

MICROENTERPRISE FOR SELF-RELIANCE ACT OF 1999

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APRIL 12, 1999.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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

R E P O R T

[To accompany H.R. 1143]

[Including cost estimate of the Congressional Budget Office]

The Committee on International Relations, to whom was referred the bill (H.R. 1143) to establish a program to provide assistance for programs of credit and other financial services for microenterprises in developing countries, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

BACKGROUND AND PURPOSE

H.R. 1143, the Microenterprise for Self-Reliance Act of 1999 was introduced on March 17, 1999, by Messrs. Gilman, Gejdenson, Houghton, Hall, and 21 other original cosponsors. The bill provides authorization of appropriations, guides microfinance policy, and establishes a new Microfinance Loan Facility.

THE PROMISE OF MICROENTERPRISE PROGRAMS

Despite the growth of the world's economy, billions of people in dozens of countries have incomes below one dollar per day. The international development community has a number of different ways to boost the incomes of poor people in developing countries including support for infrastructure projects, structural adjustments to the economy and free trade initiatives. Starting in the early 1980s, microenterprise development programs have become one of the most successful ways the international community has to support the end of poverty in the developing world. Unlike other assistance programs, microenterprise lending programs reach the poorest of the poor with credit that is repaid by individual borrowers with interest. Microlending programs have demonstrated

that if structured correctly, poverty lending programs can help lift the poorest members of society out of poverty, while repaying their loans.

Dr. Muhammad Yunus of Bangladesh developed this method of helping to end poverty in the early 1980s. He learned that while loans made to poor individuals carried the high risks traditionally associated with poverty lending, loans made by Yunus to support groups, especially very poor women, were repaid at rates of 95%–98%. This surprising innovation was the secret that made micro lending programs work. Based on this model, Dr. Yunus founded the Grameen bank in 1983. To date, the bank has lent over \$2 billion and is now one of the largest financial institutions in Bangladesh.

Using the Grameen Bank and other microfinance models, the international community has supported the start or expansion of dozens of microfinance institutions. The most sophisticated of these institutions, such as Bolivia's BancoSol, now have the financial strength to raise capital directly from Wall Street. Many other microfinance institutions are becoming the largest lenders in their respective countries. These institutions have shown that when properly administered, the poor are outstanding credit risks who will lift themselves out of poverty.

#### U.S. SUPPORT FOR MICROENTERPRISE PROGRAMS

The United States supports microenterprise development through multi- and bilateral programs. The multilateral program is coordinated by the World Bank's Consultative Group to Assist the Poorest ("CGAP"). As the number one donor to the International Financial Institutions and the United Nations development agencies, the U.S. can play a leading role in mobilizing resources from other countries to support microenterprise programs. CGAP now coordinates the activities of 27 multi- and bilateral donors.

U.S. support for bilateral microenterprise programs is managed by the Agency for International Development ("AID"). AID defines a "microenterprise" as a firm with a total of 10 or fewer employees. Funding for programs to support such firms averaged just over \$100 million per year from FY 1990–1993. In 1994, AID joined with Congress and microenterprise groups to launch the first Microenterprise Initiative. In the 1994 Initiative, AID committed to:

- Maintain women and the poor as its primary emphasis, particularly through support of poverty lending;

- Help implementing organizations to reach greater numbers of people;

- Support institutional sustainability and financial self-sufficiency among implementing organizations; and

- Seek improved partnerships with local organizations.

During Fiscal Years 1994, 1995 and 1996, AID provided \$137 million, \$133 million and \$111 million respectively to support microenterprise projects.

In February of 1997, RESULTS Educational Fund, a U.S. microcredit Non-Governmental Organization, called the first Microcredit Summit in Washington. The heads of state and agencies attending the summit called for "the international community to reach 100 million of the world's poorest families, especially the women of

those families, with credit for self-employment and other financial and business services by the year 2005.” In June of 1997, the Administration, the Congress, and the Microenterprise Coalition joined in a renewal of the Microenterprise Initiative. AID committed to a number of quantitative targets, including:

At least half of all microenterprise clients of the institutions that AID supported would be women.

At least half of all the AID funds supporting microfinance institutions would go to poverty lending.

At least two-thirds of the clients of AID-supported microfinance will receive loans of less than \$300.

The average repayment rates for microfinance institutions receiving AID support will be 95% or above.

Every AID-supported microfinance organization will have a plan to reach full financial sustainability in a reasonable period of time.

AID also committed to set a target of 15% per year growth in the number of clients receiving services. AID reports that 1.4 million poor clients had active loans with AID-supported institutions, up 47% from levels in 1996. The average annual number of clients served by AID is growing at a rate of 150% annually. AID also reports that 67% of these loans were “poverty” loans, i.e., loans at or below \$300 for Africa, Latin America, the Caribbean and Asia and \$1,000 for Europe and the Newly Independent States.

During Fiscal Year (“FY”) 1997, AID spent \$165 million to support microfinance programs. In 1997, AID supported 481 microfinance activities in 62 countries with 70% of microfinance resources to support credit other than microfinance activities. Over one quarter of these institutions report that they are covering all of their financial and operational expenses. In FY 1998, funding dropped to \$144 million. Congress, through language to accompany the FY 1999 appropriations conference report, directed that at least \$135 million be spent to support microfinance institutions during FY 1999.

#### THE WAY FORWARD

Since the founding of the Grameen Bank, microenterprise development activities have become a major part of the U.S. foreign assistance program. From the first years of founding microfinance institutions, AID and the Treasury Department (overseeing multilateral programs) must now respond to the transformation of microenterprise organizations into the medium and large financial providers they have the potential to become. As such, microfinance institutions need more than just donor capital. They need policy reform to remove outdated financial laws and regulations that work to prevent the delivery of microfinance services. In addition, the removal of interest rate restrictions and minimum funding requirements can greatly reduce the ability of such programs to work.

