financing is typically complemented by technical assistance to participating institutions, to assist in the adaptation of a lending technology appropriate for reaching these sectors. Global loans approved by the IDB since 1990 are summarized in Table 2.

**TABLE 2.** *Global Loans for Micro and Small Enterprise Development, 1990-2000 (US\$ millions)*

<b>Country</b>	<b>Year</b>	<b>IDB financing</b>	<b>Counterpart financing</b>	<b>Total</b>
Uruguay	1990	\$ 9.20	\$ 3.93	\$ 13.13
Colombia	1990	\$ 15.00	\$ 7.00	\$ 22.00
Ecuador	1990	\$ 19.50	\$ 2.20	\$ 21.70
Argentina	1990	\$ 49.00	\$ 16.00	\$ 65.00
Chile	1991	\$ 12.00	\$ 8.00	\$ 20.00
Costa Rica	1992	\$ 13.00	\$ 4.60	\$ 17.60
Guatemala	1992	\$ 13.00	\$ 2.80	\$ 15.80
Paraguay	1992	\$ 12.50	\$ 2.20	\$ 14.70
Colombia	1993	\$ 30.60	\$ 20.21	\$ 50.81
El Salvador	1993	\$ 24.00	\$ 6.00	\$ 30.00
Nicaragua	1993	\$ 23.60	\$ 5.90	\$ 29.50
Peru	1995	\$ 27.75	\$ 11.90	\$ 39.65
Paraguay	1997	\$ 22.20	\$ 2.80	\$ 25.00
Peru	1998	\$ 30.00	\$ 12.86	\$ 42.86
Bolivia	1998	\$ 35.00	\$ 8.75	\$ 43.75
Argentina	1998	\$ 100.00	\$ 100.00	\$ 200.00
<b>TOTAL</b>		<b>\$ 436.35</b>	<b>\$ 215.15</b>	<b>\$ 651.50</b>

Although no global loans for microenterprise were approved in 2000, the IDB continued the process of evaluating lessons learned from the global loans in the region, such as these programs approved in previous years:

**In Peru, the Global Microenterprise Credit Program found that a relatively small component of the program has had a disproportionate impact on achieving the project objectives. While over \$60 million was devoted to the credit component, a small fraction of this helped develop a strengthened credit bureau industry, allowing financial institutions to better assess financial risk.**

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**In Paraguay, an inexpensive and innovative program of vouchers for business development services was included in the Global Microenterprise Loan. The program has been replicated in other countries, due to its demonstrated ability to create a market for training services**

## *IDB PROJECTS RELATED TO MICROENTERPRISE*

**In** addition to its direct activities, the IDB supports other efforts that serve to strengthen the microenterprise sector indirectly. These include projects in the areas of financial sector reform, small and medium enterprise development, and community development (see Annex 4).

### **Financial Sector Reform**

Strong financial systems are important for overall economic development, including microenterprises. One essential means for alleviating poverty rests on the creation of solid and deep financial systems that can withstand shocks and that integrate the poor as a market segment. The IDB has a history of supporting financial sector reforms to promote new entrants to the market, enhance competition, and expand the provision of financial services to underserved segments of the population.

One such project was financed by the IDB and the MIF in 2000. It will provide resources to strengthen the legal, regulatory and institutional framework of the financial sector in Honduras, drafting regulations and training staff for the supervision of new financial sub-sectors, including financial NGOs.

**Multisector Credit Programs.** The IDB supports multisector credit programs to foster the creation and growth of formal sources of credit for firms of all sizes, especially micro, small and medium enterprises. Although microenterprises are beneficiaries of the programs, the majority of the funds reach small and medium enterprises.

In 2000, the IDB financed a US\$300 million multisector credit program in Mexico to expand the supply of formal credit services geared to micro, small and medium sized businesses (MSMEs), through the National Finance Agency (NAFIN). A technical assistance component will improve the capacity of financial intermediaries and of NAFIN to attend the MSME sector through new distribution channels and new

products. NAFIN will place particular attention on establishing partnerships with financial intermediaries to provide incentive for the expansion of resources to the sector in the long term.

### **Small and Medium Enterprise (SME) Development**

Small and medium enterprises in Latin America and the Caribbean play a crucial role in employment generation, income stability and growth in the national economies of the region. However, the challenge of globalization makes it ever more important for SMEs to access markets, financial and nonfinancial services, and advances in technology and to work within favorable regulatory environments. The IDB Group—consisting of the IDB itself, the MIF, and the Inter-American Investment Corporation (IIC)—has supported SMEs through a variety of activities, projects and financial instruments, as illustrated by the projects below, approved in 2000.

The IIC approved an equity investment of up to US\$8 million in the Multinational Industrial Fund (MUIF). This private investment fund was created to generate long-term capital gains through equity and quasi-equity investments in small and medium-size Mexican companies that undertake joint venture capital operations with foreign companies to generate exports. The fund is expected to make at least 15 investments during its ten-year life, create around 450 jobs, and generate US\$300 million annually for Mexico's GDP.

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The MIF made a US\$6 million equity investment in a regional Business to Business (B2B) incubator for small and medium sized enterprises. The project will support the development of new enterprises in the information technology sector. The beneficiary of the equity investment, Worldcap Internet Solutions, Ltd. (WCIS), an Internet B2B network, will in turn invest in information technology initiatives by small businesses in the region.

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The IDB and the MIF are also encouraging partnerships among the public and private sectors to promote SME development. In El Salvador, for example, the MIF is financing a project to promote the transfer of municipal services from municipalities to the private sector, particularly to be managed by small enterprises.

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The IDB and MIF have been contributing to poverty reduction through an array of projects designed to upgrade the skills of the labor force. Projects in this area aim to improve the managerial and competitive capabilities of urban and rural small entrepreneurs, increase labor productivity, and improve delivery systems for training and technical assistance. Notable projects in 2000 include a grant to enhance the international competitive positioning of small-scale exporters in Argentina, by assisting them with techniques for diversifying and consolidating their access to international markets; and increasing competitiveness of small agricultural enterprises in Bolivia, by providing training in business management combined with increased access to information and communication services in rural areas.

*“The IDB Group  
is working to  
create the  
conditions  
necessary to  
foster the  
growth and  
development of  
microenterprise.”*

## Community Development

The majority of microenterprises exist in the informal sector and provide a means of subsistence to poor and marginalized groups in Latin America and the Caribbean (see Box 4). Thus IDB projects that target community development and improvements in low-income areas also have a positive indirect impact on the microenterprise sector, as illustrated by the two examples below.

