



March 2021

MICRO, SMALL, AND MEDIUM-SIZED ENTERPRISE DEVELOPMENT

USAID Needs to Develop a Targeting Process and Improve the Reliability of Its Monitoring

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GAO Highlights

Highlights of [GAO-21-269](#), a report to congressional committees

March 2021

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Why GAO Did This Study

Millions of poor families throughout the developing world derive income from MSME activities. For decades, USAID has sought to use MSME assistance as a tool to achieve economic growth and poverty reduction in low-income countries. To improve programs and activities relating to women's entrepreneurship and economic empowerment, Congress passed the Women's Entrepreneurship and Economic Empowerment (WEEE) Act of 2018. Congress included a provision in this statute for GAO to assess USAID's MSME assistance. This report examines (1) USAID's planned MSME assistance for fiscal years 2015–2020; (2) the extent to which USAID targeted its MSME assistance to women and the very poor and developed a targeting process that it uses to comply with statutory requirements; and (3) the extent to which USAID has an appropriate process for monitoring its MSME assistance. GAO analyzed USAID documents and planned spending levels and interviewed USAID officials in Washington, D.C., and at 10 missions in regions in which USAID operates.

What GAO Recommends

GAO is making six recommendations, including that USAID identify the total funding subject to WEEE Act requirements; establish a definition of enterprises owned, managed, and controlled by women; disaggregate its data by enterprise size; and ensure the reliability of its MSME obligations data, among others. USAID accepted all six recommendations.

View [GAO-21-269](#). For more information, contact David Gootnick at (202) 512-3149 or gootnickd@gao.gov.

What GAO Found

For fiscal years 2015 through 2020, the U.S. Agency for International Development (USAID) generally planned to spend at least \$265 million annually on micro, small, and medium-sized enterprise (MSME) assistance, according to annual reports to Congress known as Section 653(a) reports. We found that planned spending amounts for MSME assistance in operational plans differed from the spending plans in the Section 653(a) reports, with the total planned spending exceeding the annual Section 653(a) report levels.

USAID has not developed a process to support compliance with statutory requirements to target MSME resources to activities that reach the very poor and to small and medium-sized enterprise resources to activities that reach enterprises owned, managed, and controlled by women. We identified three key gaps that impair USAID's ability to develop such a process. First, USAID has not identified the total funding subject to the targeting requirements. Second, although USAID has programs designed to help the very poor, it is unable to determine the amount of funding that reaches this group. Third, although USAID has MSME activities that benefit women, it has not defined enterprises owned, managed, and controlled by women and does not collect data by enterprise size. These gaps leave USAID unable to determine what percentage of its MSME resources is going to the very poor and enterprises owned, managed, and controlled by women.

USAID-Funded Small Enterprise Activities in Georgia, Afghanistan, and Ghana



Sources (left to right): U.S. Agency for International Development (USAID) Georgia, FHI 360, and University of Rhode Island Coastal Resources Center. | GAO-21-269

USAID collected and reported incomplete and inconsistent data in its process for monitoring MSME assistance. USAID surveys its missions and bureaus annually to collect data on the amounts and results of MSME assistance. However, USAID collected and reported incomplete data on its MSME assistance in fiscal year 2019, the year of the most recent report. It did not send the survey to all relevant missions and bureaus, and fewer than half of those that received the survey responded. Moreover, USAID's fiscal year 2019 reporting on assistance that reached the very poor included activities from only three of 21 missions that responded to its survey. USAID guidance states that its data should clearly and adequately represent the intended result. Without complete and consistent data, USAID cannot ensure that it is reporting accurate information to Congress on its MSME assistance.

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Abbreviations

ADS	Automated Directives System
AEECA	Assistance for Europe, Eurasia, and Central Asia account
DA	Development Assistance account
DCHA	U.S. Agency for International Development Bureau for Democracy, Conflict, and Humanitarian Assistance
ESF	Economic Support Fund
FACTS Info NextGen	Foreign Assistance Coordination and Tracking System–Next Generation
FY	fiscal year
IDA	International Disaster Assistance account
MRAA	Microenterprise Results and Accountability Act of 2004
MSME	micro, small, and medium-sized enterprise
OP	operational plan
PCM	U.S. Agency for International Development Office of Private Capital and Microenterprise
PPR	Performance Plan and Report
State	Department of State
State/F	Department of State Office of Foreign Assistance
USAID	U.S. Agency for International Development
WEEE Act	Women’s Entrepreneurship and Economic Empowerment Act of 2018
W-GDP	Women’s Global Development and Prosperity Initiative

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March 30, 2021

The Honorable Robert Menendez
Chairman
The Honorable James E. Risch
Ranking Member
Committee on Foreign Relations
United States Senate

The Honorable Gregory Meeks
Chairman
The Honorable Michael McCaul
Ranking Member
Committee on Foreign Affairs
House of Representatives

Millions of poor families throughout the developing world derive part of their income from micro, small, and medium-sized enterprises (MSME), which are generally considered to be very small businesses that operate in the formal and informal sectors.¹ The U.S. Agency for International Development (USAID) has been a leading donor of assistance to microenterprises since the 1980s, and has expanded its focus in this area to include all MSME activities. USAID considers small and medium-sized enterprises to be essential for alleviating poverty through inclusive and sustainable economic growth. MSME development assistance cuts across all development sectors.

Women make up the majority of the world's poor, and women's economic empowerment is considered critical to inclusive economic growth. To improve programs and activities relating to women's entrepreneurship that are carried out by USAID, Congress passed the Women's

¹The U.S. Agency for International Development (USAID) defines a microenterprise as a very small enterprise owned and operated by poor people, usually in the informal sector. For USAID program purposes, the term is restricted to enterprises with 10 or fewer workers, including the microentrepreneur and any unpaid family workers. U.S. Agency for International Development, *Automated Directives System*, Chapter 219, "Microenterprise Development" (revised July 8, 2011). According to USAID and the Department of State's operational plan guidance, definitions of small and medium-sized enterprises vary but USAID generally defines a small enterprise as one with 11 to 49 employees, and a medium enterprise as one with 50 to 249 employees.

Entrepreneurship and Economic Empowerment (WEEE) Act of 2018.² According to USAID, the WEEE Act underscores the importance of gender equality and empowering women to participate fully in the formal economy.

The WEEE Act includes a provision for GAO to assess the extent to which USAID has targeted its MSME assistance to women and the very poor, including the development of a methodology to ensure compliance with its targeting requirements, and the quality, appropriateness, and feasibility of USAID's monitoring system for such assistance.³ This report examines (1) USAID's planned MSME assistance for fiscal years 2015–2020; (2) the extent to which USAID targeted its MSME assistance to women and the very poor, and developed a targeting process that it uses to comply with WEEE Act requirements; and (3) the extent to which USAID has an appropriate process for monitoring its MSME assistance.

To address these objectives, we analyzed USAID and Department of State (State) data on planned MSME spending and reviewed USAID and State documents on planning, monitoring, and reporting of MSME assistance for fiscal years 2015 through 2020. To assess the reliability of the planned spending data, we met with agency officials and reviewed agency guidance and documents, and determined that the data were sufficiently reliable to report on planned spending attributed toward MSME programming. We reviewed relevant statutes, as well as USAID guidance and documents on USAID's roles and responsibilities for implementing WEEE Act requirements. We also interviewed USAID officials in Washington, D.C., and USAID officials in a nongeneralizable sample of 10 country missions to gain additional information on how USAID's planning, targeting, and monitoring processes are implemented. We selected the 10 missions based on several factors, including dollar amount of MSME assistance, geographic region, and reported assistance to the very poor. For more details on our scope and methodology, see appendix I.

We conducted this performance audit from January 2020 to March 2021 in accordance with generally accepted government auditing standards.

²Pub. L. No. 115–428.

³In addition, the WEEE Act contains a provision for GAO to report on the impact of micro, small, and medium-sized enterprise development assistance on developing countries' economies and how such assistance benefits women, which GAO is addressing in a separate report.

Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

Congressionally Targeted or Required Spending Levels for Micro, Small, and Medium-Sized Enterprise Assistance in Annual Appropriations Act

From fiscal years 2015 to 2020, annual appropriations acts set targeted or required spending levels of \$265 million for microenterprise or MSME development assistance.⁴ For fiscal years 2015 to 2017, these were targeted spending levels. Since fiscal year 2018, these have been required spending levels. For fiscal years 2015 through 2018, the targeted or required spending levels were for microenterprise and microfinance development programs. For fiscal year 2019, the required spending level was to support the development of, and access to financing for, micro and small enterprises. For fiscal year 2020, the required spending level was to support the development of, and access to financing for, micro, small and medium enterprises. State and USAID allocate funds for MSME development from existing accounts, as there is not a specific account for MSME assistance.

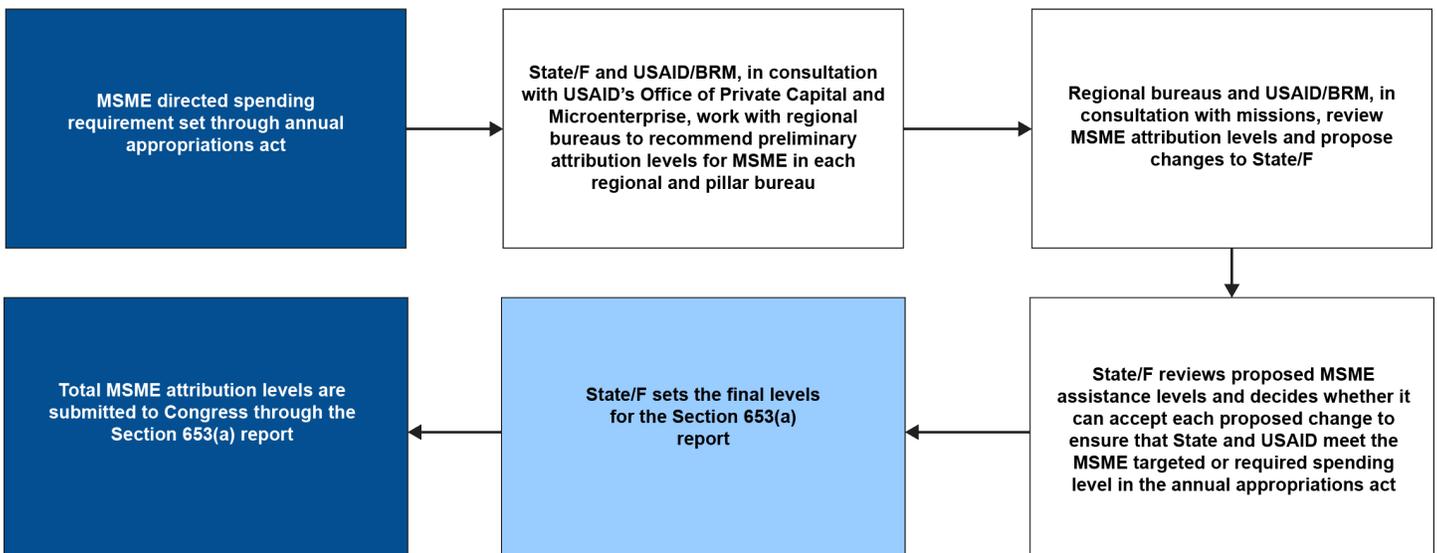
Micro, Small, and Medium-Sized Enterprise Assistance in Reports to Congress on Planned Foreign Assistance Spending

Section 653(a) of the Foreign Assistance Act of 1961 requires the President to notify Congress of each foreign country and international organization to which the U.S. government intends to provide funding,

⁴For the purpose of this report, we refer to congressional instructions in annual appropriations acts containing mandatory language such as “shall” as required spending levels. Where such instructions contain permissive language such as “should,” we refer to them as targeted spending levels.

and the amount of such funding by category of assistance.⁵ The Section 653(a) report to Congress provides summary financial data on the types and amounts of foreign assistance to be allocated to countries, State and USAID bureaus, and international organizations, including for MSME assistance. USAID regional and pillar bureaus,⁶ along with overseas missions, use the planned spending levels for MSME assistance from the Section 653(a) report to develop their operational plans (OP) for the corresponding fiscal year.⁷ Figure 1 depicts the Section 653(a) report process for MSME assistance.

