
□ MICROCREDIT LOANS ARE CRITICAL TOOLS TO HELPING THE WORLD'S POOR

By Christopher H. Smith, U.S. Congressman from New Jersey

U.S. Representative Christopher H. Smith says he likes microenterprise programs because they directly help the poor help themselves, a bottom-up approach distinct from the top-down approach of most foreign aid bureaucracies.

Author of legislation signed by President George W. Bush to expand and reform the U.S. federal government's microenterprise program, Smith says the new law both increases the level of spending and directs more money to the poorest of the poor. Smith is vice chairman of the House of Representatives International Relations Committee and chairman of the U.S. Commission on Security and Cooperation in Europe.

Baulia Parra Pruneda may never become a household name. She may never make the cover of a leading financial news magazine, nor will she likely earn significant attention in the world of finance.

But Baulia, a resident of Monterrey, Mexico, has her own success story that is remarkable because it is the tale of a woman who, with a small amount of financial assistance and a significant amount of determination, was able to improve life for herself and her family.

When her husband lost his job in 1998, Baulia was determined to support her six children. Even though she had never worked before and could not read or write, she taught herself to sew by following designs that she saw in magazines.

A \$150 microenterprise loan supported by the United States Agency for International Development (USAID) provided capital for her to purchase the necessary supplies to launch her endeavor into self-sufficiency. After building her small business through a series of U.S.-sponsored microloans, she now sells over 100 items per week. The money she earns not only provides food for her children but has also enabled her to install running water and a second floor in her home.

As inspiring as Baulia's story is, it is thankfully not unique. When given the opportunity and the seed capital

to produce, people can turn their economic situation around in a dramatic way. The goal now is to build on past successes that have reached tens of thousands of people and apply lessons learned to efforts aimed at developing an even better U.S. foreign-aid microcredit program.

In June 2003, President George W. Bush signed into law my bill, the Microenterprise Enhancement Act (PL 108-31), which will expand our existing microenterprise program so that more people can share in the hope that has already proven so fruitful to women like Baulia, who are living in some of the world's poorest countries. The law places an increased priority on microenterprise funding by authorizing a \$25 million increase in the program's budget — to \$200 million — for the 2004 fiscal year.

My new law also establishes a new framework to ensure that more funds go to the poorest of the poor through the development and implementation of easy-to-use and cost-effective poverty assessment programs and techniques.

Previous legislation failed to accomplish the goal of directing 50 percent of the money to the poorest of the poor. The program had relied on only a single measurement tool — average loan size — to evaluate and rank poverty outreach efforts.

The administrators had assumed that only the poorest people would apply for such small loans and that, therefore, making so many small loans was accomplishing the goal.

But with currency values varying from country to country, and loans varying depending on the type of business being established, the "average loan size" methodology has failed as a measure for evaluating both outreach efforts and poverty.

Accordingly, PL 108-31 requires USAID to devise new, more meaningful poverty-assessment tools and give consideration to low-cost, easy-to-implement tools. Identifying and targeting the poorest potential clients who

would stand to benefit the most from microenterprise loans has proven to be more difficult than originally anticipated. I am hopeful that once developed, these poverty assessment techniques may prove more useful not only for microenterprise, but also in other areas of foreign aid.

It is important to note that over two million clients are benefiting from USAID-assisted programs that provide the necessary capital through these small loans, which sometimes total only \$200, \$300, or maybe \$400. While these awards may seem small in our society, the microcredit loans are key to the individuals who receive them. These loans can make the difference by helping them develop their own businesses, build their own homes, and care for themselves.

About 70 percent of the loans are awarded to women business owners, helping them to overcome the many added obstacles women still face in developing countries. The loans and the businesses they foster empower women and give them the means to support themselves and to break the cycle of poverty and discrimination that has made them vulnerable to the perpetrators of slave labor and human trafficking that run rampant through many poor nations.

Another remarkable statistic is that an estimated 97 percent of all of the loans are repaid. This high rate of return payment helps replenish the pot of funds so that more individuals can apply for and benefit from microcredit loans.

One of the reasons I am so enthusiastic about microenterprise programs is that they are fundamentally different from traditional foreign-aid programs. They are based on a bottom-up, grass roots approach rather than a top-down model. The assistance goes directly to the people in need rather than to government agencies that may get sidetracked or bogged down with their own political agendas.

Studies on the effects of microenterprise programs find they promote higher household income and increased family well being, including improved nutrition and education among children.

With success stories like Baulia and many others, I am excited about the potential of microcredit loan programs. I look forward to continuing to champion the cause of microcredit in the Congress so we can ensure the money continues to flow to those in need. □