In 2000, the IDB approved a comprehensive pilot program for Honduras to fight urban poverty, targeting the most vulnerable among the poor in Tegucigalpa, particularly children. Along with financing nutrition programs for preschool children, especially those of working women, the project will provide vocational training for adolescents who have dropped out of school.

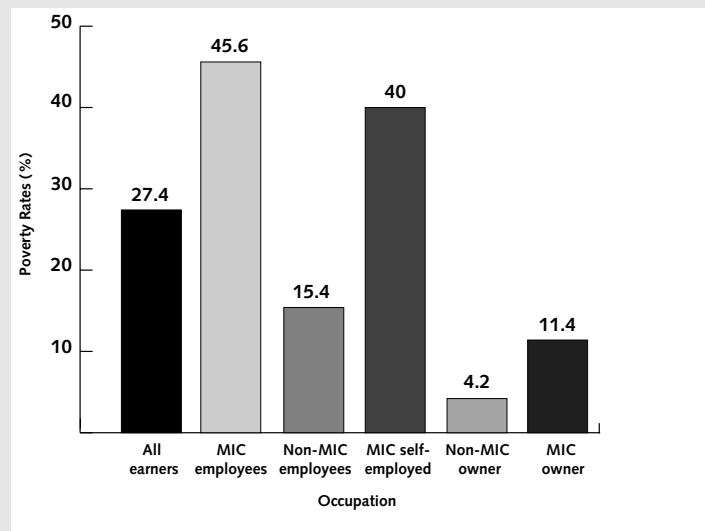
The IDB is supporting the upgrading low-income neighborhoods, or **favelas**, of Rio de Janeiro in Brazil. The operation will provide basic social services and infrastructure as well as provide titling of properties in **favelas** and unregistered subdivisions, in addition to job training and childcare services.

### **BOX 4.** *Are Microentrepreneurs Poor?*

The microenterprise sector accounts for about 70 percent of Latin America's poor earners. Poverty rates among employees of microenterprises are substantial: much higher than among employees of larger firms. There is also significant poverty among the self-employed (that is, owners of firms without any employees), compared with the employed population as a whole. Poverty rates are substantially higher for microenterprise workers and owners located in rural areas, typically by 10 to 15 percentage points. This is true across the board: for other employees and for owners of larger firms. Not all microentrepreneurs are poor, however. Owners of microenterprises with one to five employees have lower rates of poverty than the employed population as a whole, although they are still disadvantaged compared with owners of larger sized firms.

Source: Glenn Westley, "Microenterprises and Poverty," *Microenterprise Development Review*, Summer 2000.

### *Poverty Rates in the Microenterprise and Non-Microenterprise Sectors*



Note: MIC = micro. Data is an average of rates for the 1990s in 13 Latin American countries.

Source: Orlando and Pollack, *Microenterprises and Poverty: Evidence from Latin America*, IDB, 2000.

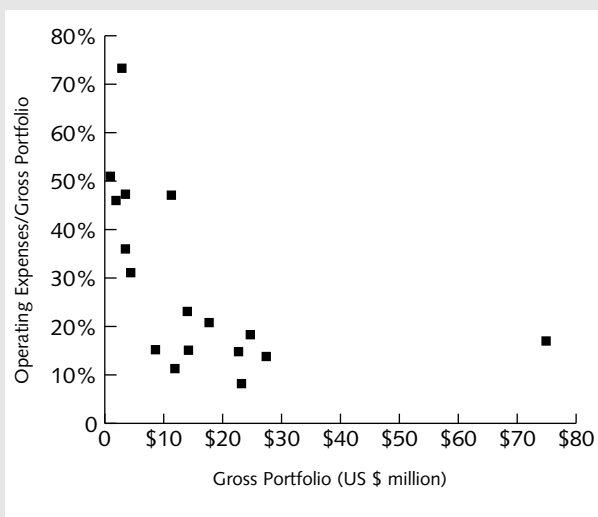
## OTHER MICROENTERPRISE DEVELOPMENT INITIATIVES .....

The IDB does more than provide funding and technical assistance to improve the performance and outreach of individual institutions that directly deliver financial and nonfinancial services to microenterprises. The IDB also makes investments to build knowledge, skills and capacity in the microenterprise field. In addition, the IDB convenes policy makers and promotes policy and regulatory reform to improve the environment in which microenterprises operate. The IDB does this by sharing experiences and knowledge with other international organizations and by promoting workshops and informative panel sessions on the microenterprise sector in annual microenterprise conferences. Through its many publications, the IDB also disseminates best practices about improving the environment for microenterprise development (see Annex 5).

### **BOX 5.** *How Does the Latin American Microfinance Industry Measure Up?*

To help answer this question, an IDB study assessed 17 microfinance institutions (MFIs) in Latin America on 19 benchmark indicators of profitability, capital, asset quality, liquidity, productivity, and growth. The results of the original research were revealing. The “top-performers” of the Latin American microfinance industry compare favorably with the region's conventional commercial banks in such areas as loan delinquency rates, and perform even better in such areas as return on assets and return on equity. A few of the best performing institutions compare well with the banking sector in the efficiency-related indicators. Overall, however, MFIs tend to have lower rates of productivity and efficiency than commercial banks, due to the small size of microenterprise loans and the high personnel costs associated with microfinance credit methodology. Among other things, the evidence demonstrates that efficiency seems to be correlated with average loan size up to a certain point: a small average loan size seems to drive up operating expenses as a percentage of the gross portfolio. This effect is particularly noticeable for amounts below US\$500. However, the US\$500 loan size is a kind of turning point, with no noticeable gains in efficiency above this level.

### *Cost of Lending by Loan Size*



Note: Data from a sample of 17 Latin American microfinance institutions. The graphs *do not* account for other factors that could affect the operating costs, such as country-specific required legal costs, or higher distribution costs for dispersed populations.

Source: Tor Jansson and Miguel Taborga, *The Latin American Microfinance Industry: How Does It Measure Up?* IDB, 2000.

*EXTENDING  
MICROFINANCE  
TO NEW PRODUCTS,  
CLIENT GROUPS,  
AND INSTITUTIONS*

The IDB continued to develop best practice books and other publications to promote the development of microfinance by influencing the design of new projects and encouraging investment in the region. Highlighting this role in the year 2000 were:

**Safe Money: Building Effective Credit Unions in Latin America** presents a modern strategy of reform and strengthening for the institutions that are the largest providers of microfinance in the region.

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**The Latin American Microfinance Industry: How Does It Measure Up?** provides a detailed comparison of the financial ratios and other performance characteristics of a cross-section of 17 leading microfinance institutions in Latin America (see Box 5 on previous page).

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A new rural finance strategy seeks to promote the provision of efficient, broadly based, and sustainable rural financial services. The strategy was aired at a conference, **Promising Practices in Rural Finance**, held in Washington. Several occasional papers were prepared for the conference.

