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Senate
"Microfinance and Microenterprise Enhancement Act of 2011"
(S. 2027)

S. 2027 was introduced by Sens. Michael Bennet (D-CO) and John Boozman (R-AK). To cosponsor, please contact Andrew Leahy in Sen. Bennet's office (Andrew_Leahy@Bennet.senate.gov) or Toni-Marie Higgins in Sen. Boozman's office (Toni-Marie_Higgins@boozman.senate.gov).

Authorization of Assistance: The bill does not authorize any new funding.

Sense of Congress on Targeted and Effective Programming
USAID should:

1) Advance access for the very poor and vulnerable populations to ensure the poorest are included and benefit from broad-based economic growth
2) To the greatest extent possible, set clear country or regional funding targets based on greatest needs as evidenced by poverty indicators and strive to fill that need[1]
3) Places special emphasis on poor women
4) Ensure organizations receiving money adhere to client protection principles
5) Encourage providers to focus on both financial sustainability and reaching the poor, i.e., the "double bottom line."
6) Support a wide-range of providers
7) Promote existing technology, e.g., mobile banking
8) Identify local, smaller microfinance providers whose work USAID should support

Sense of Congress on Expanded Integrated Approaches
USAID should support new methods and programs that integrate both financial and non-financial needs, such as nutrition, health, and education of households, as well as the functioning of enterprises, markets, and their inter-relationships in the economy.

Household-Based Approaches
USAID shall:

a) Promote services that respond to the needs of the poor: savings, remittances, money transfers
b) Promote financial tools that help to aggregate risks, mitigate shocks, and smooth consumption, such as insurance and savings, so the poor can manage for expected (school fees, harvest cycles) and unexpected (illness, drought) income fluctuations

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[1] Sub-Saharan Africa is one of the poorest regions. The population includes the highest burden and percentage of people living in extreme poverty of any developing region,[1] with almost half the population surviving on less than $1 per day.[1] While there are more than 300 million economically active individuals in sub-Saharan Africa, only about 20 million of them — less than 10 percent — have access to any kind of formal financial services.[1] Despite the clear need, USAID funding for microfinance activities in sub-Saharan Africa declined from $15.3 million in FY02 to $8.2 million in FY08. In FY09, Latin America and the Caribbean received 35.6 percent of all microenterprise and microfinance funding, compared to 16.5 percent for the 19 countries sub-Saharan Africa; Colombia alone received 26.2 percent of all funding (in fact, between 1981 and 2005, the poverty rate rose in sub-Saharan Africa but fell in Latin America). Funding for sub-Saharan Africa was only slightly higher than funding to the Middle East (14.8 percent overall), which includes just five countries, with Iraq receiving the bulk of that funding (55.9 percent). The only sub-Saharan African country to be among the top ten recipients was Liberia.

c) Support new partners that work in informal savings-led approaches, including those that link informal to formal (like CARE's informal savings groups, which are then link poor clients to formal banks, like Opportunity International, when they are ready)
d) Support organizations that link social protection programs (e.g., help with food, skills training, financial education) with microfinance (e.g, BRAC's Targeting the Ultra Poor program or Fonkoze's Road to a Better Life in Haiti)

Enterprise and Market-Based Approaches
USAID shall:

a) Link household-level interventions (individual clients) with interventions that build inclusive markets (e.g., bringing the harvest to the market)
b) Support the range of financial products that enterprises need, such as working capital and production services
c) Support microfinance providers that are using agriculture-specific tools to help rural areas
d) Focus on linking global, regional, and local value chains, i.e., product to market
e) Consider support for small and medium enterprises ("SMEs")

Measuring and Reporting Results[2]
USAID shall:

a) Modify the USAID Poverty Assessment Tools (PATs) to allow groups that use them to collect more useful information that will help them to program more effectively
b) Within one year, identify and approve alternatives to the PAT, such as those used within the industry

Financial Access and Microenterprise Innovation Fund

a) USAID is authorized to spend one percent of the development assistance account budget for FY13-17 to create this special fund.
b) The fund shall be used to:
    1) Identify, test, and support cost-effective products and technologies that improve delivery of financial services, especially in rural areas
    2) Identify, test, and support products, services, and delivery systems that could be cost-effective on a large scale
    3) Bring these innovations to scale.
c) The fund shall make grants. The grants should reward or require organizations that invest their own funds. The grants could be challenge grants, e.g., matching grants, achieving targets like the number of poor reached.

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[2] PL 108-484, the most recent microfinance law, requires USAID to develop and certify low-cost, accurate, and country-specific poverty assessments tools (PATs) to be used by implementing organizations to measure and report on the poverty level of their clients. It states that USAID "shall develop no fewer than two low-cost methods." Since the 2004 law, other organizations have recognized the important use of poverty measurement tools — not just for microfinance, but also across other development sectors. An example is the Grameen Foundation's Progress Out of Poverty Index (PPI).[2] It is used globally to measure poverty levels and is statistically extremely similar in data collection and computation to the PAT. However, the PPI is not simply a reporting tool that sends data to USAID — it is also a management tool. Many organizations do not have the tools to evaluate how well they are fulfilling their mission of reducing poverty. The PPI is designed to fill that need. Unlike the PAT, the PPI enables microfinance institutions to respond to their clients' needs by assessing the change in their poverty status over time. Data thus collected serves as a baseline from which client movement out of poverty can be measured. By using benchmarks and standards of measurement that produce reliable information, managers can build client profiles and track how they change over time. The PAT doesn't provide this information. To help incentivize microfinance providers to measure poverty levels and track progress out of poverty, and to ensure cost-effectiveness at USAID, USAID should certify rigorous tools that demonstrate accuracy in measuring impact.