The bill sets forth four major directions for the future of microenterprise programs: \$152 million in FY 2000 and \$167 million in FY 2001 are authorized to be appropriated in grants with a requirement that half of all microenterprise resources shall be used for direct support of programs through practitioner institutions that provide credit and other financial services to the poorest with

loans of \$300 or less in 1995 U.S. dollars. A monitoring program is also established to ensure that these programs are lifting the poorest of the poor from poverty. Two million are authorized to be appropriated in each of fiscal years 2000 and 2001 for the Micro and Small Enterprise Development (“MSED”) program at AID. A new Microfinance Loan Facility is established to pool the risk and support U.S. funded microfinance institutions to recover from natural disasters, war, civil conflict or short-term financial movements that threaten their long-term development. This is a systemic response to previous crises involving microfinance institutions in South Asia and Central America that were nearly bankrupted by natural disasters killing or wounding many of their client borrowers.

A new report by the President and in coordination with the Administrator of AID, Secretary of the Treasury and Secretary of State to review key innovations and institutions that would be necessary to ensure the further growth of the microfinance sector.

#### COMMITTEE ACTION

H.R. 1143 was introduced by Chairman Gilman on March 17, 1999, and was referred to the Committee on International Relations, which marked up the bill in open session, pursuant to notice, that same day. The Full Committee considered the bill and agreed to a motion to favorably report the bill to the House of Representatives, by voice vote. There were no amendments.

#### RECORD VOTES ON AMENDMENTS AND MOTION TO REPORT

Clause 3(b) of rule XIII of the Rules of the House of Representatives requires that the results of each record vote on an amendment or motion to report, together with the names of those voting for or against, be printed in the committee report. No record votes were taken during the consideration of H.R. 1143.

#### OTHER MATTERS

##### COMMITTEE OVERSIGHT FINDINGS

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

##### COMMITTEE ON GOVERNMENT REFORM FINDINGS

Clause 3(c)(4) of rule XIII of the Rules of the House of Representatives requires each committee report to contain a summary of the oversight findings and recommendations made by the Government Reform Committee pursuant to clause 4(c)(2) of rule X of those Rules. The Committee on International Relations has received no such findings or recommendations from the Committee on Government Reform.

## ADVISORY COMMITTEE STATEMENT

No advisory committees within the meaning of section 5(b) of the Federal Advisory Committee Act were created by this legislation.

## APPLICABILITY TO THE LEGISLATIVE BRANCH

The Committee finds that the legislation does not relate to the terms and conditions of employment or access to public services or accommodations within the meaning of section 102(b)(3) of the Congressional Accountability Act.

## CONSTITUTIONAL AUTHORITY STATEMENT

In compliance with clause 3(d)(1) of rule XIII of the Rules of the House of Representatives, the Committee cites the following specific powers granted to the Congress in the Constitution as authority for enactment of H.R. 1143 as reported by the Committee: Article I, section 8, clause 1 (relating to providing for the common defense and general welfare of the United States); Article I, section 8, clause 3 (relating to the regulation of commerce with foreign nations); and Article I, section 8, clause 18 (relating to making all laws necessary and proper for carrying into execution powers vested by the Constitution in the government of the United States).

## PREEMPTION CLARIFICATION

Section 423 of the Congressional Budget Act of 1974 requires the report of any committee on a bill or joint resolution to include a committee statement on the extent to which the bill or joint resolution is intended to preempt state or local law. The Committee states that H.R. 1143 is not intended to preempt any state or local law.

## NEW BUDGET AUTHORITY AND TAX EXPENDITURES, CONGRESSIONAL BUDGET OFFICE COST ESTIMATE, AND FEDERAL MANDATES STATEMENTS

Clause 3(c)(2) of rule XIII of the Rules of the House of Representatives requires each committee report that accompanies a measure providing new budget authority, new spending authority, or new credit authority or changing revenues or tax expenditures to contain a cost estimate, as required by section 308(a)(1) of the Congressional Budget Act of 1974, as amended, and, when practicable with respect to estimates of new budget authority, a comparison of the estimated funding level for the relevant program (or programs) to the appropriate levels under current law.

Clause 3(d) of rule XIII of the Rules of the House of Representatives requires committees to include their own cost estimates in certain committee reports, which include, when practicable, a comparison of the total estimated funding level for the relevant program (or programs) with the appropriate levels under current law.

Clause 3(c)(3) of rule XIII of the Rules of the House of Representatives requires the report of any committee on a measure which has been approved by the Committee to include a cost estimate prepared by the Director of the Congressional Budget Office, pursuant to section 403 of the Congressional Budget Act of 1974, if the cost estimate is timely submitted.

Section 423 of the Congressional Budget Act requires the report of any committee on a bill or joint resolution that includes any Federal mandate to include specific information about such mandates. The Committee states that H.R. 1143 does not include any Federal mandate.

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

The Committee adopts the cost estimate of the Congressional Budget Office as its own submission of any new required information with respect to H.R. 1143 on new budget authority, new spending authority, new credit authority, or an increase or decrease in the national debt. It also adopts the estimate of Federal mandates prepared by the Director of the Congressional Budget Office pursuant to section 423 of the Unfunded Mandates Reform Act. The estimate and report which has been received is set out below.

U.S. CONGRESS,  
CONGRESSIONAL BUDGET OFFICE,  
*Washington, DC, March 24, 1999.*

Hon. BENJAMIN A. GILMAN,  
*Chairman, Committee on International Relations,  
House of Representatives, Washington, DC.*

DEAR MR. CHAIRMAN: The Congressional Budget Office (CBO) has prepared the enclosed cost estimate for H.R. 1143, the Microenterprise for Self-Reliance Act of 1999.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Joseph C. Whitehill.

Sincerely,

BARRY B. ANDERSON  
(For Dan L. Crippen, Director).

