

IDB GROUP SUPPORT TO THE MICROENTERPRISE SECTOR (2000–2002)

ACHIEVEMENTS, LESSONS, AND CHALLENGES



MARCH 2003

The Inter-American Development Bank
Sustainable Development Department

MICRO, SMALL, AND MEDIUM ENTERPRISE DIVISION

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FOREWORD

The microenterprise sector in Latin America and the Caribbean, one of the most dynamic and diverse in the world, has progressed rapidly in the last several decades. Despite the economic crisis that has afflicted the region, the microenterprise sector has become a stabilizing force and has contributed greatly to overall employment, production, and national income.

With over 25 years of Inter-American Development Bank (IDB) support, the microenterprise sector in the region has matured and is now positioned at the forefront of a global movement that supports microenterprise. Dramatic progress based on lessons learned has resulted in significant shifts in technical paradigms. The IDB Group has monitored these changes and led the region in its support for microenterprise development, which has generated a wide range of financial institutions and suppliers of business development services (BDS). The Bank's operational instruments have been combined with and complement those of other international agencies and local institutions; together, they have supported the promotion and provision of diverse financial and business development services directed at the growing and maturing microenterprise sector.

Today, IDB Group investments are beginning to bear fruit. The private sector has joined forces to expand the flow of private resources to microenterprises, directing ever-greater investments to improve the businesses, households, and communities of millions of microentrepreneurs in Latin America and the Caribbean. Nowhere in the world has there been such active private sector participation or rapid progress in microenterprise development. Microenterprises in the region have thrived; market competition and penetration have also intensified, which has led to a new era for this key economic sector. At the start of the 21st century, the microenterprise sector has great potential to promote the business talent required for today's global economy.

This report presents the progress, achievements, and challenges in microenterprise development and summarizes the IDB Group's experience based on institutional lessons learned. Reviewing past lessons and looking toward the decade ahead, the IDB Group will make use of strategic resources to promote structural reform, adapt to the regulated economy, and improve access to the opportunities that an increasingly global economy offers. These new opportunities and the ability to meet the challenges ahead are essential to ensure that microenterprises mature and become profitable businesses and stable income sources for their owners and workers.



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THE IDB GROUP

The IDB Group consists of three institutions: the Inter-American Development Bank, the Multilateral Investment Fund (MIF), and the Inter-American Investment Corporation (IIC). Each of these institutions develops projects together with the governments of member countries, the private sector, and nongovernmental organizations (NGOs), with the aim of obtaining the financial and technical resources needed to promote microenterprise.

THE INTER-AMERICAN DEVELOPMENT BANK

Founded in 1959, the IDB is a multilateral development bank, whose mission is to accelerate economic and social development in the countries of Latin America and the Caribbean. In addition to making financing available to borrowing member nations, the Bank also provides technical assistance for preparing, financing, and implementing development plans and projects and makes private investments when private capital is not available on reasonable terms. To this end, the IDB uses its own capital as well as funds obtained in financial markets and from donor countries.

THE MULTILATERAL INVESTMENT FUND

Created in 1993, the MIF promotes private sector investments in Latin America and the Caribbean to foster broader private sector investment in the economy. The MIF provides grants for technical assistance as well as loans and equity for investments in intermediary institutions promoting small and microenterprise development. MIF operations include four basic areas of activity: 1) microenterprises, 2) small-business development, 3) market functioning, and 4) financial and capital markets.

THE INTER-AMERICAN INVESTMENT CORPORATION

Created in 1989, the IIC promotes private sector development through capital investments and long-term loans for projects that are not eligible for traditional financing. The IIC focuses its activities on small and medium-sized businesses. Although IIC projects do not target microenterprises, the Corporation's staff often offer their knowledge of capital investment issues to MIF staff working on microenterprise investment projects.

For more information, visit the IDB website at www.iadb.org

*“Microenterprise is a key component
of our region’s economy and society
as a whole.”*

Enrique V. Iglesias, President, IDB

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Microenterprise in Latin America and the Caribbean



INTRODUCTION

The IDB Group: More Than Two Decades of Microenterprise Support

The microenterprise sector in Latin America and the Caribbean has progressed rapidly in the last three decades and is now one of the most dynamic and diverse sectors in the world. Today, the region has a population of some 500 million, of whom approximately 200 million live below the poverty line. More than half of the region's poor earn their income in the microenterprise sector, which covers a wide range of enterprise models from subsistence businesses to formal companies with relatively sophisticated production methods. Many are independent

workers who run informal businesses. In fact, some statistics indicate that the microenterprise sector provides work to half of the labor force in most Latin American countries. The situation varies from country to country—from about one-third of the labor force in Argentina to nearly 80 percent in Peru. The region has more than 55 million microentrepreneurs, who employ more than 100 million people.

Several IDB studies have shown that micro and small enterprises play a much greater role in economic production than might at first appear to be the case.¹ For example, in Brazil, Mexico, Belize, and the Dominican Republic, microenterprises alone account for about 20 percent of gross domestic product (GDP), while micro and small businesses account for about 40 percent of GDP.

It is difficult to establish a definition of a microenterprise since it includes such a wide range of businesses with different development needs. Thanks to their adaptability, microenterprises have played a key role in the region's economy. The microenterprise sector has become a stabilizing force that has contributed significantly to overall employment, production, and national income. In addition, the sector has fostered the entrepreneurial talent and flexibility needed in today's global economy.

The IDB has supported business development for over two decades and has exercised leadership in the region, putting into practice innovative approaches aimed at the microenterprise sector through its MICRO 2001 strategy. The Bank has made joint efforts with member country governments, NGOs, and, most recently, with the private sector, which has taken a special interest in supporting microenterprises.

¹ Glenn Westley and Sherrill Shaffer, "Credit Union Policies and Performances in Latin America," *Journal of Banking and Finance* 13, no. 9 (1999).

What Is a Microenterprise?

Microenterprises generally share the following characteristics:

- Run by their owners,
- Depend on family labor,
- Employ fewer than 10 workers, and
- Have limited access to the formal financial sector and business assistance services.

Thanks to the IDB Group's participation, the microenterprise sector has evolved, and the region's support industry for microenterprises has grown. New players, such as banking institutions, have entered the market and helped to improve the living standards and reduce the vulnerability of the poor. In LAC, the microenterprise sector has grown significantly and matured over this long period, positioning itself at the forefront of a global movement to support microenterprise (see Table 1). The IDB Group supports microenterprise development to reduce poverty and promote private sector development in the region. The Bank has joined its member country governments, NGOs, and the private sector to obtain the financial and technical resources needed to develop the enormous potential of the microenterprise sector.

Table 1. Microenterprises in Latin America and the Caribbean

Country	Survey Date	Type of Microenterprise (No. of Employees)		
		Individual	1–5 Employees	Total No. of Microenterprises
Argentina	1998	1,807,615	103,555	1,911,170
Bolivia	1999	1,300,313	62,008	1,362,321
Brazil	1999	16,567,943	2,421,810	18,989,753
Chile	1998	1,069,139	138,045	1,207,184
Colombia	1999	5,726,653	775,152	6,501,805
Costa Rica	1998	232,328	78,891	311,219
Dominican Republic	1998	1,315,016	77,172	1,392,188
Ecuador	1998	1,396,139	298,524	1,694,663
El Salvador	1998	606,569	60,617	667,186
Guatemala	1998	1,328,476	93,238	1,421,714
Honduras	1999	832,941	58,239	891,180
Mexico	1998	8,503,552	1,770,393	10,273,945
Nicaragua	1998	377,148	40,422	417,570
Panama	1999	267,854	21,150	289,004
Paraguay	1998	313,113	668,213	987,326
Peru	1997	4,102,561	2,763,632	6,866,193
Uruguay	1998	314,891	27,018	341,909
Venezuela	1999	2,906,975	340,296	3,247,271
Total		48,975,225	9,798,375	58,773,600

Source: Glenn D. Westley. 2001. Can Financial Market Policies Reduce Income Inequality? Sustainable Development Department Technical Papers Series (No. MSM-112), Micro, Small and Medium Enterprise Division. Washington, D.C.: the Inter-American Development Bank. Household survey data were used. For this study, a microenterprise was defined as a business having five or fewer employees.

Innovative Approaches to Expand the Economic Opportunities of Microenterprises

Throughout several decades of support for the microenterprise sector, the IDB Group has concentrated its efforts in two major areas:

- **Financial Services.** With the aim of developing microenterprise-oriented financial products and services and facilitating the integration of microenterprises into the financial system, the IDB Group supports institutions that provide a wide range of financial products and services that extend beyond micro-credit—from passbook savings to loans for machinery as well as remittance transfers, microfinance products continue to evolve in response to client demands.
- **Business Development Services.** These include a broad range of services—in management, production, and marketing—to help microenterprises operate and grow. The IDB's approach facilitates the development of a viable BDS market; it is an important tool in furthering the progress of microenterprises and generating new knowledge and technologies to help microentrepreneurs increase business returns and build their capacity in an increasingly global and competitive market.

Experiences of large countries such as Brazil and smaller ones such as Bolivia have allowed the IDB Group to expand the financial and business development services it offers to the microenterprise sector, thereby increasing the breadth and depth of services offered throughout the region. These programs cover a range of operations from the streamlining of procedures to the greater availability of financial services. Directed at increasing economic opportunities, this approach makes it possible for microentrepreneurs to develop their own strategies that reduce risk and build fiscal, economic, and social capital. The IDB Group has helped advance microenterprise development by implementing programs at different levels that have transformed innovative ideas into economic opportunities. Such programs have rejuvenated the region's productive fabric, created new jobs, and increased the microenterprise sector's productivity by taking advantage of its growth and development potential.

A Learning Process

Microenterprises have gained great importance over the last two decades. During this time the perception of the sector has changed; it is no longer considered to be an un-

productive part of the economy, but instead is regarded as an economic engine that is endowed with great potential to create jobs and generate income. During the past 25 years, the IDB has monitored and assimilated this change and become a regional leader in support of microenterprise development. The institution has made notable advances in supplying products and services for the microenterprise sector and has led the efforts of bilateral and multilateral institutions to create various support instruments for microenterprises including loans, capital investments, and technical assistance. All these instruments have played a critical role in the development of the sector.

The IDB Group's instruments have supported local institutions, both public and private, to develop and provide financial and business development services and have served as a catalyst of the expansion of the microenterprise sector. Some instruments—such as the Social Entrepreneurship Program (SEP) and the MIF's Line of Activity to Strengthen Financial Institutions for Microenterprise—have created new mechanisms to strengthen local institutional capacity. In addition, the various global lending programs for microenterprises have increased the financial resources that are available to the sector through second-tier financial institutions. The IDB's objective has been to strategically combine its support instruments so that they are mutually reinforcing and take advantage of the potential of the hemisphere's 55 million microentrepreneurs.

