

MICROENTERPRISE ASSISTANCE REAUTHORIZATION
AMENDMENTS OF 2002

MAY 10, 2002.—Committed to the Committee of the Whole House on the State of
the Union and ordered to be printed

Mr. HYDE, from the Committee on International Relations,
submitted the following

R E P O R T

[To accompany H.R. 4073]

[Including cost estimate of the Congressional Budget Office]

The Committee on International Relations, to whom was referred the bill (H.R. 4073) to amend the Microenterprise for Self-Reliance Act of 2000 and the Foreign Assistance Act of 1961 to increase assistance for the poorest people in developing countries under microenterprise assistance programs under those Acts, and for other purposes, having considered the same, reports favorably thereon with an amendment and recommends that the bill as amended do pass.

TABLE OF CONTENTS

	Page
The Amendment	2
Purpose and Summary	4
Background and Need for the Legislation	5
Committee Consideration	7
Votes of the Committee	7
Committee Oversight Findings	8
New Budget Authority and Tax Expenditures	8
Congressional Budget Office Cost Estimate	8
Performance Goals and Objectives	10
Constitutional Authority Statement	10
Section-by-Section Analysis	10
New Advisory Committees	12
Congressional Accountability Act	12
Federal Mandates	12
Changes in Existing Law Made by the Bill, as Reported	12

THE AMENDMENT

The amendment is as follows:
Strike all after the enacting clause and insert the following:

SECTION 1. AMENDMENTS TO THE MICROENTERPRISE FOR SELF-RELIANCE ACT OF 2000.

(a) **PURPOSES.**—Section 103 of the Microenterprise for Self-Reliance Act of 2000 (Public Law 106–309) is amended—

(1) in paragraph (3), by striking “microentrepreneurs” and inserting “microenterprise households”;

(2) in paragraph (4), by striking “and” at the end;

(3) in paragraph (5)—

(A) by striking “microfinance policy” and inserting “microenterprise policy”;

(B) by striking “the poorest of the poor” and inserting “the very poor”;

and

(C) by striking the period at the end and inserting “; and”; and

(4) by adding at the end the following:

“(6) to encourage the United States Agency for International Development to develop, assess, and implement effective outreach methods and tools to ensure that all microenterprise assistance authorized under this title, and the amendments made by this title, is used to assist the greatest absolute number of economically viable clients among the very poor, and that at least 50 percent of all microenterprise assistance authorized under this title, and the amendments made under this title, is used in support of programs or lines of service that target the very poor.”.

(b) **DEFINITIONS.**—Section 104 of such Act is amended—

(1) in paragraph (2), by striking “for microentrepreneurs” and inserting “to microentrepreneurs and their households”; and

(2) by adding at the end the following:

“(5) **VERY POOR; POOREST PEOPLE IN DEVELOPING COUNTRIES.**—The terms ‘very poor’ and ‘poorest people in developing countries’ mean those persons living either in the bottom 50 percent below the poverty line as established by the national government of the country or on less than the equivalent of \$1 per day.”.

SEC. 2. AMENDMENTS TO THE MICRO- AND SMALL ENTERPRISE DEVELOPMENT CREDITS PROGRAM UNDER THE FOREIGN ASSISTANCE ACT OF 1961.

(a) **FINDINGS AND POLICY.**—Section 108(a)(2) of the Foreign Assistance Act of 1961 (22 U.S.C. 2151f(a)(2)) is amended by striking “the development of the enterprises of the poor” and inserting “the access to financial services and the development of microenterprises”.

(b) **PROGRAM.**—Section 108(b) of such Act (22 U.S.C. 2151f(b)) is amended to read as follows:

“(b) **PROGRAM.**—To carry out the policy set forth in subsection (a), the President is authorized to provide assistance to increase the availability of financial services to microenterprise households lacking full access to credit, including through—

“(1) loans and guarantees to microfinance institutions for the purpose of expanding the availability of savings and credit to poor and low-income households;

“(2) training programs for microfinance institutions in order to enable them to better meet the financial services needs of their clients; and

“(3) training programs for clients in order to enable them to make better use of credit, increase their financial literacy, and to better manage their enterprises.”.

(c) **ELIGIBILITY CRITERIA.**—Section 108(c) of such Act (22 U.S.C. 2151f(c)) is amended—

(1) in the first sentence of the matter preceding paragraph (1)—

(A) by striking “credit institutions” and inserting “microfinance institutions”; and

(B) by striking “micro- and small enterprises” and inserting “microenterprise households”; and

(2) in paragraphs (1) and (2), by striking “credit” each place it appears and inserting “financial services”.

(d) **ADDITIONAL REQUIREMENT.**—Section 108(d) of such Act (22 U.S.C. 2151f(d)) is amended by striking “micro- and small enterprise programs” and inserting “programs for microenterprise households”.

