MICROENTERPRISE RESULTS REPORTING

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The cover photo depicts a village bank in Djiguinoune, Senegal, as women line up with account booklets and monthly savings that help secure fresh loans to fuel their small businesses.

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EXECUTIVE SUMMARY

Microenterprise Results Reporting (MRR) Annual Reports summarize USAID's investments and priorities in microfinance and microenterprise development. This Annual Report for Fiscal Year 2007 documents USAID funding for microenterprise development through more than 250 diverse implementing partners, ranging from private voluntary organizations (PVOs) and non-governmental organizations (NGOs) to for-profit banks and enterprise development service providers. This year's data show strong Agency support for non-profit organizations (PVOs, NGOs, cooperatives, and credit unions), which as a group received 49 percent ($94 million) of overall obligations in FY 2007.

The FY 2007 report reflects USAID's continued commitment to leveraging its investments in microenterprise development. USAID helps strengthen the performance of increasingly commercial microfinance institutions (MFIs), allowing them to attract private investors and grow faster than if they relied solely on donor support. USAID also reduces some of the risk to private investors and lenders by offering partial credit guarantees and other enhancements. As of FY 2007, $3.4 million in USAID funding for credit guarantees was supporting up to $177 million in private sector lending to MFIs and microenterprises.

For the FY 2007 MRR, USAID refined its data collection surveys, both to improve the measurement of its microenterprise development activities and to better align with the Agency's new accounting and program reporting system. Where practical, data validation tools have been updated and more options have been provided to deal with missing or partial data. In addition, the poverty loan proxy thresholds have been corrected for inflation since 1995, thus providing a more accurate basis for reporting. The financial services questionnaire now includes a more easily verifiable option for providing all financial data in local currency.

This report fulfills the 12 reporting requirements included in the Microenterprise Results and Accountability Act of 2004 (PL 108-484). Key findings include:

1. In FY 2007, USAID provided $193 million in funding for microenterprise development through 184 new and existing grants, cooperative agreements, and contracts in 61 countries.

2. USAID provided $21.5 million in funding through central mechanisms in FY 2007.

3. USAID provided $93 million in funding through contracts in FY 2007. Just under $45 million in microenterprise funding in FY 2007 was subgranted or subcontracted, with local institutions receiving 81 percent of this funding.

4. In FY 2007, USAID missions reported that $24 million in USAID funds were matched by an additional $6.2 million from sources outside the U.S. Government.

5. For the first time, 31 USAID-assisted partners in 12 countries used USAID-certified poverty assessment tools to measure and report the share of their clients who are "very poor" according to standards specified in recent legislation.[1] Based on their reports, USAID estimates that 19.1 percent of funds directly benefited "very poor" clients as defined in that legislation.

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[1] Amendments to the Microenterprise for Self-Reliance Act of 2000 define the "very poor" as people living on less than $1/day at purchasing power parity, or those in the poorest 50 percent of those living below their country's poverty line.

6. An estimated 1.44 million very poor people directly benefited from USAID-supported microenterprise programs in FY 2007, including microfinance clients and owners and employees of microenterprises benefiting from enterprise development interventions. This estimate assumes that the percentage of very poor clients reported by the 31 partner institutions cited in the previous finding applies to the broader range of USAID-supported microenterprise development programs.

7. Funds benefiting the very poor were estimated using USAID-certified poverty assessment tools, which covered 17 countries when poverty data collection began. In FY 2007 and early FY 2008, USAID continued to develop additional tools. By the time the next round of poverty data collection begins, USAID expects to have certified up to 26 tools, for countries receiving more than two-thirds of USAID microenterprise funding excluding several countries where security conditions preclude developing or applying poverty tools.

8. Approximately $6.7 million of USAID's microenterprise funding in FY 2007 assisted victims of trafficking in persons and women who are particularly vulnerable to other forms of exploitation and violence.

9. In FY 2007, 39 percent of borrowers, 39 percent of savers, and 10 percent of enterprise development clients were located in countries where a relationship between poverty and race or ethnicity has been demonstrated.

10. USAID exceeded most of its performance goals relating to microfinance, including numbers of borrowers and savers, percent of rural clients, and financial sustainability; USAID did not meet its goals for the percent of women clients and the percent of funds benefiting the very poor. In the area of enterprise development, performance exceeded all goals except funds benefiting the very poor. The reasons for this are discussed on pages 8-10.

ABBREVIATIONS

AMAP	Accelerated Microenterprise Advancement Project
ANE	Asia-Near East Region
DCA	Development Credit Authority
ED	Enterprise Development
E&E	Europe and Eurasia Region
FIELD-Support	Financial Integration, Economic Leveraging, Broad-based Dissemination and Support
FVP	Funds Benefiting the Very Poor
FY	Fiscal Year
GDA	Global Development Alliance
ICT	Information and Communications Technology
LAC	Latin America and Caribbean Region
LC	Local currency
MFI	Microfinance Institution
MRR	Microenterprise Results Reporting
NGO	Non-governmental Organization
PAT	Poverty Assessment Tool
PEPFAR	President's Emergency Plan for AIDS Relief
PPP	Purchasing Power Parity
PVO	Private Voluntary Organization
RDM/A	Regional Development Mission/Asia
SPM	Social Performance Management
STRIVE	Supporting Transformation by Reducing Insecurity and Vulnerability with Economic Strengthening
USAID	United States Agency for International Development

INTRODUCTION

This report fulfills the requirement of the Microenterprise Results and Accountability Act of 2004 (Public Law 108-484) that each year, "the Administrator of the Agency, acting through the Director of the office, shall submit to the appropriate congressional committees a report that contains a detailed description of the implementation of this title for the previous fiscal year."

The United States Agency for International Development (USAID) has been recognized as the leader among donors in the field of microenterprise development and microfinance for almost three decades. USAID provides competitive awards to hundreds of diverse partners, ranging from non-governmental organizations to business associations to consulting firms to commercial banks. USAID supports innovations in financial services, enterprise development, and the enabling environment to strengthen the contribution of microenterprises to poor households' well-being and economic growth.[2,3]

Financial services and enterprise development interventions expand economic opportunities for poor households and businesses, while helping them to respond to those opportunities, build household assets, and cope with emergencies. Improvements in the enabling environment for microfinance encourage investment and innovation by microfinance institutions of all types, while improvements in the business enabling environment help micro-entrepreneurs participate in markets, increase their earnings, and realize the benefits of international trade.

USAID also identifies best practices, develops analytical tools, and provides technical assistance to missions and implementers to strengthen their programs, and coordinates with other donors to promote good practices and aid effectiveness in microfinance and microenterprise development.

Microenterprise Results Reporting (MRR), USAID's system for tracking microenterprise obligations and institutional results, has prepared Annual Reports on USAID's funding patterns and institutional results since 1996.[4] MRR gathered and summarized data obtained from USAID missions and implementing partners for the production of this Annual Report.

This report is structured to give readers a clear sense of USAID's implementation of the Microenterprise Results and Accountability Act of 2004. The following table provides a guide to the reporting requirements and the pages where they are addressed:

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[2] **Financial services** include the provision of financial services adapted to the needs of low-income people, especially small loans, facilities for small savings deposits, and simple payments services needed by microentrepreneurs and other poor people. This report uses the term microfinance interchangeably with financial services. **Enterprise development** interventions help microenterprises start, survive, and grow, by helping them acquire skills and knowledge, gain access to financing and other inputs, and develop commercial relationships with other firms (both micro-scale and larger firms) in order to tap into higher-value markets. **Enabling environment** activities promote appropriate laws, policies, regulations, and supervisory and administrative practices, in order to expand access to financial services for low-income people or improve the business environment in which microenterprises operate.

[3] This report summarizes results achieved by partner institutions with USAID assistance, consistent with the Microenterprise Results and Accountability Act of 2004 and with USAID's own policies on results reporting. Wherever possible, USAID partners have reported only those results attributable to USAID technical and financial assistance. However, many partners receive complementary assistance from other donors and, increasingly, from the private sector. Leveraging such additional resources is essential to maximize the reach, effectiveness, and sustainability of USAID assistance, and also typically leads to results that would not be possible without USAID assistance. Nevertheless, identifying the portion of partners' results attributable to USAID's own assistance is often difficult or impossible.

[4] To view Annual Reports from previous years, visit www.mrreporting.org.

SUMMARY OF REPORTING REQUIREMENTS

	Reporting Requirement	Location
1	**Funding:** The number of grants, cooperative agreements, contracts, contributions, or other form of assistance provided under section 252 (Microenterprise Development Assistance: Authorization; Implementation; Targeted Assistance), with a listing of:	Page 4 and Annex A, pages 18-26
	(A) the amount of each grant, cooperative agreement, contract, contribution or other form of assistance;	
	(B) the name of each recipient and each developing country with respect to which projects or activities under the grant, cooperative agreement, contract, contribution, or other form of assistance were carried out; and	
	(C) a listing of the number of countries receiving assistance authorized by section 252.	
2	**Central Mechanisms:** The amount of assistance provided under section 252 through central mechanisms.	Page 5; Table 2
3	**Development Credit Authority:** The name of each country that receives assistance under section 256 (Microenterprise Development Credits) and the amount of such assistance.	Pages 5-6; Table 3
4	**Contracts and Sub-Obligations:** The level of funding provided through contracts,	Page 6; Table 4
	the level of funding provided through grants, contracts, and cooperative agreements that is estimated to be subgranted or subcontracted, as the case may be, to direct service providers, and	Page 7; Table 5
	an analysis of the comparative cost-effectiveness and sustainability of projects carried out under these mechanisms.	Page 8
5	**Matching Assistance:** It is the sense of Congress that USAID should include in the report required by section 258 of the Foreign Assistance Act of 1961 [as added by section 6 of this Act] a description of all matching assistance [as described in paragraph (1)] provided for the prior year by recipients of microenterprise development assistance under such title.	Page 8
6	**Funds for Very Poor Clients:** The percentage of assistance furnished under section 252 that was allocated to the very poor based on the data collected using the certified methods required by section 254 (Microenterprise Development Assistance: Development and Certification of Poverty Measurement Methods; Application of Methods).	Pages 8-10
7	**Estimated Number of the Very Poor** reached with assistance provided under section 252.	Page 11
8	**Poverty Assessment Methods:** The process of developing and applying poverty assessment procedures required under section 254.	Pages 11-13
9	**Funds to Assist Victims of Trafficking and Exploitation:** Information on the efforts of the Agency to ensure that recipients of United States microenterprise and microfinance development assistance work closely with non-governmental organizations and foreign governments to identify and assist victims or potential victims of severe forms of trafficking in persons and women who are victims of or susceptible to other forms of exploitation and violence.	Page 13; Table 6
10	**Poverty and Race/Ethnicity:** An estimate of the percentage of beneficiaries of assistance under this title in countries where a strong relationship between poverty and race or ethnicity has been demonstrated.	Pages 13-14; Table 7