To make the use of these instruments as effective as possible, IDB programs and those of other financial institutions have served as a hub for research on best practices and lessons learned in microenterprise development and have become an essential resource for professionals, donors, and governments. There has been dramatic progress in this sector based on lessons learned over the past 25 years; as a result, important shifts have occurred in technical models. Over time, short-term approaches have been replaced by new commercial approaches that emphasized institutional sustainability and financial viability. These approaches have adopted market-based solutions and have increased local capacity to serve microenterprises directly.

The 1980s: Achieving Sustainability

Early experiences—from the Banco Solidario S.A. (BANCOSOL) and Caja de los Andes in South America to Financiera Calpia in Central America—allowed the IDB Group to prove that financial services for microenterprises could be profitable without having to grant subsidies. Similarly, there has been a growing realization that business development services should address program sustainability. Examples such as the Fundación Carvajal in Colombia have shown that a market vision can serve microenterprises and contribute appropriate methods and technologies to the sector. Such experiences have influenced the IDB Group’s way of thinking about how it relates to microenterprises and have changed its emphasis from transferring financial resources and technology to strengthening intermediary institutions that can offer such services on a sustainable basis. Likewise, the Group’s microenterprise support strategies have evolved toward a broad integrated strategy that includes both financial and business development services.

Are Microentrepreneurs Poor?

According to a study conducted in 13 LAC countries, the poverty indices of microenterprise workers are higher than those for people employed in larger companies. Also, self-employed people have a significantly higher level of poverty than the labor force in general. Poverty indices are higher still among microentrepreneurs and their employees who live in rural areas. These results imply that efforts to reduce poverty should be focused on microenterprise employees and self-employed people, who represent 70 percent of the poorest.

Source: Glenn D. Westley. 2001. Can Financial Market Policies Reduce Income Inequality? Sustainable Development Department Technical Papers Series (No. MSM-112), Micro, Small and Medium Enterprise Division. Washington, D.C.: the Inter-American Development Bank.

Lessons Learned in the 1980s

- The business sector is heterogeneous; different types of enterprises require different types of support.
- The regulatory framework and policies that define operations in the business environment often hinder the business sector’s development.
- Lack of access to financial and business development services hinders microenterprise development.
- Increasing the institutional capacity of microenterprises is more important than granting loans.
- NGOs cover microcredit costs through the income they receive from interest and commissions.
- The economic viability of institutions that offer services to microenterprises is key to the long-term provision of these services in the microenterprise market.

Lessons Learned in the 1990s

- Microfinance is profitable when it adopts a commercial approach.
- Market competition and penetration are promoted through commercialization.
- Microentrepreneurs need an easy-term loan that is granted on the basis of their capacity to pay in accordance with the growth rate of their business.
- Banks and other financial intermediaries should use appropriate financial technology to offer their services to the microenterprise sector.
- Appropriate regulation and supervision of financial institutions are essential to financing in the sector.
- It is essential to have an enabling regulatory environment for the sector's development and commercialization.
- Microenterprises can be classified in many ways; the variables should include both financial and nonfinancial characteristics.

The 1990s: A Push Toward Private-Sector Participation

The success of pioneering NGOs resulted in a paradigm shift that incorporated the private sector into microenterprise service, which influenced product design and service quality. NGO profitability motivated others to follow this example and offer similar products and services. As a result, microfinance institutions became committed to making changes in product design, price setting, and service-lending mechanisms to position themselves in the market. Business development services began to emerge, and programs were implemented that led to demand as well as supply interventions, which, in turn, had a positive effect on the location and efficiency of the services offered and raised the competition level.

Progress made over the past 25 years in microenterprise service has resulted in important innovations that have contributed to the development of microfinance institutions and high quality business development services. Many businesses and financial institutions that the IDB Group has financed have served as catalysts for the development of dynamic financial markets and business services. IDB Group programs have made it possible to perfect products and services and to increase the cost efficiency of the in-

stitutions that supply them. In this way, the IDB Group has contributed to the region's emerging microenterprise services industry.

The IDB Group's Vision for the New Century

Improving the productivity of microenterprises and facilitating their integration into local markets to develop their income-generating potential are the challenges that the IDB Group faces in the first decade of the 21st century. No other region in the world has seen such rapid advances in the development of microfinance as Latin American and the Caribbean. An evaluation of 184 microfinance institutions in 17 countries performed by the Bank in 2001 showed that such institutions provided approximately US\$1.2 billion in financing for the sector.² A great variety of institutions offered credit to the region's microenterprises. Regulated institutions accounted for 76 percent of the credit provided and served 52 percent of clients. Nonregulated institutions granted the remaining 24 percent, serving 48 percent of the clients (see Figures 1 and 2).

A portfolio study revealed that private resources are flowing into the microenterprise sector. Looking at the total portfolio distribution of regulated institutions, 38 percent is derived from banks that have downscaled, while 62 percent is from institutions in the process of upgrading (see Figure 3). The trend shows that microfinance is entering a final stage that is characterized by commercial

² IDB, *Inventory of the State of Microfinance Institutions*, Washington, D.C., 2001. The data excludes credit unions.

businesses that are contributing large-scale financial services to the sector. For their part, providers of business development services continue to innovate. They are awakening a great interest in increasing productivity and promoting the microenterprise sector's growth as well as providing the potential for this to occur.

For many years, microfinance has been the driving force behind microenterprise development in the region, whereas providers of business development services have had to search for a direction to obtain similar profits. Today, there is an important convergence of both approaches that recognizes the microentrepreneur as a client who is prepared to pay for competitive services. This is a new market approach whereby suppliers of products and services compete and provide microentrepreneurs with more options that can be customized to meet their needs. Microentrepreneurs are no longer considered as simply social program beneficiaries but have begun to be appreciated as buyers and consumers of products and services that contribute to improving their businesses. By having access to better products and services, microenterprise owners have greater possibilities of raising their productivity and business competitiveness. As a result of their reforms, governments in the region have gradually changed their assistance policies, making them more market-oriented and competitive. Thus, the state has also played an important role in microenterprise development by promoting the private supply of services that the microenterprise sector requires.

Based on its extensive microenterprise sector experience, the IDB Group has developed a global vision and a new prototype to support microenterprise in a new decade. This vision, which has matured over the past 25 years, is now starting to serve the microentrepreneur as the businessperson that he or she is and to ensure that diverse institutions serve the microenterprise sector. Through this process, the microentrepreneur has access to a broader and deeper array of specialized products and services for this important engine of economic growth.

Through its programs, the IDB Group has an unprecedented opportunity to create economic alternatives for microenterprises and to increase the flow of private resources to alleviate poverty through the promotion of economically viable approaches. The key to capitalizing on this opportunity is to create the necessary conditions for growth and development in the region's microenterprise sector through better practices, policies, and performance standards that are designed to accelerate the industry's maturation.

Figure 1. Lending Portfolio of Microfinance Institutions

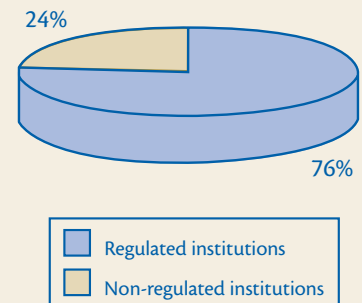


Figure 2. Active Clients of Microfinance Institutions

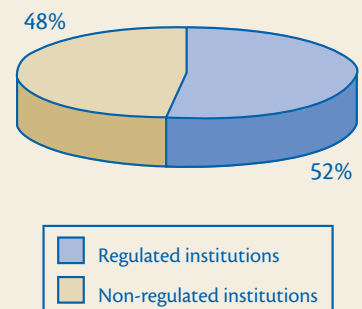
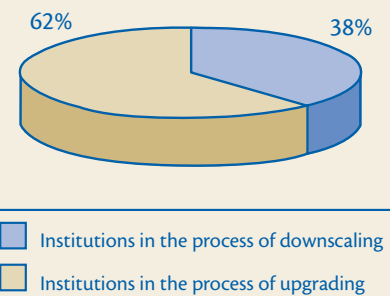


Figure 3. Portfolio Distribution of Regulated Institutions



Lessons Learned in 2000–2002

- In the region, the microenterprise sector is characterized by increased competition and market penetration.
- The most important approaches for advancing microfinance include profitability, competition, and regulation.
- Microenterprises represent an underserved clientele for business development services, which show great potential for market development.
- The private sector has become a significant supplier of services that support microenterprises and contribute to expanding resources.

During the first decade of the new century, microfinance and business development services will need to demonstrate their potential and offer the benefits of economic growth to a greater number of people with scant resources. The IDB Group will work to make microenterprises a part of the formal economy, reform the structure of the formal economy to accommodate them, and improve their access to the opportunities offered by an increasingly global economy. Access to new opportunities and the ability to meet the challenges associated with them will be fundamental as microenterprises attempt to mature into profitable businesses and stable income sources for their owners and employees. This overall vision can be achieved by employing the whole range of instruments available to the IDB Group, incorporating the lessons of the past into future activities and striving for continued innovation.

The IDB Group will continue to encourage private sector participation and promote linkages among diverse institutions so that they will expand the array of specialized products and services offered to microenterprises.



2

The IDB Group and Microenterprise at the Start of the New Decade

The IDB Group and Microenterprise at the Start of the New Decade

At the start of the 21st century, the IDB Group occupies a leading position among the institutions that provide support to microenterprises in Latin America and the Caribbean. During the 1990s, the IDB Group strengthened the microenterprise sector throughout the region, investing US\$693.3 million in 26 member countries. IDB Group support for microenterprises continues in this decade, with an additional investment of US\$122.7 million in just three years.

IDB Group contributions have already begun to show results. With new methods and technologies that are appropriately designed for the microenterprise sector, there have been notable improvements in the living standard of microentrepreneurs and their families. The IDB Group's initial vision of reducing poverty and developing the private sector in Latin America and the Caribbean has become a reality, thanks to the active participation of the region's banks and financial institutions that are serving the microenterprise market.

The IDB Group will continue its sector support to overcome obstacles that impede microenterprise growth. The IDB Group continues working to expand the reach of microfinance, improve BDS quality and sustainability, and establish a positive policy and regulatory framework.

Mission and Strategy

The microenterprise sector in Latin America and the Caribbean has evolved greatly. New players—banks, financial and member institutions, cooperatives, and others—have begun to participate in the microenterprise market. Recent BDS field experience has underscored the need to establish a dynamic industry where suppliers offer large-scale services and develop creative solutions through business associations, conglomerates, and subcontracting. Microenterprise support services have grown and matured during this period, and the region is now positioned at the forefront of a global movement to support microenterprise growth.

Over the current decade, the IDB Group will continue to encourage private sector participation and promote linkages among these diverse institutions so that they will expand the array of specialized products and services offered to microenterprises.