Enclosure.

*H.R. 1143—Microenterprise for Self-Reliance Act of 1999*

Summary: H.R. 1143 would authorize grants and loans to capitalize institutions that would make very small loans to the poor in developing countries. It would also authorize training and technical assistance to customers and managers of such institutions. In addition, the bill would create a loan facility that would offer subsidized loans to such institutions should they face bankruptcy due to natural disasters, wars, or severe financial crisis. CBO estimates that appropriation of the authorized amounts would result in additional outlays of \$291 million over the next five years. Because H.R. 1143 would not affect direct spending or receipts, pay-as-you-go procedures would not apply.

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

Estimated cost to the Federal Government: The estimated budgetary impact of H.R. 1143 is shown in the following table. The costs of this legislation fall within budget function 150 (international affairs).

Basis of estimate: Under current law, the Administration provides grants and loans to small-scale financial institutions through several different programs. H.R. 1143 would authorize additional appropriations of \$152 million in 2000 and \$167 million in 2001 for grants and \$2 million in 2000 and 2001 for the administrative costs and credit subsidies for microenterprise programs. The estimate assumes that the authorized amounts would be appropriated for each year and that outlays would follow historical patterns for similar programs.

	By fiscal year, in millions of dollars				
	2000	2001	2002	2003	2004
SPENDING SUBJECT TO APPROPRIATION					
Authorization level .....	159	174	0	0	0
Estimated outlays .....	12	89	114	50	26

H.R. 1143 would also create a loan facility to assist U.S.-sponsored, microfinance institutions that face bankruptcy due to natural disaster, war, or severe national financial crisis. The bill would authorize up to \$5 million annually for subsidized loans in 2000 and 2001. Funds for the facility would be in addition to the amounts specifically authorized by the bill. CBO estimates that the facility would spend \$9 million over the next five years, assuming appropriation of the authorized amounts.

Intergovernmental and private-sector impact: H.R. 1143 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

Estimate prepared by: Federal Costs: Joseph C. Whitehill Impact on State, Local, and Tribal Governments: Leo Lex Impact on the Private Sector: Lesley Frymier.

Estimate approved by: Robert A. Sunshine, Deputy Assistant Director for Budget Analysis.

#### SECTION-BY-SECTION ANALYSIS

##### *Section 1. Short title*

This section provides the short title for the act will be the “Microenterprise for Self-Reliance Act of 1999”.

##### *Sec. 2. Findings and declarations of policy*

This section contains 18 findings updated from H.R. 1129 (which the House passed during the 105th Congress) on the demand for microenterprise credits, the success with past programs and the need for their expansion in the developing world.

##### *Sec. 3. Purposes*

This section sets forth five main purposes of the Act. While microenterprise development programs have become an important part of the U.S. foreign assistance program, the Committee believes that the success of these programs should bring their operations and expansion into the forefront of the U.S. assistance effort.

The Committee also takes the commitments made by AID at the 1994 and 1997 Microenterprise Initiatives very seriously and has

used these commitments as the basis for working with the Administration. The Committee also has heard clear testimony and reviewed evidence that U.S. NGOs and indigenous nongovernmental organization intermediaries are the key partners our assistance programs require to provide credit, savings, training and technical services to microentrepreneurs.

The Committee believes that one of the key requirements in this legislation is the requirement to increase the amount of assistance devoted to credit activities designed to reach the poorest sector in developing countries, and to improve the access of the poorest, particularly women, to microenterprise credit in developing countries. The Committee notes that in various countries throughout the world, the extension of credit to women has been one of the most successful aspects of microfinance programs. As microfinance institutions help to break down the barriers to credit for women, they unlock a vast potential for productivity long suppressed in many societies.

The Committee believes that under the leadership of the President, AID, the Department of the Treasury and the Department of State should better coordinate policy to support the microfinance sector. The Committee notes and applauds the interest and involvement of the First Lady in supporting microfinance projects and urges the President to take a strong lead in coordinating key cabinet departments and agencies in promoting microfinance institutions. The Committee notes that in addition to funding, policy changes designed by AID and encouraged by the State and Treasury Departments are crucial to the future development of the microfinance sector.

#### *Sec. 4. Microenterprise development grant assistance*

This section adds a new section to the Foreign Assistance Act of 1961 (as amended) ("FAA") to authorize appropriations for grants and govern the use of all microenterprise resources.

Subsection (a) includes findings that note the development of microenterprise is a vital factor in the stable growth of developing countries and in the development of free, open, and equitable international economic systems; that it is therefore in the best interest of the United States to assist the development of microenterprises in developing countries; and the support of microenterprise can be served by programs providing credit, savings, training, and technical assistance. In the U.S. economy, small businesses fitting AID's definition of a microenterprise employ a significant portion, if not the majority, of Americans. By supporting the development of microenterprises, the Committee seeks to have foreign assistance programs help developing countries move away from basing their economies on large state-owned enterprises to the dynamic and innovative micro- and small business economy that has served the U.S. so well.

Subsection (b)(1) authorizes the President to provide grant assistance for programs to increase the availability of credit and other services to microenterprises lacking full access to capital and training through four major approaches—(A) grants to microfinance institutions for the purpose of expanding the availability of credit, savings, and other financial services to microentrepreneurs; (B)

training, technical assistance, and other support for microenterprises to enable them to make better use of credit, to better manage their enterprises, and to increase their income and build their assets; (C) capacity building for microfinance institutions in order to enable them to better meet the credit and training needs of microentrepreneurs; and (D) policy and regulatory programs at the country level that improve the environment for microfinance institutions that serve the poor and very poor.