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**Microenterprises and Poverty: Evidence from Latin America**, presents detailed results of a study evaluating the poverty level of Latin American microentrepreneurs.

During 2000, the IDB organized conferences and seminars to study in-depth various areas of extending microfinance services:

**Microfinance of Housing Workshop.** This conference/workshop exposed practitioners and donors to successful practices from microfinance organizations that are providing housing credits to low-income clients. These services can contribute to the strengthening of traditional housing programs, through the incorporation of market loans.

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**Savings Seminar.** This seminar, held in Bolivia, featured microfinance institutions that have developed savings products to expand the reach of traditional financial services to the lowest-income sectors of the region, and allowed them to share their experiences.

## POLICY AND REGULATORY REFORM

The creation of a favorable policy and regulatory environment for microenterprise development is essential to the growth and maturation of the sector. As governments and other stakeholders in microenterprise development recently have placed greater emphasis on this objective, the IDB has focused its efforts on facilitating advances, particularly in the reform of financial sector policies and regulations to expand microenterprise access to financial services, and improvement in business regulations to facilitate microenterprise development. IDB's approach is to promote and support economic, legislative and regulatory reform tailored to the context of each country.

During 2000, the IDB prepared strategies for microenterprise development in three countries: Chile, the Dominican Republic, and Ecuador. A consultative process with the private sector, government representatives, donor agencies, and microenterprise institutions and their clients was undertaken in order to help direct and coordinate IDB interventions and policy reform in those countries.

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In June 2000, the IDB and the MIF organized a seminar on microfinance regulation and supervision with the Banking Superintendencies of the region. At the Third Western Hemisphere Finance Ministers meeting of February 2000, the ministers welcomed the progress made and encouraged further efforts to expand access to credit and broaden economic opportunities to micro and small enterprises, citing in particular such activities as the Banking Superintendency seminar.

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The issues surrounding registering a business in Latin America were the focus of the Summer 2000 issue of *Microenterprise Development Review* (see Box 6).

### **BOX 6.** *Business Registration: The First Step Toward a Reformed Policy Environment*

The informal sector constitutes a significant segment of most Latin American economies and is made up of micro and small entrepreneurs who often perceive that the costs of entering and operating in the formal economy outweigh the benefits. In Costa Rica, for example, to register a business, the entrepreneur generally must spend at least two to four months and pay at least \$100 to register with a minimum of six different government agencies. In Panama the process takes three to five months and costs the entrepreneur \$1,000 to \$2,800. Business start-up registration is the first point of contact between the business owner and the government, and it will set the tone for their future interaction. Accordingly, governments in the region recognize the need to streamline business start-up registration as an important step toward a more favorable environment for private enterprises, particularly for small and microenterprises.

Source: Tor Jansson, *Microenterprise Development Review*, Summer 2000.

## *BUILDING PARTNERSHIPS*

The IDB recognizes that only through the concerted of the private and public sectors, civil society, and other donors will sustainable advances be made in microenterprise development. Accordingly, creating and strengthening partnerships was the overarching theme of the IDB's activities in 2000 in support of microenterprise development.

The IDB hosted the Third Inter-American Forum on Microenterprise in Barcelona, Spain, with the central theme of partnerships (see Focus 2). Over 600 representatives of governments, donors, private sector organizations, civil society organizations, specialists and academics participated in workshops and information sharing. This exchange established a base for making connections between the private sector and microenterprise practitioners. Among the recommendations coming from the 2000 Forum were: create and expand networks of microenterprise organizations to engage in collective lobbying and exchange lessons learned; promote new services by microenterprise institutions, such as savings, credit cards, and mortgages; and improve the efficiency and self-sustainability of these institutions.

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The Winter 2000 issue of **Microenterprise Development Review** focused on the topic of attracting social capital to Latin America, primarily through the creation of partnerships with the private sector.

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The IDB continues to be actively involved in donor coordination, participating in information exchange and advisory groups, most notably the Microfinance Program for the Consultative Group for Assistance to the Poorest (CGAP), and the Donor's Committee on Small Enterprise Development.



## FOCUS 1.....

### THE INTER-AMERICAN AWARDS FOR MICROENTERPRISE DEVELOPMENT

In 2000, the IDB awarded the second annual Inter-American Awards for Microenterprise Development. The awards encourage further progress in microenterprise development through the recognition of extraordinary institutions and individuals in the field.

The IDB received nominations for more than 100 candidates who stand out for their excellent services, innovations and leadership in the development of microenterprises. Members of the IDB Board of Directors, management and staff served as judges, incorporating a diverse cross-section of nationalities and experience in the sector. The winners were recognized at the Third Inter-American Forum on Microenterprise in October 2000, hosted by the IDB and attended by over 600 members of the microenterprise community (see Focus 2).

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#### **Award for Excellence in Microfinance for Regulated Institutions**

**Caja Los Andes S.A.** in Bolivia. Caja los Andes is not only the most profitable microfinance institution in Bolivia, but it also managed to increase its client base despite a recession and subsequent crisis in the microfinance sector in Bolivia. Caja los Andes has expanded its outreach, increasing the number of rural clients, as well as the number of depositing clients, introducing new products, and maintaining a high quality portfolio.

[www.cajalosandes.com](http://www.cajalosandes.com)

#### **HONORABLE MENTION**

**Banefe-Banco Santander** in Chile.

[www.banefe.cl](http://www.banefe.cl)

**Caja Municipal de Ahorro y Crédito de Arequipa** in Perú.

[www.cmac-arequipa.com.pe](http://www.cmac-arequipa.com.pe)

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#### **Award for Excellence Microfinance for Non-Regulated Institutions (foundations and NGOs)**

**Fundación Mundo Mujer** in Popáyan, Columbia. In a region rife with guerrilla activity and suffering from an economic recession, this foundation has managed to maintain extraordinary efficiency and profitability levels. The Fundación Mundo Mujer de Popayán has been able not only to reach some of the lowest income entrepreneurs with microloans, but has also been able to recover its costs. Notable among its innovative products are credits that use jewelry as guarantees. The foundation plans to introduce new services such as factoring and smart cards.

[www.womensworldbanking.org/1000/Address/Columbia\\_FMMP.htm](http://www.womensworldbanking.org/1000/Address/Columbia_FMMP.htm)

#### **HONORABLE MENTION**

**Asociación Programa Compartamos** in México.

[compartamos@compartamos.com](mailto:compartamos@compartamos.com)

**Caja Municipal de Ahorro y Crédito de Arequipa** in Perú.

[www.cmac-arequipa.com.pe](http://www.cmac-arequipa.com.pe)

## FOCUS 1 (continued)

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### **Award for Excellence in Business Development Services**

**Fundasol** in Uruguay. This veteran NGO, besides operating in the microcredit and social entrepreneurship sector, stands out for its Regional Training Program for Microentrepreneurs. This not-for-profit association has adopted a business strategy that allows it to operate without depending on donations.

