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# ADS Chapter 219

## Microenterprise Development

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## Table of Contents

<b><u>219.1</u></b>	<b><u>OVERVIEW</u></b> .....	<b><u>4</u></b>
<b><u>219.2</u></b>	<b><u>PRIMARY RESPONSIBILITIES</u></b> .....	<b><u>4</u></b>
<b><u>219.3</u></b>	<b><u>POLICY DIRECTIVES AND REQUIRED PROCEDURES</u></b> .....	<b><u>5</u></b>
<b><u>219.3.1</u></b>	<b><u>Scope of Policy</u></b> .....	<b><u>5</u></b>
<b><u>219.3.2</u></b>	<b><u>Exemption for Small-Scale Informational Activities</u></b> .....	<b><u>5</u></b>
<b><u>219.3.3</u></b>	<b><u>Prohibition Against Assistance to Implementing Organizations With Programs Not Open to Women</u></b> .....	<b><u>6</u></b>
<b><u>219.3.4</u></b>	<b><u>Host Country Economic Environment</u></b> .....	<b><u>6</u></b>
<b><u>219.3.5</u></b>	<b><u>Eligibility Conditions for USAID Assistance to Microfinance Institutions (MFIs)</u></b> .....	<b><u>6</u></b>
<b><u>219.3.5.1</u></b>	<b><u>MFI Willingness and Ability to Set Full-Cost-Covering Interest Rates and Fees</u></b> .....	<b><u>6</u></b>
<b><u>219.3.5.2</u></b>	<b><u>MFI Commitment to Attain Full Financial Sustainability</u></b> .....	<b><u>6</u></b>
<b><u>219.3.5.3</u></b>	<b><u>Applicable Measure of Financial Sustainability</u></b> .....	<b><u>7</u></b>
<b><u>219.3.5.4</u></b>	<b><u>MFI Plan for Attaining Financial Sustainability</u></b> .....	<b><u>7</u></b>
<b><u>219.3.5.5</u></b>	<b><u>MFI Control Over Loan Delinquency</u></b> .....	<b><u>7</u></b>
<b><u>219.3.6</u></b>	<b><u>Reporting Requirements for USAID-Assisted Microfinance Institutions</u></b> .....	<b><u>7</u></b>
<b><u>219.3.6.1</u></b>	<b><u>Application of Reporting Requirements to MFIs Serving Both Poor and Non-Poor Customers</u></b> .....	<b><u>7</u></b>
<b><u>219.3.6.2</u></b>	<b><u>Poverty Assessment Tools Reporting</u></b> .....	<b><u>8</u></b>
<b><u>219.3.7</u></b>	<b><u>MFI Use of Performance Information as a Factor in USAID Disbursement Decisions</u></b> .....	<b><u>8</u></b>
<b><u>219.3.8</u></b>	<b><u>Reporting Requirement for Organizations Providing Non-Financial Assistance</u></b> .....	<b><u>8</u></b>

*Text highlighted in yellow indicates that the adjacent material is new or substantively revised.*

2

<u><b>219.3.9</b></u>	<u><b>Eligibility Conditions for USAID Assistance to Implementing Organizations Providing Both Financial Services and Non-Financial Assistance</b></u> .....	<u><b>9</b></u>
<u>219.3.9.1</u>	<u>Reporting Requirements for Programs With Limited Non-Financial Elements</u> .....	<u>9</u>
<u><b>219.3.10</b></u>	<u><b>Restriction on USAID Support to Organizations Offering Subsidized Loans for Purposes Other Than Microenterprise Development</b></u> .....	<u><b>9</b></u>
<u><b>219.4</b></u>	<u><b>MANDATORY REFERENCES</b></u> .....	<u><b>10</b></u>
<u><b>219.4.1</b></u>	<u><b>External Mandatory References</b></u> .....	<u><b>10</b></u>
<u><b>219.4.2</b></u>	<u><b>Internal Mandatory References</b></u> .....	<u><b>10</b></u>
<u><b>219.5</b></u>	<u><b>DEFINITIONS</b></u> .....	<u><b>10</b></u>

## ADS Chapter 219 – Microenterprise Development

### 219.1 OVERVIEW

Effective Date: 01/01/2008

This chapter establishes policy directives and required procedures for USAID program efforts in the area of microenterprise development. In this context, the term “microenterprise” refers to a very small-scale, informally organized business activity undertaken by poor people. For USAID program purposes, the term is restricted to enterprises with 10 or fewer workers, including the owner (the “microentrepreneur”) and any unpaid family workers. Finally, “microenterprise development” refers to any activity undertaken by donors, host-country governments, or non-government organizations aimed at encouraging the formation of microenterprises or promoting the improved performance of existing microenterprises.