The Committee notes that last year Congress created a technical assistance program at the Department of the Treasury to help developing countries and countries in transition with monetary and regulatory affairs. The Committee strongly encourages the Treasury Department to include offers of assistance for policy reform and prudent regulation of the microfinance sector in its discussions with potential recipients of such aid. The Committee believes that analysis and elimination of policy barriers to microfinance and the proper regulation of such institutions will be key factors in the growth of the microfinance sector in the next decade.

Subsection (b)(2) requires that the assistance authorized pass through organizations that have a capacity to develop and implement microenterprise programs, including particularly United States and indigenous private and voluntary organizations, United States and indigenous credit unions and cooperative organizations, other indigenous governmental and nongovernmental organizations; or business development services, including indigenous craft programs. The Committee notes the particular expertise of the members of the Microenterprise Coalition and its partners overseas in delivering this form of assistance.

Subsection (b)(3) is in many ways one of the key provisions of this legislation. This section draws on a long heritage from the 1994 and 1997 Initiatives, the Microcredit Summit and the Administration-supported House-passed versions of H.R. 386 in the 104th Congress and H.R. 1129 in the 105th Congress. The subsection provides that in carrying out sustainable poverty-focused programs referred to above, 50 percent of all microenterprise resources shall be used for direct support of programs under this subsection through practitioner institutions that provide credit and other financial services to the poorest with loans of \$300 or less in 1995 United States dollars and can cover their costs of credit programs with revenue from lending activities or that demonstrate the capacity to do so in a reasonable time period.

The Committee intends that the term "poverty lending programs" should refer to programs which directly support credit and other financial services for the poorest with loans of \$300 or less in 1995 U.S. dollars. While the Committee is clearly and purposefully restrictive on its use of the \$300 average loan limit, it seeks to be expansive on what the Administration may use to count toward this ceiling. The Committee intends that the Administration may include all Development Assistance, Economic Support Fund ("ESF"), SEED Act and Freedom Support Act resources dedicated to supporting such programs. In addition, the Administration may also count P.L. 480, deobligate/reobligate, local currency and counterpart trust funds used to support such programs. The Administration may also reasonably and conservatively pro-rate the portion

of training, technical assistance, capacity building, policy and regulatory support that went to poverty lending programs. For example, if the Administration were to support a K-REP effort to remove regulatory restrictions on the microfinance sector and K-REP used 50% of its resources to directly provide services and credit to poverty lending services, then the Administration would be able to count 50% of the funds spent to support towards the requirement in this section.

Subsection (b)(4) provides that the President should continue support for central mechanisms and missions that provide technical support for field missions; strengthen the institutional development of the intermediary organizations described above, share information relating to the provision of assistance authorized above between such field missions and intermediary organizations; and support the development of nonprofit global microfinance networks, including credit union systems, that are able to deliver very small loans through a vast grassroots infrastructure based on market principles and act as wholesale intermediaries providing a range of services to microfinance retail institutions, including financing, technical assistance, capacity building and safety and soundness accreditation.

Subsection (b)(5) provides that assistance provided under this subsection may only be used to support microenterprise programs and may not be used to support programs not directly related to the purposes described in paragraph (1).

Subsection (c) establishes a monitoring system to maximize the sustainable development impact of the assistance authorized under subsection (a)(1). It directs AID's Administrator to establish a monitoring system that will accomplish four basic tasks. First, under this bill as under the current law of the Government Performance and Review Act ("GPRA" or the "Results Act"), AID must establish performance goals for such assistance and expresses such goals in an objective and quantifiable form, to the extent feasible. The Committee has been concerned in the past that AID has been unable to measure its support for poverty-lending programs. Under this section, the Committee is clearly directing AID to measure the impact of such programs, especially on lifting the very poorest from poverty. This subsection also establishes performance indicators to be used in measuring or assessing the achievement of the goals and objectives of such assistance. The Committee believes that one of the key measures will be loans made and repaid in amounts of \$300 or less in 1995 dollars. Next, the subsection requires AID to provide a basis for recommendations for adjustments to such assistance to enhance the sustainable development impact of such assistance, particularly the impact of such assistance on the very poor, particularly poor women. Finally, the subsection contemplates reforms and room for improving measurement systems by directing AID to report periodically on adjustments to measures for reaching the poorest of the poor, including proposed legislation containing amendments to improve paragraph (3). While the Committee is very interested in any new and more effective changes that can be made to measure the impact of these programs on the poorest of the poor, the Committee directs that AID should focus its initial re-

porting resources on measuring its support for poverty lending programs.

Subsection (d) authorizes \$152,000,000 for fiscal year 2000 and \$167,000,000 for fiscal year 2001 to carry out this section. Originally, the Committee considered higher funding sums for these highly successful programs but chose these funding levels as realistic, achievable and amply justified by the demonstrated success of microenterprise programs.

*Sec. 5. Micro- and small enterprise development credits*

Section 5 rewrites section 108 of the FAA to directly authorize AID's current Micro- and small Enterprise Development ("MSED") program. Section 108 had become outdated and was no longer utilized by AID. This section sets into permanent law the current guidance and policy regarding assistance for micro- and slightly larger small enterprises.

Subsection (a) contains findings and policies that are self-explanatory. Subsection (b) authorizes the President to carry out the policy set forth in subsection (a), through three delivery mechanisms: (1) loans and guarantees to credit institutions for the purpose of expanding the availability of credit to micro- and small enterprises, (2) training programs for lenders in order to enable them to better meet the credit needs of microentrepreneurs and (3) training programs for microentrepreneurs in order to enable them to make better use of credit and to better manage their enterprises.

Subsection (c) requires the Administrator of AID to establish criteria for determining which entities described in the subsection above are eligible to carry out activities, with respect to micro- and small enterprises, assisted under this section. There are five criteria: (1) the extent to which the recipients of credit from the entity do not have access to the local formal financial sector, (2) the extent to which the recipients of credit from the entity are among the poorest people in the country, (3) the extent to which the entity is oriented toward working directly with poor women, (4) the extent to which the entity recovers its cost of lending to the poor, and (5) the extent to which the entity implements a plan to become financially sustainable.