(e) AVAILABILITY OF FUNDS.—Section 108(f)(1) of such Act (22 U.S.C. 2151f(f)(1)) is amended by striking “for each of fiscal years 2001 and 2002” and inserting “for each of fiscal years 2001 through 2004”.

(f) CONFORMING AMENDMENT.—Section 108 of such Act (22 U.S.C. 2151f) is amended in the heading to read as follows:

“SEC. 108. MICROENTERPRISE DEVELOPMENT CREDITS.”.

SEC. 3. AMENDMENTS TO THE MICROENTERPRISE DEVELOPMENT GRANT ASSISTANCE PROGRAM UNDER THE FOREIGN ASSISTANCE ACT OF 1961.

(a) FINDINGS AND POLICY.—Section 131(a) of the Foreign Assistance Act of 1961 (22 U.S.C. 2152a(a)) is amended to read as follows:

“(a) FINDINGS AND POLICY.—Congress finds and declares that—

“(1) access to financial services and the development of microenterprise are vital factors in the stable growth of developing countries and in the development of free, open, and equitable international economic systems;

“(2) it is therefore in the best interest of the United States to facilitate access to financial services and assist the development of microenterprise in developing countries;

“(3) access to financial services and the development of microenterprises can be supported by programs providing credit, savings, training, technical assistance, business development services, and other financial and non-financial services; and

“(4) given the relatively high percentage of populations living in rural areas of developing countries, and the combined high incidence of poverty in rural areas and growing income inequality between rural and urban markets, microenterprise programs should target both rural and urban poor.”.

(b) AUTHORIZATION.—Section 131(b) of such Act (22 U.S.C. 2152a(b)) is amended—

(1) in paragraph (3)—

(A) in the first sentence of the matter preceding subparagraph (A), by striking “targeted to very poor entrepreneurs” and all that follows and inserting “used in support of programs or lines of service under which 50 percent or more of the incoming or prospective clients are initially very poor.”; and

(B) in subparagraph (A)(i), by striking “entrepreneurs” and inserting “clients”; and

(2) in paragraph (4)(D)—

(A) in clause (i), by striking “very small loans” and inserting “financial services to poor entrepreneurs”; and

(B) in clause (ii), by striking “microfinance” and inserting “microenterprise”.

(c) MONITORING SYSTEM.—Section 131(c) of such Act (22 U.S.C. 2152a(c)) is amended by striking paragraph (4) and inserting the following:

“(4) adopts the widespread use of proven and effective poverty assessment tools to successfully identify the very poor and ensure that they receive needed microenterprise credits, loans, and assistance.”

(d) DEVELOPMENT AND APPLICATION OF POVERTY MEASUREMENT METHODS.—Section 131 of such Act (22 U.S.C. 2152a) is amended—

(1) by redesignating subsections (d) and (e) as subsections (e) and (f), respectively; and

(2) by inserting after subsection (c) the following:

“(d) DEVELOPMENT AND CERTIFICATION OF POVERTY MEASUREMENT METHODS; APPLICATION OF METHODS.—

“(1) DEVELOPMENT AND CERTIFICATION.—(A) The Administrator of the United States Agency for International Development, in consultation with appropriate microfinance institutions, microenterprise institutions, and other appropriate entities shall develop no fewer than two low-cost methods for measuring the poverty levels of the current or prospective clients of microenterprise organizations for purposes of assistance under this section. In developing such methods, the Administrator shall give consideration to methods already in use by practitioner institutions.

“(B) The Administrator shall field-test the methods developed under this paragraph, and as part of the testing, institutions and programs may use these methods on a voluntary basis to demonstrate their ability to reach the very poor.

“(C) Not later than October 1, 2004, the Administrator shall, from among the low-cost poverty measurement methods developed under this paragraph, certify no fewer than two of such methods as approved methods for measuring

the poverty levels of the current or prospective clients of microenterprise organizations for purposes of assistance under this section.

“(2) APPLICATION.—Beginning on and after October 1, 2004, assistance furnished under this section to a program or to a line of service within an institution shall qualify, in whole or in part, as targeted assistance to the very poor if one or more of the measurement methods approved under paragraph (1), or one or more of the measurement methods approved in accordance with paragraph (1) after October 1, 2004, verifies that at least 50 percent of the incoming or prospective clients of the program or line of service are initially among the very poor.”

(e) LEVEL OF ASSISTANCE.—Section 131(e) of such Act, as redesignated by subsection (d), is amended by inserting “and \$175,000,000 for fiscal year 2003 and \$200,000,000 for fiscal year 2004” after “fiscal years 2001 and 2002”.