[www.internet.com.uy/fundasol](http://www.internet.com.uy/fundasol)

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### **Award for Excellence in Social Entrepreneurship**

**María del Pilar Ramírez Muñoz** from Bolivia. President of the Private Finance Fund (FFP) FIE S.A., Ramírez Muñoz has been a pioneer in the development of microcredit services in her country. At the same time, she has promoted policies and programs in support of women in Latin America. FIE has not only reached self-sufficiency, but operates in seven of the nine departments in the country. Among other innovative programs, FIE was the first Bolivian microfinance institution to offer housing and construction loans to its clients.

[fffie@ceibo.entelnet.bo](mailto:fffie@ceibo.entelnet.bo)

#### **HONORABLE MENTION**

**Raúl Díez Canseco** from Perú. President of the Asociación Pro Bienestar y Desarrollo (PROBIDE).

[www.creerparacrear.org.pe](http://www.creerparacrear.org.pe)

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### **Award for Excellence in Microenterprise Development** (a one-time award for 2000)

**Centro ACCION Microempresarial** in Colombia. This foundation, besides its success as a second-tier microfinance institution, has developed an innovative education model for entrepreneurs known as “management dialogue.” By using a method based on the characteristics specific to microenterprises, the model seeks to improve the competitiveness of its clients and develop their management abilities. The foundation has worked with this model with almost 40,000 clients in 11 countries.

[www.dialogogestiones.com](http://www.dialogogestiones.com)

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### **STRATEGIC PARTNERSHIPS: THE THIRD INTER-AMERICAN FORUM ON MICROENTERPRISE DEVELOPMENT**

**L**atin American and European links to micro and small businesses were featured at the Third Inter-American Forum on Microenterprise in Barcelona, Spain in October 2000. Such businesses create well over one-third of all jobs in Spain, Latin America and the Caribbean. The location of the meeting in Spain emphasized the strength and diversity of alliances and cooperation between European and Latin American organizations that promote microfinance and microentrepreneurship.

At the forum, co-sponsored by the Spanish Agency for International Cooperation (AECI), the Microenterprise Unit of the Inter-American Development Bank, and the Spanish NGO the Foundation for Sustainable Development (FUNDESO), some 120 speakers from 20 organizations shared their experiences. The discussions highlighted the vital importance of generating several types of alliances: with the private sector, to attract private investment to microfinance institutions; with governments, for the design of favorable policies and regulations to help develop the sector; with non-governmental organizations, to help them to improve management and continue providing high quality services at the local level; and with international institutions, to help diffuse information, innovations, and best practices.

Participants examined the advantages of partnerships for business development from many perspectives. For example, taking a stake in microfinance is an investment option that is profitable and socially responsible. Participants also examined how to make the chains of production, services and marketing more dynamic and provide greater liquidity to the sales of large and medium companies that distribute through smaller enterprises.

Among the notable institutions that are using partnerships with business to reach the lowest income entrepreneurs are the Prince of Wales Business Leaders Forum, the Youth Business International in Trinidad and Tobago, the Accion International and Women's World Banking networks, the Impulsar Foundation in Argentina, Triodos Bank in Holland, and Profund International in Costa Rica—all participants in the Forum.

**IDB partners in sponsoring the event included: the Consorció de Promoció Comercial de Catalunya (COPCA); Price Waterhouse & Coopers; the Barcelona Chamber of Commerce, Industry and Business; the Instituto Español de Comercio Exterior (ICEX); the World Savings Banks Institute (WSBI); Pro-Desarrollo; Fondo de Capital Social, S.A. (FONCAP); Fundació Internacional de la Dona Emprenedora (FIDEM); the Ajuntament de Barcelona; Grupo Negocios; the Generalitat de Catalunya, the Compañía Española de Financiación del Desarrollo (COFIDES); el Instituto de Crédito Oficial (ICO); the Governments of Belgium, Luxembourg, Norway, and Sweden; and the Forum Internacional de las Culturas-Barcelona 2004.**

## A LOOK AHEAD: 2001 AND BEYOND .....

**I**n 2001, the final year of the IDB's MICRO 2001 initiative, the IDB will continue to focus on overcoming the persistent obstacles to growth of the microenterprise sector, while taking advantage of favorable trends in the sector. The IDB will also critically assess its progress in implementing its five-year strategy, with a view toward extracting lessons learned to apply to future activities and to share with other stakeholders in the sector. The Bank will support innovative efforts to improve the range and depth of financial and nonfinancial services for microenterprises and will support institutional strengthening and policy dialogue, focusing on the themes of creating strategic partnerships and promoting a favorable policy and regulatory environment for microenterprise development.

### *INNOVATIONS IN MICROFINANCE PRODUCTS, DELIVERY SYSTEMS, AND INSTITUTIONAL STRUCTURES*

In 2001, the IDB will continue to promote the institutional development of microfinance institutions and help them to extend their reach, by developing new products, serving new client groups, and even creating new institutions. As a special focus, the IDB will continue to review and study what can be done to help stimulate and vitalize rural finance to provide rural clients with financial services in an efficient, profitable, and sustainable manner. The Innovation Initiative, a MIF project, (see p. 13) will finance those services, products, and processes advancing the development of rural finance or risk management in microfinance institutions.

### *ALLOWING NEW AND MORE DIVERSE INSTITUTIONAL ACTORS INTO THE SECTOR*

Borrowing country governments and private organizations serving microenterprises have put greater emphasis on regulatory reform. To cite one example, El Salvador recently passed a law for the eventual regulation of non-banking financial intermediaries; this will enable NGOs and other non-regulated microcredit entities to begin capturing deposits, thereby serving the needs of more microentrepreneurs. However, much remains to be done. The IDB will continue its work with the Banking Superintendencies to publish an inventory of microfinance regulation and supervision best practices, and will continue to support innovative projects, research studies and conferences to promote more favorable regulation.

### *NEW ADVANCES IN BUSINESS SERVICES AND BUSINESS DEVELOPMENT SERVICES*

In 2001, the IDB will continue to work to improve the quality and sustainability of business services for microenterprises, through individual service providers. To increase the impact of these interventions, the IDB will at the same time promote business development services: the development of an efficient marketplace of business services so that microentrepreneurs throughout the region can have access to the tools they require to improve their livelihoods. This will require further research into the role of and support to the public sector in facilitating the development of the micro and small enterprise business service marketplace.