Subsection (d) limits this assistance to support micro- and small enterprise programs and may not be used to support programs not directly related to the purposes described in subsection (b).

Subsection (e) authorizes the currently appropriated levels of \$1,500,000 for each of the fiscal years 2000 and 2001 to carry out this section. Under Credit Reform, these amounts authorized to be appropriated will be made available for the subsidy cost, as defined in section 502(5) of the Federal Credit Reform Act of 1990. In addition \$500,000 is authorized to be appropriated for each of the fiscal years 2000 and 2001 for the cost of administrative expenses in carrying out this section.

*Sec. 6. Microfinance Loan Facility*

This section establishes a new Microfinance Loan Facility to pool and manage the risk from natural disasters, war or civil conflict, national financial crisis, or short-term financial movements that threaten the long-term development of United States-supported

microfinance institutions. For some time, the Committee has been concerned about the security of microfinance institutions and their ability to continue operations in the face of large natural catastrophes or man-made disasters. Recently, AID has rescued several microfinance institutions in the Subcontinent or Latin America who were threatened with bankruptcy caused by natural disasters. In short, it is hard to run a bank whose clients are dead or displaced by a calamity. The Committee commends AID on these ad hoc rescue packages but seeks a more systemic approach to the security of microfinance institutions already supported by the U.S. taxpayer. With a more systemic approach to the security of microfinance institutions responding to calamity, the past work of AID and the support of the taxpayer will be protected. In addition, once microfinance institutions can be restored after a calamity, then these institutions can play a key role in recovery efforts.

Subsection (a) establishes such a facility to pool and manage the risk from natural disasters, war or civil conflict, national financial crisis, or short-term financial movements that threaten the long-term development of United States-supported microfinance institutions. Subsection (b) establishes a supervisory board of the facility composed of the following representatives appointed by the President not later than 180 days after the date of the enactment: (A) 1 representative from the Department of the Treasury, (B) 1 representative from the Department of State, (C) 1 representative from the Agency for International Development, (D) 2 United States citizens from United States nongovernmental organizations that operate United States-sponsored microfinance activities.

The Committee believes that these two last appointees should be appointed from the largest and most experienced U.S. microfinance institutions. They will also serve for terms of 2 years.

The AID Administrator will serve as Chairman of the board with an additional vote. The Committee understands that the board will largely represent members of the Administration with only two out of the six members from outside organizations.

Subsection (c) provides that the board may make disbursements from the Facility to United States-sponsored microfinance institutions to prevent the bankruptcy of such institutions caused by (A) natural disasters, (B) national wars or civil conflict, and (C) national financial crisis or other short term financial movements that threaten the long-term development of United States-supported microfinance institutions.

Such disbursements shall be made as concessional loans that are repaid maintaining the real value of the loan to microfinance institutions that demonstrate the capacity to resume self-sustained operations within a reasonable time period. The Facility shall provide for loan losses with each loan disbursed. The Committee understands that the best way to rescue a microfinance institution is to lend it money, not to loan it. Nevertheless, the structure of the Facility does not provide for the full cost recovery of its operations and that it may need to be replenished from time to time.

In order to closely supervise the operation of the Facility in its first years, during each of the fiscal years 2001 and 2002, funds may not be made available from the Facility until 15 days after notification of the availability has been provided to the congressional

committees specified in section 634A of this Act in accordance with the procedures applicable to reprogramming notifications under that section.

Subsection (d) also requires a report not later than 60 days after the date on which the last representative to the board is appointed pursuant to subsection (b), the chairman of the board shall prepare and submit to the appropriate congressional committees a report on the policies, rules, and regulations of the Facility.

Subsection (e) contains placeholder language describing the general thrust and direction of the Committee regarding the funding sources of the Facility. The Committee understands that the Chairman and Ranking Minority Member will offer final language on the funding for this Facility that is acceptable to the Administration when this bill is considered on the House.

*Sec. 7. Report relating to future development of microfinance institutions*

This section is intended to lay a foundation for the future development of the microfinance sector. Subsection (a) requires the President, in consultation with the AID Administrator, the Secretary of State, and the Secretary of the Treasury, to prepare and transmit to the appropriate congressional committees a report on the most cost-effective methods for increasing the access of poor people to credit, other financial services, and related training.

Subsection (b) provides that the contents of the report shall contain: First, how the President will jointly develop a comprehensive strategy for advancing the global microenterprise sector in a way that maintains market principles while assuring that the very poor, particularly women, obtain access to financial services. The Committee is concerned that as the microfinance sector grows, the Administration should develop a comprehensive strategy to foster the enabling environment and funding for such institutions.

Second, the subsection requires guidelines and recommendations for—

(A) Instruments to assist microenterprise networks to develop multi-country and regional microlending programs. The Committee believes that networks can be the key to the development of this sector in the next decade.

(B) Technical assistance to foreign governments, foreign central banks and regulatory entities to improve the policy environment for microfinance institutions, and to strengthen the capacity of supervisory bodies to supervise microcredit institutions. Having authorized the start of the Treasury Technical Assistance Program, the Committee encourages the Treasury Department to include assistance for the regulation and development of the microfinance sector in its review of possible assistance that can be offered under this program.

(C) The potential for federal chartering of United States-based international microfinance network institutions, including proposed legislation. The Committee would like to review the advantages Fannie Mae had in the use of its federal charter and the potential such an arrangement might have for the development of the microfinance sector.

(D) Instruments to increase investor confidence in microcredit institutions which would strengthen the long-term financial position of the microcredit institutions and attract capital from private sector entities and individuals, such as a rating system for microcredit institutions and local credit bureaus. The Committee was impressed with the achievement of Bolivia's BancoSol and its development of independent access to private capital markets.