During this decade, the IDB Group's four major activities will include:

- Creation of a favorable policy and regulatory environment to ensure that microenterprises have access to sustainable financial services and develop a competitive business spirit as part of the market economy,
- Development of financial products and services that are needed to enable microfinance institutions to expand coverage to new market segments,
- Broadening of the range of business development services to promote microenterprise competition in local, regional, and international markets, and
- Progress in microenterprise support through the dissemination of research and results with the aim of exchanging experiences with professionals, donors, and governments across the region.

Presented below is a brief summary of the IDB Group's operations in support of microenterprise from 1990 to 1999, followed by a section that highlights the progress made by each of the IDB Group's three operative instruments—SEP, MIF, and global loans for microenterprise—from 2000 to 2002.

IDB Group Operations, 1990–1999

During the 1990s, the IDB Group invested US\$693.3 million in microenterprise development. IDB Group programs made an important contribution and exceeded the goal of US\$500 million that was initially proposed in the MICRO 2001 strategy. Global loans reached a total of US\$435.8 million, which represents more than 63 percent of resources contributed by the institution (see Table 2). For their part, the SEP and the MIF contributed US\$162.2 million and US\$95.3 million, respectively. Through the contribution of these key resources, the IDB Group promoted the development of microfinance institutions and made advances in implementing best practices in business development services. Moreover, the IDB Group forged key alliances with the private sector in microenterprise development across the region.

Table 2. IDB Group Support to Microenterprise (1990–1999)

Instrument	Total (US\$ millions)	Distribution (%)
The Social Entrepreneurship Program	162.2	23
The Multilateral Investment Fund	95.3	14
Global Lending for Microenterprise	435.8	63
Total	693.3	100

Summary of IDB Group Operations, 2000–2002

The IDB Group allocated US\$122.7 million to support microenterprises in the first three years of the new decade. These resources are the result of SEP and MIF contributions that were made to promote important innovations in the provision of financial and business development services (see Table 3). These resources are now beginning to yield results by enhancing the private sector’s active participation in microenterprise development.

IDB Group was combined with and complemented that provided by other international agencies and local institutions—both public and private—to jointly support the promotion and provision of financial and business development services to foster the expansion of microenterprises. The IDB Group currently uses three instruments to fund microenterprise support: the SEP, the MIF, and global lending; these are summarized in the next section.

Table 3. IDB Group Support for Microenterprise (2000–2002)		
Instrument	Total (US\$ millions)	Distribution (%)
The Social Entrepreneurship Program	20.2	16
The Multilateral Investment Fund	72.5	59
Global lending for microenterprise	30.0	24
Total	122.7	100

The Social Entrepreneurship Program

The SEP, which replaced the Small Projects Program, was created in 1998 to promote social equity and the economic development of poor and marginal groups. In its 25-year history (including the period in which it operated as the Small Projects Program), the SEP became a key IDB instrument that was used to drive local economic development within the context of a strategic regional vision. This innovative instrument has made it possible to consider both social impact and economic return to promote the advancement of microenterprise in Latin America and the Caribbean.

The SEP at a Glance:

- Contributes US\$10 million annually to develop and strengthen innovative institutions.
- Provides low-interest loans of up to US\$1 million and grants of up to US\$250,000 for technical cooperation.
- Supports financial services and business development projects with a special emphasis on poor and marginalized groups.
- Provides average long-term loans of US\$500,000.

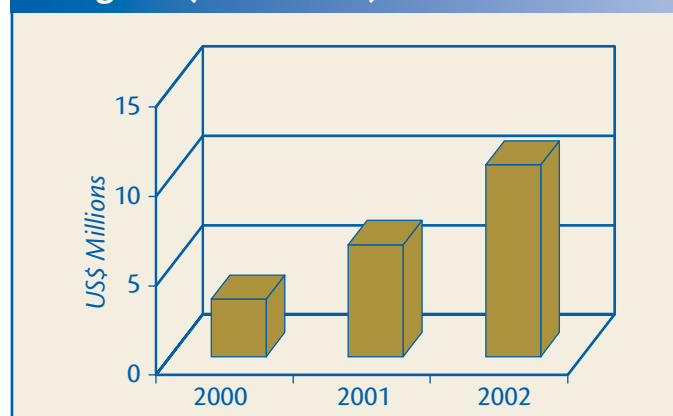
The SEP grants low-interest loans of up to US\$1 million; in addition, it offers technical assistance grants of up to US\$250,000, which are allocated to the development and strengthening of innovative institutions. SEP uses its resources strategically and funds a limited number of representative projects; such operations must be innovative and capable of promoting learning between countries or of being emulated in other parts of the region. This instrument is used to promote business operations that generate social benefits and help community organizations to encourage microenterprise development.

The SEP is a highly competitive program, providing US\$10 million annually to finance projects in 26 Latin American and Caribbean countries. The IDB Group is committed to contributing to the success of this new type of social enterprise and supporting projects that offer financial and business development services as well as social and community services in a sound, efficient, and sustainable way to benefit low-income people, indigenous groups, women, youth, and other marginalized groups.

SEP Funding, 2000–2002

From 2000 to 2002, the IDB Group approved 45 projects that totaled US\$20.2 million (see Figure 4). Program resources provide the special operations and trustee funds that the Bank administers. Over the period, the SEP allocated 60 percent of these resources to microfinance programs and 40 percent to business development programs. The loans are flexible with regard to amounts and terms so that they can be adapted to different funded activities.

Figure 4. The Social Entrepreneurship Program (2000–2002)



SEP-supported Activities

SEP-funded activities promote business competition. In the financial services area, these include:

- Design of innovative financial instruments such as micro-leasing,
- Expansion of microcredit to marginal and low-income groups, and
- Capitalization of businesses and associations.

In the business development arena, SEP-funded activities include:

- Promoting new technologies,
- Creating business services centers,
- Promoting rural businesses,
- Marketing nontraditional agricultural products,
- Expanding into local, regional, and international markets, and
- Marketing through franchises.

Quality Makes the Difference

The Slow Food movement of Turin, Italy, awarded a prize to the Cooperativa Agropecuaria y Artesanal Union Quebrada y Valles (CAUQUEVA) for its commitment to quality production and preservation of agricultural and cultural practices in its community. CAUQUEVA was founded in 1996 in the Jujuy province of Argentina to improve and market products to local buyers and international markets. With the IDB Group's support, the cooperative created an economic chain that combines farming production, training, technical assistance, packaging, distribution, and a marketing strategy for vegetables, fruits, and other products of Andean origin. Positioning its products in market niches has been the result of a long learning process and has had important effects on the regulation of consumer supplies and products. CAUQUEVA is now planning for the next step: Using the Internet to market products from the region.

Characteristics of MIF Projects

- **Innovation.** A key MIF role is to promote new and effective approaches to private sector development.
- **Serving as a model.** Projects must serve as a model that can be emulated by other sectors and/or beneficiary countries.
- **Sustainability.** Before receiving MIF resources, projects should have a convincing plan as well as great potential for sustainability.
- **Forging of alliances.** MIF projects are conducted jointly with local partners, who currently contribute an average of more than 50 percent of project costs.
- **Effectiveness.** MIF resources should be clear about project results and be the most appropriate funding choice for a particular initiative.

The Multilateral Investment Fund

The Multilateral Investment Fund was created in 1993 to promote private sector development in Latin America and the Caribbean. One of its goals is to support intermediary institutions that provide services to the microenterprise sector by funding technical assistance, direct credit, and capital or quasi-capital (high risk credit). With this range of instruments, the MIF has been able to adapt to the evolving needs of microenterprises and the organizations that support them.

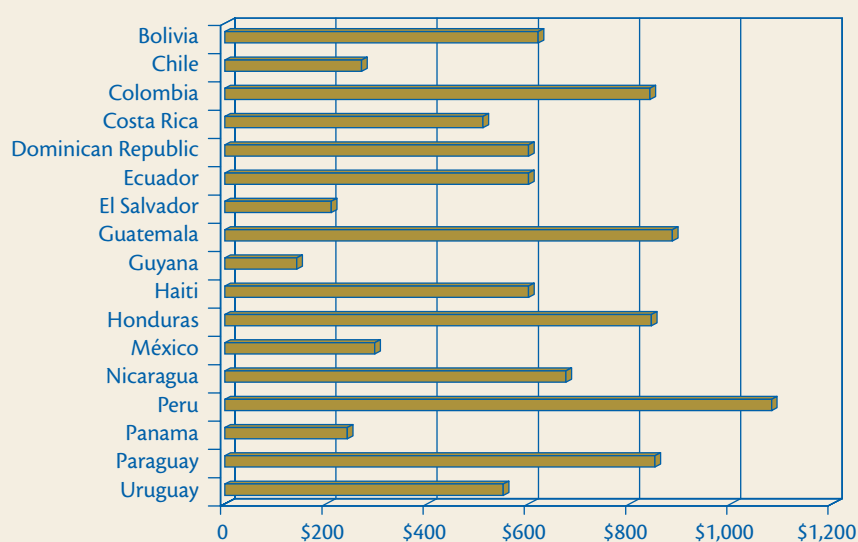
Incorporating lessons learned, the MIF has created appropriate means of financing microenterprises with dynamic and flexible instruments. Currently, the three major instruments are the Line of Activity, various projects that support microenterprise, and the Innovation Initiative Program.

Line of Activity for Strengthening Financial Institutions for Microenterprise

The MIF created the Line of Activity in 1998 to strengthen the capacity of microfinance institutions and to support the consolidation and expansion of microfinance services, which have contributed to down-

scaling regulated financial institutions—mainly banks and other financial entities—and upgrading NGOs. During the first years of operation, the MIF approved 38 projects through its Line of Activity, which totaled US\$9.8 million (see Figure 5). The program has proven to be a dynamic funding instrument that has expanded the reach of microfinance services. It has provided technical

Figure 5. MIF Support to Microfinance Institutions, (2000–2002)
(In thousands of dollars)



Downscaling: A Commercial Haitian Bank Expands Its Coverage to Microenterprise

“In an economy such as Haiti’s, where a large informal sector exists, recurring political crises since 1986 have caused this sector to grow, due to socioeconomic instability that has led to a drop in investments and an increase in donations.”

—Pierre-Marie Boisson, President, Société Général de Solidarité, S. A. (SOGESOL)

The Société Général Haitienne de Banque, S. A. (SOGEBANK), Haiti’s largest commercial bank, has become the leader in opening a new financial market directed at microenterprises in Haiti, the region’s poorest country. The Bank and the MIF provided support for feasibility studies and personnel training. In 2000, SOGEBANK created SOGESOL, a public corporation that is affiliated with the bank, which is its main stockholder and holds 35 percent of its shares. Other stockholders include the private investment firm ProFund International and the organization ACCION International, which hold 40 percent of the shares. Local investors hold the remaining 25 percent.