11	**Performance Monitoring System:** The results of the monitoring system required under section 253 [see A-D below].	Pages 14-15
	(A) The monitoring system shall include performance goals for the assistance and expresses such goals in an objective and quantifiable form, to the extent feasible.	Page 15; Table 8
	(B) The monitoring system shall include performance indicators to be used in measuring or assessing the achievement of the performance goals described in paragraph (1) and the objective of the assistance authorized under section 252.	
	(C) The monitoring system provides a basis for recommendations for adjustments to the assistance to enhance the sustainability and the impact of the assistance, particularly the impact of such assistance on the very poor, particularly poor women.	
	(D) The monitoring system adopts the widespread use of proven and effective poverty assessment tools to successfully identify the very poor and ensure that they receive adequate access to microenterprise loans, savings, and assistance.	
12	**Additional Information:** Any additional information relating to the provision of assistance authorized by this title, including the use of poverty assessment methods required by section 254, or additional information on assistance provided by the United States to support microenterprise development under this title or any other provision of law.	Pages 15-17

REPORTING REQUIREMENT 1 A, B, AND C

FUNDING

In FY 2007, USAID provided a total of $193.1 million in microenterprise development assistance through 184 new and existing agreements, including grants, cooperative agreements, and contracts with 255 implementing partners in 61 countries.

Reported microenterprise funding declined from the level recorded in FY 2006. Much of the decline seems to have been an after-effect of especially rapid increases in microenterprise funding to several country programs in FY 2006, leaving them with more funds obligated for designated microenterprise activities than their implementing partners could spend effectively in a single year. As a result of this "forward funding" in FY 2006, several missions did not need to provide as much additional funding in FY 2007 to keep their microenterprise activities operating at full capacity. The clearest example of this pattern was Afghanistan, where USAID microenterprise funding shot up from zero in FY 2005 to $54.5 million in FY 2006, straining the capacity of local partners to use the funds. USAID/Afghanistan responded by reducing its FY 2007 microenterprise funding to $37.4 million. Broadly similar situations occurred in Egypt, Ethiopia, Nigeria, and Azerbaijan, all of which reduced microenterprise funding in FY 2007 following large increases in the previous fiscal year.

Along with the after-effects of forward funding of microenterprise activities in FY 2006, the unusually late release of USAID funds in FY 2007 may have contributed to the reduction in microenterprise funding reported in FY 2007.

Table 1. Sources of USAID Funds for Microenterprise by Appropriation Account ($ millions), FY 1997-2007

Account	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
DA[5]	$83.3	$79.9	$74.1	$88.3	$85.3	$80.7	$87.8	$91.2	$87.9	$82.8	$70.9
ESF	$24.5	$33.9	$33.0	$25.2	$27.9	$48.1	$28.4	$17.7	$37.3	$78.0	$44.5
INC and ACI							$2.1	$21.4	$14.8	$7.0	$32.1
FSA	$20.6	$14.3	$12.8	$30.3	$19.6	$33.4	$41.0	$35.1	$21.0	$18.6	$11.5
SAI/SEED	$24.8	$4.6	$13.0	$9.2	$7.6	$6.7	$14.5	$13.9	$14.2	$8.5	$10.9
PL-480	$11.8	$12.4	$17.3	$8.8	$13.7	$18.6	$4.8	$10.0	$6.7	$9.0	$9.5
IRRF								$7.2	$28.9	$11.3	$8.1
CSH/HIV				$0.8	$0.5	$0.5	$1.0	$0.6	$0.4		$4.9
GHAI											$0.7
IDFA									$0.2	$1.4	
CACEDRF			$3.2	$8.0							
Total	**$165.0**	**$145.1**	**$153.4**	**$170.6**	**$154.6**	**$188.0**	**$179.6**	**$197.1**	**$211.4**	**$216.0**	**$193.1**

[5]DA – Development Assistance
ESF – Economic Support Funds
INC – International Narcotics Control
ACI – Andean Counternarcotics Initiative
FSA – Freedom Support Act
SAI/SEED – Special Assistance Initiatives including Support for Eastern European Democracy
PL-480 – Local currency from monetization of P.L. 480 (Title II) food aid
IRRF – Iraq Relief and Reconstruction Fund
CSH/HIV – Child Survival and Health/Human Immunodeficiency Virus
GHAI – Global Health AIDS Initiative
IDFA – International Disaster and Famine Assistance
CACEDRF – Central American and Caribbean Emergency Disaster Recovery Fund

The likely result will be additional carryover of funds from FY 2007 to FY 2008. Finally, part of the decline may reflect under-reporting due to the transition to USAID's new budget and program reporting system. This transition led to delays in launching the MRR data-gathering process as changes that reflected this transition were incorporated into the MRR surveys.

Annex A provides detailed information on USAID microenterprise funding, including the name of each country receiving assistance, the amount of each award, and the name of each institutional recipient. Annex B includes information on FY 2007 funding by bureau. Table 1 shows the sources of FY 2007 USAID funds for microenterprise by appropriation account.

REPORTING REQUIREMENT 2

CENTRAL MECHANISMS

USAID provided $21.5 million in funding through central mechanisms from USAID/Washington in FY 2007, as shown in Table 2. In contrast to previous reports, this table excludes support for micro-enterprise development through local currency generated through sale of Public Law 480 food aid, previously reported by the central Food for Peace office. Beginning in FY 2007, those funds are reported directly by individual country missions, as part of the funding shown in Annexes A and B.

Table 2. Central Mechanism Funding by Office ($ millions)

Microenterprise Development	$16.0
Democracy and Governance	$3.3
Private Voluntary Cooperation	$2.1
Women in Development	$0.1
Total	**$21.5**

REPORTING REQUIREMENT 3

MICROENTERPRISE DEVELOPMENT CREDITS

Since 1999, USAID has provided partial guarantees under the Development Credit Authority (DCA) to expand access to finance for microenterprises; other guarantees support investments in other sectors, including agriculture, infrastructure, and small and medium enterprise lending. Managed by USAID's Office of Development Credit and funded mainly by country missions, microfinance guarantees work in one of two ways: (1) encourage commercial banks and other mainstream financial institutions to lend to MFIs, enabling the latter to expand their own lending to microenterprises and to reduce their reliance on grants; (2) work directly with MFIs, encouraging them to finance microenterprises in riskier sectors or regions. Many USAID missions have used this vehicle to support market leaders and increase funding to microfinance.

Table 3 (next page) summarizes active guarantees supporting microfinance as of FY 2007. The column labeled "guarantee subsidy" shows the budgetary costs of providing guarantees; subsidy costs vary according to country, lender, borrower, and transaction risk. As of FY 2007, $3.4 million in USAID funding for credit guarantees was supporting up to $177 million in private sector lending to MFIs and microenterprises.

REPORTING REQUIREMENT 4

USAID uses a variety of assistance mechanisms and implementing partners to support microenterprise development initiatives worldwide. The Microenterprise Results and Accountability Act of 2004 requires USAID to report on the following levels of funding provided through:

- Contracts (with direct obligation recipients)
- Grants, contracts, and cooperative agreements that is estimated to be sub-granted or sub-contracted, as the case may be, to direct service providers
- An analysis of the comparative cost-effectiveness and sustainability of projects carried out under these mechanisms

Table 3. Active USAID Guarantees Related to Microfinance ($ thousands)

Country	Guarantee Subsidy	Lending Guaranteed	Fiscal Year
Morocco	$25	$1,000	2002
Nicaragua	$158	$5,000	2002
Peru	$74	$2,000	2002
Worldwide	$75	$10,000	2003
Kenya	$196	$3,000	2003
Morocco	$69	$8,000	2003
Ecuador	$884	$12,400	2004
Worldwide	$53	$55,600	2004
Guatemala	$116	$5,000	2004
Morocco	$196	$10,000	2004
South Africa	$76	$8,333	2004
Peru	$501	$14,000	2005
Uganda	$642	$12,314	2005
Georgia	$77	$1,500	2006
Worldwide	$13	$25,000	2006
Bulgaria	$57	$1,500	2007
Haiti	$152	$2,500	2007
TOTAL	**$3,363**	**$177,147**	

CONTRACTS

Table 4 summarizes USAID microenterprise funding provided through contracts in FY 2007. Out of $193.1 million in funding for microenterprise development in FY 2007, USAID directly obligated $93 million (48 percent) through contracts.

In FY 2007, non-profit institutions were the direct recipients of 48.7 percent ($94.1 million) of total microenterprise funding, while consulting firms were the direct recipients of 39.8 percent ($76.8 million). Funds obligated to non-profit institutions include those obligated to U.S.-based PVOs (10.5 percent of FY 2007 microenterprise funding), local NGOs (36.9 percent), and cooperatives (0.3 percent), and credit unions (1.1 percent).

Table 4. Recipients of USAID Funding for Microenterprise Development, FY 2007 ($ millions)

Institution Type	Total Microenterprise Funding	Funding Through Contracts
Non-Profits[5]	$94.1	$4.5
Consulting Firms	$76.8	$72.6
Other For-Profits[6]	$11.2	$8.1
Other Entities[7]	$11.0	$7.8
Total	**$193.1**	**$93.0**

[5] Non-Profits include PVOs, NGOs, cooperatives, and credit unions.

