

Microenterprise Glossary

Accelerated Microenterprise Advancement Project (AMAP)

An Indefinite Quantity Contract designed to provide USAID Washington and Missions with services required to establish, deepen, and/or expand their activities in microenterprise development.

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.

Broad Outreach

The provision of significant benefits to large numbers of a particular target group.

Business Development Services

[See *Business Services*]

Business Linkages

Includes both vertical and horizontal linkages among firms. They involve building mutually beneficial relationships between businesses at the same level of the value chain (horizontal) and at different levels of the chain (vertical) and addressing the constraints at all levels of the chain to support win-win relationships.

Business Services

Includes the strategic and operational services firms need to sustain their operations and to upgrade; they are commercially viable solutions that address business and value-chain constraints. They can include generic services like ISO training, ICT technical assistance, strategic planning and marketing; but they also include subsector-specific services in product development, market access, input supply, equipment sale or leasing, and other sector technical assistance and/or training.

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.

Cluster

An economic network linking a group of enterprises, often geographically concentrated, seeking to serve the same market, and sharing elements of their upstream value chains (complementors). Both lateral linkages among competitors, a high degree of competition as well as cooperation, and vertical linkages to complementors drive innovation critical to competitive performance. A cluster is a value chain of enterprises, plus related and supporting organizations including trade associations, universities and vocational schools, financial institutions, and local and national-level government agencies. The close interplay between firms, their suppliers and the business environment in clusters has led

competitiveness theorists and practitioners to focus on “clusters” as the locus of action, as opposed to individual firms or broad sectors.

Collateral Substitute

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.

Competitiveness

The ability of a firm or a country to compete successfully based on price, quality, uniqueness, good service, and/or other socially or environmentally valued standards with other firms or countries. Competitiveness is also referred to as sustainable growth in productivity that results in improved standard of living for average citizens. Achieving and maintaining competitiveness depends on the ability to innovate. Since competitive advantage of a firm is dependent on the business system and policy environment in which it operates, competitiveness at all levels is inter-dependent. Thus success at achieving competitive performance depends not only on a firm’s ability to innovate, but also on the performance of both upstream and downstream links of their respective value chains.

Competitive Strategy

Applies to national, sector or firm levels. It represents a strategy for positioning an industry in the global marketplace, and gaining competitive advantage over others. Since competitive advantage is dynamic, a strategy must consider how to achieve improved productivity and market position over time, i.e. over the short, medium, and long term. While competition based on low production and/or labor costs can win market share in the short term, in the longer term innovation, improvements in productivity, and quality tend to be better strategies for achieving market share.

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.

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.

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.

Enabling Environment

An environment of policies, regulations, institutions, and overall economic governance which allows for economic growth.

Exit Strategy

Relates to withdrawing from subsidizing an intervention, leaving behind sustainable improvements in the private sector.

Facilitator

An institution or project giving indirect support for private sector development. Rather than providing services directly, a facilitator orchestrates interventions that build local capacity for providing commercial services and/or solutions (to recurrent constraints), preferably by existing providers in the private sector. Services and/or solutions could include access to markets, product development/design, technology access, training, consulting services, financial services (links to financial services), improved inputs, and/or advocacy services.

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.

Financial Regulation(s)

The set of rules governing the conduct of financial institutions.

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.

Financial Supervision

The examination and monitoring of financial institutions - usually by government authorities - to ensure compliance with financial regulations.

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.

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.

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.

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.

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.

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.

Impact Assessment

Involves assessing the impact of a project and proving attribution by comparing actual outcomes with a *counterfactual* -- an estimate of what would have happened if the project had not been implemented. Impact can be defined as a favorable and intended change in some high-level objective, such as enterprise growth or household income. It can be distinguished from intermediate effects of projects such as organizing producers or providing various types of training, which can be traced through *program monitoring*. The best way of assessing project impact is through a longitudinal sample survey that uses an experimental or quasi-experimental methodology to compare a sample of project participants with a non-participating but otherwise similar control group. Impact is sometimes measured by canvassing participant and/or expert opinion. While such qualitative inquiries can effectively supplement longitudinal surveys, they are not satisfactory substitutes for the superior approaches.

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.

Indefinite Quantity Contract (IQC)

USAID contracts for services that can be utilized repeatedly, up to a contractually agreed-upon dollar ceiling.