In its first two years of operation, SOGESOL served more than 7,000 microenterprise clients with a lending portfolio of US\$2.5 million, which is only 3.4 percent in arrears. Thanks to this success, SOGESOL has already reached its break-even point. SOGESOL’s biggest challenge is to continue to expand the range of its financial products in its five branches.

Upgrading: FUNADEH Becomes FINSOL

The National Foundation for the Development of Honduras (FUNDADEH) is a private organization that is dedicated to developing micro and small enterprises by providing training and credit. In 1997, the institution became financially sustainable and took the necessary steps to transform itself into a regulated financial institution capable of managing financial services and attracting public deposits.

In June 1999, the National Commission of Banks and Securities and the Central Bank of Honduras authorized the establishment of Financiera Solidaria S.A. (FINSOL). The IDB Group supported the upgrading. Many other institutions have undertaken a similar process. IDB Group support has made it possible for FINSOL to have an appropriate online information system to fulfill supervision regulations and requirements and develop its branch operations. This support also allowed FINSOL to design savings products. FINSOL has grown into a financial institution with 12 branches, four of which are in rural areas. At the end of 2002, its portfolio totaled US\$6.6 million, which was distributed through 11,300 loans. FINSOL also established deposit services and recorded transactions totaling US\$2.5 million during 2002; the balance increased to US\$1.5 million in December 2002, representing close to 1,000 certificates of deposit.

FINSOL’s experience shows how microfinance institutions have become commercial ventures and important financial service providers for a population that is underserved by the regulated financial sector.

assistance to NGOs interested in upgrading and commercial banking and specialized financial institutions that want to downscale to the microenterprise market.

A Variety of Projects to Support Microenterprise

The aim of IDB Group projects is to achieve appropriate conditions for microenterprise development, to support subsectors such as handicrafts and nontraditional agriculture, and to respond to events that affect microenterprises, such as Hurricane Mitch. The MIF helps promote legal reforms that create a more favorable environment for the sector; it strengthens financial intermediaries that provide services and contributes to improving the supervisory capacity of banking authorities.

From 2000 to 2002, the MIF approved 75 operations, which totaled US\$72.5 million. The aim of most of these projects is to develop a better environment where microenterprises can reach their potential operating capacity; in addition, the projects seek to increase institutional access to funding sources to satisfy microenterprises' large demand for services.

Linking Rural Artisans to International Markets

The IDB Group has begun to offer support to three private Central American companies through the Innovation Initiative Program: Oyanca (Nicaragua), La Casa (Guatemala), and ATUTO (Honduras). These three export companies provide business development services to rural and urban microenterprises (which are mainly owned by women) through an alliance with a consulting firm (Weidemann Associates, Inc.) that provides technical assistance. The project centers on the production, marketing and export of decorative accessories. Its buyers include Pier One, Country Originals, Toyo, Montage, and Exploris; its products have been exhibited at various international events, such as the New York Home Accessories Fair and the Furniture Fair in High Point, North Carolina. One of the most successful products is a ceramic lamp produced in San Juan del Oriente, Nicaragua, which was included in the most recent Tommy Bahama collection catalogue and is currently being sold in the United States through a prestigious company, Wildwood Lamps.

Innovation Initiative Program

The MIF established the Innovation Initiative Program in June 2000 to support financial services and business development innovation aimed at the microenterprise sector. The fund, entitled *Alliance for Innovation*, had an initial capitalization of US\$8 million. Its aim is to promote alliances with private institutions to expand microenterprises' access to new products and services that improve their competitiveness. Program operations are based on an open bidding system that supports up to 10 innovations. This highly competitive program finances a series of projects to explore or introduce new microenterprise development concepts. Sixty-five proposals were presented during the first round of bidding and 109 during the second round. Ten innovation projects were ultimately selected for US\$4.9 million in total financing.

A Market Vision for Technology Services Support for Microenterprise

The Institute of Socioeconomic and Technological Research (INSOTEC) is an Ecuadorian organization that offers sustainable technology services to micro, small, and medium enterprises. INSOTEC has a project in the Pelileo canton on the outskirts of Quito that offers computer design and other services to microenterprises that produce denim clothing. By charging microentrepreneurs for access to this cutting-edge technology, the institution recoups between 35 and 206 percent of its costs, in accordance with the market and each institution's strategy. INSOTEC has become a business development center in the textile industry because of this aggressive strategy to recover costs and turn a profit. The Institute invests in the development of services as measured by their potential profitability. Services are canceled if they fail to attract enough clients to break-even within a few months. The Institution's managers are convinced that, for microenterprise clients, market positioning and quality of service are the most important factors.

Summary of MIF Funding, 2000–2002

The MIF awarded funding to projects totaling US\$80 million during the first three years of the decade (see Table 4). MIF-funded projects in the microenterprise sector provide an efficient way to optimize the impact of resources by adapting them to specific project needs. Between 2000 and 2002, MIF investments represented 60 percent of the resources that the IDB Group allocated to the microenterprise sector.

Table 4. MIF Operations (2000–2002)

Activities	Total (US\$ millions)	No. of Operations
Line of Activity for Strengthening Financial		
Institutions for Microenterprise	6.8	26
Innovation Initiative Program	4.9	10
Projects that support microenterprises		
Support for microfinance	7.6	7
Investment in microfinance institutions	9.8	4
Remittance Services	13.8	6
Support for entrepreneurial capacity	13.3	17
Legal, regulatory and supervisory framework	2.1	2
Emergencies (special programs)	14.2	3
Total	72.5	75

MIF-supported Activities

To sum up, MIF financing supports innovative projects that demonstrate a potential for sustainability and serve as examples to be emulated by private investors. Innovation projects approved by the MIF include:

- Strengthening microfinance institutions,
- Innovative microfinance products such as savings, fund transfers, housing, and insurance,
- Business development services, such as access to new production and marketing technologies, microenterprise training for specific subsectors, etc.,
- Emergency programs, and
- Stock capital for microfinance institutions.

Promoting Micro Savings in Bolivia

Bolivia’s microfinance sector has made large leaps forward. Microfinance institutions such as BANCOSOL and private financial funds have developed innovative microcredit products and technologies. However, their experience in the savings area has not been as successful. Despite their efforts, these institutions have not established a major foothold in the micro and small savings markets, particularly when compared to the experience in other countries.

To rectify this situation, the IDB Group provided support to more than 50 Bolivian microfinance institutions to attract more public deposits by improving the quality, variety, and volume of deposit services, so as to respond directly to their microcredit clientele’s demands and needs. The IDB and the MIF will finance 50 percent of this US\$2.4 million project. The objective is to make the best use of efforts underway by the private sector, the state, international cooperation agencies, and other entities that support microfinance and conduct activities to improve and expand deposit services. Institutions that provide microfinance services—banks, savings cooperatives, and private financial funds—will participate in the project to reduce the dependence of Bolivian microfinance institutions on large financial backers.

It is estimated that more than 2.5 million people—in both urban and rural areas—will benefit directly from the project, thanks to education campaigns that will highlight the importance of saving and the opening of 28,000 new accounts. This project is expected to serve as a model as it is the first of its type in the region.

Global Lending for Microenterprise

Global credit for microenterprise is one tool that the IDB Group uses to improve sector financing at the national level. Much of the global credit targets small businesses as a way to strengthen their

links to microenterprises. Through these programs, the IDB provides funds to second-tier financial institutions (that is, a country’s central bank or development bank), which then on-lend funds to commercial banks or minority microfinance institutions. In turn, these institutions provide credit to microenterprises and small businesses. Funding is complemented by technical assistance to participating institutions to enable them to adopt appropriate credit

technology to service these sectors. Global credit is a means of expanding penetration into the microenterprise market and increasing supply to different segments of a country’s economy.

Brazil Extends Microcredit Coverage

From 2000 to 2002, Brazil negotiated a global loan to extend microcredit. It is estimated that the Brazilian market has 18.9 million microentrepreneurs, of whom less than 1 percent have access to credit. In 2002, a US\$30 million loan was granted to the Banco do Nordeste to continue its successful CrediAmigo program, which extended coverage and market penetration into northeast Brazil and added 120,000 new clients.

Knowledge Management

The IDB Group has developed a knowledge management strategy that is able to manage and analyze a growing body of microenterprise knowledge in a dynamic and flexible manner so that lessons learned are woven into its programs. The IDB knowledge management strategy consists of disseminating lessons and learning derived from projects through conferences, regional forums, research reports, and periodic publications that contribute to advancing microenterprise support in the region.

In addition to its financial activities, the IDB Group has conducted important work in creating, acquiring, gleaning, and sharing knowledge to promote the growth of the microenterprise sector. Its knowledge management strategy has leveraged the IDB Group's work to achieve greater outreach, sustainability, impact, and efficiency of its microenterprise programs. Through its dissemination strategies, the Group has been able to share the experiences gained in the microenterprise sector and develop linkages to other groups and communities who work in or support the sector. The knowledge management activities include the following:

- Promotion of best practices and dissemination of lessons derived from the microenterprise sector and institutions that support it; this includes the new microfinance industry, BDS, information related to risk management (e.g., credit agencies, risk assessment, etc.), and knowledge fields that have promoted market competitiveness.
- Establishment of benchmarks that permit the development of sound sustainable institutions as well as improved competitiveness in the markets where they operate. This has been one of the factors that has contributed the most to microfinance in the region; at present, there are important experiences evolving for business development services.
- Support to two key areas in the globalization process: Technological and non-technological initiatives. The first refers to development of databases and internal networks (see http://www.iadb.org/sds/MIC/index_mic_e.htm). The second refers to implementing forums, seminars, and other activities that allow for information sharing, discussion, and exchange of ideas about the sector.

From 2000 to 2002, the IDB Group supported and invested in research and dissemination activities that have had a multiplier effect in disseminating knowledge and information throughout the region. Resources are described below.

Publications

Among the IDB Group's many microenterprise publications, it is worth highlighting the following books:

- *Principles and Practices in the Regulation and Supervision of Microfinance* (available only in Spanish).
- *Safe Money: Building Effective Credit Unions in Latin America*, which formulates a reform strategy for strengthening and modernizing credit unions with a significant participation of microfinance services (savings, credit for investing in home businesses, loans, fund transfers) in urban and rural areas.
- *Performance Indicators for Microfinance Institutions* (available only in Spanish) is a technical guide that contains an analysis of the basic indicators used in microfinance.
- *Entrepreneurship in Emerging Economies: Creation and Development of New Enterprises in Latin America and East Asia* presents the results from a comparative study of factors that contribute to the management of companies and a business network.

