

SUBJECT: New Microenterprise Legislation: Significant Implications for Missions and Other Operating Units (A reference for ADS 219)

NEW MATERIAL: Following protracted negotiations between USAID, Congress and the microenterprise/microfinance practitioner community, HR 3818, the "Microenterprise Results and Accountability Act of 2004" became Public Law 108-484 on December 23, 2004. In response to concerns expressed primarily by nonprofit practitioners about trends in USAID microenterprise funding and procurement mechanisms, Congressional oversight committees have been closely scrutinizing our work in this field.

EFFECTIVE DATE: 12/23/2004

ATTACHMENT: [Reporting Requirement Contained in the Microenterprise Results and Accountability Act of 2004](#)

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POLICY

USAID/General Notice
A/AID
09/19/2005

EXECUTIVE MESSAGE

SUBJECT: New Microenterprise Legislation: Significant Implications for Missions and Other Operating Units (A reference for ADS 219)

Following protracted negotiations between USAID, Congress and the microenterprise/microfinance practitioner community, HR 3818, the "Microenterprise Results and Accountability Act of 2004" became Public Law 108-484 on December 23, 2004. You can view the full text of the law at http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=108_cong_public_laws&docid=f:publ484.108

In response to concerns expressed primarily by nonprofit practitioners about trends in USAID microenterprise funding and procurement mechanisms, Congressional oversight committees have been closely scrutinizing our work in this field.

1) Particular concern has focused on USAID's increasing use of contracts to carry out these programs and the growing share of total funding being obligated to for-profit consulting firms.

2) The committees have also voiced concerns about the volume of USAID funding for entities that are not "direct service providers," and have called for increased funding for centrally-programmed work in this field.

3) Finally, they have questioned whether new mission strategies are putting adequate emphasis on microfinance and microenterprise development activities to advance USAID's poverty reduction and economic growth goals.

Given the nature of these concerns, I want to make Mission Directors and other senior managers aware of three key Agency requirements contained in the law, and to ask you to take the following steps to help USAID comply:

a. Strategy review and concurrence: The law formally establishes an office of Microenterprise Development (EGAT/PR/MD) to carry out a number of activities, including "concurring in the microenterprise development components of strategic plans of missions, bureaus and other offices of the Agency and providing technical support to field missions to help the missions prepare such components."

Action:

- Bureaus must seek MD review of mission strategy documents at the earliest feasible point in the review process.

- Explicit mission reference to microenterprise and microfinance activities, as appropriate, will facilitate compliance with this new requirement.

b. Monitoring system: The law requires USAID to strengthen its microenterprise monitoring system to include quantifiable performance goals and indicators to measure progress against goals, as the basis for adjustments to microenterprise support, to enhance the sustainability and poverty impact of the assistance.

Action:

- EGAT/PR/MD and PPC modify the Microenterprise Results Reporting (MRR) system to meet additional requirements for USAID's annual report to Congress, including results of the monitoring system.

- Missions and operating units provide expanded information through the annual MRR process. (The attachment contains a list of reporting requirements for which data is requested from missions and other operating units.)

c. New provisions on use of non-profit vs. for-profit implementers and cost-effectiveness of assistance:

- In allocating its assistance, the law directs USAID to select applicants "that are the most technically competitive and have a reasonable allocation to overhead and administrative expenses."

- In satisfying these technical and cost considerations, the Agency then "shall emphasize the use of implementing partner organizations," defined as

- * U.S. or indigenous private voluntary organizations,
- * credit unions,
- * cooperative organizations,
- * governments,
- * non-governmental organizations,
- * non-profit microenterprise institutions,
- * regulated financial institutions, and
- * non-profit microfinance networks.

In other words, without compromising technical merit, USAID should emphasize use of microenterprise partners that are either non-profit or regulated financial institutions providing direct service to clients.

- Among the new reporting requirements, the legislation mandates analysis of the cost-effectiveness of assistance instruments and activities, and the extent of USAID use of non-profit partners.

Action:

Missions and operating units provide expanded information on their choice of microenterprise awardees through MRR process.

The law also extends until October 2006 the deadline for USAID microenterprise awardees to implement new client poverty assessment tools. Over the last decade, Congress has established funding targets for USAID support to microenterprise and mandated that at least 50 percent of that support benefit people who are "very poor," defined as living on less than \$1/day or in the bottom 50 percent of households below the national poverty line. USAID was directed to develop tools to assess client poverty and require their use by awardees.

EGAT/PR/MD will keep missions apprised of progress and provide assistance to missions and partners in tools implementation.

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File Name	Notice Date	Effective Date	Editorial Revision Date	ADS CD No.	Remarks
IU2_0508_092205_cd41	09/19/2005	12/23/2004		CD 41	This IU will remain in effect until the policy in it is incorporated into ADS 219, Microenterprise Development.

Iu2_0506_092205_w092605_cd41