[6] Other For-Profits include banks, non-bank financial institutions, finance companies, and other for-profit institutions.

[7] All Other Entities includes business associations, government agencies, research and educational organizations, USAID operating expenses for microenterprise project management, and institutions marked "other."

SUB-OBLIGATIONS

Funding for sub-recipients is an important indication of USAID's ability to involve local institutions in the Agency's microenterprise development efforts. Table 5 shows the level of funding that was sub-granted or sub-contracted to direct service providers in FY 2007 in the form of grants, contracts, and cooperative agreements. In FY 2007, approximately $45 million was sub-granted or sub-contracted to 173 primarily local institutions.

Approximately 81 percent of sub-granted or sub-contracted funds were directed to local institutions in host countries, including cooperatives, credit unions, local NGOs, business associations, and non-bank financial institutions.

Table 5. Reported Sub-Obligations, FY 2007 ($ millions)

Institution Type	Funding for Subgrants and Subcontracts
Business Associations	$0.2
Consulting Firms	$0.7
Cooperatives	$0.8
Credit Unions	$8.1
Other For-Profits[8]	$4.0
NGOs	$26.6
Non-Bank Financial	$0.6
PVOs	$3.4
Research/Educational	$0.6
Total	**$44.9**

[8] Other For-Profits include banks, finance companies, and other for-profit institutions.

COST-EFFECTIVENESS AND SUSTAINABILITY

To track the comparative cost-effectiveness and sustainability of programs, MRR collects data on the financial and operational sustainability of institutions in implementing microfinance programs.[9] In FY 2007, 74 percent of USAID-funded MFIs were operationally self-sustaining, whereas 56 percent attained the more demanding goal of full financial sustainability. As USAID considers an institution's sustainability to be related to its cost-effectiveness, the Agency uses a number of methods to assist microfinance institutions to become self-sustaining. These methods include: 1) requiring that implementing partners develop concrete plans to achieve financial sustainability, so that their revenues cover all their costs; 2) providing funds and technical assistance to build strong institutions that can continue serving their clients after USAID support ends; 3) identifying best practices and business models to achieve sustainability; and 4) providing credit guarantees to help microfinance institutions access private capital for financing future growth.

The Microenterprise Results and Accountability Act of 2004 called for an analysis of the comparative cost-effectiveness and sustainability of projects carried out under different funding mechanisms. Measures of cost-effectiveness and sustainability for any given project are derived from the specific objectives to be achieved by the project, the context in which it operates, and the duration of support. Given the broad application of microenterprise programs to meet development objectives, it is not possible to calculate and compare these measures using only the results data tracked by MRR. Nevertheless, USAID continues to examine the cost-effectiveness and

[9] Operational sustainability measures the degree to which an institution generates sufficient revenue from operations to cover all of its operating costs, including loan losses and the costs of capital. Financial sustainability measures the degree to which the institution's revenues from operations also covers the cost of its funds calculated at market rates, adjusted for the effects of inflation and subsidies.

sustainability of microenterprise projects in evaluations of individual projects.

In addition, in July 2006 USAID published a comparative study of the performance of "umbrella projects" – integrated programs that include a substantial microenterprise component. As reported in the FY 2006 MRR, the study examined microfinance umbrella programs led by both for-profit and non-profit institutions, and funded through a variety of assistance mechanisms, including contracts. The study concluded that, for microfinance umbrella programs as well as for other USAID programs, the choice of assistance instrument is not a factor in determining sustainability. Contracts are used to procure services needed to achieve USAID's development objectives, whereas grants and cooperative agreements are used to support existing activities of USAID's partners, where those activities advance USAID's goals and objectives. As USAID moves into new regions where there is a need for microenterprise services—for example, in post-conflict areas—it relies on existing institutional capacity to implement new programs.

REPORTING REQUIREMENT 5

MATCHING ASSISTANCE

USAID frequently requires that the funds it provides for a particular purpose be matched by funds from other sources, including the institution itself. In FY 2007, $24.0 million of USAID funds were matched by an additional $6.2 million from other sources. Matching funds from these sources may include funding from non-U.S. Government sources, including private donations, multilateral funding, commercial and concessional borrowing, savings, and program income.

REPORTING REQUIREMENT 6

FUNDS BENEFITING THE VERY POOR

Both the Microenterprise for Self Reliance Act of 2000 (henceforth, the 2000 Act) and the Microenterprise Results and Accountability Act of 2004 (the 2004 Act) mandate that at least half of all USAID funding for microenterprise development directly benefit the very poor. The 2000 Act initially defined the "very poor" as the bottom [poorest] half of those living below each country's national poverty line. The law instructed USAID to support "poverty lending" as the principal means of targeting the very poor. Poverty lending is based on the assumption that only very poor people would seek to take out very small loans. In that case, an institution's outreach to the very poor could be inferred from the share of its clients with loans smaller than a certain threshold value. Accordingly, the original 2000 Act set a "poverty loan threshold" for each region where USAID operates. For microfinance institutions, the share of each MFI's services that benefit the very poor would be estimated from the share of its loan portfolio consisting of loans smaller than the threshold value. Similarly, the share of an enterprise development program's services that benefit the very poor would be estimated from its reported share of clients who currently hold poverty loans. The 2000 Act set the following poverty loan thresholds, stated in 1995 U.S. dollars:

- $300 in Asia, the Near East, and Africa;
- $400 in Latin America and the Caribbean; and
- $1,000 in Europe and Eurasia.

Adjusted for U.S. inflation since 1995, the poverty loan thresholds for Fiscal Year 2007 were $404, $538, and $1,346 respectively.

Subsequent amendments to the 2000 Act mandated a second, much more ambitious approach to estimating the share of USAID-supported microenterprise benefits that reach the very poor. First, the amended law created a second definition of the "very poor:" those living on less than the equivalent of $1 per day, calculated using purchasing power parity (PPP) exchange rates. The legislative language made clear that, for any given country, the applicable definition of the very poor would be the more inclusive one. Second, those amendments directed USAID to develop and certify at least two "low-cost methods" to allow partner institutions to measure the share of their clients who are very poor as defined in the law, and, "with reasonable exceptions," to require non-profit recipients of USAID grants or cooperative agreements for microenterprise development to use those methods to measure and report the share of their very poor clients.[10] These changes are reiterated in the 2004 Act.

The process of developing, certifying, and applying poverty assessment tools is discussed in Reporting Requirement 8. By FY 2007, USAID had certified Poverty Assessment Tools for 17 countries. Because implementing the tools involves substantial costs, USAID exempted institutions that spent less than $100,000 in USAID microenterprise funds in FY 2007, considering these to be "reasonable exceptions" as cited in the law. In all, 31 partner institutions in 12 countries reported poverty assessments in FY 2007. Of these 31 partner institutions, 8 offered only financial services, 14 offered only enterprise development interventions, and 9 offered both. Together, these 31 partner institutions received 18 percent of total USAID microenterprise funding in FY 2007, or 20 percent excluding support for policy reform.

Because partner institutions that actually implemented the poverty tools represent a modest share of total USAID microenterprise funding, this section provides two estimates of the share of those funds benefiting the very poor – one based on the results of the poverty tools, and a second based on the poverty loan proxy used in previous Annual Reports.

Among the 17 microfinance institutions that applied and reported on the Poverty Assessment Tools, the average share of Funds Benefiting the Very Poor (FVP) is estimated at 16.3 percent. This average is based on the share of very poor clients reported by each MFI, weighted by the value of USAID microfinance funding that MFI received in FY 2007. For the 23 enterprise development programs that applied and reported on the Poverty Assessment Tools, average FVP is estimated at 20.5 percent, again weighted by each program's FY 2007 funding for enterprise development. Averaging these two estimates yields an overall estimate of 19.1 percent of USAID funds benefiting the very poor. Programs pursuing policy reforms cannot report client-level data, and so are excluded from the calculations.

Measuring FVP using the poverty loan proxy, as in previous Reports, yields substantially different results. Based on the share of each reporting MFI's loan portfolio held as poverty loans, an estimated 41 percent of USAID funding for microfinance institutions directly benefited the very poor. The share of poverty loans was much higher in Sub-Saharan Africa (89 percent) and much lower in Europe and Eurasia and in Latin America and the Caribbean (6 and 27 percent, respectively). In view of the high prevalence of poverty lending among African MFIs, the calculated share of poverty loans worldwide would probably have been even higher if more African MFIs had reported on their poverty lending; only 6 out of 21 did so. Overall FVP among MFIs was somewhat higher in FY 2007 than the 36 percent recorded in FY 2006. Part of the increase may reflect the use of inflation-adjusted poverty loan thresholds in FY 2007. Previous Reports did not make this adjustment, so the real value of the poverty loan thresholds used in those Reports had been gradually eroded by inflation.

Using the poverty loan proxy, 15 percent of funding for enterprise development programs was found to directly benefit the very poor, based on each reporting program's estimated share of clients who hold outstanding poverty loans from any source. As in previous years, those estimates are particularly

[10] As a matter of policy, USAID applies this requirement to for-profit firms pursuing microenterprise development under contract.

susceptible to error, because enterprise development programs do not dispense loans themselves and have little or no basis for knowing how many of their clients hold such loans from other sources.

Combining the estimated share of FVP from each type of program yields an overall average of 28 percent of funds directly benefiting the very poor, based on the poverty loan proxy.

Overall, the results from the poverty assessments indicate a considerably smaller share of benefits flowing to the very poor than is suggested by the poverty loan proxies. Because the former reflect reporting by only 31 institutions, it is difficult to know how representative they are of the broader set of USAID-assisted microenterprise programs. More importantly, the two estimates result from applying two entirely different standards of what it means to be "very poor," with the standard measured with the poverty assessment tools being far narrower than that measured with the poverty loan proxies. Indeed, in virtually all cases, partner institutions that reported on both the poverty assessment tools and the loan proxy reported a much higher percentage of very poor clients using the poverty loan proxy than they measured directly using the poverty assessment tools. For example, one institution found 17 percent of its clients to be very poor using the poverty assessment tools, but reported that 87 percent of them held poverty loans. These strongly contrasting results underscore the fact that the poverty assessment tools measure extreme poverty against a far narrower standard than USAID has reported on in previous Annual Reports.