(f) DEFINITIONS.—Section 131(f) of such Act, as redesignated by subsection (d), is amended by adding at the end the following:

“(5) VERY POOR; POOREST PEOPLE IN DEVELOPING COUNTRIES.—The terms ‘very poor’ and ‘poorest people in developing countries’ mean those persons living either in the bottom 50 percent below the poverty line as established by the national government of the country or on less than the equivalent of \$1 per day.”

SEC. 4. REPORT TO CONGRESS.

Not later than July 1, 2004, the Administrator of the United States Agency for International Development shall submit to Congress a report that contains—

(1) a description of the interim poverty measurement methods developed and implemented pursuant to section 131(d)(1) of the Foreign Assistance Act of 1961, as added by section 3(d);

(2) an analysis of the results of the application of such interim poverty measurement methods to sustainable poverty-focused programs under such section; and

(3) a description of the proposed final poverty measurement methods to be implemented beginning on October 1, 2004, in accordance with section 131(d)(2) of such Act, as added by section 3(d).

PURPOSE AND SUMMARY

H.R. 4073, a bill making amendments to the Microenterprise and Self-Reliance Act of 2000 and the Foreign Assistance Act of 1961, as amended, (FAA), as reported out of the Committee on International Relations, reauthorizes and increases authorized funding levels for microenterprise programs under the authority of the Administrator of the U.S. Agency for International Development. The bill amends the Purposes and Definitions sections of the Microenterprise and Self-Reliance Act of 2000, and also amends the Findings and Policy, Eligibility Criteria, Additional Requirement, and Availability of Funds subsections of Section 108 of the FAA (concerning the Microenterprise Development Credits program). The bill also makes amendments to the Findings and Policy, Authorization, Monitoring System and Definition subsections of Section 131 of the FAA (concerning the Microenterprise Development Grant Assistance program), adds an additional subsection on Poverty Measurement (Section 131(d)), and also requires a report to Congress concerning the implementation of this subsection. Specifically, H.R. 4073 reauthorizes microenterprise grant assistance for an additional 2 years, through FY2004, providing authorization for \$175 million in 2003 and \$200 million in 2004

The goals and objectives of this legislation are to amend the Microenterprise and Self-Reliance Act of 2000 and the Foreign Assistance Act of 1961 to reauthorize microenterprise assistance, to better focus assistance on the very poor, and to make definitional and other amendments to update language of both acts concerning rural lending, the provision of financial services, and the develop-

ment and application of poverty measurement tools for the purpose of ensuring U.S. microenterprise assistance reaches the very poor.

BACKGROUND AND NEED FOR THE LEGISLATION

The Microenterprise for Self-Reliance Act of 2000 (PL 106-309) authorized U.S. microenterprise programs under the authority of the Administrator of the U.S. Agency for International Development (USAID). PL 106-309 authorized these programs for an initial 2-year period, which expires on September 30, 2002. Mr. Smith of New Jersey and Mr. Roemer each introduced bills to reauthorize microenterprise programs, and H.R. 4073 as reported represents a compromise draft that incorporates significant aspects of each bill. H.R. 4073 would increase U.S. funding to \$175 million in FY2003 and \$200 million in FY2004, and makes a number of important definitional changes.

In reauthorizing the Microenterprise for Self-Reliance Act, the Committee has provided significant increases in authorized funding levels for microenterprise development grant programs in recognition of the effectiveness of these programs, the unmet need for credit, savings and other business and financial services among millions of poor people, and the capacity of microenterprise development programs globally to put additional resources to good use.

The Committee recognizes the valuable contributions that USAID has made to the development and expansion of financially-sustainable microenterprise institutions during the initial authorization period. The amendments in H.R. 4073 are intended to encourage USAID to apply an equal level of creativity and innovation to promote outreach to the very poor. By designating at least 50 percent of all assistance to programs or lines of service that target the very poor, the Committee seeks to encourage microenterprise institutions to develop and expand programs that specifically target the very poor. While recognizing that poor people at all levels of poverty require greater access to financial and non-financial microenterprise development services, the Committee emphasizes that all microenterprise assistance authorized by H.R. 4073 should be used to assist the greatest possible number of the very poor. In support of this goal, the 50 percent of funds designated for programs or lines of services targeting the very poor shall be considered as a minimum, and not a maximum.

The Committee intends that the term “program and lines of service” should include not only the provision of direct financial services but also other programs that serve the very poor by building capacity and reducing poverty. The Committee further intends that the term “program and lines of service” shall include those poverty-focused services within larger institutions. This provision ensures that poverty-focused services within larger institutions can be eligible to receive resources targeted to the very poor, even if the institution as a whole does not serve a majority of very poor clients. Such institutions are eligible to receive those resources targeted to the very poor if those institutions develop particular lines of service under which 50 percent or more of the incoming or prospective clients are initially very poor.