Dissemination of Best Practices

The microfinance industry's potential is becoming increasingly recognized in Latin America and the Caribbean. With the emergence and rapid growth of many successful microfinance institutions, the topic has been placed on the policy agenda of most developing countries. The publication of *Principles and Practices of Microfinance Regulation and Supervision* is targeted at supervisory banking authorities that want to establish a regulatory and supervisory framework for microfinance. Its purpose is to respond to the growing demand for clearly identifiable principles and guidelines on how to regulate and supervise microfinance. This research is a result of IDB collaboration with the Association of Banking Supervisors of the Americas. The two institutions jointly organized seminars attended by representatives from supervisory organizations in the region. The process of preparing this book has helped raise public awareness about the legal and regulatory environment in which microfinance operates. This book represents an example of IDB Group knowledge management and its commitment to disseminate best practices on subjects as important as microfinance regulation and supervision. Banking supervisors from several countries in the region have already begun to take significant measures to bring attention to microfinance and provide it with the appropriate framework of sensible regulations and standards.

Based on a careful investigation of the evolution of microfinance institutions in Bolivia, Colombia, Paraguay, and Peru, this book is a tool for guiding supervisory authorities to participate actively and constructively in developing microfinance regulatory and supervisory frameworks. Authorities formulate an inventory of the factors that should be included in this type of framework, based on the risks and specific characteristics of the activity. It covers everything from the legal perspective to preparing major regulatory standards. The recommendations are a starting point as each country needs to adapt the goal of microfinance growth to the country's situation to achieve poverty reduction and economic growth in LAC.

Adapted from Tor Jansson, Ramón Rosales, and Glenn Westley, *Principios y prácticas para la regulación y supervisión de las microfinanzas*, (Washington, D.C.: the Inter-American Development Bank, 2003).

IDB Group Policy Development

A major IDB Group strategy has been to contribute to the policy debate and formulation of action agendas of interested groups (the public and private sectors, international agencies, and microentrepreneurs), share lessons learned, organize regional conferences and forums, conduct research, and contribute to periodic publications and other activities related to knowledge management and information dissemination to support microenterprise development.

During the period covered in this report, a new rural finance strategy was approved to promote the provision of financial services in rural areas. The IDB Group's rural finance strategy departs from the principle that such services should be efficient, far-reaching, and sustainable. To stimulate debate on this important topic, a seminar was organized in Bolivia on "Promising Practices in Rural Finance" that promoted an open environment for effective knowledge sharing and reinforcing continuous learning.

The Inter-American Forum on Microenterprise

The annual Inter-American Forum on Microenterprise has become an important event in the region because it presents an opportunity for public and private sector participants who are interested in and support microenterprise to exchange views and experiences. The forum serves as a focal point for debating current topics of interest. It encourages the exchange of information and the creation of networks and new business alliances. The forum illustrates the importance of international cooperation, not only with regard to donations and funding, but also regarding knowledge transfer and shar-

ing experiences between countries at similar development levels. Moreover, the forum has become an ideal venue for recognizing achievements through the “Inter-American Prizes for the Development of Microenterprise,” created by the IDB Group in 1999. The awards recognize the most outstanding contributions of institutions and individuals who have dedicated their lives to supporting the humblest businesses in the region.

“The Inter-American Forum on Microenterprise offers a magnificent opportunity to deepen strategic alliances . . . to unite efforts and resources and tighten the bonds that transcend the limits of nations and continents . . . this Forum is now an institution.”

Enrique V. Iglesias
President, the Inter-American Development Bank

Seminars and Workshops

From 2000 to 2002, several seminars and workshops were organized including a “Workshop on Microcredit Programs for Housing,” “Savings seminar,” and “Workshop on Productive Chains and Competitiveness.” Through these events, important progress was made in these areas. One of their most important objectives was to share knowledge at both the local and international levels through a series of consultations with member countries and public and private sector institutions.

The IDB Group's strategy for the first decade of this century is to increase the competitiveness of the products and institutions that participate in the microenterprise market, which, in turn, will generate greater efficiency and benefit both institutions and their clientele.



A Vision for the Future

A VISION FOR THE FUTURE

Where Are We?

The support that the IDB Group has offered to the microenterprise sector over the past 25 years is beginning to yield many benefits. Nowhere in the world has there been such active private sector participation or such rapid progress in microenterprise development as in Latin America and the Caribbean. Microenterprises have flourished in the region; market competition and penetration have intensified, which has initiated a new market era for this important sector of the economy.

Microfinance activities have made enormous progress in the region, especially over the past five years. This is demonstrated by the fact that the 184 institutions included in the IDB study currently provide services to nearly 1.8 million microenterprise clients, who have had access to credit that is valued at an estimated US\$1.2 billion. Regulated institutions supply approximately 76 percent of the credit demanded in the microenterprise sector and serve close to 52 percent of the clients; this demonstrates that private resources are beginning to flow into the sector. Today, a wide variety of institutions participate in the microenterprise market, from NGOs and credit unions to financial companies and commercial banks. All these entities have different institutional objectives, products and services that are targeted to distinct segments of the microenterprise sector.

Like microfinance, business development services continue to go forward in pursuit of market viability. New BDS strategies have been designed such as conglomerates and productivity chains. These essential programs have generated great interest in terms of their contribution to potential income, survival, and growth of microenterprises in the context of a global economy.

Where Are We Headed?

The IDB Group will continue working to improve BDS quality and sustainability and promote the development of markets in emerging subsectors. To make its interventions more effective, the institution will finance innovation programs that are designed to consolidate business services into an efficient market and ensure access by microentrepreneurs to improve their quality of life.

The microenterprise sector has enormous potential in the region; however, much work remains to be done to fulfill the IDB Group's strategic objectives. Necessary conditions must be promoted to:

- Reduce poverty through income-generating activities,
- Generate employment,
- Increase national production and economic growth,

- Encourage productive coordination among small, medium, and large enterprises,
- Decrease social cost, and
- Promote an entrepreneurial spirit.

To achieve these goals and reap the benefits of its investments, the Group must continue to support the sector's development and encourage expansion and diversification of financial and business development services that target different segments of the region's microenterprise market. These actions will increase the differentiation of products and services, expand coverage to rural areas and to disadvantaged groups—such as women and indigenous groups—and offer micro-entrepreneurs more and better options for investing in their own future. The IDB Group's strategy for the first decade of this century is to increase the competitiveness of the products and institutions that participate in the microenterprise market, which, in turn, will generate greater efficiency and benefit both institutions and their clientele.

Guidelines for the Future

Over this decade, the IDB Group will maintain its regional strategy of supporting the microenterprise sector and promoting its growth. With respect to the microenterprise sector, guidelines will center on market development. The IDB Group will make use of strategic resources to encourage private sector participation to promote microenterprises and direct its activities to the strategic actions described below.

Regulatory Framework Development

A regulatory framework is needed that allows microenterprises to make full use of their potential. One way to alleviate poverty is by creating sound financial systems that are capable of withstanding the effects of the current economic crisis and will integrate poor people as a market segment. During this decade, the IDB Group will promote the creation of just conditions for microenterprises and poor people in the region. The IDB Group will work to promote economic and legislative reforms that are adapted to each country's conditions. Activities will focus on four main areas:

- Improving financial and business development lending policies,
- Simplifying regulations that apply to entrepreneurial activities,
- Facilitating the entry of new and diverse institutional players into the sector, and
- Promoting the flow of private resources to microenterprises, with special emphasis on integrating microfinance into the mainstream of financial markets.

Promoting Financial and Business Development Services

Microenterprises have demonstrated that they are a large and heterogeneous group that ranges from individual businesses to manufacturing and export companies. Different levels of poverty and vulnerability exist within the sector. As services develop for microenterprises, diversity has gained in importance. From this base, an entire industry has emerged that is attempting to meet client demands appropriately and competitively.

Microenterprise-oriented services have exceeded the limits of microcredit grants and now include financial products and services such as savings accounts, fund transfers, payments, and insurance contracts. In this way, business development services have diversified; they have gone from telephone services to cellular rentals and from business training to trade magazines. As a result, a wide range of distinct services has emerged to respond to the demands of different microenterprise sector segments. It is essential to take advantage of this new range of financial and business development services and apply it to different segments of the microenterprise clientele to ensure that this incipient industry will have greater coverage and competition.

The IDB Group's activities to promote and diversify financial and business development services will:

- Promote wide coverage and market downscaling of products and services aimed at microenterprises in both financial and business development services,
- Promote the design of innovative models with the potential for large-scale development, and
- Develop knowledge management and the dissemination of best practices.

Improved Quality and Availability of Financial Information

Development of a financial infrastructure and linking the microenterprise sector with the formal financial sector are essential to the institutionalization of this emerging market. Promoting transparency in internal financial systems will allow clients and suppliers to have access to reliable information with which to evaluate the risk and profitability of operations; this, in turn, will facilitate the flow of resources and encourage sector competition. One of the greatest obstacles to integrating the microenterprise sector and poor people in general into the formal economy stems from private investors' lack of information about this large population segment. To generate true competitiveness and increase the efficiency of services offered to the microenterprise sector, institutions that want to participate in the market must have access to this valuable information. Therefore, the IDB Group, in an effort to reduce unequal access to sector information, will:

- Promote development of an informational infrastructure that shows the nature of risks related to the microenterprise sector and facilitates the flow of risk capital into this sector,
- Facilitate the use of appropriate technologies for the microenterprise sector to reduce unequal information access, boost participation in BDS, and lower the transaction costs of microfinance, and
- Promote development of reference indicators for the industry that can be used by potential investors, creditors, and donors to determine individual institution's performance and characteristics. Such indicators can also help institutions identify operational weaknesses and strengths.



Annexes

ANNEX I

Projects Financed by the Social Entrepreneurship Program, 2000–2002 (US\$)