(E) An agenda for integrating microfinance into United States foreign policy initiatives seeking to develop and strengthen the global finance sector. The Committee believes that under GPRA, the development of microfinance institutions should become a key part of the State Department and AID performance plans.

(F) Innovative instruments to attract funds from the capital markets, such as instruments for leveraging funds from the local commercial banking sector, and the securitization of microloan portfolios.

*Sec. 8. United States Agency for International Development as global leader and coordinator of bilateral and multilateral microenterprise assistance activities*

This section contains findings and a sense of the Congress that the development of the microfinance sector should be included in multilateral discussions and institutions such as the International Fund for Agricultural Development (IFAD) and the United Nations Development Program (UNDP). The section also calls on the Secretary of the Treasury to instruct each United States Executive Director of the Multilateral Development Banks (MDBs) to advocate the development of a coherent and coordinated strategy to support the microenterprise sector and an increase of multilateral resource flows for the purposes of building microenterprise retail and wholesale intermediaries.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

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

**FOREIGN ASSISTANCE ACT OF 1961**

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PART I

CHAPTER 1—POLICY; DEVELOPMENT ASSISTANCE AUTHORIZATIONS

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**[SEC. 108. PRIVATE SECTOR REVOLVING FUND.—**(a) The Congress finds that the development of private enterprise, including cooperatives, is a vital factor in the stable growth of developing countries and in the development and stability of a free, open, and equitable international economic system. It is therefore in the best interests

of the United States to assist the development of the private sector in developing countries and to engage the United States private sector in that process. In order to promote such private sector development, the President is authorized to establish a revolving fund account in the United States Treasury. All funds deposited in such account shall, notwithstanding any provision in an appropriation Act to the contrary, be free from fiscal year limitations.

[(b) Of the funds made available under this chapter in each of the fiscal years 1986 and 1987, up to \$18,000,000 may be deposited in this account. Such funds used in accordance with the policies and authorities of this section shall be in addition to other funds available for private sector activities under other authorities in this Act. Any reflows and income arising from activities carried out pursuant to this section, including loan repayments and fee income (as provided in subsection (e) of this section), shall be deposited into the revolving fund and remain available to carry out the purposes of this section. All funds in such account may be invested in obligations of the United States.

[(c)(1) The agency primarily responsible for administering this part is authorized to use the funds maintained in this revolving fund account to furnish assistance in furtherance of the policy of subsection (a) on such terms and conditions as it may determine. Amounts in the revolving fund account shall be available for obligation for assistance under this section only to such extent as may be provided in advance in appropriation Acts. Assistance may be provided under this section without regard to sections 604(a) and 620(r) of this Act.

[(2) Assistance under this section may be provided only to support private sector activities which—

[(A) are consistent with the United States development assistance policies set forth in section 102 of this Act and with the development priorities of the host country;

[(B) are the types of activities for which assistance may be provided under sections 103 through 106 of this Act;

[(C) will have a demonstration effect;

[(D) will be innovative;

[(E) are financially viable;

[(F) will maximize the development impact appropriate to the host country, particularly in employment and the use of appropriate technology; and

[(G) are primarily directed to making available to small business enterprises and cooperatives necessary support and services which are not otherwise generally available.

In determining whether an enterprise is a small business enterprise, the agency primarily responsible for administering this part shall take into consideration the enterprise's total net fixed assets and number of employees, together with the relevant definition utilized by the host country government and the International Bank for Reconstruction and Development and other international organizations.

[(3)(A) Not more than \$3,000,000 may be made available under this section to support any one project.

[(B) Not more than 50 per centum of the financial support for any project may be provided under this section, and a substantial

portion of the financial support for a project assisted under this section must be provided by sources within the host country.

[(C) Not more than 20 per centum of the assets of the revolving fund account under this section may be used to support projects in any one country.

[(D) In order to maximize the impact on institution building, loans under this section shall be made primarily to intermediary entities which provide necessary support and services for private sector activities.

[(E) Loans under this section shall be at or near the interest rate otherwise available to the recipient.

[(d)(1) If at any time the assets of the revolving fund account exceeds \$100,000,000, the President shall remit the amount in excess of \$100,000,000 to the United States Treasury.

[(2) As used in this section, "assets" includes amounts in the revolving fund account plus the value of investments made with amounts from the fund plus the current value of outstanding obligations under loans under this section.

[(3) In addition to the requirement of paragraph (1), at the end of any fiscal year, the agency primarily responsible for administering this part may determine that amounts in the revolving fund are sufficient to permit the remittance to the United States Treasury of an amount equal to a portion or the total amount of appropriated funds deposited in the revolving fund. Any such remittance shall be deemed to be a decrease in the appropriated funds in the revolving fund. After remittance has been made of an amount equal to the total amount of appropriated funds, the revolving fund shall consist and be deemed to consist entirely of nonappropriated funds.

[(e) A fee may be charged, where appropriate, in carrying out activities with funds from the revolving fund authorized in this section. The amount of any such fee shall be determined by the agency primarily responsible for administering this part.

[(f) In the event the revolving fund is terminated, all unobligated money in the fund at the time of such termination shall be transferred to and become part of the miscellaneous receipts account of the Treasury.

[(g) As part of its annual congressional presentation documents submitted to the Congress, the agency primarily responsible for administering this part shall include a description of projects proposed to be funded from the revolving fund account for that fiscal year. To the extent that projects are proposed for funding which are not contained in the annual congressional presentation documents, at least fifteen days' advance notification shall be provided to the Congress in accordance with section 634A of this Act.

[(h) Not later than December 31 of each year, the President shall submit a comprehensive report which details all projects funded under this section during the previous fiscal year, all reflows to the revolving fund account, a status report on all projects currently contained in the fund's portfolio. Such reports shall include, but not be limited to, information regarding numbers and kinds of beneficiaries reached, amounts and kinds of benefits provided by the funded projects to targeted populations, and a justification for

projects within the context of the goals and objectives of the United States development assistance program.