By either standard, the share of benefits directly flowing to the very poor did not meet the target of 50 percent set by the 2000 Act. The extent of the shortfall depends on the type of program and method of estimation. For example, the estimated 41 percent FVP among MFIs obtained using the poverty loan proxy, though lower than the 50 percent target, is close enough to that target to suggest that further adjustments might permit the target to be reached.

In contrast, the 19.1 percent FVP estimated using the poverty assessment tools is so far below the 50 percent target as to raise serious questions as to whether that target could be reached by any means. The pattern of poverty assessment results raises similar questions. With a single exception, all of the 31 partner institutions that implemented the poverty assessment tools reported percentages of "very poor" clients well below 50 percent, implying that no reallocation of funds among those partners would enable USAID to reach the target. More significantly, there are no documented examples of microenterprise programs that report more than 50 percent of their clients as "very poor" based on rigorous measurement of clients' living standards against the $1/day line or a similarly low poverty line as required by current law. In sum, by linking the existing "50 percent of funding benefiting to the very poor" mandate to a new and much more stringent definition of being "very poor," the amendments to the 2000 Act created a poverty targeting standard that is significantly at odds with the client base of USAID's partners. This suggests the possible need for significant revision, either in the poverty targeting standard or in the programmatic approaches used by USAID's microenterprise partners. Results from the application of the poverty assessment tools by additional institutions for FY 2008 may shed more light on this situation. Options for revising the poverty targeting standard in a way that would provide a more constructive basis for measuring the poverty levels of microenterprise clients are explored under Reporting Requirement 8 below and in Annex C. Options for revising the programmatic approaches of USAID's partners would need to be explored by the partners themselves.

REPORTING REQUIREMENT 7

NUMBER OF VERY POOR REACHED

The Microenterprise for Self-Reliance Act directs USAID to use the poverty assessment tools called for in that Act to estimate the number of very poor clients who benefit from USAID microenterprise programs.

As noted in the previous section, the partner institutions that applied the certified poverty assessment tools together received approximately one-fifth of USAID microenterprise funding in FY 2007. Using their reported results to estimate the total number of very poor clients reached by all USAID-funded microenterprise institutions requires assuming that the share of very poor clients of all partner institutions resembles that of the partners that applied the poverty assessment tools. The realism of this assumption will only become clear in future years, as the range of countries covered by USAID poverty tools expands.

For USAID-supported microfinance institutions, multiplying the 16.3 percent share of "very poor" microfinance clients reported in the last section by the total number of borrowers from those MFIs – 6.54 million – implies that approximately 1.07 million very poor clients directly benefited from USAID funding for microfinance in FY 2007.

For enterprise development programs, the most realistic approach is to include both owners and employees of microenterprises benefiting from USAID enterprise development programs. On that basis, such programs directly benefited approximately 373,000 very poor people. Combining these two estimates yields an overall estimate of approximately 1,440,000 very poor people who directly benefited from USAID microenterprise programs in FY 2007.

REPORTING REQUIREMENT 8

POVERTY ASSESSMENT TOOLS

The Microenterprise Results and Accountability Act of 2004 requires this report to address:

- "The process of developing and applying poverty assessment procedures required under section 254 [the section of the law outlining the requirement for USAID to develop client poverty assessment tools and require their use by awardees by October 2006]."

The legislative background to USAID's Poverty Assessment Tools (PATs) is reviewed under Reporting Requirement 6. Congress required that USAID develop the PATs to allow USAID-supported microenterprise development institutions to measure the share of their clients who are very poor, and to monitor USAID's fulfillment of the mandate that at least half of USAID microenterprise funding should benefit the very poor. Amendments to the Microenterprise for Self-Reliance Act of 2000 (the 2000 Act) linked this mandate to a very narrow standard of being "very poor" – living on less than $1 a day at Purchasing Power Parity (PPP), or among the poorest half of those living below the national poverty line. At the time this new standard was adopted, no microenterprise institution was using credible assessment tools, calibrated against a similar standard, to measure and report extreme poverty among its clients. As a result, neither USAID nor the microenterprise community had a clear basis for judging whether or not it would be possible to achieve the poverty targeting mandate once linked to the new standard of extreme poverty.

The amended 2000 Act called for USAID to develop and certify at least two "low-cost methods" for measuring extreme poverty by October 2004. The same amendments instructed USAID, "with reasonable exceptions," to require USAID-assisted microenterprise institutions to begin implementing the tools by October 2005. Subsequently, the Microenterprise Results and Accountability Act of 2004 (2004 Act) extended the latter deadline to October 1, 2006. These deadlines seem to have flowed from two assumptions:

- First, that it would be relatively straightforward to develop reliable tools to measure extreme poverty against an absolute standard, and
- Second, that each poverty assessment tool would enable USAID partner institutions in a wide range of countries to identify how many of their clients were very poor, so that two tools (or at most, a very small number of tools) would enable partner institutions anywhere in the world to assess the

poverty status of their clients against the standards mandated in the law.

Results from the testing process stipulated in the 2004 Act made it clear that the second assumption in particular was overly optimistic: achieving reasonable accuracy in measuring poverty against absolute standards, as specified in the law, requires poverty assessment tools that have been developed and tested on a country-by-country basis, using country-specific data. In particular, each USAID-certified poverty assessment tool has been developed through statistical analysis of data drawn from an integrated household budget survey for the country in question, to identify which household characteristics are most highly correlated with extreme poverty in that country.

In developing poverty assessment tools, USAID has prioritized those countries with the highest levels of USAID microenterprise funding. Priorities are further refined by the availability of recent household survey data, allowing tools to be developed relatively quickly. Developing tools for countries where household survey data are not already available requires that USAID gather the data itself. Because doing so is very time-consuming and expensive, USAID has treated it as a last resort. Moreover, security conditions or government policy make it impossible to collect household survey data in some countries with substantial USAID microenterprise programs, notably Afghanistan, Iraq, Sudan, and Egypt.

By June 30, 2007, USAID had developed and certified poverty assessment tools for 17 countries, which together accounted for 31 percent of USAID microenterprise funding for programs in specific countries, and 45 percent of such funding excluding the four countries cited above. These 17 tools provide the basis for the estimates of Funds Benefiting the Very Poor contained in Sections 6 and 7. USAID sought poverty assessment data from all partner institutions that spent at least $100,000 in USAID microenterprise support in FY 2007 in any of those 17 countries. Several of those institutions sought and received waivers from reporting, including some focused on policy reform and others that had already completed operations and withdrawn their project personnel from the country in question. USAID expects to achieve better coverage in the future by taking advantage of forward-looking funding data.

During FY 2007 and into FY 2008, USAID continued to develop and certify country-specific poverty assessment tools, while providing training to ensure that affected partner institutions can use those tools to gather the required information. USAID expects that the total number of certified tools will rise to 23 by June 30, 2008 and reach 26 by September 30. If those expectations are realized, USAID-certified poverty assessment tools should cover countries accounting for 69 percent of projected FY 2008 USAID microenterprise funding in specific countries, excluding the four noted above.[11] Moreover, to expand the reach of the poverty assessment effort, USAID plans to require partners in all countries with tools certified by September 30 to implement the tools and report their results in the next round of the MRR. Unfortunately, USAID cannot offer any assurance that coverage will continue to expand as rapidly in the future, because the pool of countries with substantial USAID microenterprise funding and available household surveys is gradually drying up. As a result, future progress will increasingly require USAID to conduct its own household surveys, in especially challenging environments, at roughly five times the cost per country as using existing survey data. Moreover, to remain accurate, all country tools will need to be updated periodically.

At this time – five years into the process of developing poverty assessment tools – USAID would like to share some observations and concerns. These are presented in Annex C.

[11] Funding patterns shift from one year to another, which will also change the share of microenterprise funding going to countries with certified poverty assessment tools.

REPORTING REQUIREMENT 9

FUNDS TO ASSIST VICTIMS OF TRAFFICKING AND EXPLOITATION

The Microenterprise Results and Accountability Act of 2004 requires USAID to report information from its missions on their efforts to ensure that recipients of USAID microenterprise and microfinance development assistance work closely with NGOs and foreign governments to identify and assist victims of potential or severe forms of trafficking in persons and women who are victims of or susceptible to other forms of exploitation and violence. Table 6 shows, by region, microenterprise funding obligated to microenterprise institutions targeting these groups.

In FY 2007, the total value of such funding declined significantly from the level reported in FY 2006. The largest declines occurred in the Asia-Near East region, with reduced funding in Pakistan. In addition, no funding of this type was reported from Sudan, which in FY 2006 absorbed all funding of this type in the Africa region. Finally, central funding for financial services and related enabling environment efforts was eliminated in FY 2007, but was partially offset by increased funding for enterprise development efforts targeted toward these populations, through the Office of Democracy and Governance's new Supporting Transformation by Reducing Insecurity and Vulnerability with Economic Strengthening (STRIVE) program under USAID's Displaced Children and Orphan's Fund (DCOF).

Other missions that reported funding for institutions serving these groups in FY 2007 include Senegal and the Democratic Republic of Congo in the Africa region; Mongolia, Pakistan, and the Regional Development Mission in the Asia and Near East region; and Belarus and Ukraine in the Europe and Eurasia region.

Table 6. USAID Microenterprise Funding to Assist Victims of Trafficking and Exploitation, FY 2007 ($ millions)

Region	Financial Services and Related Enabling Environment	Enterprise Development and Related Enabling Environment	Total
Africa	$0.01	$0.04	$0.05
Asia & Near East	$3.22	-	$3.22
Europe & Eurasia	-	$0.11	$0.11
Centrally Funded	-	$3.34	$3.34
Total	**$3.23**	**$3.49**	**$6.72**

REPORTING REQUIREMENT 10

POVERTY AND RACE/ETHNICITY

The Microenterprise Results and Accountability Act of 2004 requires that USAID report "[a]n estimate of the percentage of beneficiaries of assistance under this title in countries where a strong relationship between poverty and race or ethnicity has been demonstrated."