Country	Project name	Approval date	Loan amount	Cooperation amount
1 Peru	Renewable Energy and Rural Microenterprise	03/24/00	300,000	200,000
2 Bolivia	Bean Producers Association Support	05/16/00	400,000	111,000
3 Peru	Trout Farming Microenterprises in Lake Titicaca	09/13/00	246,000	
4 Mexico	Microcredit and Savings Expansion	10/27/00	400,000	180,000
5 Uruguay	Beekeeping Development for Milk Producer Families	11/17/00	475,000	125,000
6 Costa Rica	Agricultural Microproducer Diversification	11/22/00	175,000	135,000
7 Costa Rica	Agricultural Diversification in the Canton of León Cortés	12/29/00	300,000	160,000
8 Ecuador	Indigenous Community Development in Cayambe	05/30/01	320,000	120,000
9 Guatemala	Productive Activation in the Sur Quiché Region	05/30/01	500,000	250,000
10 Honduras	Support for Garifuna Women Producers of Cassava	05/30/01	—	250,000
11 Honduras	Strengthening Women's Community Banks	06/01/01	—	160,000
12 Paraguay	Beekeeping Development: Product Diversification	06/05/01	500,000	160,000
13 Ecuador	Support to Fundación Espoir	06/06/01	300,000	100,000
14 Bolivia	Microcredit Housing Diversification	06/06/01	300,000	150,000
15 El Salvador	Support to the la Palma de R.L. Cooperative	06/06/01	—	118,000
16 Brazil	Sustainable Harvest in Siemprevivas	06/19/01	—	149,000
17 Nicaragua	Microfinancing of Neighborhood Housing	08/10/01	500,000	35,000
18 Nicaragua	Microfinancing of Neighborhood Housing	08/10/01	—	95,000
19 Honduras	Financial Services Expansion in Olancho Department	11/02/01	100,000	100,000
20 Regional	Microfinance Institutional Development Program	12/11/01	—	250,000
21 Bolivia	Expansion of Productive Rural Microleasing	12/12/01	400,000	175,000
22 Panama	Institutional Strengthening of Small Agricultural-Producer Enterprises in Veraguas	12/21/01	—	250,000
23 Venezuela	Small Cocoa Producers on the Paria Peninsula	12/21/01	—	250,000
24 Costa Rica	Development of Microproducers of Medicinal Plants	12/21/01	250,000	105,000
25 Colombia	Rural Production and Marketing in Tunia	12/21/01	240,000	145,000
26 Chile	Training Programs for Fundación Eduardo Frei de Montalvo	01/02/02	—	75,000
27 Nicaragua	Sheep Farming Development on Farms in the Dry Tropics	04/03/02	565,000	150,000
28 Guatemala	Integrated Farming Development in the Nuevo Horizonte Community	04/04/02	70,000	180,000
29 Panama	Support to Asociación Promoción Saneamiento Ambiental en Comunidad (APROSAC)	04/25/02	—	250,000
30 Guatemala	Small Producer Competition in Indigenous Agriculture	04/26/02	240,000	110,000
31 Argentina	Microproducer Poverty Reduction in Tucumán	05/09/02	250,000	130,000
32 El Salvador	Small Producer Support in Marañón	07/03/02	200,000	210,000
33 Peru	Subcontracting and Marketing for Micro and Small Enterprises	08/14/02	450,000	160,000
34 Bolivia	Technical Assistance for Productive and Commercial Small and Medium Enterprises	10/02/02	1,000,000	380,000
35 Paraguay	Rural Microcredit Program	10/16/02	600,000	250,000

Country	Project name	Approval date	Loan amount	Cooperation amount
36 Ecuador	Global PES Program—Rural Productivity	11/07/02	1,200,000	450,000
37 Honduras	Small Producer Support To Improve Coffee Production in the Siguatepeque Altiplano	11/27/02	350,000	250,000
38 Paraguay	Microcredit Expansion for Rural Families in the Central Department	12/10/02	—	100,000
39 Paraguay	Institutional Strengthening of the Paraguayan Federation of Microentrepreneurs	12/11/02	—	65,000
40 Dominican Republic	Global PES Rural Microfinancing	12/18/02	800,000	500,000
41 Peru	Microcredit for Indigenous Women	12/19/02	500,000	16,000
42 Guatemala	Honey Production in the San Bernardino Community	12/19/02	130,000	90,000
43 El Salvador	Support for Agricultural Microenterprises in Nahuizalco	12/20/02	—	196,000
44 Nicaragua	Tuber Production and Marketing	12/20/02	400,000	180,000
45 Nicaragua	Sheep Rearing—Autonomous Region of the South Atlantic (RAAS)	12/20/02	110,000	160,000
TOTAL			12,325,000	7,921,000

ANNEX II

MIF Operations (2000–2002)

Table 1: Line of Activity for Strengthening Financial Institutions for Microenterprise

Country	Year	Investment name	Total in US\$
1 Peru	2000	Institutional Strengthening of PROEMPR	290,000
2 Honduras	2000	Institutional Strengthening of BANCOMER	270,000
3 Dominican Republic	2000	Institutional Support to ADOPEM	300,000
4 Dominican Republic	2000	Institutional Upgrading of FONDESA	300,000
5 Honduras	2000	Institutional Strengthening of BANCAFE	273,000
6 Paraguay	2000	Institutional Strengthening of INTERFISA	300,000
7 Panama	2000	Institutional Strengthening of CREDIFU	242,000
8 Paraguay	2000	Institutional Strengthening of VISION	250,000
9 Guatemala	2000	Institutional Strengthening of BANCAFE	254,000
10 Nicaragua	2000	Upgrading Support to FINDE	250,000
11 Guyana	2000	Institutional Strengthening of IPED	142,000
12 Uruguay	2001	Institutional Strengthening of COFAC	300,000
13 Ecuador	2001	Institutional Strengthening of Banco Solidario, S. A.	300,000
14 Nicaragua	2001	Systemization of Savings Cooperative Networks	200,000
15 Peru	2001	Institutional Strengthening of CREAM Arequipa	160,000
16 Peru	2001	Institutional Strengthening of CONFIANZA	190,000
17 Colombia	2001	Strengthening of COMPARTIR Financial Institution	210,000
18 Paraguay	2001	Support to Sustainable Rural Microenterprise	300,000
19 Mexico	2001	Institutional Strengthening of FINCOMUN	296,000
20 Costa Rica	2001	Strengthening of TRISAN Financial Institution	250,000
21 El Salvador	2001	Institutional Strengthening for PROFIM	210,000
22 Colombia	2002	Institutional Strengthening of FINAMER	300,000
23 Chile	2002	Risk Evaluation System for Banks	270,000
24 Guatemala	2002	Strengthening of Accounting Information Systems	330,000
25 Ecuador	2002	Institutional Strengthening of Cooperatives	300,000
26 Haiti	2002	Institutional Strengthening of Microcredit National, S. A.	300,000
SUBTOTAL			6,787,000

Table 2: MIF's Innovation Initiative Program

Country		Year	Investment name	Total in US\$
1	Regional	2001	Development of "Credit Scoring" Technologies	654,135
2	Regional	2001	Strengthening Rural Financial Services	554,527
3	Regional	2001	New Financial Services in Microenterprises	756,500
4	Regional	2001	Facilitating Sustainable Links	482,500
5	Regional	2001	Integrated Technologies for Micofinancing	293,500
6	Regional	2002	Exploiting Internet Potential for Training Institutional Professionals	234,000
7	Regional	2002	Inter-American Supplier of Internet Services for Microfinance	745,403
8	Regional	2002	Business Development Services Through Formal Education System	202,000
9	Regional	2002	Financial Leasing and Competitiveness	546,000
10	Regional	2002	Promoting Marketing and Inter-Business Cooperation in Bolivia	459,000
			SUBTOTAL	4,927,565

Table 3: MIF's Support to the Microenterprise Sector

Country	Year	Investment name	Total in US\$
Support to Microfinancing			
1 Chile	2000	Expanding Development Investments	570,000
2 Colombia	2000	Improving VVWB Administrative and Operational Efficiency	500,000
3 El Salvador	2001	Technical Assistance to the Savings Bank System and Employee Banks	2,000,000
4 Bolivia	2001	Mobilizing Popular Savings in Microfinance Institutions	1,220,000
5 Ecuador	2001	Ecuadorian Financial Society, S. A.	1,750,000
6 Honduras	2002	Mobilizing Savings through Microfinance Institutions	500,000
7 Brazil	2002	Support Program to the Microfinance Sector	1,100,000
SUBTOTAL			7,640,000
Investments in Microfinancing			
1 Trinidad and Tobago	2001	DFL/Caribbean Microfinance, Ltd.	2,855,000
2 Ecuador	2001	Banco Solidario (Solidarity Bank)	2,000,000
3 Ecuador	2001	Financiera Ecuatorial (Ecuadorian Finance Company)	1,500,000
4 Regional	2002	AIM (Action Investment in Microfinance)	3,500,000
SUBTOTAL			9,855,000
Initiatives on Remittances			
1 El Salvador	2001	Strengthening Financial and Remittances Services	1,500,000
2 Mexico	2001	Training in Fund Transfers To Develop the Local Economy	1,100,000
3 Brazil	2001	Fund Transfers for Entrepreneurs: Dekassegui Fund	5,000,000
4 Ecuador	2001	Support to Microenterprises and Ecuadorian Emigrants	2,200,000
5 Mexico	2002	Remittances Investment for Rural Development in Migrant Economies	460,000
6 Mexico	2002	Strengthening Popular Savings and Credit System	3,500,000
SUBTOTAL			13,760,000
Support to Developing Entrepreneurial Training			
1 Colombia	2000	Marketing for Microentrepreneurs from Atlántico	850,000
2 El Salvador	2000	Development of Small and Micro Enterprises	850,000
3 El Salvador	2000	Pilot Program for Training in Microenterprise	870,000
4 Guatemala	2000	Promotion of Tourism Sector	520,000
5 Peru	2000	Promotion of New Youth Enterprises	815,000
6 Regional	2000	Labor Integration of the Blind	1,400,000
7 Argentina	2001	Consolidation of Micro-undertakings	836,000
8 Chile	2001	Productive Integration of Microenterprises	660,000
9 Costa Rica	2001	Formalization of The Only Window SME	1,750,000
10 Ecuador	2001	Strengthening Competition of Micro and Small Clothing Enterprises	659,000
11 Nicaragua	2001	Developing Sustainable Services for Micro, Small, and Medium Enterprises	304,600
12 Brazil	2002	Promoting Socially Responsible Marketing Opportunities	975,000
13 Colombia	2002	Entrepreneurial Links in the Clothing Industry	1,100,000
14 Panama	2002	Competition in Panamanian Craftwork	440,000
15 Colombia	2002	Competition Program in the Jewelry Sector	350,000
16 Peru	2002	Coordinating Marketing and Competition in the Alpaquero Textile Sector	470,000
17 Regional	2002	Promoting Marketing and Inter-Enterprise Cooperation in Bolivia	459,000
SUBTOTAL			13,308,600
Projects on Regulations and Supervision			
1 Regional	2001	Evaluating Risks of Microfinance Institutions	1,400,000
2 Chile	2002	Regulating Credit Unions	660,000
SUBTOTAL			2,060,000
Emergency			
1 Regional	2000	Program for Microfinance Institutional Recovery under Natural Disaster Conditions	10,000,000
2 El Salvador	2001	Microenterprise Recovery Program	2,635,000
3 Peru	2001	Recovery of Microfinance Institutions in Southern Peru	1,600,000
SUBTOTAL			14,235,000
TOTAL			72,573,165

Technical Cooperation Projects Independent of IDB, 2000–2002 (US\$)