[(i)(1) To carry out the purposes of subsection (a), in addition to the other authorities set forth in this section, the agency primarily responsible for administering this part is authorized to issue guarantees on such terms and conditions as it shall determine assuring against losses incurred in connection with loans made to projects that meet the criteria set forth in subsection (c). The full faith and credit of the United States is hereby pledged for the full payment and performance of such guarantees.

[(2) Loans guaranteed under this subsection shall be on such terms and conditions as the agency may prescribe, except for the following:

[(A) The agency shall issue guarantees only when it is necessary to alleviate a credit market imperfection.

[(B) Loans guaranteed shall provide for complete amortization within a period not to exceed ten years or, if the principal purpose of the guaranteed loan is to finance the construction or purchase of a physical asset with a useful life of less than ten years, within a period not to exceed such useful life.

[(C) No loan guaranteed to any one borrower may exceed 50 percent of the cost of the activity to be financed, or \$3,000,000, whichever is less, as determined by the agency.

[(D) No loan may be guaranteed unless the agency determines that the lender is responsible and that adequate provision is made for servicing the loan on reasonable terms and protecting the financial interest of the United States.

[(E) The fees earned from the loan guarantees issued under this subsection shall be deposited in the revolving fund account as part of the guarantee reserve established under paragraph (5) of this subsection. Fees shall be assessed at a level such that the fees received, plus the funds from the revolving fund account placed in the guarantee reserve satisfy the requirements of paragraph (5). Fees shall be reviewed every twelve months to ensure that the fees assessed on new loan guarantees are at the required level.

[(F) Any guarantee shall be conclusive evidence that such guarantee has been properly obtained, and that the underlying loan as contracted qualifies for such guarantee. Except for fraud or material misrepresentation for which the parties seeking payment under such guarantee are responsible, such guarantee shall be presumed to be valid, legal, and enforceable.

[(G) The agency shall determine that the standards used by the lender for assessing the credit risk of new and existing guaranteed loans are reasonable. The agency shall require that there be a reasonable assurance of repayment before credit assistance is extended.

[(H) Commitments to guarantee loans may be made by the agency only to the extent that the total loan principal, any part of which is guaranteed, will not exceed the amount specified in annual appropriations Acts.

[(3) To the extent that fees are not sufficient as specified under paragraph (2)(E) to cover expected future liabilities, appropriations are authorized to maintain an appropriate reserve.

[(4) The losses guaranteed under this subsection may be in dollars or in other currencies. In the case of loans in currencies other than dollars, the guarantees issued shall be subject to an overall payment limitation expressed in dollars.]

[(5) The agency shall segregate in the revolving fund account and hold as a reserve an amount estimated to be sufficient to cover the agency's expected net liabilities on the loan guarantees outstanding under this subsection; except that the amount held in reserve shall not be less than 25 percent of the principal amount of the agency's outstanding contingent liabilities on such guarantees. Any payments made to discharge liabilities arising from the loan guarantees shall be paid first out of the assets in the revolving fund account and next out of other funds made available for this purpose.]

**SEC. 108. MICRO- AND SMALL ENTERPRISE DEVELOPMENT CREDITS.**

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

(1) *the development of micro- and small enterprises are a vital factor in the stable growth of developing countries and in the development and stability of a free, open, and equitable international economic system; and*

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

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

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

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

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

(c) *ELIGIBILITY CRITERIA.*—*The Administrator of the United States Agency for International Development shall establish criteria for determining which entities described in subsection (b) are eligible to carry out activities, with respect to micro- and small enterprises, assisted under this section. Such criteria may include the following:*

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

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

(3) *The extent to which the entity is oriented toward working directly with poor women.*

(4) *The extent to which the entity recovers its cost of lending to the poor.*

(5) *The extent to which the entity implements a plan to become financially sustainable.*

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

(e) *AUTHORIZATION OF APPROPRIATIONS.*—

(1) *IN GENERAL.*—(A) There are authorized to be appropriated \$1,500,000 for each of the fiscal years 2000 and 2001 to carry out this section.

(B) Amounts authorized to be appropriated under subparagraph (A) shall be made available for the subsidy cost, as defined in section 502(5) of the Federal Credit Reform Act of 1990, for activities under this section.

(2) *ADMINISTRATIVE EXPENSES.*—There are authorized to be appropriated \$500,000 for each of the fiscal years 2000 and 2001 for the cost of administrative expenses in carrying out this section.

(3) *RULE OF CONSTRUCTION.*—Amounts authorized to be appropriated under this subsection are in addition to amounts otherwise available to carry out this section.

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**SEC. [129.] 130. ASSISTANCE FOR VICTIMS OF TORTURE.**

(a) *IN GENERAL.*—The President is authorized to provide assistance for the rehabilitation of victims of torture.

(b) *ELIGIBILITY FOR GRANTS.*—Such assistance shall be provided in the form of grants to treatment centers and programs in foreign countries that are carrying out projects or activities specifically designed to treat victims of torture for the physical and psychological effects of the torture.

(c) *USE OF FUNDS.*—Such assistance shall be available—

(1) for direct services to victims of torture; and

(2) to provide research and training to health care providers outside of treatment centers or programs described in subsection (b), for the purpose of enabling such providers to provide the services described in paragraph (1).

**SEC. 131. MICROENTERPRISE DEVELOPMENT GRANT ASSISTANCE.**

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

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

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

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

(b) *AUTHORIZATION.*—(1) In carrying out this part, the President is authorized to provide grant assistance for programs to increase the availability of credit and other services to microenterprises lacking full access to capital and training through—

(A) grants to microfinance institutions for the purpose of expanding the availability of credit, savings, and other financial services to microentrepreneurs;

(B) training, technical assistance, and other support for microenterprises to enable them to make better use of credit, to better manage their enterprises, and to increase their income and build their assets;

(C) capacity building for microfinance institutions in order to enable them to better meet the credit and training needs of microentrepreneurs; and

(D) policy and regulatory programs at the country level that improve the environment for microfinance institutions that serve the poor and very poor.