H.R. 4073 requires USAID, in consultation with the microenterprise community, to develop “poverty measurement methods” in order to enable microenterprise organizations to identify which of

their prospective clients meet the definition of “very poor.” Section 131(b)(3) of the Foreign Assistance Act currently requires that 50 percent of all microenterprise assistance be targeted to very poor entrepreneurs (defined as those living in the bottom 50 percent below the poverty line). Because it is expensive and technically difficult to “measure” poverty of potential clients, USAID has used loan size when measuring implementation agency compliance with the 50 percent requirement. Many academics and practitioners do not agree that loan size is a valid proxy, nor are they in agreement on how best to measure poverty (income alone is not considered a valid indicator). H.R. 4073 will require that by October 1, 2004, the Administrator certify no fewer than two low-cost methods for measuring the poverty levels of the current or prospective clients of microenterprise organizations. The bill also requires that after October 1, 2004, the Administrator use these new methods to determine which programs meet the criteria of targeting the “very poor.”

The Committee has expanded the definition of the very poor to include those severely poor people living on less than \$1 per day and has provided clear guidance to USAID for the development and use of cost-efficient practical poverty measurement tools that can be applied by practitioner organizations. The Committee has included language that directs that beginning on October 1, 2004, at least half of all microenterprise development grant resources shall go to programs that can demonstrate by use of a USAID-certified poverty measurement method that 50 percent or more of their incoming or prospective clients are initially very poor. This change creates substantially greater incentive for USAID to find and support financially-sustainable lines of microenterprise development service that favor the very poor, while allowing up to half of the funding to support other lines of service that serve poor people who are somewhat better-off. The Committee expects that this provision will provide a clearer, more meaningful guideline that will create substantially stronger incentive for USAID and its grantees to push the frontiers of microenterprise development to include more of the very poor than are currently being reached by USAID supported microenterprise development programs and services.

The Committee has also broadened the definition of microenterprise development services in recognition of the importance of delivering both financial and non-financial services to the poor, and has emphasized the importance of providing these services to rural as well as urban areas, given the concentrations of poverty often found in rural areas.

The Committee recognizes that USAID has included some incentives for poverty outreach in its procurement process. However, after a review of the current procurement guidelines, the Committee finds that the current incentives and guidelines are inadequate to encourage innovation and support the rapid expansion of financial services to the very poor and others currently underserved or excluded from microenterprise programs. H.R. 4073 addresses these inadequacies by requiring the development of poverty-measurement methods. The Committee hopes that these methods will enable microenterprise institutions to demonstrably reach the greatest number of the very poor with sustainable and cost-efficient programs.

The Committee recognizes that microfinance networks are efficient vehicles for rapidly expanding access to financial services by the poor. These networks build new microfinance institutions in underserved areas and provide technical assistance, systems support, quality control, and research. Microfinance networks also raise substantial private-sector funding assistance for their partner microfinance institutions around the world. Investing in microfinance networks is an efficient and appropriate use of U.S. government foreign assistance. The Committee strongly encourages analysis from USAID on how the establishment of an "Accelerated Growth Fund" would assist in the promotion of microenterprise networks. In the Microenterprise for Self-Reliance Act of 2000, Congress requested the Administration to prepare a report assessing the need and structure for an Accelerated Growth Fund within 180 days of the enactment of the Act. USAID is currently delinquent in submitting the report, which has prevented the Committee from properly evaluating proposals to capitalize such a fund in the reauthorization process. The Committee expects that the report will be forthcoming in the near future, and seeks to work with the Administration and the microenterprise development community to develop and establish an Accelerated Growth Fund in the future, if appropriate.

The Committee recognizes that credit unions in developing countries are vital delivery channels for financial services to the very poor. USAID should continue supporting the approach used by the World Council of Credit Unions (WOCCU) for the delivery of microenterprise services. WOCCU's approach builds safe and sound financial institutions and provides additional capacity in credit unions to meet members' savings and loans, microenterprise loans, and education needs. The Committee intends that the term "program and lines of service" shall include the types of cost-efficient, sustainable programs that build capacity and reduce poverty, such as those implemented by the World Council of Credit Unions.

The Committee supports the use of debt financing instruments for use as loan capital, as microfinance organizations mature and move away from donor dependence. To stimulate collaboration with the commercial banking sector and encourage their participation, government assistance is necessary. Instruments such as the Development Credit Authority (DCA) and the Overseas Private Investment Corporation (OPIC) will stimulate the participation of the private and government financial sectors in providing resources for economic development.

COMMITTEE CONSIDERATION

On April 25, 2002, the Committee on International Relations marked up the bill, H.R. 4073, pursuant to notice, in open session. The Committee adopted an amendment in the nature of a substitute offered by Mr. Smith of New Jersey. The Committee, a quorum being present, agreed by voice vote to a motion made by Chairman Hyde to favorably report the bill, as amended, to the House of Representatives.