### 219.2 PRIMARY RESPONSIBILITIES

Effective Date: 06/16/2020

a. Each **operating unit** that provides assistance for microenterprise development through support for host country implementing organizations is responsible for the following:

- (1) Verifying that the implementing organization(s) in question meets the eligibility requirements for USAID assistance as spelled out in the Policy Directives and Required Procedures section below;
- (2) Negotiating with each implementing organization an assistance agreement that meets the requirements spelled out in the Policy Directives and Required Procedures section below;
- (3) Monitoring the performance of each assisted organization based on the reporting requirements described in [Microenterprise Development](#);
- (4) Disbursing assistance to each organization according to its performance, including its progress toward performance benchmarks spelled out in the assistance agreement; and, in selected cases,
- (5) Providing for the evaluation of its assistance activities.

These responsibilities apply, whether the operating unit is a **USAID Mission** or a USAID/W unit. Examples of USAID/W units involved in microenterprise development include the **Office of Microenterprise Development (E3/MD)** and the **Office of Development Credit (E3/DC)**, both in the Bureau for Economic Growth, Education, and Environment (E3).

b. Each **USAID Mission** engaged in support for microenterprise development is responsible for assessing whether promising opportunities exist for addressing

\*An asterisk and yellow highlight indicates that the adjacent material is new or substantively revised.

significant host country policy and/or institutional constraints to microenterprise development. The Mission is responsible for deciding whether or not activities to improve the policy and/or institutional environment for microenterprise development are an effective use of Mission resources.

**c. Regional Bureaus** are responsible for tracking the level of support for microenterprise development provided by their respective Missions, and for ensuring that Missions apply appropriate standards in their reporting of support for microenterprise development.

**d.** Each **USAID/W Central Bureau** that houses one or more operating units providing direct support for microenterprise development is responsible for tracking those units' level of support.

**e. E3/MD** is responsible for

**(1)** Serving as USAID's main hub of technical support for Missions and other operating units involved in microenterprise development;

**(2)** Supporting selected research activities intended to provide a better understanding of microenterprises and microenterprise development; and

**(3)** Maintaining linkages with other entities – both inside and outside the U.S. Government – involved in microenterprise development.

## **219.3 POLICY DIRECTIVES AND REQUIRED PROCEDURES**

### **219.3.1 Scope of Policy**

Effective Date: 10/01/1995

Throughout this guidance and [Microenterprise Development](#) responsibilities assigned to "Missions" apply equally to any USAID/W operating unit that provides microenterprise assistance directly, i.e., other than through budgetary transfers to USAID Missions.

### **219.3.2 Exemption for Small-Scale Informational Activities**

Effective Date: 10/01/1995

None of the policy directives or required procedures stated in this chapter restricts USAID assistance to organizations in the form of support for attendance at workshops, conferences, or training sessions; provision of literature; or similar low-cost, information-sharing activities.

**219.3.3 Prohibition Against Assistance to Implementing Organizations With Programs Not Open to Women**

Effective Date: 10/01/1995

USAID support may only be provided to implementing organizations whose microenterprise development programs are both formally and effectively open to women. All assistance agreements with implementing organizations must require annual reporting of the percentage of women among their clients/beneficiaries.

**219.3.4 Host Country Economic Environment**

Effective Date: 10/01/1995

Before signing an agreement to provide assistance to any microfinance institution, the Mission must consider the host country economic environment, particularly with regard to inflation and constraints on setting interest rates, to ensure that the prospects for assisted organizations to reach the performance standards identified in this guidance are not undermined.