MRR asks each USAID field mission to indicate whether or not the country in which it is working meets this reporting criterion. Table 7 reports the number of microenterprise clients in those countries where the USAID mission affirmed that a strong relationship existed between poverty and race or ethnicity. The table also distinguishes between clients who either borrowed from or saved at USAID-

Table 7. Estimated Number of Clients in Countries Where a Relationship Has Been Demonstrated Between Poverty and Race or Ethnicity

Region	Country	Borrowers	Savers	Enterprise Development Clients
Africa	Mali	36	3,650	-
	Nigeria	130,979	137,596	-
	South Africa	-	-	3,186
Asia and the Near East	Bangladesh	3,830	5,212	1,649
	Iraq	22,439	-	-
	Nepal	5,624	17,136	12,974
	Tibet	106	-	-
Europe and Eurasia	Albania	13,311	-	37
	Kosovo	-	-	87
	Montenegro	-	-	428
	Serbia	-	-	167
Latin America and the Caribbean	Bolivia	36	-	95
	Guatemala	4,282	5,718	-
	Colombia	-	-	6,421
	Mexico	2,320,380	1,262,145	12
	Panama	-	-	20
	Peru	43,924	178,257	1,862
Total		**2,544,946**	**1,609,714**	**26,938**

assisted MFIs, or who benefited from USAID-supported enterprise development activities. Out of the total number of microenterprise clients, 39 percent of borrowers, 39 percent of savers and 10 percent of enterprise development clients were located in these countries.

REPORTING REQUIREMENT 11

PERFORMANCE MONITORING SYSTEM

Several provisions of the Microenterprise Results and Accountability Act of 2004 address performance monitoring:

1. "The monitoring system shall include performance goals for the assistance and express such goals in an objective and quantifiable form, to the extent feasible."

2. "The monitoring system shall include performance indicators to be used in measuring or assessing the achievement of the performance goals described in paragraph (1) and the objective of the assistance authorized under section 252 [of the Foreign Assistance Act of 1961, as amended]."

3. "The monitoring system provides a basis for recommendations for adjustments to the assistance to enhance the sustainability and the impact of the assistance, particularly the impact of such assistance on the very poor, particularly poor women."

4. "The monitoring system adopts the widespread use of proven and effective poverty assessment tools to successfully identify the very poor and ensure that they receive adequate access to microenterprise loans, savings, and assistance."

Table 8. Performance Goals and Results, FY 2007

	FY 2007 Results	FY 2007 Goal
Microfinance		
Borrowers	6.54 million	4 million
Savers	4.13 million	4 million
Women Clients	53%	60%
Rural Clients	54%	40%
Funds Benefiting the Very Poor		
Based on Poverty Assessment Tools	16.3%	50%
Based on Poverty Loan Proxy	41%	
Financially Sustainable MFIs	56%	50%
Enterprise Development		
Microenterprises Assisted	283,143	250,000
Owners and Employees of Microenterprises Assisted	1.82 million	750,000
Women Clients	39%	30%
Rural Clients	80%	75%
Funds Benefiting the Very Poor		
Based on Poverty Assessment Tools	20.5%	50%
Based on Poverty Loan Proxy	15%	

Table 8 shows the performance goals and indicators that USAID set for FY 2007, along with reported results.

On a worldwide basis, USAID and its implementing partners exceeded the Agency's goals in most areas, but not in others.

USAID-supported microfinance programs comfortably exceeded the Agency's goals for total number of borrowers and for targeting rural clients; total number of savers topped the goal by a narrower margin. The share of MFIs achieving full financial sustainability also exceeded USAID's goal, despite a decline from FY 2006 due to the addition of several MFIs in Iraq, West Bank/Gaza, and Kyrgyzstan; many were at an early stage of progress toward sustainability. In contrast, USAID-supported microfinance programs did not reach the Agency's goal for targeting female clients, mainly due to the expiration of agreements with MFIs in Ecuador and the Philippines that targeted women especially strongly.

USAID exceeded all of its performance goals for enterprise development, with the exception of percentage of funds benefiting the very poor. This point is discussed in detail under Reporting Requirement 6. The number of employees of assisted microenterprises was an area of especially strong performance.

REPORTING REQUIREMENT 12

ADDITIONAL INFORMATION

As directed by the Microenterprise Results and Accountability Act of 2004, in FY 2007 USAID funded its Microenterprise Development office, leveraged investments to meet the evolving and diverse needs for microenterprise development around the world, and supported key central programs designed to promote innovation and strengthen the ability of its missions and partners to meet the Agency's development objectives.

LEVERAGING INVESTMENTS IN MICROENTERPRISE DEVELOPMENT

USAID's investments in microenterprise development have stimulated a diversity of effective approaches, capable partners, strong local service providers, and responsive funding mechanisms to meet evolving needs for microenterprise development around the world. In FY 2007, USAID continued to leverage these investments to address new development challenges, reach out to poorer and more vulnerable populations, and build the capacity of institutions to sustain and grow beyond USAID support.

To maximize the impact of its investments, USAID has also prioritized linking private sources of capital and other funding to partners employing effective microenterprise development strategies. USAID's use of guarantees for microfinance represents one example: as of FY 2007, $3.4 million in USAID funding for credit guarantees was supporting up to $177 million in private sector lending to MFIs and microenterprises. Through other mechanisms, such as the Global Development Alliance (GDA), USAID has also promoted partnerships with private corporations to leverage corporate social responsibility efforts and to invest in upgrading the operations of microenterprises to become valuable corporate partners. Late in FY 2007, USAID launched a new GDA partnership with Microfinance International Corporation (MFIC) aimed at helping microfinance institutions in El Salvador and Mexico develop innovative transnational housing loan programs. The results of this partnership will be reviewed in the Annual Report for FY 2008.

USAID also leverages its investments through its state-of-the-art microenterprise knowledge management program and web site, www.microLINKS.org, which connects practitioners with each other and with the latest learning in microenterprise development. This facilitates collaboration and peer assistance to identify promising innovations, refine and disseminate lessons learned and best practices, and adapt them for application in the field. Through a sophisticated, award-winning program of facilitated learning networks, virtual conferences and communities of practice, audio interviews with leading experts, and in-person seminars enhanced by virtual access, the Agency brings its technical leadership to bear on microenterprise activities well beyond those that it directly supports.

KEY CENTRAL PROGRAMS

In FY 2007, USAID's microenterprise specialists provided on-site assistance to field programs and missions including those in Albania, Angola, Brazil, Cambodia, Ethiopia, Georgia, Ghana, Kenya, Liberia, Malawi, Mali, Mexico, Nepal, Pakistan, Peru, South Africa, Sri Lanka, Thailand, and Uganda. Combined with extensive assistance to other countries through email, this centralized technical assistance helps ensure the effectiveness of the Agency's microenterprise development strategies and programs.

Addressing the complex needs of populations living in areas affected by conflict is a continuing priority for USAID. Depending on the situation on the ground, microenterprise development may be useful in helping poor households stabilize their livelihoods, protect and build assets, and gradually emerge from poverty. This role is especially important in countries where conflict has gravely depleted public resources and capacity. In selected cases, USAID has invested substantial funds to build up new institutions, linkages, systems, and policies to support microenterprises in conflict-affected settings. In FY 2007, the Financial Integration, Economic Leveraging, Broad-Based Dissemination and Support (FIELD-Support) program included a pilot to provide recommendations to MFIs in Tajikistan and Afghanistan in developing microfinance products that comply with Islamic law, and provided funding to strengthen and expand microenterprise development in Afghanistan and in West Bank/Gaza. Another pilot initiated in FY 2007 is developing practical guidelines to help practitioners from relief and development agencies implement microenterprise development programs in conflict-affected environments. USAID's Accelerated Microfinance Advancement Project (AMAP) continued its leadership in encouraging dialogue, collaboration and knowledge generation regarding effective programming of economic recovery and microfinance activities in conflict-affected environments. AMAP has developed tools, guidance, and case studies to improve knowledge and practice among MFI managers, donors, and mission staff. Additionally, AMAP supported an analysis of value chain development efforts in post-conflict environments, culminating in a set of recommended practices to guide future efforts of this kind.

USAID has also continued to improve its strategies for harnessing microenterprise development to benefit poorer and more vulnerable populations. These strategies include partnering with the President's Emergency Plan for AIDS Relief (PEPFAR) to expand livelihood opportunities for HIV- and AIDS-affected households; developing approaches to link food-insecure and highly vulnerable households to microenterprise opportunities as a means to help them emerge from dependence on safety nets; and efforts to create economic opportunities for growing numbers of unemployed youth. Most recently, the STRIVE program is working to improve the economic circumstances of vulnerable children and the families and communities that care for them. Managed by USAID's Displaced Children and Orphans Fund, STRIVE will implement field projects including value chain interventions, savings-led finance models, and efforts to enhance adolescents' earnings through appropriate microenterprise or wage employment. One of STRIVE's main goals is to produce replicable methodologies for economic development that can benefit vulnerable children worldwide. To help identify the most promising methodologies, STRIVE places strong emphasis on impact assessment.

With growing concerns over rural poverty and food insecurity, USAID is working to better meet the financial services needs of poor rural and agriculture-based households. For example, USAID is supporting for the development and dissemination of technology-based delivery channels, which allow farmers to credit and payments services remotely through cell phones, smart cards, and other methods. Other innovations focus on reducing the risks faced by poor rural and farming households and the financial institutions that serve them: these include index-based insurance, which allows farmers to insure against weather-related crop failure, and warehouse receipts financing, which allows them to use crops delivered to warehouses as collateral when borrowing to finance inputs for the next planting season.