VOTES OF THE COMMITTEE

There were no recorded votes during the consideration of the bill.

COMMITTEE OVERSIGHT FINDINGS

In compliance with clause 3(c)(1) of rule XIII of the Rules of the House of Representatives, the Committee reports that the findings and recommendations of the Committee, based on oversight activities under clause 2(b)(1) of rule X of the Rules of the House of Representatives, are incorporated in the descriptive portions of this report.

NEW BUDGET AUTHORITY AND TAX EXPENDITURES

Clause 3(c)(2) of House Rule XIII is inapplicable because this legislation does not provide new budgetary authority or increased tax expenditures.

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

In compliance with clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, the Committee sets forth, with respect to the bill, H.R.4073, the following estimate and comparison prepared by the Director of the Congressional Budget Office under section 402 of the Congressional Budget Act of 1974:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, May 1, 2002.

Hon. HENRY J. HYDE, *Chairman,*
Committee on International Relations,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 4073, a bill to amend the Microenterprise for Self-Reliance Act of 2000 and the Foreign Assistance Act of 1961 to increase assistance for the poorest people in developing countries under microenterprise assistance programs under those acts, and for other purposes.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Joseph C. Whitehill, who can be reached at 226-2840.

Sincerely,

DAN L. CRIPPEN, *Director.*

Enclosure

cc: Honorable Tom Lantos
Ranking Democratic Member

H.R. 4073—A bill to amend the Microenterprise for Self-Reliance Act of 2000 and the Foreign Assistance Act of 1961 to increase assistance for the poorest people in developing countries under microenterprise assistance programs under those acts, and for other purposes

SUMMARY

H.R. 4073 would authorize the appropriation of \$175 million in 2003 and \$200 million in 2004 for grants and credits to microenterprise development programs, or programs that would provide access to financial services to poor persons in developing countries. The bill would place emphasis on assistance to persons living with-

in the bottom 50 percent below a country's poverty line or living on less than the equivalent of \$1 per day. CBO estimates that implementing H.R. 4073 would cost \$328 million over the 2003–2007 period, assuming the appropriation of the authorized amounts. Because the bill would not affect direct spending or receipts, pay-as-you-go procedures would not apply.

H.R. 4073 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4073 is shown in the following table. The estimate assumes this legislation will be enacted by the beginning of 2003, that the specified amounts will be appropriated before the start of each fiscal year, and that outlays will follow historical spending patterns. The costs of this legislation fall within budget function 150 (international affairs).

[By fiscal year, in millions of dollars]

	2002	2003	2004	2005	2006	2007
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law for						
Microenterprise Assistance Programs:						
Budget Authority ¹	155	0	0	0	0	0
Estimated Outlays	131	118	66	34	18	10
Proposed Changes:						
Authorization Level	0	175	200	0	0	0
Estimated Outlays	0	23	91	113	67	34
Spending Under H.R. 4073 for						
Microenterprise Assistance Programs:						
Authorization Level ¹	155	175	200	0	0	0
Estimated Outlays	131	141	157	147	85	44

¹The 2002 level is the amount appropriated for that year.

PAY-AS-YOU-GO CONSIDERATIONS:

None.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 4073 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

ESTIMATE PREPARED BY:

Federal Costs: Joseph C. Whitehill (226–2840)
 Impact on State, Local, and Tribal Governments: Elyse Goldman
 (225–3220)
 Impact on the Private Sector: Paige Piper/Bach (226–2940)

ESTIMATE APPROVED BY:

Peter H. Fontaine
 Deputy Assistant Director for Budget Analysis

PERFORMANCE GOALS AND OBJECTIVES

The goals and objectives of this legislation are to amend the Microenterprise and Self-Reliance Act of 2000 and the Foreign Assistance Act of 1961 to reauthorize microenterprise assistance and to make amendments to update language of both acts concerning rural lending, the provision of financial services, and the development and application of poverty measurement tools for the purpose of ensuring U.S. microenterprise assistance reaches the very poor.

CONSTITUTIONAL AUTHORITY STATEMENT

Pursuant to clause 3(d)(1) of rule XIII of the Rules of the House of Representatives, the Committee finds the authority for this legislation in article I, section 8, clause 18 of the Constitution (relating to making all laws necessary and proper for carrying into execution powers vested by the Constitution in the government of the United States).

SECTION-BY-SECTION ANALYSIS AND DISCUSSION

Section 1. Amendments to the Microenterprise for Self-Reliance Act of 2000.