**219.3.5 Eligibility Conditions for USAID Assistance to Microfinance Institutions (MFIs)**

**219.3.5.1 MFI Willingness and Ability to Set Full-Cost-Covering Interest Rates and Fees**

Effective Date: 10/01/1995

Before signing an agreement to provide assistance to any microfinance institution, the Mission must determine that

- a. The institution has full and effective latitude to set interest rates and fees at full cost-covering levels; and
- b. The institution's management is prepared to charge interest rates and fees on loans that are high enough to cover the program's full long-run costs.

**219.3.5.2 MFI Commitment to Attain Full Financial Sustainability**

Effective Date: 10/01/1995

Before the Mission signs an agreement to provide assistance to any microfinance institution, the management of the institution must provide the Mission with a credible written commitment to

- a. Attain full financial sustainability on the MFI's financial service activities within no more than seven years of the initial provision of USAID assistance, and
- b. Use USAID assistance to expand the availability of financial services to microentrepreneurs and other poor people.

*Text highlighted in yellow indicates that the adjacent material is new or substantively revised.*

**219.3.5.3 Applicable Measure of Financial Sustainability**

Effective Date: 10/01/1995

For purposes of satisfying **219.3.5.2**, full financial sustainability refers to the attainment of an adjusted return on operations of one or greater, based on the accounting framework detailed in [Microenterprise Development](#), Annex - Minimum Reporting for Microfinance Institutions.

**219.3.5.4 MFI Plan for Attaining Financial Sustainability**

Effective Date: 10/01/1995

The assisted organization's commitment to reach full financial sustainability must be accompanied by a plan outlining the major steps to be undertaken in the process of achieving this goal, including a realistic timetable for undertaking those steps, and defining periodic benchmarks by which progress toward the goal can be determined.

**219.3.5.5 MFI Control Over Loan Delinquency**

Effective Date: 10/01/1995

Before signing an agreement to provide assistance to any microfinance institution that is already providing loans, the Mission must determine that the delinquency rate in the institution's loan portfolio is below 10 percent, and that its loss rate is below 5 percent.

**219.3.6 Reporting Requirements for USAID-Assisted Microfinance Institutions**

Effective Date: 10/01/1995

Every agreement to provide USAID assistance to any microfinance institution must include a requirement that the assisted organization provide USAID, on an annual basis, with a report of its financial and operational performance and outreach. This report must include all of the indicators specified in Sections A-D of the Annex of [Microenterprise Development](#). This requirement applies whether or not the assisted organization regards financial services as the primary focus of its program.

**219.3.6.1 Application of Reporting Requirements to MFIs Serving Both Poor and Non-Poor Customers**

Effective Date: 10/01/1995

For purposes of satisfying **219.3.6**, a financial institution serving both poor and non-poor clients may, at its option, base its financial reporting ([Microenterprise Development](#), Annex - Minimum Reporting for Microfinance Institutions, Sections C and D) on information relating to its overall portfolio. However, the required indicators of portfolio and outreach and of interest rate policy ([Microenterprise Development](#), Annex - Minimum Reporting for Microfinance Institutions, Sections A and B) specifically refer to financial services targeted toward microentrepreneurs and other poor people.

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7

### **219.3.6.2 Poverty Assessment Tools Reporting**

Effective Date: 10/30/2009

The [Microenterprise Results and Accountability Act of 2004](#) (P.L. 108–484) requires that USAID develop and certify "low-cost methods" to measure the share of the beneficiaries of USAID-funded microenterprise programs who are "very poor" as defined in the law. Once such a "Poverty Assessment Tool" has been certified for a given country, the USAID Mission must require its microenterprise implementing partners in that country to use that tool at least annually to measure and report extreme poverty among its clients. Poverty Assessment Tools have been certified for the 29 countries listed below. Unless specifically exempted, those microenterprise partners are now subject to this mandatory reporting requirement. Missions should be aware that complying with this requirement involves significant preparation and effort on the part of the affected partners, so their prompt action is important.