With more commercial capital entering microfinance, and growing numbers of MFIs tapping into capital markets through structured deals, debate has emerged regarding the microfinance sector's ability to adhere to the "double bottom line" of financial access and poverty alleviation. In response, USAID has played a key role in promoting and advancing social performance management (SPM) in microfinance. SPM involves measuring MFIs' performance in reaching less advantaged clients and delivering services that those clients value. A social rating tool developed by USAID has been adapted by commercial rating agencies including MicroRate and Planet Rating. In addition, the Microenterprise Development office funded internal assessments of SPM systems by microfinance providers in Azerbaijan, Macedonia, Mongolia, Pakistan, Serbia, and Uganda. These activities help mainstream and integrate SPM among both investors and MFIs, so that profitability and social impact can be properly balanced.

A final central function involves management of the MRR system itself. In preparing to launch the data-gathering process for this Annual Report, it became clear that the database system used by MRR had reached the end of its useful life, making it difficult to incorporate new data-cleaning functions, adjust to recent changes in USAID's budgetary accounting system, or make the system more user-friendly overall. In response, USAID recently committed funds to undertake a thorough overhaul of the database system. USAID expects the improved system to be in place in by the time MRR begins gathering data for the FY 2008 Annual Report.

ANNEX A: FY 2007 FUNDING BY MISSION, INSTITUTION, AND FUNCTION ($ THOUSANDS)

Annex A was generated from the MRR database with data current as of June 2008. MRR is a live system that can be updated by missions and institutions at any time.

ANNEX A: FY 2007 FUNDING BY MISSION, INSTITUTION, AND FUNCTION ($ THOUSANDS)

MISSION OR OFFICE	INSTITUTION	FUNCTION	OBLIGATION AMOUNT
	AFRICA BUREAU		
Democratic Republic of the Congo	Development Alternatives, Inc	Enterprise Development	$58
	Education Development Center	Enterprise Development	$68
	International Institute of Tropical Agriculture	Enterprise Development	$80
	Pact- Inc Partners Acting Together	Enterprise Development	$40
	Total DR Congo		**$246**
Ethiopia	CARE	Enterprise Development	$104
	Cooperative Housing Foundation	Enterprise Development	$94
	Catholic Relief Services	Enterprise Development	$388
	Food for the Hungry International	Enterprise Development	$183
	Relief Society of Tigray	Enterprise Development	$731
	Save the Children	Enterprise Development	$128
	World Vision Inc.	Enterprise Development	$148
	Total Ethiopia		**$1,775**
Gambia	Catholic Relief Services	Enterprise Development	$636
	Total Gambia		**$636**
Ghana	Opportunities Industrialization Centers International	Enterprise Development	$353
	TechnoServe	Enterprise Development	$2,335
	Total Ghana		**$2,688**
Kenya	Agreement Pending	Enabling Environment	$200
	Development Alternatives, Inc	Financial Services	$728
	Emerging Markets Group	Enterprise Development	$861
	Total Kenya		**$1,789**
Liberia	Agreement Pending	Enterprise Development	$1,880
	Total Liberia		**$1,880**
Madagascar	Chemonics International Inc.	Enterprise Development	$37
	Development Alternatives, Inc.	Enterprise Development	$200
	Total Madagascar		**$237**
Malawi	African Parks (Majete) Ltd.	Enterprise Development	$60
	Chemonics International, Inc.	Financial Services	$642
	Chemonics International, Inc.	Financial Policy	$642
	Catholic Relief Services	Financial Policy	$430
	Catholic Relief Services	Enterprise Development	$520
	Development Alternatives, Inc.	Enterprise Development	$426
	Land O' Lakes	Enterprise Development	$262
	Project Concern International	Enterprise Development	$113
	Total Malawi		**$3,095**
Mali	Abt Associates	Enterprise Development	$1,900
	Africare	Financial Services	$41
	Trickle Up	Enterprise Development	$300
	Total Mali		**$2,241**

MISSION OR OFFICE	INSTITUTION	FUNCTION	OBLIGATION AMOUNT
Mozambique	Microenterprise Program Support	Enterprise Development	$200
	Confederation of Business Associations of Mozambique	Financial Policy	$50
	Opportunity International	Financial Services	$150
	TechnoServe	Enterprise Development	$300
	Total Mozambique		**$700**
Nigeria	Academy for Educational Development	Enterprise Development	$100
	Bank PHB/SKYE Bank	Financial Services	$520
	Catholic Relief Services	Financial Services	$45
	Centre for Development and Population Activities	Financial Services	$650
	Chemonics/MARKETS	Financial Services	$800
	Chemonics/MARKETS	Enterprise Development	$200
	Winrock International	Financial Services	$47
	Total Nigeria		**$2,362**
Rwanda	ACDI/VOCA	Enterprise Development	$100
	International Resources Group	Enterprise Development	$50
	Total Rwanda		**$150**
Senegal	Counterpart International	Enterprise Development	$2
	Counterpart International	Financial Services	$8
	Catholic Relief Services	Enterprise Development	$277
	International Resources Group	Enterprise Development	$740
	International Resources Group	Enabling Environment	$600
	Total Senegal		**$1,627**
Sierra Leone	American Refugee Committee	Enterprise Development	$300
	Total Sierra Leone		**$300**
Sudan	Volunteers for Economic Growth Alliance	Enterprise Development	$2,400
	Volunteers for Economic Growth Alliance	Financial Services	$600
	Total Sudan		**$3,000**
Tanzania	ACDI/VOCA	Enterprise Development	$125
	African Wildlife Foundation	Enterprise Development	$145
	Enterprise Works	Enterprise Development	$129
	Total Tanzania		**$399**
Uganda	ACDI/VOCA	Enterprise Development	$76
	Auburn University	Financial Services	$750
	Chemonics	Financial Services	$4,578
	Catholic Relief Services	Enterprise Development	$9
	Save the Children	Enterprise Development	$15
	World Vision Inc.	Enterprise Development	$10
	Total Uganda		**$5,439**
West Africa Regional Program	Catholic Relief Services/USCCB (Burkina Faso)	Financial Services	$932
	Total West Africa Regional Program		**$932**
Zambia	Cooperative League of the USA /PROFIT	Enterprise Development	$400
	Cooperative League of the USA /PROFIT	Financial Services	$6
	Total Zambia		**$406**
	Total Africa Bureau		**$29,901**

MISSION OR OFFICE	INSTITUTION	FUNCTION	OBLIGATION AMOUNT
	ASIA & NEAR EAST BUREAU		
Afghanistan	Academy for Educational Development	Financial Services	$26,630
	Development Alternatives, Inc.	Financial Services	$10,823
	Total Afghanistan		**$37,453**
Bangladesh	Winrock International	Enterprise Development	$78
	Winrock International	Financial Services	$18
	WorldFish Center	Enterprise Development	$575
	Total Bangladesh		**$671**
Cambodia	Development Alternatives, Inc.	Enabling Environment	$876
	Development Alternatives, Inc.	Enterprise Development	$1,155
	Total Cambodia		**$2,031**
East Timor	Development Alternatives, Inc.	Enabling Environment	$500
	Development Alternatives, Inc.	Financial Services	$1,500
	Development Alternatives, Inc.	Enterprise Development	$2,000
	Total East Timor		**$4,000**
Egypt	Chemonics International, Inc.	Financial Services	$1,028
	Total Egypt		**$1,028**
India	Microenterprise Program Support	Enterprise Development	$175
	ACDI/VOCA	Enterprise Development	$490
	Total India		**$665**
Indonesia	Booz Allen Hamilton	Financial Policy	$102
	Development Alternatives, Inc./AMARTA	Enterprise Development	$766
	SENADA	Financial Policy	$803
	The Asia Foundation	Enabling Environment	$543
	Total Indonesia		**$2,214**
Iraq	ACDI/VOCA	Financial Services	$1,000
	Al Aman	Financial Services	$250
	Al Bashair	Financial Services	$250
	Al Takadum	Financial Services	$250
	Cooperative Housing Foundation/ASCI	Financial Services	$500
	Iraqi Company of Bank Guarantees	Financial Services	$5,000
	Relief International	Financial Services	$800
	Total Iraq		**$8,050**
Lebanon	ACDI/VOCA	Enterprise Development	$250
	American Near East Refugee Aid	Enterprise Development	$500
	ECODIT	Enterprise Development	$1,807
	International Executive Service Corps	Financial Services	$173
	International Executive Service Corps	Enterprise Development	$1,636
	SRI International	Enterprise Development	$550
	Total Lebanon		**$4,915**
Nepal	International Development Enterprises	Enterprise Development	$1,707
	World Education Incorporated	Financial Services	$311
	Total Nepal		**$2,018**
Pakistan	Khushalibank	Financial Services	$2,000
	SAS Shorebank International Ltd	Financial Services	$1,200
	Total Pakistan		**$3,200**

MISSION OR OFFICE	INSTITUTION	FUNCTION	OBLIGATION AMOUNT
Philippines	Agreement Pending	Financial Services	$1,700
	Total Philippines		**$1,700**
Regional Development Mission/Asia	Pact	Financial Services	$1,475
	The Bridge Fund	Enterprise Development	$35
	The Bridge Fund	Financial Services	$107
	Tibet Poverty Alleviation Fund	Financial Services	$22
	Total Regional Development Mission/Asia		**$1,639**
West Bank/Gaza	Academy for Educational Development	Financial Services	$3,000
	Total West Bank/Gaza		**$3,000**
	Total Asia & Near East Bureau		**$72,583**

	Europe & Eurasia Bureau		
Albania	Development Alternatives Inc.	Enterprise Development	$1,693
	Total Albania		**$1,693**
Azerbaijan	International Rescue Committee	Enterprise Development	$14
	Total Azerbaijan		**$14**
Belarus	International Organization for Migration	Enterprise Development	$57
	Total Belarus		**$57**
Bulgaria	NACHALA Cooperative		$57
	Total Bulgaria		**$57**
Croatia	DAI Development Alternatives Inc.	Enterprise Development	$1,048
	Total Croatia		**$1,048**
E&E Regional	SEGURA IP3 Partners LLC	Financial Policy	$160
	Total E&E Regional		**$160**
Georgia	Community Habitat Finance International	Enterprise Development	$476
	Community Habitat Finance International	Enabling Environment	$15
	International Executive Service Corps	Enterprise Development	$860
	International Executive Service Corps	Enabling Environment	$7
	International Executive Service Corps	Financial Services	$87
	Winrock International	Enabling Environment	$200
	Winrock International	Financial Services	$800
	Total Georgia		**$2,445**
Kazakhstan	Central Asian Microfinance Alliance II	Financial Policy	$10
	Development Alternatives, Inc./AgLinks	Enabling Environment	$19
	Development Alternatives, Inc./AgLinks	Enterprise Development	$109
	Pragma/Kazakhstan Small Business Development Project	Enterprise Development	$262
	Total Kazakhstan		**$400**
Kosovo	Chemonics Inc./Kosovo Cluster and Business Support	Enterprise Development	$610
	Total Kosovo		**$610**