This section amends the Purposes and Definitions subsections of the act. Specifically, it amends some of the terminology used in these sections, reflecting developments in the microenterprise industry. The word “microentrepreneur” is changed to “microenterprise household,” a modification requested by the Microenterprise Coalition and endorsed by USAID. This section also strikes the term “microfinance policy” and replaces it with “microenterprise policy.” This section strikes the phrase “poorest of the poor,” and replaces it with the phrase “the very poor,” which is defined later in this section. This section adds an additional subparagraph to the Purposes subsection, one that encourages USAID “to develop, assess and implement effective outreach tools and methods” to ensure that microenterprise assistance is used “to assist the greatest absolute number of economically viable clients among the very poor, and that at least 50 percent of all microenterprise assistance” is used “in support of programs or lines of service that target the very poor.” In the Definitions subsection, “very poor” is defined as “those persons living either in the bottom 50 percent below the poverty line as established by the national government of the country, or on less than the equivalent of \$1 per day.”

Section 2. Amendments to the Micro- and Small Enterprise Development Credits Program under the Foreign Assistance Act of 1961.

This section amends Section 108(a) of the FAA to update terminology by adding the concept of “financial services.” Section 108(b) amended to authorize the President “to provide assistance to increase the availability of financial services to microenterprise households lacking full access to credit.” This section also authorizes the appropriation of \$1,500,000 for each of fiscal years 2003 and 2004, the current level for the program. This section also

amends the name of subject program to the “Microenterprise Development Credits” program.

Section 3. Amendments to the Microenterprise Development Grant Assistance Program under the Foreign Assistance Act of 1961.

This section amends Section 131(a) of the FAA by stressing the importance of rural development and the access to financial services. This section also amends Section 131(b) of the FAA by requiring that “50 percent of all microenterprise resources shall be used in support of programs or lines of service under which 50 percent or more of the incoming or prospective clients are initially very poor.” This represents a change from current law which requires that 50 percent of microenterprise resources be targeted to “very poor entrepreneurs.” This change is based on the proposition that recipient microenterprise institutions (as grantees) should demonstrate *ex ante* their commitment to reaching out to the “very poor,” and that the Administrator should establish special criteria in accordance with this amendment to ensure that microenterprise institutions target the “very poor.”

By establishing this new target that 50 percent of total funding to go to programs or services that can verify that at least 50 percent of their incoming clients are very poor, this section addresses a major shortcoming of existing U.S. microenterprise programs. The current target that “50 percent of Microenterprise Development resources go to the poor” cannot be measured cost-effectively, and USAID has never made an attempt to prospectively link this target to grant-making decisions. The current target is unenforceable and provides little incentive for USAID or its grantees to find and support financially-sustainable lines of service that favor the very poor. In contrast, the target in this section of H.R. 4073 is both measurable with low-cost methods and enforceable through linkage to grant-making decisions, and will provide substantial new incentive for outreach to the very poor.

This section also amends Section 131(c) of the FAA by requiring the Administrator to “adopt the widespread use of proven and effective poverty assessment tools to successfully identify the very poor and ensure that they receive needed microenterprise credits, loans and assistance.” This section adds a new subsection (d), entitled “Development and Certification of Poverty Measurement Methods; Application of Methods” which addresses Congressional concerns that USAID and microenterprise institutions need to find more accurate and representative methods for measuring the poverty of current and prospective clients. This new subsection requires the Administrator of USAID, in consultation with appropriate microfinance institutions, to “develop no fewer than two low-cost methods for measuring the poverty levels of the current or prospective clients of microenterprise organizations” and that the Administrator “give consideration to methods already in use by practitioner institutions.” This subsection requires the Administrator to field-test the methods developed, and provides that microenterprise institutions and programs may use these methods on a voluntary basis to determine their ability to reach the very poor. This subsection further requires the Administrator to certify “no fewer than two of such methods as approved methods for measuring the poverty levels of the current or prospective clients of microenterprise

organizations” no later than October 1, 2004. This section further requires that beginning on an after October 1, 2004, assistance furnished to a program or to a line of service within an institution shall qualify, in whole or in part, as targeted assistance to the very poor if one or more of the approved poverty measurement methods “verifies that at least 50 percent of the incoming or prospective clients of the program or line of service are initially among the very poor.” This subsection authorizes assistance in the amount of \$175 million for 2003 and \$200 million for 2004.

Section 4. Report.

This section requires that the Administrator submit a report to Congress no later than July 1, 2004, concerning the development, application, and analysis of interim poverty measurement methods required under Section 3 above.

NEW ADVISORY COMMITTEES

H.R. 4073 does not establish or authorize any new advisory committees.

CONGRESSIONAL ACCOUNTABILITY ACT

H.R. 4073 does not apply to the legislative branch.

FEDERAL MANDATES

H.R. 4073 imposes no Federal mandates.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

MICROENTERPRISE FOR SELF-RELIANCE ACT OF 2000

(Public Law 106–309)

* * * * *

TITLE I—MICROENTERPRISE FOR SELF-RELIANCE ACT OF 2000

* * * * *

SEC. 103. PURPOSES.