### *SOCIAL ENTREPRENEURSHIP AND PRIVATE SECTOR PARTNERSHIPS*

Building on the experiences from the region and in other parts of the world, as discussed during the 2000 Third Inter-American Forum on Microenterprise, the IDB will continue in 2001 to explore new directions for microenterprise development involving partnerships, especially with the private sector. To further develop knowledge transfer and the creation of partnerships, the IDB will take advantage of synergies between the activities in support of microenterprise development with those supporting small and medium enterprises, where appropriate. The IDB will also promote the participation of the private sector through research and dissemination of best practices in social entrepreneurship, and by teaming up with private sector partners in support of microenterprise development.

# Annex 1

## IDB MICROENTERPRISE PROJECTS APPROVED IN 2000

### Social Entrepreneurship Program Projects

Project Number	Country	Date of Approval	Project Name	Amount (US\$)		
				Loan	TC	Total
SP/TC9903010	Peru	24-Mar-00	Renewable Energy and Rural Microenterprises	\$ 300,000	\$ 200,000	\$ 500,000
SP/TC9902048	Bolivia	16-May-00	Assistance to the Bean Producers Association	\$ 400,000	\$ 111,000	\$ 511,000
SP/TC9811680	Peru	13-Sep-00	Fishing Microenterprises of the Lake Titicaca	\$ —	\$ 246,000	\$ 246,000
SP/TC9911184	Mexico	27-Oct-00	Expansion and Diversification of Microcredit and Savings	\$ 400,000	\$ 180,000	\$ 580,000
SP/TC9911187	Uruguay	17-Nov-00	Bee Production for Women and Young Dairy Producers	\$ 475,000	\$ 125,000	\$ 600,000
SP/TC9606073	Costa Rica	22-Nov-00	Agricultural Diversification for Microproducers in Coto Brus	\$ 175,000	\$ 135,000	\$ 310,000
SP/TC0003013	Costa Rica	29-Dec-00	Agricultural Diversification for Microproducers in Leon Cortes	\$ 300,000	\$ 160,000	\$ 460,000
<b>Total</b>				<b>\$ 2,050,000</b>	<b>\$ 1,157,000</b>	<b>\$ 3,207,000</b>

# Annex 1 (continued)

## IDB MICROENTERPRISE PROJECTS APPROVED IN 2000

### Multilateral Investment Fund (MIF) Projects

Project Number	Country	Date of Approval	Project Name	Amount (US\$)
TC0003004	Regional	30-May-00	Innovations in Microenterprise Services	\$ 5,000,000
TC9908002	El Salvador	26-Apr-00	Support for Micro and Small Business Development Services	\$ 850,000
TC9904019	Chile	31-May-00	Leasing for Microenterprises - INDES	\$ 570,000
TC9804271	El Salvador	31-May-00	Pilot Training Program for Microenterprises - Vouchers	\$ 870,000
TC9904001	Colombia	14-Jun-00	Commercialization in the Atlantic Coast	\$ 850,000
TC0003003	Colombia	15-Jun-00	Affiliates to Women's World Banking	\$ 500,000
TC0005046	Regional	12-Jul-00	Recovery from Natural Disasters	\$ 10,000,000
TC9911183	Peru	20-Sep-00	Promotion of Entrepreneurship Among Youth - CREER	\$ 815,000
TC9810369	Guatemala	13-Dec-00	Tourism Microenterprises	\$ 520,000
TC9911104	Colombia	1-Nov-00	Agrobusiness "Uva Isabella" Project	\$ 1,111,947
TC0007041	Ecuador	22-Dec-00	E-Commerce Pilot Program for Handicrafts	\$ 409,920
TC9912014	Honduras	25-Oct-00	Competitiveness Program for the Textile Sector	\$ 1,100,000
TC9710147	Mexico	9-Feb-00	Professionalism of NGO's as Service Providers	\$ 2,000,000
<b>Total</b>				<b>\$ 24,596,867</b>

### Multilateral Investment Fund (MIF) Line of Activity Projects

The US\$10million Line of Activity for strengthening microenterprise financing institutions was created in response to a growing need for funds to support financial institutions attempting to serve microenterprise in a more commercially sustainable way. This Line of Activity aims to strengthen the operating and management capabilities of microfinance institutions (MFIs) that have committed themselves to operate in accordance with standards of financial and institutional efficiency and sustainability. These include both regulated and nonregulated MFIs, and entities with plans to become regulated institutions. Funds from the Line of Activity are also used to support commercial banks in the process of downscaling their operations to provide credit to microenterprises.

Project Number	Country	Date of Approval	Project Name	Type of Institution	Amount (US\$)
TC9902020	Peru	17-Mar-00	Inst. Strengthening PROEMPRESA - Development Institute for Small and Microenterprise	Regulated financial co.	\$ 290,000
TC9912023	Dominican Republic	25-Apr-00	Inst. Strengthening ADOPEM - Dominican Association for Women	NGO transformation	\$ 300,000
TC9912024	Dominican Republic	25-Apr-00	Inst. Strengthening FONDESA - Fund for Development, Inc.	NGO transformation	\$ 300,000
TC9904020	Honduras	25-Apr-00	Inst. Strengthening BANCOMER	Commercial	\$ 270,000
TC9909009	Mexico	16-May-00	Inst. Strengthening COMPARTAMOS	NGO transformation	\$ 120,000
TC9904022	Honduras	30-Aug-00	Inst. Strengthening BANHCAFE	Commercial	\$ 273,000
TC0005024	Paraguay	6-Sep-00	Inst. Strengthening INTERFISA - International Financial Group S.A.	Regulated financial co.	\$ 300,000
TC0003006	Panama	20-Sep-00	Inst. Strengthening CREDIFUNDES - Fundes Credit Corporation	Regulated financial co.	\$ 242,000
TC0006011	Paraguay	12-Oct-00	Inst. Strengthening VISION - VISION S.A.	Regulated financial co.	\$ 250,000
TC0005020	Guatemala	19-Oct-00	Inst. Strengthening BANCAFE	Commercial	\$ 254,000
TC0005047	Guyana	20-Oct-00	Inst. Strengthening IPED - Institute for Private Enterprise Development	NGO strengthening	\$ 142,000
TC0003010	Nicaragua	20-Oct-00	Inst. Strengthening FINDE - Nicaraguan Development Institute Fund	NGO transformation	\$ 250,000
<b>Total</b>					<b>\$ 2,991,000</b>