Figure 1: State and USAID’s Process for Reporting Micro, Small, and Medium-Sized Enterprise Assistance to Congress through the Section 653(a) Report



Legend: MSME = micro, small, and medium-sized enterprise; State/F = Department of State’s Office of Foreign Assistance; USAID/BRM = USAID’s Office of Budget and Resource Management.

Source: GAO analysis of U.S. Agency for International Development (USAID) and Department of State documents and interviews with officials from both agencies. | GAO-21-269

⁵See 22 U.S.C. § 2413. We did not assess whether funds were obligated as planned.

⁶USAID’s pillar bureaus are charged with providing leadership in their respective fields and concentrate on program activities that support USAID missions in the field.

⁷An operational plan is an annual budget planning document that describes how the bureau or mission will use the foreign assistance funds allocated to it.

Text of Figure 1: State and USAID's Process for Reporting Micro, Small, and Medium-Sized Enterprise Assistance to Congress through the Section 653(a) Report

1. MSME directed spending requirement set through annual appropriations act
2. State/F and USAID/BRM, in consultation with USAID's Office of Private Capital and Microenterprise, work with regional bureaus to recommend preliminary attribution levels for MSME in each regional and pillar bureau
3. Regional bureaus and USAID/BRM, in consultation with missions, review MSME attribution levels and propose changes to State/F
4. State/F reviews proposed MSME assistance levels and decides whether it can accept each proposed change to ensure that State and USAID meet the MSME targeted or required spending level in the annual appropriations act
5. State/F sets the final levels for the Section 653(a) report
6. Total MSME attribution levels are submitted to Congress through the Section 653(a) report

Legend: MSME = micro, small, and medium-sized enterprise; State/F = Department of State's Office of Foreign Assistance; USAID/BRM = USAID's Office of Budget and Resource Management.

Source: GAO analysis of U.S. Agency for International Development (USAID) and Department of State documents and interviews with officials from both agencies. | GAO-21-269

The Microenterprise Results and Accountability Act of 2004

The Microenterprise Results and Accountability Act of 2004 (MRAA) amended the Foreign Assistance Act to include a requirement that USAID target 50 percent of all microenterprise resources to clients who are very poor.⁸

⁸Pub. L. No. 108-484, § 252(c).

The MRAA also established requirements for a monitoring system for microenterprise assistance⁹ and required USAID to submit an annual report to Congress that includes the results of USAID’s monitoring of microenterprise assistance and the percentage of assistance allocated to the very poor, among other requirements.¹⁰ USAID collects information for addressing this reporting requirement through an annual survey of its missions and bureaus. The report was known as the *Microenterprise Results Report* through fiscal year 2018; the fiscal year 2019 report is called the *Report on Results of Investments to Support Micro, Small, and Medium-Sized Enterprises during Fiscal Year 2019*. The survey collects information on obligations—by fiscal year of obligation—and performance results of USAID’s MSME assistance.

Women’s Entrepreneurship and Economic Empowerment Act of 2018

In January 2019, the WEEE Act further amended the Foreign Assistance Act to expand the types of assistance subject to targeting requirements and establish a new targeting requirement for enterprises owned, managed, and controlled by women. Specifically, the act required that:¹¹

- 50 percent of all micro, small, and medium-sized enterprise resources (previously, microenterprise resources) be targeted to activities that reach the very poor;¹² and
- 50 percent of all small and medium-sized enterprise resources be targeted to activities that reach enterprises owned, managed, and controlled by women.¹³

The WEEE Act also amended the requirements for the monitoring system to include small and medium-sized enterprise assistance, in addition to microenterprise assistance. The act further required that the monitoring

⁹See 22 U.S.C. § 2211b.

¹⁰See 22 U.S.C. § 2214.

¹¹In addition, the WEEE Act amended the President’s authorization to provide development assistance for micro, small, and medium-sized enterprises to include assistance for the purpose of promoting the economic empowerment of women or scaling up evidence-based graduation approaches, which include targeting the very poor, among other things; see 22 U.S.C. § 2211a(a)(5),(6).

¹²See 22 U.S.C. § 2211a(c)(1).

¹³See 22 U.S.C. § 2211a(c)(2).

system include goals on a gender-disaggregated basis and specified examples of performance goals that could be included in the monitoring system, such as improvements in employment, access to financial services, education, and property rights.

Role of USAID's Office of Private Capital and Microenterprise

USAID established the Office of Private Capital and Microenterprise (PCM) within the Bureau for Economic Growth, Education, and Environment to increase USAID's capacity to use private resources and expertise to support its development priorities.¹⁴ The PCM Office, which consists of about 20 officials, provides technical support within USAID on private capital and access to finance for missions and bureaus involved in MSME development. Additionally, the PCM Office is responsible for the report to Congress on the amount and results of MSME assistance.¹⁵ The PCM office also recommends, in consultation with regional and pillar bureaus, the amounts missions and bureaus should attribute to annual required or targeted spending levels as part of the initial planning process for the Section 653(a) report.

USAID's Planned Micro, Small, and Medium-Sized Enterprise Assistance Reported to Congress Was Sufficient to Meet Required Spending Levels for Fiscal Years 2018–2020, and Final Planned Spending Amounts Exceeded Those Reported Values

USAID's planned spending amounts for MSME assistance reported in its Section 653(a) reports to Congress show that USAID's planned spending

¹⁴In November 2020, the PCM Office became the Private Sector Engagement Hub within the Bureau for Development, Democracy, and Innovation. As the office was known as the PCM Office during most of the period of our review, we refer to it as the PCM Office throughout this report.

¹⁵This report is required to be submitted annually to the Committee on Foreign Affairs of the House of Representatives and the Committee on Foreign Relations of the Senate. See 22 USC § 2214.

was sufficient, if executed, to meet the required spending level of \$265 million for fiscal years 2018–2020.¹⁶ These amounts were less than \$265 million for fiscal years 2015 and 2017, when the spending levels contained in appropriations acts were a target, not a requirement. The agency’s total MSME planned spending reflected in subsequent USAID bureau- and mission-level OPs exceeded the amounts reported in the Section 653(a) reports. While some bureaus and missions whose planned spending was reflected in the 653(a) reports included lower planned spending in their subsequent OPs, other bureaus’ and missions’ OPs included MSME planned spending that was not included in the report to Congress. The resulting total planned spending from OPs exceeded the Section 653(a) report levels in fiscal years 2015–2019.

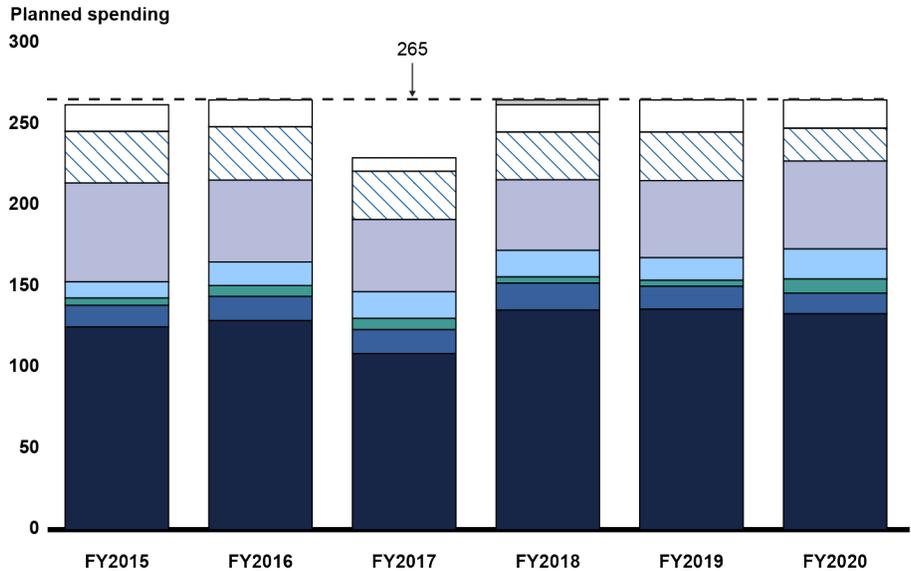
Planned Spending Amounts for MSME Assistance Reported in USAID’s Section 653(a) Reports Were Sufficient to Meet Required Spending Level

Planned spending amounts for MSME assistance that USAID reported in its Section 653(a) reports were sufficient, if executed, to meet the required spending level of \$265 million a year for fiscal years 2018 through 2020. Planned spending for MSME assistance was below \$265 million for fiscal years 2015 and 2017, but USAID was not required to meet that level for years prior to fiscal year 2018. Total MSME assistance reported in Section 653(a) reports was an aggregate of funding that USAID bureaus and missions attribute, or identify funding to be counted, toward the required or targeted spending levels.¹⁷ Figure 2 depicts the spending levels in USAID’s Section 653(a) reports for fiscal years 2015–2020, with a geographical breakdown of the amounts.

¹⁶For the sake of brevity, we refer to USAID’s planned spending as “MSME assistance.” In fiscal years 2015–2018, USAID’s planned spending was for microenterprise assistance and in fiscal year 2019, it was for micro and small-sized enterprise assistance. USAID’s planned spending for fiscal year 2020 was for micro, small, and medium-sized enterprise assistance.

¹⁷According to USAID guidance, an attribution is an estimated portion of funding, requested or appropriated, that is dedicated to a particular cross-cutting policy goal, such as MSME development. There is no dedicated account for MSME assistance.