Countries with certified Poverty Assessment Tools include the following: Albania, Azerbaijan, Bangladesh, Bolivia, Bosnia and Herzegovina, Cambodia, Colombia, East Timor, Ethiopia, Ghana, Guatemala, Haiti, India, Indonesia, Jamaica, Kazakhstan, Kosovo, Madagascar, Malawi, Mexico, Nepal, Paraguay, Peru, the Philippines, Serbia, Tajikistan, Uganda, Vietnam, and West Bank (not Gaza). (See [219maa, Key Facts: Poverty Assessment Tools Reporting](#))

### **219.3.7 MFI Use of Performance Information as a Factor in USAID Disbursement Decisions**

Effective Date: 10/01/1995

In making decisions regarding disbursement of USAID assistance to microfinance institutions, Mission staff must consider both the effort the organization puts into gathering financial and operational performance data and the extent to which it uses those data in its decision making.

### **219.3.8 Reporting Requirement for Organizations Providing Non-Financial Assistance**

Effective Date: 10/01/1995

Every agreement to provide USAID assistance to an organization that provides non-financial assistance to microentrepreneurs must include a requirement that the assisted organization provide USAID, on an annual basis, with a report of its financial and operational performance and outreach. This report must provide suitable indicators of the following:

- The number of clients provided each type of non-financial assistance, on a gender-disaggregated basis;

- A budget, balance sheet, and profit/loss statement for the program, which clearly identifies the program's different sources of funds, major cost elements, and the extent of cost recovery involved in the provision of each services; and
- A set of program impact indicators that the Mission determines is sufficient to allow an assessment of the program's cost-effectiveness.

**219.3.9 Eligibility Conditions for USAID Assistance to Implementing Organizations Providing Both Financial Services and Non-Financial Assistance**

Effective Date: 10/01/1995

Every agreement to provide USAID assistance to an organization that provides both financial services and non-financial assistance to microentrepreneurs must include the following:

- A commitment to attain financial sustainability in the provision of financial services, as specified in **219.3.5.2**; and a plan to attain that goal, as specified in **219.3.5.4**; and
- A requirement to provide separate reporting on the outreach and financial and operational performance of the organization's financial services efforts and non-financial assistance, as specified in **219.3.6**, **219.3.6.1**, and **219.3.8**.

[Microenterprise Development](#), Section IV suggests principles for allocating program costs between the financial and non-financial sides of such programs.

**219.3.9.1 Reporting Requirements for Programs With Limited Non-Financial Elements**

Effective Date: 10/01/1995

In any case where the Mission judges that an implementing organization accompanies its delivery of financial services with social messages or other limited non-financial assistance at little or no additional cost, the Mission may agree with organization managers to treat the program as a pure financial services program for reporting purposes. A program accorded such treatment must meet the reporting requirements spelled out in the Annex of [Microenterprise Development](#), and must include all program costs in such reporting. Section IV of [Microenterprise Development](#) suggests principles for making such a judgment.

**219.3.10 Restriction on USAID Support to Organizations Offering Subsidized Loans for Purposes Other Than Microenterprise Development**

Effective Date: 10/01/1995

USAID assistance must not be provided to organizations that provide loans on a subsidized basis in order to induce participation in activities with objectives other than improved microenterprise performance (e.g., health, environment, or democracy).

## 219.4 MANDATORY REFERENCES

### 219.4.1 External Mandatory References

Effective Date: 10/17/2000

- a. [The Foreign Assistance Act of 1961 as amended](#) (specifically, Section 108, Private Sector Revolving Fund, 1983) (This reference provides authority for this chapter.)
- b. [The Microenterprise for Self-Reliance and International Anti-Corruption Act of 2000 as amended \(Pub. L. 106-309\)](#) (especially Title I, which provides guidance on the conduct of microenterprise development, including an implied definition of poverty lending.)

### 219.4.2 Internal Mandatory References

Effective Date: 10/30/2009

- a. [ADS 219maa, Key Facts: Poverty Assessment Tools Reporting](#)

## 219.5 DEFINITIONS

Effective Date: 01/01/2008

The terms and definitions listed below have been incorporated into the ADS Glossary. See the [ADS Glossary](#) for all ADS terms and definitions.

