

## MICROENTERPRISE ACT

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JULY 29, 1996.—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

### REPORT

[To accompany H.R. 3846]

[Including cost estimate of the Congressional Budget Office]

The Committee on International Relations, to whom was referred the bill (H.R. 3846) to amend the Foreign Assistance Act of 1961 to authorize the provision of assistance for microenterprises, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

#### I. PURPOSE

H.R. 3846, the “Microenterprise Act,” amends the Foreign Assistance Act (“FAA”) to provide two new authorities for the provision of microenterprise loans and microenterprise grants. Specifically, the bill amends an outdated section of the FAA to authorize loans and guarantees to credit institutions to expand the availability of credit to micro- and small enterprises along with training for lenders and entrepreneurs. The bill also allows the provision of grants, particularly through Private Voluntary Organizations and Non-Governmental Organizations with a recommendation that one half of this credit assistance be directed at very poor people, particularly women, through loans of \$300 or less.

#### II. BACKGROUND

Testimony from both the private sector and the Administration verified the importance of microenterprise programs in enabling the poorest of the poor to become entrepreneurs. Loan repayment rates of up to 98 percent have been achieved.

In moving this bill, the Committee recognizes Dr. Muhammad Yunus and his successful Grameen Bank in Bangladesh. Today, the

Grameen Bank is one of the largest banks in Bangladesh. It has served over two million borrowers and lent over \$1 billion. Most of the loans are small—under \$300—and 94 percent of the borrowers are women. The Bank represents one of the most successful foreign assistance programs yet designed to eliminate poverty among the poorest of the poor. Most importantly, Grameen’s borrowers have repaid the bank at a 98 percent repayment rate.

The Committee notes that the microenterprise development programs do not center on the Grameen Bank. Bolivia’s BancoSol grew from nothing to serve over 40% of all banking clients in Bolivia. BancoSol and its microenterprise lending program now borrows funds on the New York market to continue its service to Bolivia’s poor. Hundreds of other microenterprise institutions operate around the world, including hundreds of such programs here at home.

### III. COMMITTEE ACTION

The Committee on International Relations heard testimony on the “Value of Microenterprise Development” on June 27, 1995. The Committee received testimony from the Administration given by Ms. Ann Van Dusen, Senior Deputy Assistant Administrator for Global Programs, Field Support and Research at the Agency for International Development. The Committee also received testimony from major microenterprise groups including Mr. Michael Chu, President and CEO of ACCION International, Dr. John Hatch, Founder and President of the Foundation for International Community Assistance (“FINCA”), and Dr. Muhammad Yunus, Managing Director of the Grameen Bank. All witnesses strongly endorsed the value and need to strengthen programs to support microenterprise development.

On Thursday, July 18, 1996, Chairman Gilman introduced H.R. 3846, the Microenterprise Act. The bill was referred to the Committee on International Relations. The bill was also cosponsored by the Ranking Democratic Member of the Committee, Mr. Hamilton, along with Mr. Gejdenson and Mr. Houghton. On July 24, 1996, the Committee met in open session and by a unanimous consent agreed to file a favorable report on H.R. 3846.

### IV. ROLL CALL VOTES AND AMENDMENTS AND FINAL PASSAGE

The Committee agreed to a unanimous consent request to report the bill to the House with the recommendation that the bill do pass.

### V. SECTION-BY-SECTION ANALYSIS

#### SECTION 1. SHORT TITLE

This section establishes the title as the “Microenterprise Act.”

#### SECTION 2. MICRO- AND SMALL ENTERPRISE DEVELOPMENT CREDITS

This section replaces the existing section 108 of the FAA which has become outdated due to changes in credit reform legislation. The new section would govern the provision of micro- and small enterprise loans, guarantees and training for lenders and entre-

preneurs. Subsection (a) sets forth a four-part policy, that Congress finds:

(1) the development of micro- and small 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;

(2) 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;

(3) the support of private enterprise can be served by programs providing credit, training, and technical assistance for the benefit of micro- and small enterprises; and

(4) programs that provide credit, training, and technical assistance to private institutions can serve as a valuable complement to grant assistance provided for the purpose of benefiting micro- and small private enterprise.

Subsection (b) authorizes the President to provide loans and guarantees to credit institutions and training for lenders and entrepreneurs to expand access to credit and improve the prospects for loan recipients to success in their businesses.

The Committee strongly urges the AID Administrator to focus these "section 108" loans, guarantees, and training programs on poverty alleviation for the poorest of the poor. This focus should include the provision of at least half of initial loans in amounts of \$300 or less in 1995 U.S. dollars and a substantial portion of initial loans averaging \$150 or less. At least half of the training programs should also focus on lenders and entrepreneurs in the very poor \$300 average loan sector of the population.

### SECTION 3. MICROENTERPRISE DEVELOPMENT GRANT ASSISTANCE

This section amends the FAA, adding a new section 129 authorizing the President to provide grant assistance for credit and other assistance for micro enterprises in developing countries. Subsection (a)(2) requires this assistance to be provided particularly through: (1) U.S and indigenous PVOs; (2) U.S. and indigenous credit unions; and (3) other indigenous and non-governmental organizations.

Subsection (a)(3) requires that approximately one-half of the credit assistance authorized must be used for poverty lending programs that meet the very poor member of society, particularly poor women. The subsection also strongly recommends that this half of credit assistance should be used to provide loans of \$300 or less in U.S. 1995 dollars to such poor members of society. The Committee notes that the AID Administrator wrote a June 14, 1994, letter to Rep. Gejdenson stating the following:

In regard to poverty lending, I want to assure you of USAID's commitment to increasing the share of resources devoted to poverty lending programs or the poverty lending share of mixed programs. In this context, poverty lending programs are those which: Meet the needs of very poor members of society, particularly poor women; Provide

loans smaller than a reference point of \$300 in 1994 dollars.