Figure 2: USAID Reported Planned Spending for Micro, Small, and Medium-Sized Enterprise (MSME) Assistance from the Annual 653(a) Report to Congress for Fiscal Years (FY) 2015–2020 (in millions)



Source: GAO analysis of Department of State data. | GAO-21-269

Data table for Figure 2: USAID Reported Planned Spending for Micro, Small, and Medium-Sized Enterprise (MSME) Assistance from the Annual 653(a) Report to Congress for Fiscal Years (FY) 2015–2020 (in millions)

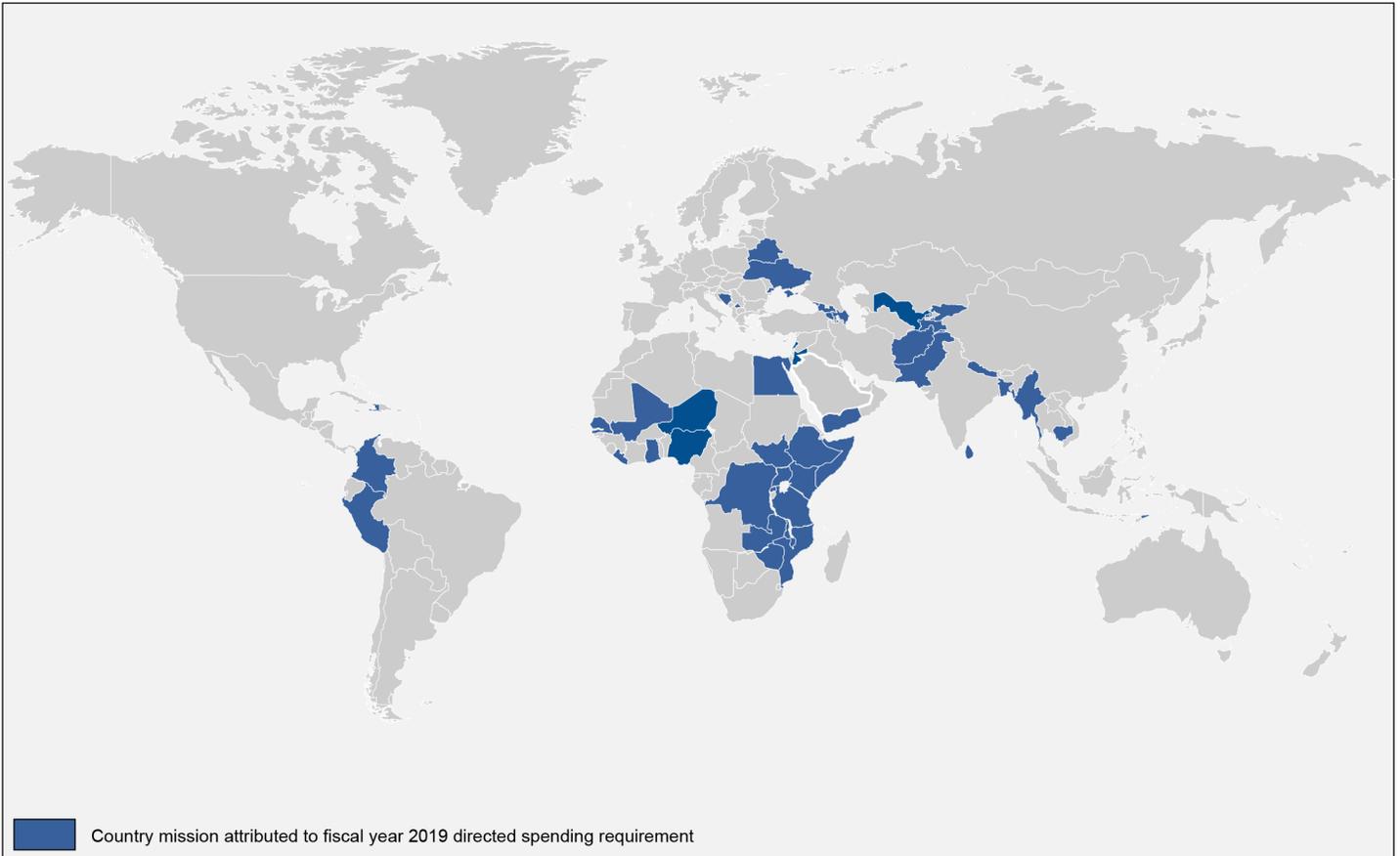
	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Africa	124,995	128,909	108,719	135,464	135,964	133,155
East Asia and Pacific	13,325	14,975	14,650	16,650	14,150	12,750
Europe and Eurasia	4,529	6,715	6,923	3,754	3,754	8,728
Near East	10,000	14,500	16,500	16,400	13,900	18,505
South and Central Asia	61,000	50,500	44,500	43,500	47,500	54,200

	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
Western Hemisphere	31,828	32,870	29,755	29,510	30,010	20,275
Bureaus	16,323	16,531	8,250	16,722	19,722	17,387
To Be Programmed	0	0	0	3,000	0	0

Note: Each region consists of U.S. Agency for International Development (USAID) bilateral and regional missions. “Washington bureaus” includes USAID pillar bureaus that provide technical advice and support on design, implementation, and evaluation of mission technical strategies and programs, and regional bureaus that design, implement, and evaluate regional and country strategies and programs associated with their geographic area. In FY 2018, \$3 million of microenterprise assistance was designated as “to be programmed” in the Section 653(a) report. State officials explained that due to policy deliberations, a specific country did not receive foreign assistance funding at the time of the Section 653(a) report. The \$3 million originally attributed from this country toward microenterprise assistance was categorized as “to be programmed” in the report instead, pending the resolution of the policy deliberation. State officials confirmed that State and USAID exceeded \$265 million in planned spending on microenterprise assistance in FY 2018 after the Section 653(a) report was issued. The annual appropriations acts for fiscal years 2015 through 2018 (Pub. L. No. 113–235, Pub. L. No. 114–113, Pub. L. No. 115–31, and Pub. L. No. 115–141) referenced only microenterprises in their targeted or required spending levels. The fiscal year 2019 appropriations act (Pub. L. No. 116–6) referenced only micro and small-sized enterprises, and the fiscal year 2020 appropriations act (Pub. L. No. 116–94) referenced micro, small, and medium-sized enterprises. Since fiscal year 2018, Congress has established required spending levels that agencies must meet. Prior to this change, for fiscal years 2015 to 2017, Congress established targeted spending levels that the agencies were not required to meet.

USAID has more than 100 country missions around the world, but in any given year, less than half of these country missions attributed funding toward planned spending for the MSME directed spending requirement for the Section 653(a) report. For example, in fiscal year 2019, 43 country missions attributed MSME funding for the Section 653(a) report; 18 of these 43 missions (42 percent) were from Africa (see fig. 3). USAID officials said the amount of planned MSME assistance reported in the Section 653(a) report does not include all USAID MSME assistance.

Figure 3: The 43 USAID Country Missions That Attributed Planned Funding Toward the MSME Directed Spending Requirement in Fiscal Year 2019 for the Section 653(a) Report to Congress



Legend: MSME = micro, small, and medium-sized enterprise.

Source: GAO analysis of Department of State data. | GAO-21-269

Data table for Figure 3: The 43 USAID Country Missions That Attributed Planned Funding Toward the MSME Directed Spending Requirement in Fiscal Year 2019 for the Section 653(a) Report to Congress

Attributed toward FY 2019 MSME Earmark (653a Report/State Data)

- Afghanistan
- Armenia
- Azerbaijan
- Bangladesh
- Belarus

- Bosnia and Herzegovina
- Burma
- Cambodia
- Colombia
- DR Congo
- Egypt
- Ethiopia
- Georgia
- Ghana
- Haiti
- Jordan
- Kenya
- Kosovo
- Kyrgyzstan
- Lebanon
- Liberia
- Malawi
- Mali
- Mozambique
- Nepal
- Niger
- Nigeria
- Pakistan
- Peru
- Rwanda
- Senegal
- Somalia
- South Sudan
- Sri Lanka
- Tajikistan

- Tanzania
- Timor Leste
- Uganda
- Ukraine
- Uzbekistan
- Yemen
- Zambia
- Zimbabwe

While MSME funding amounts included in the Section 653(a) report might be considered to be an estimate of total MSME funding, the amounts do not include all planned spending as noted below. USAID officials said they use the Section 653(a) report to ensure that USAID meets its required spending level for MSME assistance for a given fiscal year.

To facilitate the 653(a) reporting process, USAID generally focuses on the Economic Support Fund (ESF) and Development Assistance (DA) accounts to meet the planned spending amount of \$265 million because those accounts generally have a large number of projects with MSME components, according to USAID. For fiscal years 2015 through 2019, ESF and DA activities accounted for 93 to 100 percent of all MSME assistance reported in the Section 653(a) report.¹⁸ In addition, USAID generally asks the same country missions each year to attribute MSME funding toward meeting the spending requirement. USAID officials said they rely on country missions to identify and report their MSME assistance.

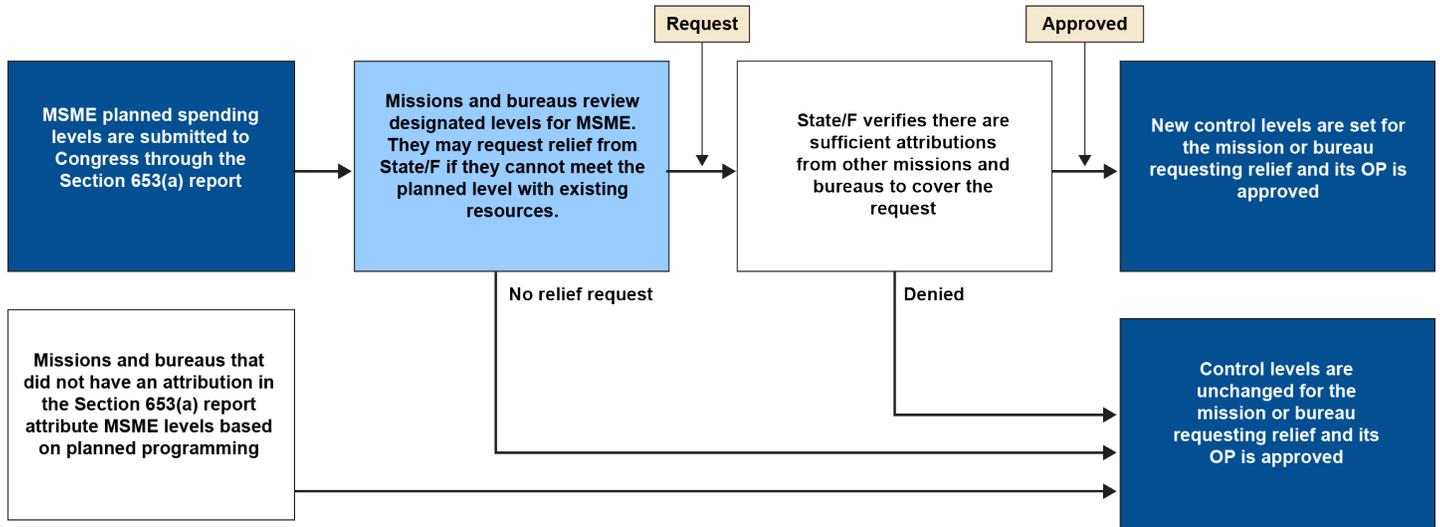
Total Planned Spending for MSME Assistance in Operational Plans Exceeded the Spending Plan Submitted to Congress in the Section 653(a) Report

Bureaus and missions that attributed funding toward MSME assistance for the Section 653(a) report to Congress generally reduced some planned spending in their OPs, but other bureaus and missions that did

¹⁸An exception is that State and USAID also include some attributions from the Assistance for Europe, Eurasia, and Central Asia (AEECA) account in the Section 653(a) report. According to USAID officials we interviewed, AEECA funding is not tied to any sector and can be used to support programming that the bureaus and missions deem appropriate, such as MSME assistance.

not contribute to the Section 653(a) report did include MSME assistance in their OPs. As a result, OPs reflected planned spending levels that are higher than those reported in the Section 653(a) report. Figure 4 depicts the process that USAID’s missions and bureaus use after the Section 653(a) report to incorporate their MSME assistance into their OPs.

Figure 4: State and USAID’s Process after the Section 653(a) Report for Missions and Bureaus to Develop Operational Plans That Include Micro, Small, and Medium-Sized Enterprise Assistance



Legend: MSME = micro, small, and medium-sized enterprise; State/F = Department of State’s Office of Foreign Assistance; OP = operational plan.