# Annex 1 (continued)

## IDB MICROENTERPRISE PROJECTS APPROVED IN 2000

### Stand-Alone Technical Cooperation Projects

Project Number	Country	Date of Approval	Project Name	Amount (US\$)
TC9910047	Regional	18-Feb-00	Savings Mobilization Workshop	\$ 30,000
TC9911062	Belize	17-Mar-00	Evaluation of Microcredit Institutions	\$ 30,000
TC0006037	Bolivia	30-Jun-00	Strengthening Business Development Services	\$ 80,000
TC0002061	Regional	17-Jul-00	Strategic Alliances for Microenterprise Development	\$ 150,000
TC0008027	Regional	25-Aug-00	Tools for Improving Women's Businesses	\$ 11,000
TC0008031	Honduras	15-Sep-00	Strategic Alliances for Microenterprises	\$ 10,000
TC0010004	Regional	28-Nov-00	Best Practices in Social Entrepreneurship	\$ 110,000
<b>Total</b>				<b>\$ 421,000</b>



# Annex 2

## IDB MICROENTERPRISE-RELATED PROJECTS APPROVED IN 2000

Project Number	Country	Date of Approval	Type of Project	Project Name	Amount
TC9910075	Argentina	4-Oct-00	MIF	Export Market Diversification	\$ 1,700,000
BL0012	Belize	14-Jun-00	Loan	Tourism Development	\$ 14,000,000
TC9902062	Belize	9-Aug-00	MIF	Training Ecotourism Program	\$ 700,000
BR0250	Brazil	15-Mar-00	Loan	Urban Improvement Rio de Janeiro II	\$ 300,000,000
BR0274	Brazil	7-Jun-00	Loan	Self Sufficiency Agrarian Reform Settlement	\$ 51,000,000
TC9905047	Colombia	25-Oct-00	MIF	Streamline Adm. Process Private Sector	\$ 1,900,000
CR0134	Costa Rica	29-Nov-00	Loan	Cadaster and Registry Regularization	\$ 92,000,000
TC9901019	Dominican Republic	6-Dec-00	MIF	Support Program for Bank Supervision	\$ 1,300,000
EC0196	Ecuador	27-Nov-00	Loan	Rural Transportation Infrastructure	\$ 9,000,000
ES0134	El Salvador	13-Sep-00	Loan	Salvadorean Social Security Inst. Modernization	\$ 5,800,000
TC9809487	El Salvador	31-May-00	MIF	Small Entrep. & Municipality Pilot Project	\$ 627,000
TC9903041	El Salvador	1-Nov-00	MIF	Support Agroenterprise Competitiveness	\$ 850,000
HO0144	Honduras	20-Sep-00	Loan	Rural Economy Reactivation	\$ 30,000,000
TC9909024	Honduras	29-Nov-00	MIF	Strengthening of Financial Sector	\$ 1,456,872
HO0184	Honduras	2-Nov-00	Loan	Integral Program Urban Poverty Alleviation	\$ 9,000,000
JA0049	Jamaica	20-Sep-00	Loan	Financial Sector Reform	\$ 150,000,000
JA0111	Jamaica	29-Nov-00	Loan	Agricultural Support Services	\$ 31,500,000
ME0117	Mexico	21-Jun-00	Loan	Multisectoral Credit Program	\$ 300,000,000
ME0118	Mexico	12-Jul-00	Loan	Labor Markets Phase II	\$ 433,300,000
TC0009023	Nicaragua	4-Oct-00	MIF	Strengthening Private Health Care Providers	\$ 1,700,000
PR0084	Paraguay	5-Jul-00	Loan	Diversification of Agricultural Production	\$ 10,000,000
SU0020	Suriname	17-May-00	Loan	Community Development Fund	\$ 10,300,000
TC0001003	Trinidad & Tobago	31-May-00	MIF	Consolidated Supervision Financial Sector	\$ 1,186,000
VE0126	Venezuela	7-Dec-00	Loan	Rural Community Development Consolidation	\$ 20,000,000
TC9902054	Regional	4-Oct-00	MIF	Financial Sustainability of NGOs	\$ 900,000
<b>Total</b>					<b>\$ 1,478,219,872</b>

## SOCIAL ENTREPRENEURSHIP PROJECTS (SEP) APPROVED IN 2000

### BOLIVIA

#### **Assistance to the Bean Producers Association (US\$511,000 loan and grant from the EU Special Fund for Microenterprise)**

**OBJECTIVE:** Improving the profitability of bean production as an alternative crop and increasing exportable production and incomes for 500 small producers in the poorest rural areas of Chuquisaca, Santa Cruz and Cochabamba.

The project includes a commercialization fund for the association's working capital, as well as activities to strengthen the bean producers association, improve its business capabilities, and provide training activities to disseminate techniques for improved environmental management. The effort aims to boost productivity through the transfer of new production techniques, increasing the land cultivated and commercializing new varieties for the international market.

### COSTA RICA

#### **Agricultural Diversification for Microproducers in Leon Cortes (US\$460,000 loan and grant from the Fund for Special Operations)**

**OBJECTIVE:** Helping small producers in the areas in and around Leon Cortes increase their incomes through diversification of their agricultural production, access to credit, and improved commercialization services.

The project will work with two types of producers: small coffee producers as they incorporate the production of avocado as a complementary crop, and producers of wild blackberry as they systematize and professionalize their cultivation and processing techniques. Approximately 300 families will benefit from the credit and technical assistance services provided through the project.

#### **Agricultural Diversification of Microproducers in Coto Brus (US\$310,000 loan and grant from the EU Special Fund for Microenterprise)**

**OBJECTIVE:** Helping approximately 500 small producers diversify their agricultural production.

The economy of Coto Brus, one of the most remote areas of Costa Rica, is primarily dependent upon coffee cultivation, which makes the smallest producers in particular susceptible to price fluctuations, as well as seasonal employment and income streams. Producers in the region have begun to diversify their production with some success, cultivating various types of vegetables and tubers, but require access to financing and technical assistance to achieve substantial results. To promote diversification efforts, the project will provide credit, technical assistance and commercialization services.

### MEXICO

#### **Expansion and Diversification of Microcredit and Savings (US\$580,000 loan and grant from the EU Special Fund for Microenterprise)**

**OBJECTIVE:** Further develop the credit and savings services provided by the Center for the Support of Microentrepreneurs (CAME) to low-income clients in the marginalized areas of Mexico City.

CAME's clients are predominantly women (85 percent) and have monthly family incomes of less than US\$400 (97 percent). CAME is a microfinance institution with more than eight years of experience developing village banks, with more than 10,000 active clients. It will expand its services and develop new products through the project. In three years, the project is projected to benefit approximately 7,000 microentrepreneurs and their families.