We are committed to allocating half of all funding for microenterprise activities in support of such poverty lending programs by the close of fiscal year 1996.

One week later, AID launched its "Microenterprise Initiative" to raise microenterprise funding from \$80 million in fiscal year 93 to \$140 million in fiscal year 95, with "half of all its support for microenterprise programs to poverty lending programs or the poverty lending portion of mixed programs by the end of 1996." While this legislation requires approximately one-half of the credit assistance to be focused on poverty lending, the Committee expects AID to maintain the full commitment made under its Microenterprise Initiative. The Committee also expects AID to make the average initial loans made under this authority at the \$150 level or below.

Subsection (a)(4) recommends that the Administrator should support technical support for field missions, institutional development and information sharing.

Subsection (b) recommends that the Administrator should support a monitoring system that expresses goals in objective and qualified form, performance indicators to assess achievement and recommendations for adjustments to enhance the sustainable development impact of such assistance, particularly the impact of such assistance on the very poor, particularly women.

#### VI. COMMITTEE OVERSIGHT FINDINGS

In compliance with clause 2(1)(3)(A) of rule XI of the Rules of the House of Representatives, the Committee reports that 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.

Among the principal oversight activities which contributed to the Committee's formulation of H.R. 3846 were extensive hearings and briefings on current microenterprise programs, on the activities of other countries on microenterprise programs and on other issues pertinent to microenterprise programs that are under the jurisdiction of the Committee and ongoing consultations between the Committee members and staff and executive branch officials.

#### VII. COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT FINDINGS

No findings or recommendations of the Committee on Government Reform and Oversight were received as referred to in clause 2(1)(3)(D) of rule XI of the Rules of the House of Representatives.

#### VIII. NEW BUDGET AUTHORITY AND TAX EXPENDITURES

The Committee adopts the cost estimate of the Congressional Budget Office, set out below, as its submission of any required information on new budget authority, new spending authority, new credit authority, or an increase or decrease in the national debt re-

quired by clause 2(1)(3)(B) or rule XI of the House of Representatives.

#### IX. INFLATIONARY IMPACT STATEMENT

In compliance with clause 2(1)(4) of rule XI of the Rules of the House of Representatives, the Committee estimates that H.R. 3846 will have no significant inflationary impact on prices and costs in the operation of the national economy.

#### X. CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

In compliance with clause 2(1)(3)(C) of rule XI of the Rules of the House of Representatives and section 423 of Public Law 104-4, the Committee sets forth with respect to H.R. 3846 the following estimates and comparison prepared by the Director of the Congressional Budget Office under section 403 of the Budget Act of 1974 and section 424 of Public Law 104-4:

U.S. CONGRESS,  
CONGRESSIONAL BUDGET OFFICE,  
*Washington, DC, July 25, 1996.*

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

DEAR MR. CHAIRMAN: The Congressional Budget Office has reviewed H.R. 3846, the Microenterprise Act, as ordered reported by the House Committee on International Relations on July 24, 1996. The bill would codify the President's authority to provide assistance to very small enterprises in developing countries through grants and credits. The Administration is currently spending nearly \$120 million for such activities from various appropriations. CBO estimates that spending for these purposes would continue under the bill at about the same level, assuming appropriation of the necessary funds.

The bill would not affect direct spending and thus would not be subject to pay-as-you-go procedures under section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985.

The bill contains no intergovernmental or private-sector mandates as defined by Public Law 104-4 and would have no impacts on state, local, or tribal governments.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contacts are Joseph C. Whitehill for impacts on the federal budget, Pepper Santalucia for impacts on state, local, and tribal governments, and Army Downs for private-sector impacts.

Sincerely,

JUNE E. O'NEIL, *Director.*

#### XI. JURISDICTIONAL ISSUES

H.R. 3846, as reported by the Committee on International Relations, does not contain provisions which fall within the shared jurisdiction of other committees of the House.

XII. CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 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):

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3 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 italics, 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 provi-

sion 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 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;*

(2) *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;*

(3) the support of private enterprise can be served by programs providing credit, training, and technical assistance for the benefit of micro- and small enterprises; and

(4) programs that provide credit, training, and technical assistance to private institutions can serve as a valuable complement to grant assistance provided for the purpose of benefiting micro- and small private enterprise.

(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 micro- and small entrepreneurs; and

(3) training programs for micro- and small entrepreneurs in order to enable them to make better use of credit and to better manage their enterprises.

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**SEC. 129. MICROENTERPRISE DEVELOPMENT GRANT ASSISTANCE.**

(a) AUTHORIZATION.—(1) In carrying out this part, the Administrator of the United States Agency for International Development is authorized to provide grant assistance for programs of credit and other assistance for microenterprises in developing countries.

(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; or

(C) other indigenous governmental and nongovernmental organizations.

(3) Approximately one-half of the credit assistance authorized under paragraph (1) shall be used for poverty lending programs, including the poverty lending portion of mixed programs. Such programs—

(A) shall meet the needs of the very poor members of society, particularly poor women; and

(B) should provide loans of \$300 or less in 1995 United States dollars to such poor members of society.

(4) The Administrator should continue support for mechanisms that—

(A) provide technical support for field missions;

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

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

(b) MONITORING SYSTEM.—In order to maximize the sustainable development impact of the assistance authorized under subsection

*(a)(1), the Administrator should 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; and*

*(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.*

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