Source: GAO analysis of U.S. Agency for International Development (USAID) documents. | GAO-21-269

Text of Figure 4: State and USAID’s Process after the Section 653(a) Report for Missions and Bureaus to Develop Operational Plans That Include Micro, Small, and Medium-Sized Enterprise Assistance

- 1) MSME planned spending levels are submitted to Congress through the Section 653(a) report
 - a) Missions and bureaus review designated levels for MSME. They may request relief from State/F if they cannot meet the planned level with existing resources.
 - i) No relief request: Control levels are unchanged for the mission or bureau requesting relief and its OP is approved
 - b) Relief Request: State/F verifies there are sufficient attributions from other missions and bureaus to cover the request

- i) Denied: Control levels are unchanged for the mission or bureau requesting relief and its OP is approved
 - c) Approved: New control levels are set for the mission or bureau requesting relief and its OP is approved
- 2) Missions and bureaus that did not have an attribution in the Section 653(a) report attribute MSME levels based on planned programming
- a) Control levels are unchanged for the mission or bureau requesting relief and its OP is approved

Bureaus and Missions That Contributed to the Section 653(a) Report Generally Included Lower Planned Spending in Their Operational Plans

For fiscal years 2015 through 2019, we found that in total, USAID bureaus and missions with planned MSME spending included in the 653(a) report subsequently included less MSME spending in their OPs.¹⁹ According to State's Office of Foreign Assistance (State/F) guidance for OPs, all bureaus and missions are required to attribute relevant funding to the appropriate key issues in their OPs, including MSME assistance. This enables State and USAID to collect and track funding toward required spending levels and strategic policy goals. USAID officials said that some MSME assistance might not be captured in the OPs. The officials said that some missions and bureaus might not categorize their programming as MSME assistance because it is a small component of the program. See table 1 for planned spending levels of bureaus and missions included in the Section 653(a) reports and the OP planned spending levels for the respective USAID bureaus and missions by fiscal year.

¹⁹For example, comparing fiscal year 2019 OPs to the Section 653(a) report, we found that one country mission attributed \$5 million toward MSME assistance in the Section 653(a) report but subsequently included only \$1 million for MSME assistance in its OP. Another country mission attributed \$5 million but included only \$3.8 million in its OP. In contrast, one country mission attributed \$2 million toward MSME assistance in the Section 653(a) report but included \$3 million for this assistance in its OP.

Table 1: Comparison of Micro, Small, and Medium-Sized Enterprise Assistance Planned Spending Levels from USAID Bureaus and Missions in Section 653(a) Reports and Operational Plans, Fiscal Years 2015–2019

Dollars in millions

Fiscal year	653(a) reported planned spending	OP planned spending by USAID bureaus and missions that submitted spending in 653(a) report	Total OP planned spending for all USAID bureaus and missions
2015	262.00	235.62	281.99
2016	265.00	236.72	248.95
2017	229.35	223.43	311.90
2018	265.00	254.59	297.64
2019	265.00	255.52	364.93

Source: GAO analysis of Department of State and USAID data. | GAO-21-269

Note: At the time of our analysis, the U.S. Agency for International Development (USAID) was unable to provide information on approved funding for fiscal year 2020 operational plan (OP) planned spending, so our analysis consists of OP funding from fiscal years 2015 through 2019. According to USAID, the OP data in this table are accurate as of September 2020. The annual appropriations acts for fiscal years 2015 through 2018 (Pub. L. No. 113–235, Pub. L. No. 114–113, Pub. L. No. 115–31, and Pub. L. No. 115–141) referenced only microenterprises in their targeted or required spending levels. The fiscal year 2019 appropriations act (Pub. L. No. 116–6) referenced only micro and small-sized enterprises, and the fiscal year 2020 appropriations act (Pub. L. No. 116–94) referenced micro, small, and medium-sized enterprises. According to USAID officials, some missions included planned spending for medium-sized enterprises for fiscal year 2019.

Some Bureaus and Missions That Did Not Contribute to the Section 653(a) Reports Did Include MSME Assistance in their OPs, and Total Planned Spending in All OPs Exceeded the Section 653(a) Report Levels

Some USAID bureaus and missions that did not attribute MSME assistance in the Section 653(a) report did later include MSME assistance in their OPs. We found:

- In fiscal year 2019, 10 bureaus and missions included planned spending for MSME assistance in their OPs in addition to the original 52 bureaus and missions included in the Section 653(a) report for that year. These additional bureau and mission amounts added around \$109 million in planned MSME spending for that year.
- USAID’s Bureau for Democracy, Conflict, and Humanitarian Assistance (DCHA) has annually included in its OP about \$50 million on average in MSME assistance through the International Disaster Assistance (IDA) account. DCHA is not included in the Section 653(a) MSME planned spending levels because, USAID officials said, agency practice is to allow for maximum flexibility and availability of funds for potential disasters.

Overall, USAID planned spending levels for MSME assistance as reflected in OPs exceeded those in the Section 653(a) report, with the inclusion of planned spending by additional missions and bureaus (see table 1). In some cases, USAID's planned spending for MSME assistance further changes after initial OP levels are approved. State/F approves the initial OPs and reviews subsequent changes to ensure oversight of foreign assistance budgets. USAID guidance requires bureaus and missions to continue to update their OPs after approval to ensure that State and USAID have access to the most current amounts.

USAID Has Not Developed a Process for Targeting Micro, Small, and Medium-Sized Enterprise Assistance and Cannot Identify the Amount of Such Assistance to the Very Poor and Women

USAID has not developed a process that supports compliance with the statutory requirements that 50 percent of all MSME resources must target activities that reach the very poor and 50 percent of small and medium-sized enterprise resources must target activities that reach enterprises owned, managed, and controlled by women. We identified three key gaps that impair USAID's ability to effectively target assistance. First, USAID has not identified the total funding subject to the targeting requirements. Second, although USAID has programs designed to help the very poor, it is unable to determine the amount of funding that reached this group. Third, although USAID has MSME activities that benefit women, it has not defined enterprises owned, managed, and controlled by women and does not disaggregate its MSME assistance data by enterprise size.

USAID Has Not Developed a Process for Targeting MSME Development Assistance to Comply with Statutory Requirements

PCM officials said they do not have a process during the program-planning phase for USAID bureaus and missions to target MSME development assistance to meet the statutory targeting requirements. Further, PCM officials said they have not provided specific guidance to bureaus and missions on how to implement the targeting requirements but USAID has provided information on the requirements. However, officials at nine of the 10 missions we contacted said they were unaware of the targeting requirements for MSME development assistance. USAID officials said they are evaluating whether existing processes and procedures related to targeting need to be changed.

WEEE Act Targeting Requirements

In January 2019, the Women's Entrepreneurship and Economic Empowerment (WEEE) Act of 2018 amended the Foreign Assistance Act of 1961 to require that:

- 50 percent of all micro, small, and medium-sized enterprise resources shall be targeted to activities that reach the very poor, and
- 50 percent of all small and medium-sized enterprise resources shall be targeted to activities that reach enterprises owned, managed, and controlled by women.

Source: Pub. L. No. 115-428 § 4, codified at 22 U.S.C. § 2211a(c).

USAID Has Not Identified the Total Funding Subject to the WEEE Act Targeting Requirements

USAID officials said they have not identified the amount of MSME assistance funding subject to the statutory targeting requirements in the WEEE Act. These targeting requirements apply to sustainable, poverty-focused assistance provided pursuant to the authorization to provide assistance to micro, small, and medium-sized enterprises. USAID officials said that most, but not all, MSME assistance is sustainable and poverty-focused and, therefore, subject to the targeting requirement. The officials said they were unable to provide an explicit definition used by USAID to identify the total funding subject to the WEEE Act targeting requirements.

Because USAID has not identified the total funding subject to statutory targeting requirements, it is unable to determine the percentage of its MSME resources that is going to the very poor and enterprises owned, managed, and controlled by women, in accordance with the requirements.

USAID Uses MSME Assistance to Help the Very Poor, but Is Unable to Determine the Total Funding That Reaches This Group

USAID Has Various Methods to Deliver MSME Development Assistance to Help the Very Poor

Officials at eight of the 10 USAID missions we contacted said they focus some of their MSME assistance on groups that include the very poor,²⁰ and reported various methods of reaching these groups, including the following:²¹

- Officials at four missions said that although they do not focus directly on the very poor, they do focus on decreasing poverty as a whole, which in turn will reach very poor populations. For example, USAID Colombia's Productive Entrepreneurships for Peace program focuses on promoting financial inclusion as a tool to overcome poverty and reduce inequality through rural productive development and gender integration, among other things. See appendix II for more information on these and other projects.
- Officials at two missions said they do not focus directly on the very poor but do direct programs toward vulnerable populations, such as those displaced by war, which may include individuals who are very poor.²² For example, USAID Colombia's Rural Finance Initiative is aimed at the integration of Venezuelan migrants and rural Colombian populations who are vulnerable, as well as other marginalized populations.
- Other USAID missions stated that they target the very poor according to regions in their country that they know have high rates of poverty.

²⁰Section 259(13) of the Foreign Assistance Act of 1961, as amended by the WEEE Act and codified at 22 U.S.C. § 2214a(13), defines the very poor as (1) living in the bottom 50 percent below the poverty line established by the national government of the country in which those individuals live, or (2) living below the International Poverty Line, as defined by the International Bank for Reconstruction and Development and the International Development Association (collectively referred to as the "World Bank"), which is currently at \$1.90 per day for an individual.

²¹The other two USAID missions did not focus their MSME assistance on the very poor.

²²Vulnerable groups vary by country and context, but according to USAID mission documents, such groups can include women; youth; internally displaced persons; lesbian, gay, bisexual, transgender, and intersex persons; ethnic minority groups; indigenous persons; refugees; those living in poor municipalities; and those with disabilities.

For example, USAID Ghana's Sustainable Fisheries Management Project focused on improving the livelihoods of women in the fish processing industry, which USAID officials said included the very poor, and targeted specific regions where illegal fishing techniques had a detrimental effect on their activities.

USAID Is Unable to Determine the Total MSME Funding That Reaches the Very Poor

Officials in all USAID country missions we contacted said they set goals in their strategic plan for target regions and beneficiaries of their assistance, but only one mission identified the very poor as part of their strategic plan and had data to show how much MSME assistance targeted activities that reached the very poor. The Foreign Assistance Act of 1961, as amended by the WEEE Act, has two definitions for the very poor, but country missions we contacted used varying definitions of the very poor, and some had no definition. Half of the country missions did follow the Foreign Assistance Act definitions, but the other half did not use these definitions or did not have a definition of the very poor.

USAID officials said that determining the income level of recipients of MSME assistance has been challenging. USAID's PCM Office uses its annual survey of missions and bureaus on MSME development assistance to collect obligations data for that assistance, including assistance that targets the very poor. In its 2018 Microenterprise Results Report, USAID reported that \$2.8 million of its microenterprise activities supported the very poor, based on the seven such activities that missions and bureaus reported in the annual survey. This represents less than 1 percent of USAID's total reported microenterprise assistance for fiscal year 2018 from the countries in the report.