## PERU

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### **Renewable Energy and Rural Microenterprises** (US\$500,000 loan and grant from the EU Special Fund for Microenterprise)

**OBJECTIVE:** Improve living conditions for isolated rural communities in Peru by increasing access to electricity, through the establishment of sustainable microenterprises that generate power from renewable energy sources.

The financing component will provide credit to approximately 17 new micro hydroelectric power plants in isolated rural areas of northern Cajamarca. These plants will provide electricity to 1,700 families, or between 8,000 and 10,000 persons, create employment, and increase incomes in these communities by promoting 150 rural microenterprises. The technical cooperation component will allow for expansion of the program to new areas, and encourage beneficiaries to strengthen and/or create these microenterprises in rural areas.

### **Fishing Microenterprises of Lake Titicaca** (US\$246,000 grant from the EU Special Fund for Microenterprise)

**OBJECTIVE:** Helping develop new microenterprises that fish and process trout from Lake Titicaca.

The beneficiaries are 182 families, or approximately 1,150 people, who have organized their 33 family microenterprises into the Trout Producers Association. Its members, 51 percent of whom are women, support rural indigenous families with scarce resources. They survive through fishing and subsistence farming on a limited scale. Two non-reimbursable components will help establish three pilot demonstration centers, as well as a commercial enterprise that will be responsible for developing new markets. The first component will provide funds for investment in productive equipment and infrastructure, and funds to establish initial working capital for commercialization. The second component will provide technical assistance and training in production techniques and help strengthen the association.

## URUGUAY

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### **Bee Production for Women and Young Dairy Producers** (US\$600,000 loan and grant from the EU Special Fund for Microenterprise)

**OBJECTIVE:** Supplementing family income from milk production by helping 150 low-income milk-producing families—mainly young and female members—become involved in bee-keeping.

The agricultural sector in Uruguay, particularly the dairy sector, has been suffering from a recession.

The smallest producers have been affected most severely and now require additional income sources to survive. Bee-keeping and its associated products have been a growing industry, with activities that complement dairy production in terms of inputs, time and other resources. The project includes a credit component to be managed by an experienced microcredit institution, commercialization services that will be provided through a successful cooperative, and training for final beneficiaries.

## SELECTED PROJECTS RELATED TO MICROENTERPRISE APPROVED IN 2000

The following project descriptions illustrate the variety and scope of microenterprise and related projects financed by the IDB in 2000.

### ARGENTINA

**Diversification of Export Markets for Small Enterprise**  
(US\$1.7 million grant from MIF)

The program will assist small-scale exporters with techniques for diversifying and consolidating their

access to international markets. Specifically, the program aims to: develop a export-market diversification methodology for small firms; improve and facilitate export-market diversification among small enterprises; and provide information and advisory services to assist SME decision-making.

### BELIZE

**Tourist Support Program**  
(US\$11 million loan from FSO and a US\$700,000 grant from the MIF, with US\$3 million cofinancing from Taipei's ICDF)

This financing will help develop and protect major Mayan archeological sites, improve access to key tourist areas, and protect the country's barrier reef by improving sewage treatment on Caye Caulker. The loan will also encourage community participation through microenterprise development.

### BRAZIL

**Tourist Support Program**  
**Consolidation and Self-Sufficiency of Agrarian Reform Settlements**  
(US\$51 million loan from the OC)

Squatter settlements in Brazil are eligible for a variety of services from the National Institute for Agrarian Colonization and Reform (INCRA).

Efforts to make these communities self-sufficient over the years have met with limited success. This pilot program aims to accelerate the process of graduating settlements from INCRA support. It focuses on settlements in seven states, and will finance community infrastructure such as roads, electricity, water supply, schools and productive facilities.

### CHILE

**Leasing for Microfinance**  
(US\$570,000 grant from MIF)

This program aims to increase the productivity of microentrepreneurs by enabling them to purchase

new or used capital goods. The effort supports the development of a model for microleasing (leasing for microentrepreneurs) that is technically, financially, and methodologically sustainable.

## COLOMBIA

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### **Streamlining of Administrative Procedures (US\$1.9 million grant from MIF)**

This project will help establish business service centers in six Colombian cities (Bogotá, Barranquilla, Bucaramanga, Cali, Cartagena and Medellín) that will expedite the process by which informal-sector enterprises are brought into the formal business sector. It will also improve entrepreneurs' access to information on the procedures that need to be followed. The project will promote a more efficient and transparent relationship between enterprises, the government, and private entities that deliver services related to registration and formalization.

### **Affiliates to Women's World Banking (US\$500,000 grant from MIF)**

This project seeks to improve the administrative and operational efficiency of the five affiliated entities belonging to the Colombian Association of Women's World Banking Affiliates (AWWB). The project will help implement new processes and procedures in handling and managing the affiliates' portfolios and administration systems. Specialized technical assistance will be hired to conduct market and easibility studies for new financial products that could enhance the operational efficiency of the Fundación Banco Mundial de la Mujer de Cali and the Fundación Mundo Mujer de Popayán.

### **Uva Isabella Agro-Business (US\$1.1 million grant from MIF)**

The project aims to consolidate the Isabella grape agribusiness production chain in the Cauca Valley, thereby contributing to the economic recovery of small producers in the region. The specific objectives are to: (i) promote entrepreneurial self-management among the region's grape growers and strengthen the grape growers' association, CorpoGinebra; (ii) improve marketing by adapting and applying technologies for production, post-harvest handling and quality assurance of the Isabella grape; and (iii) to synchronize cultivation of the Isabella grape with its processing and marketing.

### **Commercialization on the Atlantic Coast (US\$850,000 grant from MIF)**

This program seeks to strengthen the competitiveness of microenterprises in Colombia's Atlantic Coast region by providing specialized marketing services that will give them access to markets. The project will develop the Colombian society that permits the establishment of a specialized marketing company in the Atlantic Coast region (ECA) serving the microenterprise sector. The project will create the necessary foundation for the operation of the ECA along corporate lines, grounded in financial and institutional sustainability considerations. The project will also help microenterprises market their products to meet demand.

## DOMINICAN REPUBLIC

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### **Financial Sector Supervision (US\$1.3 million grant from MIF)**

Making the Dominican Republic's financial system sounder and more secure is the goal of this project, which focuses on enhancing the quality of financial intermediary regulation and oversight, with

particular emphasis on bank regulation and supervision. Specifically, it aims to: (i) adjust laws and regulations and inspection techniques to the needs and characteristics of the country's financial system; and (ii) make oversight more efficient by improving human resources management and bringing in modern information systems.