	Country	Project name	Approval date	Amount
1	RS	Savings Mobilization Seminars	02/18/00	30,000
2	Belize	Evaluation of Microcredit Institutions	03/17/00	30,000
3	Bolivia	Strengthening Business Development Services	06/30/00	80,000
4	Regional	Strategic Alliances for Microenterprise Development	07/17/00	150,000
5	Regional	Tools To Improve Women Businesses	08/25/00	11,000
6	Honduras	Strategic Alliances for Microenterprise	09/15/00	10,000
7	Regional	Best Practices in Social Entrepreneurship	11/28/00	110,000
8	Guyana	Canada MIF Cofinancing/At-301	03/06/01	95,000
9	Regional	Strengthening Microenterprise Development	06/21/01	90,000
10	Bolivia	Strengthening and Rejuvenating the Microfinance Sector	07/02/01	80,000
11	Regional	Strategic Alliances for Development	11/14/01	500,000
12	Argentina	Feasibility of Creating an Italian Fund for Microfinancing	09/24/02	45,500
13	Regional	Promoting International Investment in Small and Medium Enterprises	02/05/02	145,000
14	Regional	Small and Medium Enterprise Development Programs with Italian Experience	04/12/02	150,000
15	Regional	Marketing of Business Development Services	05/06/02	96,869
16	Mexico	Competition and Local Economic Development: Lessons from Jalisco	06/18/02	15,000
17	Ecuador	Economic Alternatives for Artesan Cities in Crisis	07/16/02	30,000
18	Regional	Regulatory Support for Microfinancing	07/16/02	148,000
19	Peru	Training Workshop on Measuring Institutional Risk in Microfinancing	08/09/02	30,000
		TOTAL		1,846,369

ANNEX IV

Publications and Activities on Microenterprise

Microenterprise Development

Books and Magazines

2003	<i>Principles and Practices for Microfinance Regulation and Supervision</i>	T. Jansson, R. Rosales and G. Westley
2002	Micro Enterprise Américas—Quantum leap—Globe-trotting Traders	Various
2002	<i>Performance Indicators for Microfinance Institutions. Technical Guide</i>	T. Jansson, D. von Stauffenberg
2001	Micro Enterprise Américas—Trial by Fire—Microfinance comes of Age	Various
2000	<i>Safe Money. Building Effective Credit Unions in Latin America</i>	G. Westley, B. Branch
1999	Microfinance and Poverty. Questioning the Conventional Wisdom	H. Gulli
1996	Money Matters—Reaching Women Microentrepreneurs with Financial Services	G. Almeyda

Papers

2001	"The Latin American Microfinance Industry—How Does It Measure Up?"	T. Jansson, M. Taborga
2001	"Microfinance: From Village to Wall Street"	T. Jansson
2001	"Can Financial Market Policies Reduce Income Inequality?"	G. Westley
2001	"The Case of Business Registration Reform in Latin America"	T. Jansson, G. Chalmers
2000	"Agricultural Credit Card Innovation: Financiera Tristán"	M. Wenner, R. Quiró
2001	"Microfinance Issues and Challenges in the Anglophone Caribbean"	M. Wenner, G. Chalmers
1999	"Good Practices in Marketing for Micro and Small Enterprise Products"	L. Hojmark Mikkelsen

Bulletins & Articles—Microenterprise Development Review

2002	"Private Capital for Microfinance. How to Turn the Faucet On Microfinance Regulation Sweeping Latin America"	R. Pouliot, T. Jansson
2002	"Merger Mania in Microfinance?"	T. Jansson
	Microenterprise Growth and Environmental Protection"	M. Wenner
2001	"Making Rural Finance Work"	M. Wenner
2001	"Attracting Social Investment Capital to Latin America"	M. de Sousa -Shields
	"How Microfinance Evolves: What Bolivia can Teach Us"	D. von Stauffenberg
2000	"Running the Gauntlet. Registering a Business in Latin America Microenterprises and Poverty"	T. Jansson, G. Westley
	"Reform and Rehabilitation of Credit Unions. A Way to Expand Microfinance"	G. Westley
2000	"Credit Bureaus: Leveraging Information for the Benefit of Microenterprises"	E. Haider
1999	"The Microfinance Industry: Does it Measure Up?"	T. Jansson
1998	"Microfinance Guarantees: Is There Another Model? Regulating Microfinance"	T. Jansson
1998	"Microfinance Meets the Private Sector"	M. Berger

IDB and the Micro, Small and Medium Enterprise Division

2001	<i>IDB Group Support to the Microenterprise Sector from 1990 to 2000</i>
2000	<i>Annual Report on Microenterprise Development</i>
1999	<i>Annual Report on Microenterprise Development</i>
1998	<i>Annual Report on Microenterprise Development</i>
1998	<i>Re-Engineering a Microenterprise Development Program</i>
1997	<i>Microenterprise Development Strategy</i>

THESE PUBLICATIONS ARE AVAILABLE IN THE FOLLOWING LINK:

Microenterprise: http://www.iadb.org/sds/MIC/publication_159_s.htm

Seminars and Workshops 2000–2002

2000	Microfinance Regulation and Supervision Microfinance and Housing Rural Finance
2001	Voucher Programs: What Have We Learned? Regulation and Supervision of Microfinance Small Enterprise Development of Local Production Systems
2002	PES Procedural Review Workshop Workshop: Revision of Manual to Confront Natural Disasters in Microfinance Institutions Regional Conference on Corporate Social Responsibility Workshop on Experiences of the Line of Activity for Improving Microfinance Institutions

Microenterprise forums are the most important events of private and public sector and international cooperation at the LAC level.

Objectives of Each Forum	
I 1998 Mexico	<p>First Forum on Microenterprise</p> <ul style="list-style-type: none"> Promote exchange, debate, and dissemination of best practices in microenterprise support between private sector and nonprofit institutions. Facilitate creation of new alliances among institutions that offer financial and business development services to strengthen their operations. Guide public opinion about the importance of supporting the activities of participants in the microenterprise sector, understanding microenterprise needs, and boosting its access to financial services. <p>Participants: 250</p>
II 1999 Argentina	<p>Second Inter-American Forum on Microenterprise</p> <ul style="list-style-type: none"> Promote the meeting of microenterprise service suppliers from Latin America, the Caribbean, and other world regions. Offer suppliers the unique opportunity to learn new approaches to lending services to the sector. Share experiences and exchange information and knowledge about institutional development tools available on the market. Expand contracts with related institutions, donors, and private-sector entities. <p>Participants: 450</p>
III 2000 Spain	<p>Third Forum: Creating Alliances for Microenterprise Development</p> <ul style="list-style-type: none"> Convene the private and public sector and international cooperation agencies to identify strategic alliances for developing the sector. Emphasize the value of cooperation between organizations, not only as a channel of giving but also as a way to transfer knowledge and technology between countries at similar stages of development. <p>Participants: 600</p>
IV 2001 Dominican Republic	<p>Fourth Microenterprise Forum: Innovations for Microenterprise Development</p> <ul style="list-style-type: none"> Discuss the latest innovations in microenterprise development. Disseminate advances in microfinance and business development services (BDS). <p>Participants: 1,000</p>
V 2002 Brazil	<p>Fifth Forum: A Favorable Environment for Micro and Small Enterprises</p> <ul style="list-style-type: none"> Integrate the theme of favorable environment in promoting business capacity in micro, as well as small enterprises. Share and debate advances made in legal frameworks, regulations and microfinance supervision. Disseminate advances in improving business records. Discuss MIF lessons and mistakes made during the 1990s and identify new trends. Offer space for exchange, creation of regional networks, and sales outlets for microentrepreneurs, as well as for services businesses to the sector. <p>Participants: 2,100</p>
<p>The Forums include:</p> <ul style="list-style-type: none"> Presentations by international panelists Meeting places Points of sale Exhibit Center Artisan Fair Book launches Awards for excellence and leadership <p>Presentations and activities of the Forums are available in the following link: http://www.iadb.org/foromic</p>	

The Inter-American Awards for Microenterprise Development 1999–2002

The Inter-American Awards for Microenterprise Development recognizes the outstanding achievements, innovations and leadership of institutions and individuals who help low-income businesspeople in Latin America and the Caribbean. The contest is open to formal financial institutions and non-governmental organizations involved in micro-lending, as well as to institutions that provide business development services to microentrepreneurs. A special category of the awards recognizes the work of individuals who combine a strong social commitment with sound business practices in the promotion of microenterprise and community development.

The Award categories are:

- 1) Award for Microfinance—This award recognizes regulated financial intermediaries and NGOs that have achieved success in broadening the availability of financial services to microentrepreneurs.
- 2) Award for Business Development Services—This award recognizes organizations that have demonstrated effectiveness in providing and expanding non-financial products and services.
- 3) Award for Social Entrepreneurship—This award recognizes individual leaders working with private sector institutions that combine social commitment and sound business practices to promote microenterprise and community development.

First Inter-American Awards for Microenterprise Development—Argentina—1999

Award for Microfinance (Regulated Institutions)	Award: Financiera Calpiá	El Salvador
Award for Microfinance (Nonregulated Institutions)	Award: Fundación Women's World Banking	Colombia
Award for Business Development Services	Award: Instituto de Investigaciones Socio-Económicas y Tecnológicas (INSOTEC)	Ecuador
Award for Social Entrepreneurship	Award: Beverly Beckles, del Centro Nacional para las Personas Incapacitadas (NCPD)	Trinidad & Tobago

Second Inter-American Awards for Microenterprise Development—Spain—2000

Award for Microfinance (Regulated Institutions)	Caja Los Andes Special recognition: Caja Municipal de Arequipa Special recognition: Banefe- Banco Santander	Bolivia Peru Chile
Award for Microfinance (Nonregulated Institutions)	Award: Fundación Mundo Mujer, Popayán Special recognition: Compartamos	Colombia Mexico
Award for Business Development Services	Award: FUNDASOL	Uruguay
Award for Social Entrepreneurship	Award: Pilar Ramirez Muñoz, Presidente del FFP FIE Special recognition: Raúl Díez Canseco Terry, Presidente Directorio PROBIDE	Bolivia Peru

Third Inter-American Awards for Microenterprise Development—Dominican Republic—2001

Award for Microfinance (Regulated Institutions)	Award: Fondo Financiero Privado FIE S.A. Special recognition: Caja Municipal de Ahorro y Crédito de Arequipa (CMAC-Arequipa) Special recognition: Banco Solidario	Bolivia Peru Ecuador
Award for Microfinance (Nonregulated Institutions)	Award: Asociación Dominicana para el Desarrollo de la Mujer. ADOPEM Special recognition: CHF México	Dominican Republic
Award for Business Development Services	Award: La Fundación Indígena para el Desarrollo Agropecuario (FIDA)	Paraguay
Award for Social Entrepreneurship	Award: Ruth Montrichard y Gerard Pantin, SERVOL (Servicio Voluntariado para Todos)	Trinidad & Tobago

Fourth Inter-American Awards for Microenterprise Development—Brazil—2002

Award for Microfinance (Regulated Institutions)	Award: Caja Municipal de Ahorro y Crédito de Arequipa (CMAC-Arequipa)	Peru
Award for Microfinance (Nonregulated Institution)	Award: Fundación de Apoyo a la Microempresa (FAMA)	Nicaragua
Award for Business Development Services	Award: Visión Mundial	Brazil
Award for Social Entrepreneurship	Award: Sr. Oded Grajew, Instituto Ethos de Responsabilidad Social	Brazil

Excerpts from the IDB Strategy for Microenterprise Development

Objective

The overall goal of the IDB's Microenterprise Development Program is to expand economic opportunities through sustainable, dynamic microenterprise development. To achieve this goal, the Bank's strategy focuses on promoting the conditions necessary for the growth and development of the microenterprise sector in Latin America and the Caribbean.