USAID officials said the agency's reporting on assistance that reached the very poor had been limited by the number of missions using poverty measurement methods. Prior to passage of the WEEE Act, USAID required that assistance reported in the *Microenterprise Results Report* as reaching the very poor had to be determined by missions using a poverty measurement method tested and certified pursuant to then-existing provisions of the Foreign Assistance Act of 1961. USAID officials said the measure was costly to develop and was not updated frequently enough for missions to continue using it.²³ The officials also identified

²³For fiscal year 2019, seven of 21 missions responding to USAID's annual survey reported using poverty assessment methodologies.

additional challenges in determining whether recipients of MSME assistance fall within the definition of the very poor, including discerning the income levels of populations that do not use monetary currencies and identifying those who move from being poor to very poor when they experience economic shocks such as from floods or droughts. These officials said that USAID's reporting likely understated the amount of assistance that reached the very poor. The WEEE Act amended the Foreign Assistance Act of 1961 to eliminate the requirement that poverty methods be field tested and certified. According to USAID officials, their future reporting on the very poor may benefit from greater choices for allowable poverty measures following passage of the WEEE Act.

The most recent MSME results report, released in October 2020, indicated that USAID is using a different approach to identify relevant activities for its fiscal year 2019 reporting on the very poor. USAID officials said the agency is calculating assistance for the very poor by identifying programs using a graduation approach because these programs are intended to target the very poor.²⁴ USAID included a definition of the graduation approach in its survey guidance. However, that definition did not include specific information about poverty levels needed to meet WEEE Act requirements. USAID officials said they currently have no internal guidance related to using or reporting on the graduation approach, including how to determine whether recipients receiving assistance provided under the approach would fall within the statutory definition of "very poor." As of November 2020, USAID officials said they were in the process of determining the methods they will use to identify the very poor for future reporting.

GAO's *Standards for Internal Control in the Federal Government* advises management to define objectives in specific terms so that they are understood at all levels of the agency. This involves clearly defining what is to be achieved, who is to achieve it, how it will be achieved, and the time frames for achievement. Officials we interviewed at each of the 10 missions told us they did not receive any guidance on how to define the

²⁴According to a Consultative Group to Assist the Poor report, the graduation approach focuses on helping the poorest and most vulnerable households develop sustainable livelihoods, increase income, and move out of extreme poverty. According to a United Nations Refugee Agency report, the graduation approach generally targets families who live on less than \$1.25 day and lack access to services and programs to assist them. Once identified, the groups will be provided support for food until they can start earning income and will be taught how to build assets and develop business skills. Success will be determined as having continuous access to food, income, and maintenance of a savings account.

very poor prior to the release of the survey, or guidance on any poverty measurement methods to assist them in planning or reporting on their MSME assistance. Lacking the ability to define the very poor and apply this definition to determine the amount of funding that reaches this group, USAID is not able to document its compliance with the WEEE Act's requirement that 50 percent of all MSME resources be targeted to activities that reach the very poor.

USAID Has MSME Activities That Benefit Women, but Has Not Defined Enterprises Owned, Managed, and Controlled by Women and Does Not Collect Data by Enterprise Size

USAID Has MSME Activities That Focus on Benefiting Women

The WEEE Act amended the Foreign Assistance Act to require that 50 percent of small and medium-sized enterprise resources be targeted to activities that reach enterprises owned, managed, and controlled by women.²⁵ Officials we interviewed at each of the 10 missions said they have MSME activities focused on women and they have the ability to disaggregate their MSME performance goal data by gender, as required by USAID policy and the WEEE Act. USAID has focused on MSME activities to improve women's empowerment through efforts such as increasing entrepreneurial opportunities and providing training on essential business skills, as well as programs that target women's health. For example, USAID Afghanistan's Women in the Economy activity seeks to help women in Afghanistan gain workplace skills through training and technical assistance. USAID Uganda's Integrated Community Agriculture and Nutrition activity focuses on improving nutrition of children, adolescents, and women of reproductive age.

According to USAID documents, the Women's Global Development and Prosperity (W-GDP) Initiative, launched in February 2019, will strengthen the ability of efforts to advance women's entrepreneurship. Officials at six of the 10 missions we contacted said they have applied or received W-GDP funding as of summer 2020. USAID officials said they expect

²⁵See 22 U.S.C. § 2211a(c)(2). This provision applies to sustainable poverty-focused programs under 22 U.S.C. § 2211a(a).

W-GDP-funded MSME activities to increase in the future and to support WEEE Act goals.

USAID Does Not Define Enterprises Owned, Managed, and Controlled by Women and Does Not Collect Data by Enterprise Size

USAID has not defined and does not collect information necessary to meet its statutory targeting requirements for enterprises owned, managed, and controlled by women. According to a USAID document and officials, USAID does not currently have a definition for enterprises owned, managed, and controlled by women because there have been challenges in defining or identifying these enterprises, such as:

- Difficulties in creating a common definition of an enterprise that includes all three aspects of being owned, managed, and controlled by women, in part because individual definitions vary according to countries' own laws.
- Difficulties in identifying the gender of enterprise owners because USAID officials sometimes receive only the name of the enterprise, not the name of the owner.
- Difficulties with women's self-identification as an owner, manager, or one in control of a business, due to social norms in some countries.

Officials in USAID's PCM Office said they are working with the Office of Gender Equality & Women's Empowerment to develop guidance for bureaus and missions on the definition of enterprises owned, managed, and controlled by women.

Moreover, USAID currently does not disaggregate assistance data by enterprise size to distinguish between micro, small, and medium-sized enterprises. Therefore, USAID faces further constraints in defining the amount of assistance subject to the gender-targeting requirement because this requirement applies to small and medium-sized enterprise assistance and not microenterprise assistance. According to USAID officials, State and USAID's planning and reporting documents that missions and bureaus must submit each year do not require them to report on planned spending and the results of their MSME assistance by enterprise size. As a result, USAID's PCM Office also does not require missions to report their MSME assistance in that way.

Standards for Internal Control in the Federal Government advises management to define objectives in specific terms so that they are understood at all levels of the agency. This involves clearly defining what is to be achieved, who is to achieve it, how it will be achieved, and the time frames for achievement. Lacking the ability to define enterprises that are owned, managed, and controlled by women and to disaggregate its data by enterprise size, USAID does not have reasonable assurance that it complies with the WEEE Act's requirement that 50 percent of all small and medium-sized enterprise resources be targeted to activities that reach enterprises owned, managed, and controlled by women.

USAID Has Collected and Reported Incomplete and Inconsistent Data in Its Process for Monitoring Micro, Small, and Medium-Sized Enterprise Assistance

USAID collected and reported incomplete and inconsistent data on the amount and results of its fiscal year 2019 MSME activities in its process for monitoring MSME assistance. As part of its monitoring process, USAID surveys its missions and bureaus annually to collect information on the amounts and results of the assistance across the agency. In fiscal year 2019, USAID changed its survey to collect information to reflect WEEE Act performance goals. However, USAID collected and reported incomplete data on its MSME assistance. It did not send the survey to all relevant missions and bureaus, and fewer than half of those that received it provided a response. USAID also collected and reported data that were inconsistent. USAID's missions used different definitions in reporting on small and medium-sized enterprise assistance and reported inconsistent data on their MSME obligations in fiscal year 2019, including data on very poor beneficiaries. Further, USAID collected and reported data on some performance goals by gender of beneficiary, but not all missions reported on each goal by gender. USAID officials said the agency is taking steps to develop and modify indicators specific to the WEEE Act.

USAID Surveys Certain Missions and Bureaus to Collect Information on MSME Assistance Amounts and Results

USAID collects information on MSME assistance amounts and performance results through an annual survey of its country and regional missions, as well as its Washington bureaus. It selects these missions

and bureaus based on their previous reporting on MSME assistance.²⁶ The PCM Office designed and implemented this survey to collect and report the obligations and results of USAID's microenterprise assistance in fiscal year 2018 and prior years, and its micro, small, and medium-sized enterprise assistance in fiscal year 2019, to fulfill a statutory reporting requirement.²⁷ The survey was known as the Microenterprise Results Reporting survey in fiscal year 2018, and the WEEE Act survey in fiscal year 2019. Both surveys contained guidance for missions with definitions of terms used in the survey and the types of programming to report. As discussed above, USAID uses the survey data to produce an annual report to Congress on the amount and results of such assistance. USAID's missions and bureaus also report on the results of their MSME assistance through State's annual Performance Plan and Report (PPR).²⁸ However, PPR data do not include obligations data or all of the indicators needed to address the reporting requirement.²⁹ Table 2 shows the information USAID reported in the fiscal years 2018 and 2019 reports.

²⁶For the collection of fiscal year 2018 assistance amounts and performance results, USAID selected missions and bureaus based on their previous reporting on microenterprise assistance. For fiscal year 2019, USAID made the selections based on missions' and bureaus' previous reporting on MSME assistance.

²⁷The Foreign Assistance Act requires USAID to report to Congress, to the extent practicable, on the amount of each grant or other form of MSME assistance. See 22 U.S.C. § 2214. USAID has chosen to collect and report on the amount of its MSME assistance in the same way that it collects and reports on the results of its MSME assistance to Congress, which is through an annual survey and report to Congress.

²⁸The PPR is an annual data call and record for performance information from all State and USAID missions and bureaus that implement foreign assistance programs. According to State and USAID, the PPR information helps inform policy, strategy, budgets, and programs and also helps State and USAID comply with external and agency-level reporting requirements.

²⁹In addition to the amount of grant funding for MSME assistance, USAID is required to report on, to the extent practicable, the percentage of assistance disaggregated by income level and gender; the estimated number of people receiving MSME assistance, disaggregated by income level, gender, and type of assistance; results of the monitoring system for MSME assistance; and the methodology used to ensure compliance with targeting requirements for MSME assistance, among other things. See 22 U.S.C. § 2214(b).

Table 2: Comparison of the Types of Performance Results and Indicators Included in USAID’s Fiscal Year (FY) 2018 Microenterprise Report and Its FY 2019 Micro, Small, and Medium-Sized Enterprise (MSME) Report

FY 2018 microenterprise report results	FY 2019 MSME report results
<p>Performance results</p> <ul style="list-style-type: none"> • Number of microenterprise clients who are borrowers^a • Number of microenterprise clients who are savers^a • Number of microenterprises supported directly by partners^a • Total number of microenterprise employees • Total number of microenterprise beneficiaries • Percentage of USAID partners that achieved financial sustainability • Percentage of funds that benefited the very poor • Estimated number of the very poor reached • Number of people trained in financial literacy, business management, and/or sector-specific skills • Number of people covered by digital, mobile, or technologically based financial services^a • Number of insurance holders among microenterprise beneficiaries 	<p>Performance results</p> <ul style="list-style-type: none"> • Percentage of funds obligated for projects that targeted women • Percentage of funds obligated for projects that serve the very poor • Number of MSMEs reached^b • Number of very poor people reached^c • Percentage of USAID MSME programs in the following categories: <ul style="list-style-type: none"> • Improved access to finance • Enterprise development • Financial intermediary capacity building • Improving the environment for MSMEs • Promoting empowerment of women through improving property rights and other legal protections for women <p>Performance indicators</p> <ul style="list-style-type: none"> • Number of jobs created (estimated)^d • Number of MSMEs with improved access to finance^d • Number of MSMEs that are participating in training and capacity building^d • Number of specific pieces of land tenure and property rights legislation or implementing regulations proposed, adopted, and/or implemented that positively affect property rights of the urban and/or rural poor as a result of U.S. government assistance^e • Number of adults provided with legally recognized and documented tenure rights to land or marine areas as a result of U.S. government assistance^{d,e}

Source: GAO analysis of U.S. Agency for International Development (USAID) documents. | GAO-21-269

^aUSAID also reported the percentage of women beneficiaries for each of these four performance results.

