

Dear Microenterprise Development Colleagues,

This communication is intended to clarify and underscore the importance of key elements of the Microenterprise Results and Accountability Act passed by the United States Congress in 2004. We would like to share our vision of this law being a catalyst for enhanced transparency and innovation in measuring and maximizing social performance in the microenterprise development context, and we also want to clear up some misunderstandings of the technicalities of the law. The writers of this letter represent three sectors of the microenterprise development community: U.S.-based practitioner networks, U.S.-based microenterprise development advocates, and the U.S. agency that is charged with implementing this law. We speak with one voice on these issues, around which consensus emerged at a successful meeting organized by USAID on February 15, 2006.

Let us first state a few things that the law, which takes effect October 2006, does *not* do.

- It does not require all of the 400-500 organizations that are partnering with USAID on microenterprise development at any given time to exclusively target ‘very poor’ families.¹
- It does not mandate that 50 percent of each organization’s clients be among the very poor, but that 50 percent of USAID’s *total* microenterprise development resources benefit that group.
- It does not mandate that enterprise development programs or policy reform activities cease or even that they necessarily be scaled back.
- It does not require that all microenterprise partners measure poverty levels of all clients, or even all incoming clients. We believe it is the intent of Congress to measure incoming client poverty levels on a sampling basis and we are asking and expecting Congress to confirm that interpretation.

The law specifies, as past laws have also done, that at least half of the microenterprise funding that USAID disburses be used to benefit the very poor (as defined in the footnote below). This requirement was previously monitored and measured through the use of a regionally adjusted loan size proxy. In place of this proxy, USAID has been directed to develop and certify at least two tools that measure, with reasonable accuracy, the poverty levels of microenterprise clients in order to ascertain what percentage of the total project financing can be counted towards the 50% target. In other words, each microfinance or microenterprise development organization receiving USAID microenterprise funding will have to measure the poverty level of a sample of their clients, but will *not* have to reach the 50% target themselves. (See the second bullet point above)

Research has shown that international or regional tools will not be sufficiently accurate, and we are in agreement that at least one tool will need to be certified for each of the countries that receives USAID microenterprise funding (and most will need to be recalibrated every 3-5 years, depending on socioeconomic changes). USAID is working

¹ The legislation defines ‘very poor’ as those earning less than US\$1 per day per capita -- adjusted for purchasing power parity (PPP) -- or those who are in the bottom half of those under the poverty line in their country.

with practitioners to develop certification criteria for the country-specific tools, along with the process for regional adaptation within a country. It is our goal to have certified tools for as many countries as we can by October 2006, thereby covering a large percentage of USAID's microenterprise funding. We are hoping that the U.S. Congress will agree to grant temporary waivers for the remaining countries until tools can be developed or adapted, with the expectation that other proxies such as loan size will be used in those cases during the time the waivers are in force.

There are some remaining issues and ambiguities related to the law, but overall we believe these can be resolved. There will be a posting of frequently asked questions on the MicroLINKS website (www.microlinks.org) in the next few weeks so we ask interested parties to check on that from time to time.

Beyond the technicalities of the law that we have tried to address above, we believe that this law gives the microfinance and microenterprise communities an opportunity to take a quantum leap forward in the area of social performance. Microfinance took a major step towards financial transparency, standards and benchmarking in the 1990s and this has been a source of innovation and higher performance. While this legislation is focused narrowly on transparency in terms of depth of poverty outreach, and technically only impacts one donor (USAID) and its partners, we believe it should be used as a catalyst for a sector-wide effort to develop social performance transparency, standards and benchmarking, thereby facilitating additional innovation and enhanced performance. We will be working together towards that end and hope that all microenterprise development stakeholders will join us in this cause.

The MicroLINKS website and www.povertytools.org are excellent sources of information on the tools that are being developed in response to the legislation. We hope the tools will be embraced and improved upon by the many talented people in the microenterprise development practitioner, advocate and donor communities.

Sincerely,

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Susy Cheston, Microenterprise Coalition co-chair & Opportunity International
Joanne Carter, RESULTS
Kate McKee, USAID

For distribution on list-serves, Microcredit Summit email list, Microfinance Gateway, other outlets.