Inter-Firm Cooperation

Defined as a strategic agreement between two or several firms involving exchange, and/or sharing or co-development of products, technologies or services; and covers a variety of arrangements between micro, small, medium and large enterprises, including licensing and subcontracting relationships, technology, marketing and other forms of strategic partnering. The primary motivation for inter-firm cooperation is to enhance competitive position or market power, decrease transaction costs and provide access to organizational knowledge and learning. Inter-firm cooperation could be an effective mechanism for capacity-building in areas such as technology, product and process quality improvements, marketing and managerial know-how, particularly for micro, small and medium-sized enterprises (MSMEs).

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.

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.

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.

Microenterprise

A market-oriented economic activity with 10 or fewer employees (including the owner and unpaid family members) that is owned and operated by someone of modest means.

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.

Microentrepreneur

Owner and operator of a microenterprise, sometimes an individual who is economically, socially, or educationally disadvantaged and usually one who lacks access to the commercial banking system and traditional business development services.

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 payments services needed by microentrepreneurs and other people who may lack access to mainstream financial services.

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.

Non-Financial Assistance

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.

Operational Costs

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

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.

Operational Self-Sufficiency

A situation in which an organization generates sufficient revenues from clients to cover all of its operational costs.

Opportunity Costs

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.

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.

Producer Groups

Defined as individuals engaged in producing similar products that are organized to achieve economies of scale and production or marketing efficiencies. Producer groups are a type of (horizontal) inter-firm cooperation. By (cooperating) organizing into producer groups, micro and small enterprises are often able to (1) improve their access to and reduce the cost of raw materials through bulk-purchasing; (2) increase their efficiency by sharing production skills and resources; (3) enhance the quality and marketability of their products through common production standards and market-driven product specifications; (4) increase access to available financing; (5) obtain critical business services through embedded or fee-for-service mechanisms; and (6) improve their market position by having the quality, quantity, and types of products that multiple buyers demand.

Prudential Financial Regulation

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

Remittances

The earnings sent by migrants to their countries of origin. In Latin America and the Caribbean, for example, remittances constitute a critical flow of foreign currency in the majority of countries.

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.

Sustainability

The sustainability of project impacts requires the development of local capacity to address recurring constraints. Recurring value-chain constraints should be addressed with efforts at policy and/or regulatory reform and commercial solutions to supporting (business and financial) services and improved inputs. Moreover, interventions should be temporary; and an explicit exit strategy needs to be developed upfront (not at the end of the project) to ensure that impacts are sustainable once project activities end.

Systemic Approach

Includes a comprehensive constraint analysis of the market system within which firms operate and an integrated set of interventions to address those constraints. More specifically, it includes: (a) an analysis of the systemic constraints in a value chain, (b) the upgrading both of the value chain and the large number of MSME firms engaged in a chain needed to be competitive – using commercial solutions; and (c) promotion of the inter-firm collaboration to further support competitiveness over the long term.

Upgrading

Refers to a change in mind-set, improvements in skills, making new (designs) products based on knowledge of final customers, employing new technologies, taking on new functions within a value chain, and other actions that lead to greater competitiveness. Upgrading can include product development, technology transfer, workforce training, effective backward linkages to suppliers, as well as the use of ICT to enable firms to identify and compete in new markets. Organizing smaller (MSEs) firms is often a first step in establishing effective backward linkages to MSE suppliers.

Value Chain

Describes the full range of activities that are required to bring a product from its conception to its end use and beyond; and includes activities such as design, production, marketing, distribution and support to the final consumer. The activities that comprise a value chain can be contained within a single firm or divided among different firms. Value chain activities can be contained within a single geographical location or spread over wider areas.

Global value chains are divided among multiple firms and spread across wide swaths of geographic space, hence the term "global value chain." Evidence shows that global value chains have become much more prevalent and elaborate at the tail end of the 20th Century. Today, the process of economic development cannot be isolated from these global systems. This means that firms and workers in widely separated locations affect one another more than they have in the past. Some of these effects are quite straightforward, as when a firm from one country establishes a new factory or engineering center in another country, and some are more complex, as when a firm in one country contracts with a firm in another country to coordinate production in plants owned by yet another firm in a third country, and so on.

Value Chain Analysis

Focuses on the dynamics of inter-linkages within a productive sector, especially the way in which firms and countries are globally integrated. While it includes a description of actors in the value chain and an analysis of constraints along the chain (as do traditional sectoral analyses), it overcomes an important weaknesses of traditional analysis, which tends to be static and limit itself to national boundaries. Value chain analysis concentrates on inter linkages and, by doing so, uncovers the dynamic flow of economic, organizational and coercive activities between producers within different sectors even on a global scale.