(2) Assistance authorized under paragraph (1) shall be provided through organizations that have a capacity to develop and implement microenterprise programs, including particularly—

(A) United States and indigenous private and voluntary organizations;

(B) United States and indigenous credit unions and cooperative organizations;

(C) other indigenous governmental and nongovernmental organizations; or

(D) business development services, including indigenous craft programs.

(3) In carrying out sustainable poverty-focused programs under paragraph (1), 50 percent of all microenterprise resources shall be used for direct support of programs under this subsection through practitioner institutions that provide credit and other financial services to the poorest with loans of \$300 or less in 1995 United States dollars and can cover their costs of credit programs with revenue from lending activities or that demonstrate the capacity to do so in a reasonable time period.

(4) The President should continue support for central mechanisms and missions that—

(A) provide technical support for field missions;

(B) strengthen the institutional development of the intermediary organizations described in paragraph (2);

(C) share information relating to the provision of assistance authorized under paragraph (1) between such field missions and intermediary organizations; and

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

(i) are able to deliver very small loans through a vast grassroots infrastructure based on market principles; and

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

(5) Assistance provided under this subsection may only be used to support microenterprise programs and may not be used to support programs not directly related to the purposes described in paragraph (1).

(c) MONITORING SYSTEM.—In order to maximize the sustainable development impact of the assistance authorized under subsection (a)(1), the Administrator of the United States Agency for International Development shall establish a monitoring system that—

(1) establishes performance goals for such assistance and expresses such goals in an objective and quantifiable form, to the extent feasible;

(2) establishes performance indicators to be used in measuring or assessing the achievement of the goals and objectives of such assistance;

(3) provides a basis for recommendations for adjustments to such assistance to enhance the sustainable development impact of such assistance, particularly the impact of such assistance on the very poor, particularly poor women; and

(4) provides a basis for recommendations for adjustments to measures for reaching the poorest of the poor, including proposed legislation containing amendments to improve paragraph (3).

(d) **AUTHORIZATION OF APPROPRIATIONS.**—

(1) **IN GENERAL.**—(A) There are authorized to be appropriated \$152,000,000 for fiscal year 2000 and \$167,000,000 for fiscal year 2001 to carry out this section.

(B) Amounts appropriated pursuant to the authorization of appropriations under subparagraph (A) are authorized to remain available until expended.

(2) **RULE OF CONSTRUCTION.**—Amounts authorized to be appropriated under paragraph (1) are in addition to amounts otherwise available to carry out this section.

**SEC. 132. UNITED STATES MICROFINANCE LOAN FACILITY.**

(a) **ESTABLISHMENT.**—The Administrator of the United States Agency for International Development is authorized to establish a United States Microfinance Loan Facility (hereinafter in this section referred to as the “Facility”) to pool and manage the risk from natural disasters, war or civil conflict, national financial crisis, or short-term financial movements that threaten the long-term development of United States-supported microfinance institutions.

(b) **SUPERVISORY BOARD OF THE FACILITY.**—(1) The Facility shall be supervised by a board composed of the following representatives appointed by the President not later than 180 days after the date of the enactment of Microenterprise for Self-Reliance Act of 1999:

(A) 1 representative from the Department of the Treasury.

(B) 1 representative from the Department of State.

(C) 1 representative from the United States Agency for International Development.

(D)(i) 2 United States citizens from United States nongovernmental organizations that operate United States-sponsored microfinance activities.

(ii) Individuals described in clause (i) shall be appointed for a term of 2 years.

(2) The Administrator of the United States Agency for International Development or his designee shall serve as Chairman and an additional voting member of the board.

(c) **DISBURSEMENTS.**—(1) The board shall make disbursements from the Facility to United States-sponsored microfinance institutions to prevent the bankruptcy of such institutions caused by (A) natural disasters, (B) national wars or civil conflict, and (C) national financial crisis or other short term financial movements that threaten the long-term development of United States-supported

*microfinance institutions. Such disbursements shall be made as concessional loans that are repaid maintaining the real value of the loan to microfinance institutions that demonstrate the capacity to resume self-sustained operations within a reasonable time period. The Facility shall provide for loan losses with each loan disbursed.*

*(2) During each of the fiscal years 2001 and 2002, funds may not be made available from the Facility until 15 days after notification of the availability has been provided to the congressional committees specified in section 634A of this Act in accordance with the procedures applicable to reprogramming notifications under that section.*

*(d) REPORT.—Not later than 60 days after the date on which the last representative to the board is appointed pursuant to subsection (b), the chairman of the board shall prepare and submit to the appropriate congressional committees a report on the policies, rules, and regulations of the Facility.*

*(e) FUNDING.—(1) Not more than \$5,000,000 of amounts made available to carry out sections 103 through 106 of this Act for each of the fiscal years 2000 and 2001 may be made available to carry out this section for each such fiscal year.*

*(2) Amounts made available under paragraph (1) are in addition to amounts available under other provisions of law to carry out this section.*

*(f) DEFINITIONS.—In this section:*

*(1) APPROPRIATE CONGRESSIONAL COMMITTEES.—The term “appropriate congressional committees” means the Committee on International Relations of the House of Representatives and the Committee on Foreign Relations of the Senate.*

*(2) UNITED STATES-SUPPORTED MICROFINANCE INSTITUTION.—The term “United States-supported microfinance institution” means a financial intermediary that has received funds made available under this Act for fiscal year 1980 and each subsequent fiscal year.*

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