^bUSAID reported an estimated percentage of this result for women-owned or jointly owned MSMEs.

^cUSAID reported a percentage of women who were very poor.

^dUSAID reported on the number of women who benefited from this result or women-owned enterprises for this result.

^eUSAID’s reporting on this result comes from missions’ and bureaus’ Performance Plans and Reports, rather than the annual survey of those missions and bureaus that USAID conducts to meet the reporting requirement of the Foreign Assistance Act. The number of and specific missions and bureaus counted in these indicators differs from those counted in the performance indicators based on the survey data.

The fiscal year 2018 *Microenterprise Results Report* included goals for each of the results in table 2, such as the goal of 250,000 people covered

by digital, mobile, or technologically based financial services.³⁰ The fiscal year 2019 MSME report did not include goals for any of the performance indicators in table 2. According to USAID officials, they did not set goals for their fiscal year 2019 WEEE Act indicators because the law was enacted during fiscal year 2019 and they considered the timing to be too late for setting goals for that fiscal year. The officials said they would set goals once they have sufficient additional data on baselines and trends.

USAID Collected and Reported Incomplete Data on MSME Assistance in Fiscal Year 2019

Based on USAID's survey and interviews with 10 missions, we identified two weaknesses that prevented USAID from collecting and reporting complete data in fiscal year 2019:

- USAID did not collect data from all relevant missions and bureaus, and
- Fewer than half of USAID's missions and bureaus that received a survey provided a response.

USAID Did Not Survey All Relevant Missions and Bureaus

USAID did not collect data from all relevant missions and bureaus that implemented MSME assistance in fiscal year 2019. The agency identified the missions and bureaus based on those that had written a narrative on MSME assistance as a key issue in their fiscal year 2019 PPR, which excluded some relevant missions and bureaus. For example, USAID's Bureau for Resilience and Food Security obligated \$12.4 million in MSME assistance in fiscal year 2019, but was not sent a survey. USAID's use of the PPR to identify relevant missions and bureaus may also have excluded those that had small and medium-sized enterprise assistance programming, because the missions and bureaus were required to report only on microenterprise assistance as a key issue in their fiscal year 2019 PPR.

USAID sent its survey to 15 fewer missions and bureaus in 2019 than in 2018, and eight of these 15 had responded to the 2018 survey. We found that at least two of these 15 missions, in Nigeria and Tanzania, had MSME activities in fiscal year 2019, because they reported such activities

³⁰USAID refers to goals in its 2018 *Microenterprise Results Report*, but these goals are also referred to as targets in other forms of its reporting on program monitoring.

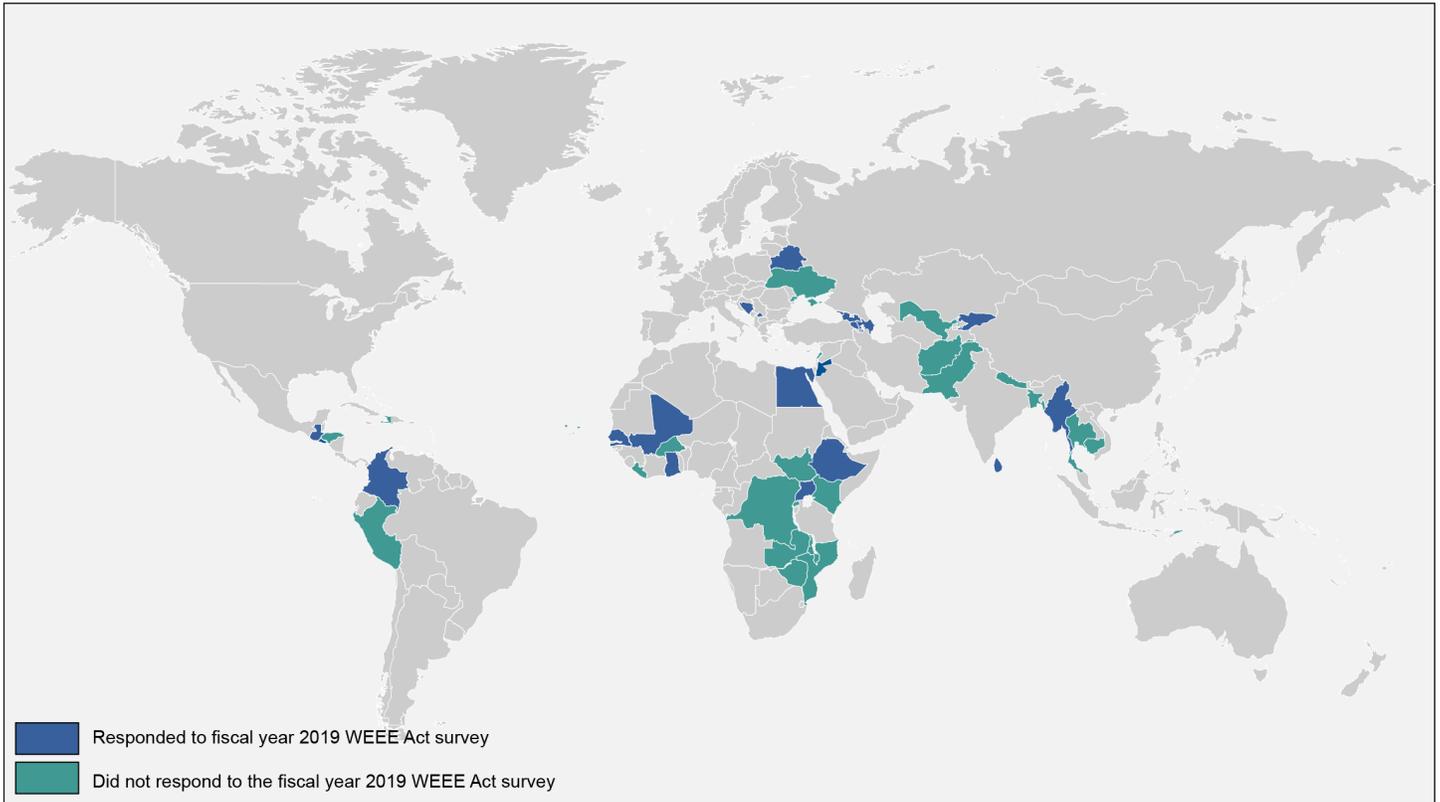
in their PPRs. In its PPR, the Nigeria mission reported that U.S. government assistance in fiscal year 2019 was used to increase access to financing for agriculture-based microenterprises, improve access to markets, and raise the business operating skills and management of microenterprises. For example, through one of the Nigeria mission's MSME activities, USAID facilitated loans to 294 smallholder maize farmers, and 46 percent of the loan recipients were women. Similarly, the Tanzania mission reported in its PPR that in fiscal year 2019, it expanded its engagement with microentrepreneurs, reaching 607,000 beneficiaries. One of the Tanzania mission's MSME activities in fiscal year 2019 supported 1,050 women-owned MSMEs, which accessed business development services through a USAID-funded activity.

Fewer than Half of Missions and Bureaus Surveyed Provided a Response

Of the 47 missions and bureaus to which USAID sent the fiscal year 2019 survey, 21 responded, or 45 percent—well below the 82 percent response rate to the fiscal year 2018 survey.³¹ USAID made several changes to the process of administering the survey between fiscal years 2018 and 2019. In fiscal year 2018 and prior years, USAID first sent a survey to missions and bureaus on obligations, and sent a follow-up survey to implementing partners on results. In fiscal year 2019, USAID sent one survey to mission and bureau officials to collect data on MSME obligations and results. In addition to the change in the survey administration method, USAID included different performance goals and expanded the enterprise size of its data collection to include micro, small, and medium-sized enterprise assistance. Figure 5 shows the countries whose USAID missions did and did not respond to USAID's fiscal year 2019 WEEE Act survey.

³¹This response rate in fiscal year 2018 reflects responses to the initial survey sent to missions and bureaus to report on their microenterprise obligations.

Figure 5: Countries by Status of USAID Mission Response to Fiscal Year 2019 WEEE Act Survey



Legend: WEEE Act = Women's Entrepreneurship and Economic Empowerment Act of 2018.
 Source: GAO analysis of U.S. Agency for International Development (USAID) data. | GAO-21-269

Data table for Figure 5: Countries by Status of USAID Mission Response to Fiscal Year 2019 WEEE Act Survey

	Responded to FY 2019 WEEE Act survey
Afghanistan	NO
Armenia	YES
Azerbaijan	YES
Bangladesh	NO
Belarus	YES
Bosnia and Herzegovina	YES
Burkina Faso	NO
Burma	YES
Cabo Verde	NO
Cambodia	NO
Thailand	NO

	Responded to FY 2019 WEEE Act survey
Colombia	YES
DR Congo	NO
Egypt	YES
El Salvador	YES
Ethiopia	YES
Georgia	YES
Ghana	YES
Guatemala	YES
Haiti	NO
Honduras	NO
Jordan	YES
Kenya	NO
Kosovo	YES
Kyrgyzstan	YES
Lebanon	NO
Liberia	NO
Malawi	NO
Mali	YES
Mozambique	NO
Nepal	NO
Pakistan	NO
Peru	NO
Rwanda	NO
Senegal	YES
South Sudan	NO
Sri Lanka	YES
Timor Leste	NO
Uganda	YES
Ukraine	NO
Uzbekistan	NO
Zambia	NO
Zimbabwe	NO

Note: Thailand represents the location of USAID's Regional Development Mission for Asia, which implements USAID's micro, small, and medium-sized enterprise development assistance for China.

USAID officials identified several reasons for the low response rate to the fiscal year 2019 survey, including the use of an outdated contact list, a

lack of knowledge of the appropriate mission officials to whom to send the survey, and confusion among mission officials about whether the survey was mandatory. USAID officials said a contact list from the fiscal year 2017 survey was used to send the fiscal year 2019 survey. One mission, which obligated \$8.5 million in MSME assistance in fiscal year 2019, stated that it did not respond to the survey because it was sent to an official who was unfamiliar with it and the mission did not identify the correct point of contact before the survey deadline had passed. USAID officials said they will send the survey to mission program offices, rather than a specific official, for the collection of fiscal year 2020 MSME results.

USAID's Automated Directives System (ADS) states that data should clearly and adequately represent the intended result.³² We identified at least \$20.9 million in MSME assistance that USAID did not include in its fiscal year 2019 MSME report because some relevant missions and bureaus either did not receive or did not respond to the survey. Without identifying all relevant missions and bureaus to survey and receiving responses from each of them, USAID cannot ensure that its fiscal year 2019 MSME report completely and accurately represents the amount and results of its MSME assistance in fiscal year 2019.

USAID Collected and Reported Inconsistent Data on MSME Assistance in Fiscal Year 2019

Based on USAID's survey, its fiscal year 2019 MSME report, and interviews with officials at 10 missions, we found that missions used varying approaches to define small and medium-sized enterprises and were inconsistent with respect to how they reported MSME obligations data. Further, USAID missions reported inconsistently on the amount of assistance that reached very poor beneficiaries in fiscal year 2019. The missions reported on some performance goals by gender of beneficiary, though not all missions reported on each of these goals by gender.