The purposes of this title are—

(1) * * *

* * * * *

(3) to support and develop the capacity of United States and indigenous nongovernmental organization intermediaries to provide credit, savings, training, technical assistance, and business development services to **[microentrepreneurs]** *microenterprise households*;

(4) to emphasize financial services and substantially increase the amount of assistance devoted to both financial services and complementary business development services designed to reach the poorest people in developing countries, particularly women; [and]

(5) to encourage the United States Agency for International Development to coordinate [microfinance policy] *microenterprise policy*, in consultation with the Department of the Treasury and the Department of State, and to provide global leadership among bilateral and multilateral donors in promoting microenterprise for the [poorest of the poor.] *the very poor*; and

(6) to encourage the United States Agency for International Development to develop, assess, and implement effective outreach methods and tools to ensure that all microenterprise assistance authorized under this title, and the amendments made by this title, is used to assist the greatest absolute number of economically viable clients among the very poor, and that at least 50 percent of all microenterprise assistance authorized under this title, and the amendments made under this title, is used in support of programs or lines of service that target the very poor.

SEC. 104. DEFINITIONS.

In this title:

(1) * * *

(2) MICROENTERPRISE INSTITUTION.—The term “microenterprise institution” means an institution that provides services, including microfinance, training, or business development services, [for microentrepreneurs] *to microentrepreneurs and their households*.

* * * * *

(5) *VERY POOR; POOREST PEOPLE IN DEVELOPING COUNTRIES.*—The terms “very poor” and “poorest people in developing countries” mean those persons living either in the bottom 50 percent below the poverty line as established by the national government of the country or on less than the equivalent of \$1 per day.

* * * * *

FOREIGN ASSISTANCE ACT OF 1961

* * * * *

PART I

CHAPTER 1—POLICY; DEVELOPMENT ASSISTANCE AUTHORIZATIONS

* * * * *

[SEC. 108. MICRO- AND SMALL ENTERPRISE DEVELOPMENT CREDITS.]

SEC. 108. MICROENTERPRISE DEVELOPMENT CREDITS.

(a) FINDINGS AND POLICY.—Congress finds and declares that—

(1) * * *

(2) it is, therefore, in the best interests of the United States to assist **the development of the enterprises of the poor** *the access to financial services and the development of microenterprises* in developing countries and to engage the United States private sector in that process.

[(b) PROGRAM.—To carry out the policy set forth in subsection (a), the President is authorized to provide assistance to increase the availability of credit to micro- and small enterprises lacking full access to credit, including through—

[(1) loans and guarantees to credit institutions for the purpose of expanding the availability of credit to micro- and small enterprises;

[(2) training programs for lenders in order to enable them to better meet the credit needs of microentrepreneurs; and

[(3) training programs for microentrepreneurs in order to enable them to make better use of credit and to better manage their enterprises.]

(b) PROGRAM.—To carry out the policy set forth in subsection (a), the President is authorized to provide assistance to increase the availability of financial services to microenterprise households lacking full access to credit, including through—

(1) loans and guarantees to microfinance institutions for the purpose of expanding the availability of savings and credit to poor and low-income households;

(2) training programs for microfinance institutions in order to enable them to better meet the financial services needs of their clients; and

(3) training programs for clients in order to enable them to make better use of credit, increase their financial literacy, and to better manage their enterprises.

(c) ELIGIBILITY CRITERIA.—The Administrator of the agency primarily responsible for administering this part shall establish criteria for determining which **credit institutions** *microfinance institutions* described in subsection (b)(1) are eligible to carry out activities, with respect to **micro- and small enterprises** *microenterprise households*, assisted under this section. Such criteria may include the following:

(1) The extent to which the recipients of **credit** *financial services* from the entity do not have access to the local formal financial sector.

(2) The extent to which the recipients of **credit** *financial services* from the entity are among the poorest people in the country.

* * * * *

(d) ADDITIONAL REQUIREMENT.—Assistance provided under this section may only be used to support **micro- and small enterprise programs** *programs for microenterprise households* and may not be used to support programs not directly related to the purposes described in subsection (b).

* * * * *

(f) AVAILABILITY OF FUNDS.—

(1) IN GENERAL.—Of the amounts authorized to be available to carry out section 131, there are authorized to be avail-

able \$1,500,000 [for each of fiscal years 2001 and 2002] for each of fiscal years 2001 through 2004 to carry out this section.

* * * * *

SEC. 131. MICROENTERPRISE DEVELOPMENT GRANT ASSISTANCE.

[(a) FINDINGS AND POLICY.—Congress finds and declares that—

[(1) the development of microenterprise is a vital factor in the stable growth of developing countries and in the development of free, open, and equitable international economic systems;

[(2) it is therefore in the best interest of the United States to assist the development of microenterprises in developing countries; and

[(3) the support of microenterprise can be served by programs providing credit, savings, training, technical assistance, and business development services.]