### **adjusted return on operations**

The core measure used by USAID to assess the financial sustainability of a microfinance institution. A value of one or greater implies full financial sustainability. **(Chapter 219)**

### **broad outreach**

The provision of significant benefits to large numbers of a particular target group. **(Chapter 219)**

### **character and/or experience-based loans**

A form of collateral substitute in which the initial loan is very small, but access to gradually increasing loans is assured as long as the borrower maintains a satisfactory repayment record. **(Chapter 219)**

### **collateral substitute**

*Text highlighted in yellow indicates that the adjacent material is new or substantively revised.*

A mechanism for ensuring the repayment of loans other than the provision of formal collateral by the borrower. In the context of microfinance, group lending and character-based (experience-based) lending are the most common forms of collateral substitutes. **(Chapter 219)**

**deep outreach**

The provision of significant benefits to particularly disadvantaged members of a broader target group. In the case of microenterprise development programs, these typically include the poorest microentrepreneurs, female microentrepreneurs, etc. **(Chapter 219)**

**delinquency**

The failure of a borrower to make interest and/or principal payments on time. A delinquent loan is one on which payments have not been made on time. **(Chapter 219)**

**delinquency rate**

The total outstanding principal on loans with payments past due more than a given number of days, as a percent of a financial institution's TOTAL loan portfolio (TOTAL unpaid balance on outstanding loans.) In the context of this guidance, 90 days past due is used as the threshold of delinquency. **(Chapter 219)**

**financial costs**

The costs of the funds raised by a microfinance institution to cover its lending. Depending on the context, this may include only out-of-pocket interest costs paid to depositors and/or to other financial institutions, or may include as well the opportunity cost of funds received as grants or soft loans from donors, governments, or charitable organizations. **(Chapter 219)**

**financial regulation(s)**

The set of rules governing the conduct of financial institutions. **(Chapter 219)**

**financial services**

In the context of microenterprise development, includes the provision of loans, the acceptance of savings deposits, and payments services such as the provision or cashing of money orders, and other similar services useful to low income people. **(Chapter 219)**

**financial supervision**

The examination and monitoring of financial institutions - usually by government authorities - to ensure compliance with financial regulations. **(Chapter 219)**

**financial sustainability**

The degree to which an organization collects sufficient revenues from sale of its services to cover the full costs of its activities, evaluated on an opportunity-cost basis. **(Chapter 219)**

**forced savings**

Savings deposited in a microfinance institution as a condition of eligibility for receiving loans. Distinguished from voluntary savings, which are deposited independent of such a condition. (Chapter 219)

**full-cost-recovery interest rates and fees**

The level of interest rates and fees needed to cover the full long-run costs of providing a given loan. (Chapter 219)

**full financial sustainability**

A situation in which the revenues an organization generates from its clients cover the full (opportunity) costs of its activities, thus allowing it to continue operating at a stable or growing scale without ongoing support from governments, donor agencies, or charitable organizations. When applied to a microfinance institution (MFI), full financial sustainability requires that the interest and fees the MFI collects on its lending equal or exceed the sum of its operational and financial costs, with the latter evaluated on an opportunity-cost basis. (Chapter 219)

**full long-run (opportunity) costs**

In the context of this guidance, the financial plus operational costs for an organization to provide a given quantity and quality of services (for example, credit) once the organization has achieved feasible economies of scale and improvements in operational efficiency, with all costs evaluated on an opportunity-cost basis. Used as a basis for estimating the prices that must be charged for services to allow the organization to reach full financial sustainability. In the case of a microfinance institution (MFI) undergoing significant growth and/or improvement in operational efficiency, the full long-run costs of providing credit will typically be less than its currently observed costs. (Chapter 219)

**group lending**

A form of collateral substitute in which borrowers form groups, all of whose members must maintain a satisfactory payment record for any group member to be eligible for future loans. (Chapter 219)

**implementing organization**

In the context of microenterprise development, any government or non-government organization that directly provides financial services and/or non-financial assistance to microenterprises, or that performs other activities intended to improve the environment for microenterprise performance. (Chapter 219)

**loan loss rate**

The total principal on loans written off as uncollectible during a particular reporting period, as a percentage of the average unpaid balance on outstanding loans over the same reporting period. In the context of this guidance, all loans past due one year or

more must be written off as uncollectible; institutions may set stricter standards. **(Chapter 219)**

**market test**

The principle that the value that people attach to any goods or services provided to them must be at least equal to the amount they are willing to pay for those goods or services. **(Chapter 219)**