MISSION OR OFFICE	INSTITUTION	FUNCTION	OBLIGATION AMOUNT
Kyrgyzstan	Development Alternatives, Inc.	Financial Services	$9
	Development Alternatives, Inc.	Enterprise Development	$614
	Central Asian Microfinance Alliance II	Financial Services	$521
	Central Asian Microfinance Alliance II	Financial Policy	$280
	Chemonics International, Inc./Land Reform/KG	Enabling Environment	$76
	The Pragma Corporation/BEI	Enabling Environment	$193
	Winrock International	Enterprise Development	$72
	Total Kyrgyzstan		**$1,765**
Moldova	Citizens Network for Foreign Affairs	Enterprise Development	$400
	Development Alternatives, Inc.	Enabling Environment	$1,086
	Total Moldova		**$1,486**
Montenegro	Cooperative Housing Foundation	Enterprise Development	$600
	Total Montenegro		**$600**
Russia	ACDI/VOCA	Financial Services	$1,167
	Russian Microfinance Center	Financial Policy	$900
	Total Russia		**$2,067**
Serbia	Development Alternatives Inc.	Enterprise Development	$6,750
	Total Serbia		**$6,750**
Tajikistan	CARE/Counterpart International	Financial Services	$68
	Development Alternatives, Inc./AgLinks	Enterprise Development	$302
	Chemonics International, Inc./Land Reform/KG	Enabling Environment	$126
	The Pragma Corporation/BEI	Enabling Environment	$8
	Winrock International	Enterprise Development	$95
	Total Tajikistan		**$598**
Turkmenistan	Development Alternatives, Inc./AgLinks	Enterprise Development	$513
	Total Turkmenistan		**$513**
Ukraine	The Pragma Corporation/Access to Credit Initiative	Financial Policy	$247
	Booz Allen Hamilton	Enabling Environment	$351
	Chemonics International/LED	Enabling Environment	$266
	Eurasia Foundation	Enterprise Development	$518
	Financial Markets International Inc.	Financial Policy	$80
	International Organization for Migration	Enterprise Development	$50
	Total Ukraine		**$1,513**
Uzbekistan	Development Alternatives, Inc./AgLinks	Enterprise Development	$411
	Winrock International	Enterprise Development	$230
	Total Uzbekistan		**$641**
	Total Europe & Eurasia Bureau		**$22,418**

MISSION OR OFFICE	INSTITUTION	FUNCTION	OBLIGATION AMOUNT
	LATIN AMERICA & CARIBBEAN BUREAU		
Bolivia	Adventist Development and Relief Agency	Financial Services	$140
	Chemonics International	Enterprise Development	$4,774
	Food for the Hungry International	Financial Services	$100
	World Council of Credit Unions, Inc.	Financial Policy	$860
	Total Bolivia		**$5,874**
Brazil	Agreement Pending	Financial Services	$100
	Amazon Conservation Team	Enterprise Development	$35
	Fundacao Centro Estudos Comercio Exterior	Enterprise Development	$160
	Fundacao Centro Estudos Comercio Exterior	Financial Services	$20
	Fundacao Centro Estudos Comercio Exterior	Enabling Environment	$120
	TransFair	Enterprise Development	$200
	World Wildlife Fund	Enterprise Development	$250
	Total Brazil		**$885**
Colombia	Associates in Rural Development	Financial Services	$3,166
	Associates in Rural Development	Enterprise Development	$16,080
	Associates in Rural Development/MIDAS	Financial Policy	$850
	International Office of Migration	Financial Services	$31
	Panamerican Development Foundation	Enterprise Development	$6,209
	Total Colombia		**$26,336**
El Salvador	Aid to Artisans	Enterprise Development	$378
	Total El Salvador		**$378**
Guatemala	Agreement Pending	Financial Services	$200
	Catholic Relief Services	Enterprise Development	$496
	SHARE	Enterprise Development	$491
	Save The Children	Financial Services	$653
	Total Guatemala		**$1,840**
Guyana	Carana Corporation	Enabling Environment	$40
	Carana Corporation	Financial Policy	$15
	Carana Corporation	Enterprise Development	$200
	Total Guyana		**$255**
Haiti	Development Alternatives, Inc./MSME	Financial Services	$1,751
	Development Alternatives, Inc./MSME	Enterprise Development	$500
	Total Haiti		**$2,251**
Jamaica	Citizens Development Corps	Enterprise Development	$160
	PA Consulting Services Inc.	Enterprise Development	$688
	USDA Forest Service International Programs	Enterprise Development	$100
	Total Jamaica		**$948**
Mexico	Microenterprise Program Support	Financial Services	$255
	Microenterprise Program Support	Financial Policy	$64
	Chemonics International, Inc.	Enterprise Development	$1,250
	Development Alternatives, Inc./AFIRMA	Financial Policy	$240
	Development Alternatives, Inc./AFIRMA	Financial Services	$960
	Development Alternatives, Inc./AFIRMA	Enterprise Development	$450
	Total Mexico		**$3,219**

MISSION OR OFFICE	INSTITUTION	FUNCTION	OBLIGATION AMOUNT
Nicaragua	Adventist Development and Relief Agency	Financial Services	$277
	Catholic Relief Services	Financial Services	$516
	Project Concern International	Financial Services	$150
	Total Nicaragua		**$943**
Panama	Casals & Associates	Financial Services	$64
	International Resources Group/TETRA TECH JV	Enterprise Development	$48
	Nathan Associates, Inc.	Enterprise Development	$175
	Total Panama		**$287**
Peru	Caritas del Peru	Financial Services	$871
	Chemonics International	Enterprise Development	$1,605
	Nathan Associates, Inc.	Enabling Environment	$350
	Nathan Associates, Inc.	Financial Policy	$100
	Nathan Associates, Inc.	Enterprise Development	$550
	U.S. Peace Corps	Enterprise Development	$15
	Total Peru		**$3,491**
	Total Latin America & Caribbean Bureau		**$46,707**

CENTRALLY FUNDED PROGRAMS			
Democracy and Governance	Academy for Educational Development	Enterprise Development	$3,342
	Total - Democracy and Governance		**$3,342**
Microenterprise Development	Microenterprise Program Support	Financial Policy	$1,355
	ACDI/VOCA	Enterprise Development	$2,225
	Academy for Educational Development	Financial Policy	$2,463
	Academy for Educational Development	Enabling Environment	$1,200
	Academy for Educational Development	Enterprise Development	$776
	Cities Alliance	Financial Policy	$118
	Consultative Group to Assist the Poor	Financial Policy	$300
	Cooperative Housing Foundation	Financial Services	$36
	Development Alternatives, Inc.	Enterprise Development	$300
	Volunteers in Economic Growth Alliance/EMDAP	Financial Services	$150
	FINCA International	Financial Services	$332
	Institute for Liberty and Democracy	Enabling Environment	$2,000
	Center for Institutional Reform and the Informal Sector	Enterprise Development	$50
	Center for Institutional Reform and the Informal Sector	Financial Policy	$430
	Opportunity International	Financial Services	$445
	Save the Children	Financial Services	$190
	Shorebank International Ltd.	Financial Services	$534
	Strategic Development Cooperation Asia	Enterprise Development	$350
	The QED Group, LLC	Financial Policy	$933
	The QED Group, LLC	Enabling Environment	$433
	The QED Group, LLC	Enterprise Development	$433
	Weidemann Associates	Financial Policy	$250
	World Council of Credit Unions, Inc.	Financial Services	$650
	Total - Microenterprise Development		**$15,953**

MISSION OR OFFICE	INSTITUTION	FUNCTION	OBLIGATION AMOUNT
Private Voluntary Cooperation	Americas Association of Cooperative/Mutual Insurance Societies	Enterprise Development	$309
	Americas Association of Cooperative/Mutual Insurance Societies	Enabling Environment	$50
	Americas Association of Cooperative/Mutual Insurance Societies	Financial Services	$351
	ACDI/VOCA	Financial Services	$126
	ACDI/VOCA	Enabling Environment	$63
	ACDI/VOCA	Enterprise Development	$161
	Communications Cooperative International	Enabling Environment	$29
	Communications Cooperative International	Enterprise Development	$29
	CHF International	Enabling Environment	$65
	CHF International	Enterprise Development	$186
	CHF International	Financial Policy	$52
	National Cooperative Business Association	Enterprise Development	$71
	National Cooperative Business Association	Enabling Environment	$13
	National Cooperative Business Association	Financial Policy	$4
	World Council of Credit Unions, Inc.	Enterprise Development	$307
	Total - Private Voluntary Cooperation		**$2,058**
Women in Development	dTS Development & Training Services	Enterprise Development	$83
	dTS Development & Training Services	Enabling Environment	$37
	Total - Women in Development		**$120**
	Total Centrally Funded Programs		**$21,149**
	TOTAL FY 2007 FUNDING		**$193,081**

ANNEX B: MICROENTERPRISE FUNDING BY USAID BUREAU, FY 2007 ($ THOUSANDS)

Annex B was generated from the MRR database with data current as of June 2008. MRR is a live system that can be updated by missions and institutions at any time.