**SELECTED PROJECTS RELATED TO MICROENTERPRISE APPROVED IN 2000**

**ECUADOR**

**Rural Transportation Infrastructure**  
(US\$9 million loan from the OC with an IFF interest rate subsidy)

Road repairs and institutional reforms supported by this project will lay the foundation for a sustainable road management model that ensures continuous access for poor rural communities to markets, social services and productive opportunities. Some 415

kms of rural roads will be repaired, with much of the work to be carried out by communities themselves. Technical assistance and training will help design a decentralized cofinancing framework for road management, strengthen subnational capacity for road maintenance through microenterprises, and encourage community participation in all stages of the project cycle.

**EL SALVADOR**

**Restructuring of the Salvadoran Social Security Institute (ISSS)**  
(US\$5.8 million loan from the OC)

This loan will help the ISSS design, test and evaluate management instruments to develop new approaches to health insurance and to improve procedures for institutional reforms. To better incorporate the poor into the social security system, pilot projects will expand basic health coverage to informal sector groups, contract outpatient health services, and improve hospital management. The financing is the first under the Bank's new policy for flexible lending instruments for innovative operations.

**Small Enterprise and Municipality Support**  
(US\$627,000 grant from MIF)

The project will inform municipalities and enterprises about the opportunities to transfer municipal services to the private sector. Through training and technical assistance, the project will improve the capacity of municipal workers to identify services and contract for services of the small enterprises. The diffusion of the pilot experiences and lessons learned will facilitate the transfer.

**HONDURAS**

**Revitalization of the Rural Economy**  
(US\$30 million loan from the FSO)

This program will strengthen the rural economy and reduce poverty by improving the competitiveness of the agricultural sector. Resources will finance demand-driven investments in rural roads, telecommunications and electricity, as well as improvements in plant and animal health and food safety services. Investments will be made in rural business centers and in the initial processing of primary products.

**Strengthening Legal, Regulatory, and Financial Frameworks**  
(US\$1.46 million grant from MIF)

The program will broaden the financial sector reform process currently being implemented by the Honduran government, and incorporate applicable international banking and insurance standards. The program has two components: strengthening the regulatory and prudential framework of the financial system; and strengthening of the training system of the Honduran Association of Banking Institutions and the Honduran Chamber of Insurance Companies to improve the system's human resources.

## HONDURAS (continued)

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### **Competitiveness Program for the Apparel Sector** (US\$1.1 million grant from MIF)

This project will improve productivity of the apparel sector's labor force through the creation of an in-service training system for garment workers and middle management. The program is designed to

augment the comparative advantage enjoyed by Honduras' apparel industry by raising the productivity and improving the working conditions of the sector's workers. Through this project, employers in the sector will become aware of the advantages of investing in continuous training and occupational safety and health.

## MEXICO

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### **Multisector Global Credit Program** (US\$300 million loan from the OC)

Credit from the banking system to the private sector in Mexico fell by more than 20 percent over the past five years. Hard hit by the decline have been microenterprises and small and medium sized businesses (MSMEs), which account for some 70 percent of national employment. This operation will expand the supply of formal credit services geared to MSMEs. Credit will be channeled through eligible financial intermediaries using auction, rediscount and credit supplier programs. Technical assistance to lenders will focus on improving competitiveness, transferring technology, and developing new credit distribution channels.

### **Professionalization of NGOs as Providers of Services** (US\$2 million grant from MIF)

The project will expand and enhance the supply of services and training to NGOs through the development of new curricula and training of trainers and test a regional-based model for delivering and expanding training and technical assistance to NGOs. The project will also consolidate the model and plan for the development of a nationwide system.

## NICARAGUA

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### **Health Regulatory Reform** (US\$1.7 million grant from MIF)

This program will support and promote private-sector participation in the health care services market in Nicaragua by improving and broadening existing

regulations and creating a more stable and predictable investment climate conducive to government contracting. The project will have a direct impact on the development of medium-sized and small businesses through technical assistance and training.

## PARAGUAY

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### **Modernization and Diversification of Small-Scale Farming** (US\$10 million loan from the OC)

This financing will support new approaches to the production and marketing of fruits and vegetables by small farmers in order to increase their

competitiveness and incomes. Technical assistance will support changes in technology, production, processing, marketing and management in the agroindustrial chain, including creation of an integrated commercial marketing system. Grants will help farmers who invest in half shade and irrigation facilities.

## SELECTED PROJECTS RELATED TO MICROENTERPRISE APPROVED IN 2000

### PERU

#### **Promotion of Entrepreneurship Among Youth (US\$815,000 grant from MIF)**

This project boosts private investment in innovative business initiatives by the country's youth, age 18 to 25, by strengthening ties between young entrepreneurs, private enterprise, and civil society. The project supports two national competitions in three years that will offer guarantees for the financing of 120 start-ups; these will create jobs and income for 500 young people. An NGO, the Association for Welfare and Development (PROBIDE), will improve mechanisms for promoting,

analyzing, and selecting new youth business proposals. A Private Guarantee Fund will be created to finance the start-up enterprises. Counterpart funds for the Private Guarantee Fund come from PROBIDE, the guarantors, sponsors, and banks. Component two offers a financial guarantee mechanism for projects selected in future PROBIDE competitions, in order to increase the creation of small businesses, boost the number of credits to this sector, and obtain longer terms, significant grace periods, and lower interest rates than are traditionally given in the financial system.

### REGIONAL

#### **Financial Sustainability of Non-Governmental Organizations (US\$900,000 grant from MIF)**

The project aims to strengthen the institutional capacity of NGOs that provide training and labor market services to micro, small and medium enterprises so they may deliver services more efficiently and enhance their organizational sustainability.

The project will consist of three components: (i) Program design and selection of partners to facilitate the expansion and improvement of the supply of training services available to NGOs through the systematization of a regional training program; (ii) Training of trainers in the new curricula and methodologies to develop core staff in each partner institution to achieve a multiplier effect of the training programs; and (iii) Pilot training implementation and monitoring designed to test and consolidate a regional-based model for delivering and expanding training to NGOs.

#### **Innovation Initiative (US\$5,000,000 grant from MIF)**

This project will support the design and implementation of innovative financial and business development services, products and processes for the microenterprise sector in Latin America and the Caribbean through a competitive grant process. The themes to be considered during the various rounds of funding are: rural finance, risk management in microfinance institutions, business development services for start-ups, and commercialization services for small and medium enterprises.

#### **Recovery from National Disasters (US\$10 million grant from MIF)**

To contribute to the recovery of microenterprises in areas affected by natural disasters, this program aims to establish a mechanism to guarantee the availability of contingency resources that are easily accessible for use in emergencies. It will also support regulated and unregulated private microfinance institutions in the development of mitigation mechanisms to bolster their clients and their financial and operational self-sustainability in the face of natural disasters.



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