**median**

The middle value in a distribution. As applied for example to the loan portfolio of a microfinance institution, calculated by arranging its loans from smallest to largest and observing the value of the loan in the middle of that distribution. **(Chapter 219)**

**microenterprise**

A very small enterprise owned and operated by poor people, usually in the informal sector. For USAID program purposes, the term is restricted to enterprises with 10 or fewer workers, including the microentrepreneur and any unpaid family workers. **(Chapter 219)**

**microenterprise development**

Any activity undertaken by donors, host-country governments, or non-government organizations to improve the lives of poor people by encouraging the formation of microenterprises and/or the improved performance of existing microenterprises. Also, the overall process of improvement in the performance of microenterprises. **(Chapter 219)**

**microentrepreneur**

The owner-operator of a microenterprise. **(Chapter 219)**

**microfinance**

The provision of financial services adapted to the needs of low income people such as microentrepreneurs, especially the provision of small loans, the acceptance of small savings deposits, and simple payments services needed by microentrepreneurs and other poor people. **(Chapter 219)**

**microfinance development**

A subset of microenterprise development efforts, focusing on extending and strengthening microentrepreneurs' and other poor people's access to appropriate financial services. **(Chapter 219)**

**microfinance institution organization**

An organization whose activities consist wholly or in significant part of the provision of financial services to microentrepreneurs. Abbreviated MFI or MFO. **(Chapter 219)**

**non-financial assistance**

*Text highlighted in yellow indicates that the adjacent material is new or substantively revised.*

In the context of microenterprise development, any effort undertaken to improve the performance of individual microenterprises or of microenterprises as a group other than through microfinance. Includes, but is not restricted to training of individual microentrepreneurs; efforts to link microenterprises with suppliers or markets for their output; the development and extension of technologies for use by microentrepreneurs; and lobbying efforts for improvements in policies and/or institutions affecting microenterprises. **(Chapter 219)**

### **operational costs**

The portion of a program's costs that covers personnel and other administrative costs, depreciation of fixed assets, and loan losses. **(Chapter 219)**

### **operational efficiency**

The extent to which an organization succeeds in minimizing its operational costs, given the target population with which it is working. Measured by the ratio of the organization's operational costs to the average value of its outstanding portfolio. **(Chapter 219)**

### **operational self-sufficiency**

A situation in which an organization generates sufficient revenues from clients to cover all of its operational costs. **(Chapter 219)**

### **opportunity costs**

In general, the value of a given set of resources in their best alternative use. As applied to a microenterprise development program, refers to the market value of the resources used to carry out that program. In particular, calculating the opportunity costs of a program requires that any funds or other resources received in the form of grants or low-interest loans be evaluated according to what the institution would have had to pay for those funds had it raised them in private financial markets. **(Chapter 219)**

### **poverty lending**

A subset of microfinance program efforts, in which very small loans are targeted toward very poor clients, often with a focus on women. For operational and program reporting purposes, USAID defines poverty loans as loans with an average balance less than the local-currency equivalent of a maximum loan size stated in U.S. dollars. The maximum is typically set in consultation with Congress or through legislation. The Microenterprise for Self-Reliance Act of 2000 set different maximum loan sizes for USAID-assisted programs in different regions: \$1,000 or less in Europe and Eurasia; \$400 or less in Latin America and the Caribbean; and \$300 in sub-Saharan Africa, Asia, and the Near East, all in U.S. dollars at 1995 prices. At February 2002 prices, the equivalent maxima were \$1,166, \$466, and \$350. The applicable maxima for any given year can be obtained using the Inflation Calculator at the Consumer Price Index site of the U.S. Bureau of Labor Statistics, [www.bls.gov/cpi/home.htm](http://www.bls.gov/cpi/home.htm) **(Chapter 219)**

### **prudential financial regulation**

*Text highlighted in yellow indicates that the adjacent material is new or substantively revised.*

The subset of financial regulations intended to contribute to the stable and efficient performance of financial institutions, including the protection of depositors' assets. **(Chapter 219)**

**subsidized credit**

The provision of loans on the basis of interest rates and fees that fail to cover the full long-run costs of providing those loans. **(Chapter 219)**

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