USAID Missions Used Different Definitions to Report on Their Small and Medium-Sized Enterprise Assistance

While USAID defines MSMEs as enterprises with 250 or fewer employees in its survey and its ADS defines a microenterprise as one with 10 or fewer employees, USAID lacks agency-wide definitions of small and

³²U.S. Agency for International Development, *Automated Directives System*, Chapter 201, "Program Cycle Operational Policy" (revised Dec. 23, 2019).

medium-sized enterprises. USAID's operational plan (OP) guidance states that the diversity of contexts and sectors in which USAID operates may mean that definitions of small and medium-sized enterprises can vary. The guidance states that small enterprises are generally those with 11 to 49 employees and medium enterprises are generally those with 50 to 249 employees. We found that USAID's missions used varying approaches to define small and medium-sized enterprises. Specifically, missions in Senegal and Uganda reported using their host country's definition of a micro, small, and medium-sized enterprise for at least some of their MSME activities, while other missions reported using the general definition of small and medium-sized enterprises in the OP guidance.³³ According to USAID officials, they are working on a revision to the ADS that would define small and medium-sized enterprises for the agency.

USAID Missions Reported Inconsistent Obligations Data on MSME Assistance

USAID's missions inconsistently reported MSME obligations data in fiscal year 2019. Based on our interviews with officials at nine missions that responded to the fiscal year 2019 survey, along with our review of USAID's fiscal year 2019 MSME report and USAID mission documents, we found two significant inconsistencies in missions' reporting on their MSME obligations data: some missions did not include all MSME activities, and others reported MSME activities that did not incur obligations during fiscal year 2019.³⁴ First, according to officials at one mission, the mission reported obligations only for the activity that it attributed to the MSME required spending levels as part of the 653(a) reporting process in fiscal year 2019, rather than all MSME projects at the mission that year. We found that at least three other missions did not report all of their fiscal year 2019 MSME activities in the survey,

³³According to USAID officials, the government of Senegal defines enterprise size by an annual sales amount, rather than number of employees. The government of Uganda's *National Micro, Small and Medium Enterprises Strategic Plan* defines a microenterprise as one of no more than five employees with assets below 10 million shillings (approximately \$2,700); a small enterprise as one of five to 49 employees with assets of 10 million to 100 million shillings (approximately \$2,700 to \$27,000); and a medium-sized enterprise as one of 50 to 100 employees with assets of 100 million to 360 million shillings (approximately \$27,000 to \$98,000).

³⁴USAID officials at three missions could not identify an appropriate official to speak with us about their fiscal year 2019 survey responses. In addition, we found errors in missions' reporting on MSME obligations data, including one mission that submitted its data under the incorrect name.

according to mission documents. Second, one mission reported obligations data for a project that was in the planning stage in fiscal year 2020 and thus was not an active project in fiscal year 2019.³⁵ We also found that nine other missions in USAID's fiscal year 2019 MSME report had at least one activity without any fiscal year 2019 obligations.

In part because of missions' inconsistent reporting of their obligations data, USAID officials changed the MSME obligations so that all missions' activities included in the fiscal year 2019 report reflect obligations for the entire amount of the activity, rather than the obligations for the MSME component of that activity. USAID officials said they checked the obligation amounts reported by missions in the survey with USAID's financial system and changed missions' obligations data so that the data reflected the entire amount obligated for a particular activity in fiscal year 2019. They also removed any obligations that did not occur in fiscal year 2019. The officials also said that an activity can have multiple components, only one of which may be an MSME component. Thus, the MSME obligations reported in the fiscal year 2019 MSME report may reflect obligations beyond those for MSME assistance. USAID officials did not check with missions to verify the accuracy of the MSME obligations data reported in the fiscal year 2019 survey because, they said, the amounts reported did not differ significantly from the amounts in USAID's financial system.

USAID's ADS guidance on congressional reporting states that there must be a continuing, comprehensive, agency-wide concern for producing and disseminating timely, accurate information. Without taking steps to ensure that missions report MSME obligations data in a consistent manner, USAID cannot ensure that it is reporting accurate information to Congress on the amount of its MSME assistance.

USAID Missions Reported Inconsistent Data on the Amount of MSME Assistance That Reached the Very Poor in Fiscal Year 2019

USAID included obligations data from only three missions in its reporting on the percentage of assistance for activities reaching very poor beneficiaries in its fiscal year 2019 MSME report. As noted above, USAID calculated the percentage of MSME assistance that went to the very poor based on the total obligation amounts for five activities that these three

³⁵As a result of our work, USAID removed obligations reported for the project in the planning stage from the fiscal year 2019 MSME report.

missions reported using a graduation approach to target the very poor. USAID then divided this amount by the total obligations across all activities reported by missions in the fiscal year 2019 survey. USAID identified the result as the percentage of its assistance that reached very poor beneficiaries in fiscal year 2019.³⁶

USAID did not include assistance from 18 of the 21 missions that responded to its survey in calculating the percentage of MSME assistance that reached the very poor in fiscal year 2019. This is because the missions: did not report any activities that used a graduation approach intended to reach very poor beneficiaries; did not report any obligations data for such activities; or reported activities that reached the very poor, but those activities did not have any fiscal year 2019 obligations. For example, 10 of the 21 missions reported a number of graduation approach beneficiaries or an activity that targeted the very poor. Of those 10 missions, four did not report any obligations data for activities that reached the very poor. According to USAID officials, it is possible that missions did not report such obligations data because no MSME funding was involved in the programming that benefited the very poor. Three of the 10 missions were not included because their activities that reached the very poor did not have any fiscal year 2019 obligations.

One of the three missions that USAID included in its calculation of MSME assistance reaching the very poor reported two activities as benefiting the very poor that reached “vulnerable groups.”³⁷ It is unclear whether individuals in these “vulnerable groups” fall within the statutory definition of the very poor, because documents we received on these activities do not indicate that beneficiaries either live in the bottom 50 percent below the poverty line as established by the recipient country or live below the World Bank’s international poverty line of \$1.90 per day.³⁸ The obligations for these activities represent 76 percent of the total that USAID included in its percentage of MSME assistance that reached the very poor.

³⁶According to USAID officials, obligations data for all activities in USAID’s fiscal year 2019 MSME report are from USAID’s financial system and reflect total obligations for that activity, rather than the MSME-specific component of those activities.

³⁷Vulnerable groups identified by the mission include women; youth; internally displaced persons; lesbian, gay, bisexual, transgender, and intersex persons; indigenous persons; and those with disabilities.

³⁸See 22 U.S.C. § 2214a(13).

A second mission that reported that one of its fiscal year 2019 activities reached the very poor also reported that it did not support any MSMEs in fiscal year 2019 or any graduation approach beneficiaries. USAID included this activity in its calculation of its assistance that reached the very poor in fiscal year 2019.

USAID's ADS guidance on congressional reporting states that there must be a continuing, comprehensive, agency-wide concern for producing and disseminating timely, accurate information. Without greater data reliability checks, USAID cannot ensure that it is reporting accurate information to Congress on the amount and percentage of its MSME assistance that reached very poor beneficiaries.

USAID Collected and Reported Data on Some Performance Goals by Gender of Beneficiary

USAID collected data on some MSME performance goals in its fiscal year 2019 survey and in PPRs by gender of beneficiary, though not all missions reported on each performance goal by gender. In its fiscal year 2019 MSME report, USAID included a percentage of missions' funds obligated for activities that year to support MSME activities that target women. This calculation included the total amount of the activity, rather than the portion of the activity that benefited women.

USAID's fiscal year 2019 MSME report included gender-disaggregated data for five indicators, with the reporting on three indicators reflecting estimated calculations. For example, the report contains gender-disaggregated data on performance indicators for the estimated number of jobs created, the number of MSMEs with improved access to finance, and the number of MSMEs participating in training and capacity building.³⁹ USAID calculated the number of women benefiting from activities captured by these performance indicators based on mission reporting of an estimated range of MSMEs supported by such activities and used the median of this range and the estimated percentage of women-owned MSMEs to calculate the number of female and male beneficiaries by performance indicator. The report also included the number of very poor beneficiaries disaggregated by gender, which USAID

³⁹A USAID official told us that the training and capacity-building indicator reflects mission reporting on enterprise development.

calculated based on estimates of the number of very poor beneficiaries and percentage range of the very poor by gender.

USAID's reporting on two other performance indicators does not include all missions. For example, it excludes at least six of the 21 respondent missions because they did not respond to the survey question requesting an estimated number of very poor beneficiaries by gender. In addition, USAID reported gender-disaggregated data on the number of adults provided with legally recognized and documented land or marine tenure rights from missions' PPRs, regardless of whether the mission had received the survey. According to USAID officials, the total number reported for this indicator includes data from five missions, but only one mission reported these results on a gender-disaggregated basis in its PPR.

USAID's fiscal year 2019 MSME report also contains an estimated percentage of MSMEs owned by women or owned jointly by men and women, which USAID calculated using the median of an estimated percentage range of each mission's MSME ownership by gender. All missions that responded to the fiscal year 2019 survey reported an estimated percentage range of MSMEs owned by each gender. The officials said they are working to develop new indicators and modify existing indicators to better address amendments to MSME monitoring and reporting requirements made by the WEEE Act.

Conclusions

USAID has used micro, small, and medium-sized enterprise (MSME) assistance for decades as a tool to promote economic growth and reduce poverty in developing countries. From fiscal years 2015 to 2020, Congress has demonstrated its support for such assistance by including a targeted or required spending level of \$265 million in annual appropriations bills.

The Microenterprise Results and Accountability Act of 2004 required USAID to target 50 percent of its microenterprise resources to the very poor. In January 2019, Congress passed the Women's Entrepreneurship and Economic Empowerment (WEEE) Act of 2018, which broadened this targeting requirement to include small and medium-sized enterprise resources, and established a new requirement that 50 percent of small and medium-sized enterprise resources target activities that reach small and medium-sized enterprises owned, managed, or controlled by women.

However, USAID has not identified the amounts of MSME assistance subject to these targeting requirements and has not developed a process to ensure compliance with them, including providing guidance to its missions on their roles in identifying very poor populations or using poverty measurement methods. USAID also has not developed a definition of enterprises owned, managed, and controlled by women and does not collect data by enterprise size, which would enable it to ensure that it is meeting its targeting requirements specific to small and medium-sized enterprises that are owned, managed, and controlled by women. Without identifying the assistance amounts subject to its targeting requirements and developing a process to meet those requirements, USAID cannot determine whether it is directing the required amount of MSME resources in accordance with statutory requirements. Further, without providing guidance to missions on their roles in identifying very poor populations, as well as defining enterprises that are owned, managed, and controlled by women and collecting data that would enable reporting by enterprise size, USAID does not have reasonable assurance that it is meeting its statutory requirements.

The Microenterprise Results and Accountability Act also required USAID to strengthen its monitoring process and to report to Congress annually on the amount and results of its microenterprise assistance. The WEEE Act included new performance goals and requirements, such as reporting on performance goals on a gender-disaggregated basis. Although USAID has developed a monitoring process for its MSME assistance, it needs to collect more complete and consistent data on that assistance, especially concerning very poor beneficiaries. Collecting data from all of USAID's missions and bureaus with MSME activities and increasing the accuracy of the obligations data that missions report, including on very poor beneficiaries, would improve the reliability of USAID's reporting to Congress on its MSME assistance.