(a) FINDINGS AND POLICY.—Congress finds and declares that—

(1) access to financial services and the development of microenterprise are vital factors in the stable growth of developing countries and in the development of free, open, and equitable international economic systems;

(2) it is therefore in the best interest of the United States to facilitate access to financial services and assist the development of microenterprise in developing countries;

(3) access to financial services and the development of microenterprises can be supported by programs providing credit, savings, training, technical assistance, business development services, and other financial and non-financial services; and

(4) given the relatively high percentage of populations living in rural areas of developing countries, and the combined high incidence of poverty in rural areas and growing income inequality between rural and urban markets, microenterprise programs should target both rural and urban poor.

(b) AUTHORIZATION.—

(1) * * *

* * * * *

(3) TARGETED ASSISTANCE.—In carrying out sustainable poverty-focused programs under paragraph (1), 50 percent of all microenterprise resources shall be [targeted to very poor entrepreneurs, defined as those living in the bottom 50 percent below the poverty line as established by the national government of the country.] used in support of programs or lines of service under which 50 percent or more of the incoming or prospective clients are initially very poor. Specifically, such resources shall be used for—

(A) direct support of programs under this subsection through practitioner institutions that—

(i) provide credit and other financial services to [entrepreneurs] clients who are very poor, with loans in 1995 United States dollars of—

(I) * * *

* * * * *

(4) SUPPORT FOR CENTRAL MECHANISMS.—The President should continue support for central mechanisms and missions, as appropriate, that—

(A) * * *

* * * * *

(D) support the development of nonprofit global microfinance networks, including credit union systems, that—

(i) are able to deliver [very small loans] *financial services to poor entrepreneurs* through a significant grassroots infrastructure based on market principles; and

(ii) act as wholesale intermediaries providing a range of services to [microfinance] *microenterprise* retail institutions, including financing, technical assistance, capacity-building, and safety and soundness accreditation.

* * * * *

(c) MONITORING SYSTEM.—In order to maximize the sustainable development impact of the assistance authorized under subsection (b)(1), the Administrator of the agency primarily responsible for administering this part shall establish a monitoring system that—

(1) * * *

* * * * *

[(4) provides a basis for recommendations for adjustments to measures for reaching the poorest of the poor, including proposed legislation containing amendments to enhance the sustainable development impact of such assistance, as described in paragraph (3).]

(4) *adopts the widespread use of proven and effective poverty assessment tools to successfully identify the very poor and ensure that they receive needed microenterprise credits, loans, and assistance.*

(d) DEVELOPMENT AND CERTIFICATION OF POVERTY MEASUREMENT METHODS; APPLICATION OF METHODS.—

(1) DEVELOPMENT AND CERTIFICATION.—(A) *The Administrator of the United States Agency for International Development, in consultation with appropriate microfinance institutions, microenterprise institutions, and other appropriate entities shall develop no fewer than two low-cost methods for measuring the poverty levels of the current or prospective clients of microenterprise organizations for purposes of assistance under this section. In developing such methods, the Administrator shall give consideration to methods already in use by practitioner institutions.*

(B) *The Administrator shall field-test the methods developed under this paragraph, and as part of the testing, institutions and programs may use these methods on a voluntary basis to demonstrate their ability to reach the very poor.*

(C) *Not later than October 1, 2004, the Administrator shall, from among the low-cost poverty measurement methods developed under this paragraph, certify no fewer than two of such methods as approved methods for measuring the poverty levels*

of the current or prospective clients of microenterprise organizations for purposes of assistance under this section.

(2) APPLICATION.—Beginning on and after October 1, 2004, assistance furnished under this section to a program or to a line of service within an institution shall qualify, in whole or in part, as targeted assistance to the very poor if one or more of the measurement methods approved under paragraph (1), or one or more of the measurement methods approved in accordance with paragraph (1) after October 1, 2004, verifies that at least 50 percent of the incoming or prospective clients of the program or line of service are initially among the very poor.

[(d)] *(e) LEVEL OF ASSISTANCE.—Of the funds made available under this part, the FREEDOM Support Act, and the Support for East European Democracy (SEED) Act of 1989, including local currencies derived from such funds, there are authorized to be available \$155,000,000 for each of the fiscal years 2001 and 2002 and \$175,000,000 for fiscal year 2003 and \$200,000,000 for fiscal year 2004, to carry out this section.*

[(e)] *(f) DEFINITIONS.—In this section:*

*(1) * * **

** * * * **

(5) VERY POOR; POOREST PEOPLE IN DEVELOPING COUNTRIES.—The terms “very poor” and “poorest people in developing countries” mean those persons living either in the bottom 50 percent below the poverty line as established by the national government of the country or on less than the equivalent of \$1 per day.

** * * * **