The specific objective of the strategy is to promote the development of:

- A favorable policy and regulatory environment;
- Strong sustainable institutions that provide financial and nonfinancial services to meet the demand of microenterprises;
- Improved access of low-income and disadvantaged microentrepreneurs (including women and indigenous peoples) to financial and business services; and
- Expanded, continuous and permanent flows of resources for investment in microenterprise.

Strategy

To promote microenterprise development in the current environment, given its own institutional characteristics and resources available, the IDB must focus on the areas in which it has a comparative advantage. Therefore, the Bank has launched an integrated program, MICRO 2001, which builds on the experiences of the past years and strengthens its support for microenterprise development, focusing on two fundamental pillars: policy reform and institutional development. This process is designed to expand access to services for low-income and disadvantaged microentrepreneurs. The program will use Bank resources strategically to catalyze the infusion of private resources in support of these elements.

Country Focus

MICRO 2001 Program activities will be based on a comprehensive analysis of obstacles and opportunities that confront the microenterprise sector in each country, and the adoption of mutually reinforcing actions, which represents a departure from more traditional piecemeal approaches of isolated project interventions. Microenterprise development initiatives have become increasingly sophisticated, and the environment in each country is changing rapidly. Country microenterprise development strategies will analyze the situation of the microenterprise sector in a country, assess the performance of institutions supporting the sector's development, review the legal and regula-

tory framework, analyze the experience of IDB-supported operations and programs financed by other donors in the country, and identify critical areas for IDB policy and project support. Annual microenterprise operational plans prepared by each Region will outline the efforts being made to implement the strategy in the countries of that Region.

Strategy Components

Country programs will address the main strategy components as follows:

Policy Reform. In order to foster an environment conducive to microenterprise development, the Program will promote and support economic, legislative, and regulatory reform tailored to the context of each country. This will include reform of tax systems and policies, registration and licensing requirements and legislation affecting specific markets. The IDB will help governments in leveling the playing field, promoting the implementation of measures that support microenterprise growth. The Bank will promote regulations and legal reforms that facilitate the entry of formal lenders into the microfinance arena and promote competition.

Institutional Development. As a central feature of the Program, the Bank will support the strengthening of formal and non-formal institutions, enhancing their capabilities to become sustainable providers of services to microentrepreneurs. Institutional strengthening will focus on helping financial intermediaries and organizations providing business development services adapt their services to meet the demands of microentrepreneurs and improve the efficiency and effectiveness of service delivery.

Financial Intermediaries. The Bank will support the expansion and strengthening of existing financial intermediaries through the transfer of improved and innovative financial technologies to formal financial institutions in order to reduce transactions costs and credit risks. It will also strengthen non-formal financial institutions (such as NGOs and credit unions), facilitating their graduation to the formal financial system and access to capital markets, thus enhancing their ability to mobilize resources in a sustainable manner. The preceding chart illustrates the three most common options for lending to microenterprise that will be supported by the Bank.

In order for microenterprises to grow and build up their capital base, new financial products and instruments such as term loans, leasing and factoring will be required. Bank programs will support the development of these innovative services for micro and small enterprises.

Savings accounts and deposit services are important vehicles for microfinance, and capturing local savings is essential to the long-term financial sustainability of microfinance institutions. Therefore, savings mobilization and the creation of financial products tailored to the demands of microclients for deposit services will be an important element in the Bank's microenterprise strategy.

Other Institutions

The Bank will support the creation, expansion and strengthening of organizations specialized in providing market-oriented, sustainable business services to microenterprise. The focus will be on improvement in the quality of training and technical assistance programs, development of marketing

schemes that expand microentrepreneurs' access to more profitable segments of the market, assistance to comply with legal and regulatory procedures, promote subcontracting arrangements with larger firms, and transfer of appropriate technologies to improve productivity, especially those that are environmentally sound. Service providers that assist microenterprises with the process of formalization will also be supported. The challenge is to introduce market principles to upgrade the quality of services now provided, expand their outreach, and help create new sustainable services. Support for institutions providing these services should encourage them to adopt demand-driven principles and cost recovery mechanisms to promote sustainability. Finally, Bank-supported programs should help create incentives for mainstream institutions to reach microenterprises.

To be effective, institutional strengthening must be accompanied by the transfer of fresh resources for direct service delivery on a greater scale. The Bank's Program will increase the flow of resources for microfinance by channeling funds to lenders at market rates of interest, so that they can in turn expand the volume of lending and other financial services. The importance of these resources is that they represent long-term sources of financing not currently available. Funds to expand coverage of the microenterprise sector will be provided to non-financial service providers as well. The range and size of this program area will be dependent on the existence of adequate institutional capacity to effectively provide services to the target group. During times in which concessional resources are becoming ever more scarce, the mobilization of private sector funds to support the microenterprise sector coupled with a business-like approach in the management of microenterprise programs is of the utmost importance. Attracting private investment requires macroeconomic stability; a favorable regulatory environment for investors; uniform, transparent standards for assessment of institutional soundness; and the dissemination of information about viable institutions serving the target group. The focus on savings mobilization and linking non-formal microlenders to the financial markets as part of the strengthening of financial intermediaries is also key to meeting this challenge.

Implementation of the Bank's Microenterprise Development Strategy

Tools for Implementation

In implementing the MICRO 2001 program, the Bank will continue to utilize a combination of three basic tools: policy dialogue, loans and technical cooperation. In addition, the MIF will make equity investments in microfinance institutions and other intermediaries supporting microenterprise development. The feasibility of a credit guarantee mechanism to promote linkages among private intermediaries providing financial services to microenterprises will also be explored by the MIF. In implementing the microenterprise development strategy, the Bank will take a country-based approach, combining these instruments in a strategic fashion so that they become mutually reinforcing.

Loans

The Bank's main operational instruments for investing in microenterprise development—the Small Projects Program which directly finances individual executing agencies (primarily non profit organizations), and the global loans for microenterprise which create facilities to transfer resources to multiple institutions (primarily commercial banks)—will be central to the Bank's Program.

The Bank can provide liquidity to wholesalers (through the global loans and similar mechanisms), and it can finance wholesale mechanisms for technical assistance, and studies and support for development of new legislation and improved regulations and their application. Due to administrative and financial constraints, the IDB cannot continue to be the principal direct funder of the region's nongovernmental organizations working in the area of microenterprise development as it has in the past. The Bank will continue to finance individual NGO programs for microenterprise development primarily where they present innovative pilot experiences with opportunities for learning and replication in other larger programs. In order to do this, it will be necessary to prioritize and specialize in well-defined niches (such as policy, legal and regulatory reform; and institutional development in certain key areas, e.g., upgrading of NGO). The Bank must also make broad assessments of the conditions of microenterprises, the policy environment, the institutional actors, and its own past experiences in each country, and pro-actively seek out and support organizations that can effectively advance innovative pilot programs in each country.

Each global microenterprise loan supporting a national level program for microenterprise development must continue to be tailored to the conditions of the specific country in which it operates. These loans should not simply be “cloned” from one country to another; the programs they support must be customized to fit each country's needs.

The operational policy governing the Small Projects Program (OP-706) will be revised and submitted to the Board, to allow for greater efficiency and effectiveness in the use of this instrument. The basic principles for the revision of the Policy and operational guidelines for the Small Projects Program include administrative simplification, revised terms and conditions, technical assistance tailored to the specific circumstances of the intermediary institution, creation of small projects facilities or umbrella programs in countries where there are multiple intermediaries, and identification of additional sources of financing.

A detailed proposal for these changes will be prepared in collaboration with the Regional Departments and will be submitted to the Board in a separate document.

Technical Cooperation

Technical cooperation will be used for policy reform, institutional development activities, training and technical assistance programs targeted to microentrepreneurs, and pre-investment activities to facilitate and enhance project preparation. Technical cooperation is particularly important to reduce start-up costs for intermediaries developing new services or entering new markets. Although not the most important in total volume of resources, this instrument is expected to account for a large number of program operations. Technical Cooperation programs will be financed on a grant or reimbursable basis depending on the nature of the operation and availability of funds.

Multilateral Investment Fund (MIF) Operations

The Multilateral Investment Fund will not only continue to be an important provider of technical cooperation for policy reform and institutional development, it will also support innovative mechanisms such as equity investment in intermediaries providing services to microenterprise. Under this arrangement the MIF typically acts as a for-profit investor, holding a share of the institution's

total capital and looking for leverage from other investors, participating for a period of approximately seven years. These investments include agreements that guarantee the MIF's exit and financial returns according to the risk involved. Quasi-equity instruments (bond financing) will also be used. In the future, MIF will also help to create a partial guarantee or risk insurance mechanism to promote NGO micro finance institutions' access to loans from commercial banks.

Through its third window, the MIF will give priority to the following areas, that will contribute to the achievement of the objectives of the microenterprise strategy: (i) strengthening and diversification of microfinance instruments and institutions, including technical assistance for intermediaries, support for graduation of unregulated NGO intermediaries to the formal financial system, and increased outreach of banks and other formal institutions providing commercial finance to new, smaller clients; and (ii) improving nonfinancial services for micro and small firms in areas such as market information, quality control, innovation and technology transfer, and management assistance.

Policy Dialogue

The Bank will make use of existing channels of policy dialogue with the borrowing countries to promote the creation of an enabling environment for the development of microenterprise. This will be achieved through the Bank's country programming process and its research and dissemination activities.

Past experience has shown that Bank operations to promote microenterprise development are most successful when an enabling policy and regulatory environment exists that allows institutions providing services to do so on a sustainable basis, and allows microenterprises receiving services to grow. Similarly, investments in microenterprise development often fail to accomplish their objectives when undertaken under unfavorable policy conditions. Therefore, the Bank will give particular attention to paving the way for successful credit and investment programs through policy dialogue and policy reform programs.

Where feasible, policy and regulatory obstacles to microenterprise development will also be studied and addressed as part of broader programs and operations such as small and medium enterprise strategies and programs, financial sector reform programs, and others. This integrated approach is crucial because reforms that promote microenterprise development overlap significantly with those needed for small and medium enterprise growth.

Resources for Implementation

The Bank will develop the MICRO 2001 Program primarily using its own funds (Ordinary Capital and Net Income of the Fund for Special Operations in Local Currency) and the Multilateral Investment Fund. However, an appropriate mix of interventions will require a mix of concessional and non-concessional resources. Special efforts will be devoted to leverage Bank resources through fundraising and co-financing initiatives to attract critical grant resources for technical assistance and institutional strengthening, especially for those countries with large microenterprise sectors but limited supplies of concessional resources.



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