ANNEX B: MICROENTERPRISE FUNDING BY USAID BUREAU, FY 2007 ($ THOUSANDS)

MISSION OR OFFICE	FINANCIAL SERVICES	FINANCIAL POLICY	ENTERPRISE DEVELOPMENT	ENABLING ENVIRONMENT	TOTAL
AFRICA BUREAU					
DR Congo			$246		$246
Ethiopia			$1,775		$1,775
Ghana			$2,688		$2,688
Kenya	$728		$861	$200	$1,789
Liberia			$1,880		$1,880
Madagascar			$237		$237
Malawi	$642	$1,072	$1,381		$3,095
Mali	$41		$2,200		$2,241
Mozambique	$150	$50	$500		$700
Nigeria	$2,062		$300		$2,362
Rwanda			$150		$150
Senegal	$8		$1,655	$600	$2,263
Sierra Leone			$300		$300
Sudan	$600		$2,400		$3,000
Tanzania			$399		$399
Uganda	$5,328		$111		$5,439
West Africa Regional Program	$932				$932
Zambia	$6		$400		$406
Total Africa	**$10,497**	**$1,122**	**$17,483**	**$800**	**$29,901**

MISSION OR OFFICE	FINANCIAL SERVICES	FINANCIAL POLICY	ENTERPRISE DEVELOPMENT	ENABLING ENVIRONMENT	TOTAL
ASIA & NEAR EAST BUREAU					
Afghanistan	$37,453				$37,453
Bangladesh	$18		$653		$671
Cambodia			$1,155	$876	$2,031
East Timor	$1,500		$2,000	$500	$4,000
Egypt	$1,028				$1,028
India			$665		$665
Indonesia		$905	$766	$543	$2,214
Iraq	$8,050				$8,050
Lebanon	$173		$4,743		$4,915
Mongolia			$0		$0
Nepal	$311		$1,707		$2,018
Pakistan	$3,200				$3,200
Philippines	$1,700				$1,700
Regional Development Mission/Asia	$1,604		$35		$1,639
West Bank/ Gaza	$3,000				$3,000
Total Asia & Near East	**$58,036**	**$905**	**$11,723**	**$1,919**	**$72,583**

MISSION OR OFFICE	FINANCIAL SERVICES	FINANCIAL POLICY	ENTERPRISE DEVELOPMENT	ENABLING ENVIRONMENT	TOTAL
EUROPE & EURASIA BUREAU					
Albania			$1,693		$1,693
Azerbaijan			$14		$14
Belarus			$57		$57
Bulgaria	$57				$57
Croatia			$1,048		$1,048
E&E Regional		$160			$160
Georgia	$887		$1,336	$222	$2,445
Kazakhstan		$10	$371	$19	$400
Kosovo			$610		$610
Kyrgyzstan	$530	$280	$686	$269	$1,765
Moldova			$400	$1,086	$1,486
Montenegro			$600		$600
Russia	$1,167	$900			$2,067
Serbia			$6,750		$6,750
Tajikistan	$68		$397	$133	$598
Turkmenistan			$513		$513
Ukraine		$327	$568	$617	$1,513
Uzbekistan			$641		$641
Total Europe & Eurasia	**$2,708**	**$1,678**	**$15,685**	**$2,347**	**$22,418**

LATIN AMERICA & CARIBBEAN BUREAU					
Bolivia	$240	$860	$4,774		$5,874
Brazil	$120		$645	$120	$885
Colombia	$3,197	$850	$22,289		$26,336
CRP			$0		$0
El Salvador			$378		$378
Guatemala	$853		$987		$1,840
Guyana		$15	$200	$40	$255
Haiti	$1,751		$500		$2,251
Jamaica			$948		$948
Mexico	$1,215	$304	$1,700		$3,219
Nicaragua	$943				$943
Panama	$64		$223		$287
Peru	$871	$100	$2,170	$350	$3,491
Total Latin America & Caribbean	**$9,254**	**$2,129**	**$34,814**	**$510**	**$46,707**

MISSION OR OFFICE	FINANCIAL SERVICES	FINANCIAL POLICY	ENTERPRISE DEVELOPMENT	ENABLING ENVIRONMENT	TOTAL
CENTRAL FUNDING					
Democracy and Governance			$3,342		$3,342
Microenterprise Development Office	$2,337	$5,849	$4,134	$3,633	$15,953
Office of Private Voluntary Cooperation		$33	$2,025		$2,058
Women in Development			$83	$37	$120
Total Central Funding	**$2,337**	**$5,882**	**$9,583**	**$3,670**	**$21,473**
TOTAL FUNDING	**$82,832**	**$11,716**	**$89,288**	**$9,246**	**$193,081**

ANNEX C: REFLECTIONS ON THE POVERTY ASSESSMENT PROCESS

ANNEX C: REFLECTIONS ON THE POVERTY ASSESSMENT PROCESS

As reviewed earlier in this Report, recent legislation calls for USAID to develop and certify low-cost tools to allow microenterprise institutions to measure the percent of their clients who are "very poor" – defined as living on less than $1 a day at purchasing power parity or being among the poorest half of those under the national poverty line – and to require their use by USAID-supported institutions. As USAID reads the relevant legislation, Congress's underlying intent was two-fold: first, to provide microenterprise institutions more effective means to understand the economic status of their clients and to target their programs toward poorer clients; and second, to give USAID a means to track its success in meeting the legislative mandate that at least 50 percent of USAID microenterprise funding should directly benefit the very poor, and to report on that success to Congress and the public.

USAID has worked hard to meet these goals. In consultation with the broader microenterprise community, USAID has developed (and continues to develop) a set of poverty assessment tools that enable institutions to estimate their clients' living standards in relation to one or more specified poverty lines, rather than simply distinguishing between more- and less-poor clients. USAID's tools enable both microenterprise partners and other development programs to measure the living standards of a sample of households, with reasonable accuracy and at relatively low cost – certainly far lower than measuring each household's income or spending directly. Calibrated against an appropriate poverty line or set of living standards, such tools can help partner institutions develop a better understanding of the kinds of clients they are reaching. Moreover, once a tool has been developed for a given country, it can be re-calibrated against different or additional lines relatively easily. In sum, USAID's poverty assessment tools provide a general means to measure absolute household poverty accurately and relatively cheaply.

Unfortunately, the law as currently written requires that USAID's poverty assessment tools be calibrated against what appear to be unrealistically stringent standards of being "very poor." The pattern of results from the first round of implementation of the poverty assessment tools strongly support this interpretation:

- among the 31 institutions that implemented the tools, only one reached the 50 percent target, and none exceeded it;
- the two institutions with the second- and third-highest reported shares of "very poor" clients tied at 43 percent; and
- the simple average of "very poor" clients among all 31 reporting institutions was 21.6 percent.

To the extent that this sample is representative of the broader set of USAID partners, this pattern of results means that USAID could not meet the legislative target of 50 percent of funding benefiting the very poor through *any* reallocation of funds among its current partner institutions. That dramatically limits USAID's ability to meet the poverty targeting mandate that the law creates.

The only obvious way for USAID to achieve the poverty target would be to devote a large share of USAID microenterprise funds to subsidize the higher costs of partners that committed themselves to target exclusively households living in extreme poverty. Doing so would drive up their costs substantially and compromise USAID's longstanding emphasis on sustainability, which is widely considered to be one of the central tenets of best practice in microfinance. Sustainability is strongly and repeatedly endorsed in the 2000 and

2004 Acts as one of Congress's central goals for USAID's microenterprise development efforts.

By requiring that USAID calibrate its tools against an unrealistically stringent standard of being "very poor," the law as currently written actually reduces the potential for those tools to help partners effectively target their programs toward poorer clients. Properly designed poverty assessment tools would provide partners with as much information as possible on the actual living standards of *all* their clients – including those living on more than $1 per day, but nevertheless living in what virtually any American would view as desperate poverty – suffering serious malnutrition, high rates of disease and child mortality, and constant vulnerability to a wide range of economic and health risks. Essentially all such clients lack access to formal finance. These are exactly the type of clients that USAID's partners are eager to serve; as the results of the poverty assessments reported here confirm, they represent the majority of clients of those partner institutions. In contrast, the law as currently written mandates that USAID's tools classify all clients who spend more than $1.01 per day as "not very poor," suggesting that all other information should be discarded as unimportant.

Requiring USAID to calibrate its poverty tools against an unrealistically low poverty line may also undermine partners' motivation for applying the tools carefully and consistently. Though simple and low-cost compared with full-scale household surveys, implementing a USAID poverty tool nevertheless absorbs several thousand dollars plus several weeks of staff and management time to attend USAID training, train internal staff, hire and train interviewers, plan and conduct the assessment, enter the data, and write the summary report. In line with the requirements of the law, the first set of USAID poverty tools boil all that time and effort down into a single number per assessment: "percent of very poor." Having made that effort, if the partner looks at the results and concludes that the assessment tool is calibrated against a poverty line that is too far below its organizational mission to be relevant, that conclusion could easily reduce the effort it puts into obtaining accurate results in subsequent years.

Finally, it is not clear what policy objective is served in mandating the development and implementation of poverty assessment tools limited to answering a single question – what percent of clients fall below a certain line – especially when that line is set so low that it excludes most clients of almost all USAID partner institutions. Especially at a time when the microenterprise field is moving away from a narrow focus on poverty measurement toward social performance measurement, which looks at a wide range of economic and social indicators – and which is finding favor among major private investors in microfinance – it makes little sense for USAID to focus its measurement efforts so narrowly on a data point not grounded in clear, practical implications for its partner institutions.

USAID welcomes the opportunity for a renewed discussion over the appropriate parameters of a poverty targeting mandate for the microenterprise institutions it supports, particularly regarding the definition of the "very poor." With a growing number of poverty assessment tools coming on line, with the experience and results from the first year's application of those tools in hand, and with growing experience elsewhere in the microenterprise field with alternative social performance measurement, we now have an opportunity for a far richer and better-informed discussion of these key issues than was possible when the legislation was passed. Shifting the focus of USAID's poverty assessment tools to more realistic poverty lines, developed in collaboration with the microenterprise community and Congress, would enable USAID to better target its programs toward the poor while continuing to support progress toward sustainable, cost-effective microfinance and microenterprise development programs.

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