Recommendations for Executive Action

We are making the following six recommendations to USAID:

The USAID Administrator should direct the Private Sector Engagement Hub or other appropriate entity to establish a method to identify the total funding subject to the WEEE Act's requirements in order to develop a process that provides reasonable assurance of compliance with the Act's requirements for targeting assistance to the very poor and women.
(Recommendation 1)

The USAID Administrator should direct the Private Sector Engagement Hub or other appropriate entity to provide information and guidance to bureaus and missions on their roles in meeting the agency's targeting requirement regarding the very poor. (Recommendation 2)

The USAID Administrator should direct the Private Sector Engagement Hub or other appropriate entity to establish a definition for enterprises owned, managed, and controlled by women in order to develop a process that provides reasonable assurance of compliance with the WEEE Act's requirements for targeting assistance to small and medium-sized enterprises owned, managed, and controlled by women. (Recommendation 3)

The USAID Administrator should direct the Private Sector Engagement Hub or other appropriate entity to disaggregate MSME data to distinguish among micro, small, and medium-sized enterprises in order to develop a process that provides reasonable assurance of compliance with the WEEE Act's requirements for targeting assistance to small and medium-sized enterprises owned, managed, and controlled by women. (Recommendation 4)

The USAID Administrator should direct the Private Sector Engagement Hub or other appropriate entity to develop a methodology to ensure that it collects data from all relevant missions and bureaus with micro, small, and medium-sized enterprise assistance. (Recommendation 5)

The USAID Administrator should direct the Private Sector Engagement Hub or other appropriate entity to take steps to ensure the reliability of the micro, small, and medium-sized enterprise assistance data reported to Congress. (Recommendation 6)

Agency Comments

We provided a draft of this product to the Department of State and U.S. Agency for International Development for comment. State did not provide formal or technical comments. USAID provided formal written comments and two annexes to these comments, reproduced in appendix III, as well as technical comments, which we incorporated throughout the report, as appropriate.

In its formal comments, USAID stated that due to a reorganization, the PCM Office became the Private Sector Engagement Hub in November

2020, and that the Private Sector Engagement Hub may or may not be the office responsible for implementing our recommendations. The agency requested that we direct the recommendations to that office “or other appropriate entity.” We revised the language of our recommendations accordingly.

USAID accepted each of our six recommendations. In its response to our first recommendation, to establish a method to identify the total funding subject to the WEEE Act’s requirements, USAID noted that a new methodology at the “program-planning phase” would make the process for targeting more predictable and help to clarify how USAID complies with its statutory requirements. The agency also noted that previous USAID practice did not define what monies would be subject to the targeting requirements under the MRAA due to the administrative cost of implementing the necessary controls for these requirements, given the uncertainty of spending levels for microenterprise assistance in a given year. USAID stated that in response to our recommendation, it will institute controls to ensure compliance with these targeting requirements at the operational plan stage of program planning, beginning with fiscal year 2022 appropriations. USAID stated that it will define the spending subject to the WEEE Act to be the same as the directed amount for MSME assistance included in annual appropriations, currently set at \$265 million in fiscal year 2021. Any planned spending for MSME assistance over and above this directed spending level will not be subject to the targeting requirements. Annex I of USAID’s letter provides a timeline for its implementation of this change.

In its response to our second recommendation, to provide information and guidance to bureaus and missions on their roles in meeting the agency’s targeting requirements regarding the very poor, USAID stated that it would update its guidance on microenterprise development by the end of fiscal year 2021 to incorporate precise definitions of programming affecting the very poor. In its response to our third recommendation, to establish a definition for enterprises owned, managed, and controlled by women, USAID stated that it would use a modified Small Business Administration definition of a women-owned small business for its fiscal year 2020 WEEE Act report. USAID stated that it plans to review this definition after publication of its fiscal year 2020 results report and incorporate the definition into its guidance. In its response to our fourth recommendation, to disaggregate MSME data to distinguish among micro, small, and medium-sized enterprises, USAID stated that it would institute controls to distinguish, track, and monitor planned spending by

enterprise size in its operational plans, and provided a timeline for this process in Annex I.

In its response to our fifth recommendation, to develop a methodology to ensure that the agency collects data from all relevant missions and bureaus with micro, small, and medium-sized enterprise assistance, USAID stated that it has identified and is developing additional foreign assistance indicators to improve the reliability and availability of MSME assistance data. USAID stated that missions are required to report on foreign assistance indicators applicable to their programming in their annual PPRs, in order to ensure full and complete reporting. In its response to our sixth recommendation, to take steps to ensure the reliability of the MSME assistance data reported to Congress, USAID stated that all data reported externally, including PPR data, are required to have a valid data quality assessment in order to meet USAID's data quality standards. Annex II of USAID's letter provides a timeline for the implementation of the change to use PPR data to collect MSME performance results, and operational plans to collect spending data.

We are sending copies of this report to the appropriate congressional committees, the Secretary of State, the Acting Administrator of the U.S. Agency for International Development, and other interested parties. In addition, the report is available at no charge on the GAO website at <https://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-3149 or gootnickd@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix IV.

A handwritten signature in black ink that reads "David Gootnick". The signature is written in a cursive style with a large, looping initial "D".

David B. Gootnick
Director, International Affairs and Trade

Appendix I: Objectives, Scope, and Methodology

This report examines (1) the U.S. Agency for International Development's (USAID) planned micro, small, and medium-sized enterprise (MSME) assistance for fiscal years 2015 through 2020; (2) the extent to which USAID targeted its MSME assistance to women and the very poor, and developed a targeting process that it uses to comply with Foreign Assistance Act targeting requirements as amended by the Women's Entrepreneurship and Economic Empowerment (WEEE) Act; and (3) the extent to which USAID has an appropriate process for monitoring its MSME assistance.

To inform all aspects of our analysis, we selected a nongeneralizable, judgmental sample of 10 USAID missions. We selected this sample based on USAID data from the 47 missions and bureaus to which USAID sent its fiscal year 2019 survey to collect information on the amount and results of its MSME assistance. Of the 47 missions and bureaus, 21 responded to the survey. For our sample of 10, we selected eight missions that had responded to the survey and two missions that had not responded, according to USAID's data. For the 21 responding missions, we first looked at planned spending for fiscal year 2019, as well as the amount that the missions reported obligating for microenterprise assistance in fiscal year 2018. We eliminated five missions based on the small amount of their MSME assistance in both fiscal years 2018 and 2019. We selected at least one mission from each region in which USAID operates: Africa, East Asia and Pacific, Europe and Eurasia, Near East, South and Central Asia, and the Western Hemisphere. We selected three missions in Africa, as that region has the largest amount of MSME assistance. We also selected the missions such that half of them reported in the survey that they had MSME assistance with very poor beneficiaries, while the other half did not. All of the 21 missions reported MSME programming that benefited women, so we did not include such assistance as a factor in our sample. We also selected two missions from USAID's data that had not responded to the survey, based on the amount of their planned spending on MSME assistance in fiscal year 2019. The missions that we selected were those in Afghanistan, Burma, Colombia, Ethiopia, Georgia, Ghana, Jordan, the Kyrgyz Republic, Senegal, and Uganda. We interviewed USAID officials from these 10 missions by

teleconference to discuss USAID's planned spending, targeting, and monitoring of MSME assistance in each country.

To describe USAID's planned MSME assistance for fiscal years 2015 through 2020, we analyzed USAID and Department of State (State) data on planned spending attributed to MSME programming for fiscal years 2015 through 2020. We analyzed two data sets for planned spending: Section 653(a) report data and operational plan data. Both data sets are from State's Foreign Assistance Coordination and Tracking System—Next Generation (FACTS Info NextGen), which is State and USAID's central information system for all foreign assistance budgeting, operational planning, and performance management data. Additionally, we met with State and USAID officials responsible for compiling, managing, and reviewing data in this system to discuss the process for collecting MSME assistance data. We also reviewed State and USAID guidance on the MSME attribution process, along with documents on collecting and reporting these data, and determined that the data were sufficiently reliable to report on planned spending attributed toward MSME programming. The operational plan data are accurate as of the date that USAID pulled them from the FACTS Info NextGen database, as missions are responsible for updating these numbers as they allocate funding to their foreign assistance programs, including MSME assistance. According to USAID, the data are accurate as of September 2020. In addition, we reviewed certain relevant laws that apply to USAID's planned MSME assistance, such as Section 653(a) of the Foreign Assistance Act of 1961.¹ We also reviewed the annual appropriations acts for fiscal years 2015 through 2020 to determine the annual directed spending targets or requirements for MSME assistance.

To examine the extent to which USAID developed a targeting process that it uses to comply with statutory requirements, we reviewed relevant provisions of the Foreign Assistance Act both prior to and after amendment by the Microenterprise Results and Accountability Act of 2004 and the Women's Entrepreneurship and Economic Empowerment Act of 2018 (WEEE Act). In addition, we reviewed USAID guidance and documents on USAID's roles and responsibilities for implementing the targeting requirements of the Foreign Assistance Act of 1961, before and after the WEEE Act amendments. We interviewed USAID officials in Washington, D.C., specifically officials in the Office of Private Capital and Microenterprise, who provide technical support on private capital and

¹See 22 U.S.C. § 2413.

access to finance for missions and bureaus involved in MSME development assistance. We also interviewed additional USAID officials from the program and technical offices in the 10 missions in our sample to learn the extent to which they target MSME assistance through their programming.

To examine the extent to which USAID targeted its MSME assistance to women and the very poor, we reviewed the *Microenterprise Results Report* for fiscal years 2015 through 2018 that provides obligations and performance results of USAID's MSME assistance. We also reviewed USAID's MSME activities fact sheets and success stories, as well as activity monitoring, evaluation, and learning plans to gather information on missions' MSME activities that targeted women and the very poor. In addition, we interviewed USAID officials in Washington, D.C., and from the program and technical offices in the 10 missions in our sample to learn more about their MSME activities and the challenges in defining and identifying such assistance.

To examine the extent to which USAID has an appropriate process for monitoring its MSME development assistance, we analyzed USAID's survey for the collection of MSME obligations and results data in fiscal years 2018 and 2019 and the guidance associated with those surveys, including procedures manuals and definitions. We also analyzed USAID's survey data for fiscal years 2018 and 2019 to determine which missions and bureaus received a survey, as well as those that did and did not respond to the survey in those years. Based on this data, we selected and reviewed four fiscal year 2019 Performance Plans and Reports—two from missions that received a survey in fiscal year 2018, but did not receive one in fiscal year 2019, and two from missions to which USAID did send a survey in fiscal years 2018 and 2019. We analyzed the Performance Plans and Reports from the two missions that were not sent a survey in fiscal year 2019 to obtain information on those missions' fiscal year 2019 MSME assistance. We compared the information in the Performance Plans and Reports from the two missions that did receive a survey in fiscal year 2019 with the MSME results reported for those two missions in USAID's fiscal year 2019 MSME report to Congress. In addition, we analyzed the obligations and results data in USAID's reports to Congress on its fiscal year 2018 microenterprise assistance and 2019 MSME assistance. We examined USAID's fiscal year 2019 calculations of the number of very poor beneficiaries and percentage of MSMEs owned by women or jointly owned by men and women to learn how USAID determined the percentages and numbers in its fiscal year 2019 MSME report. We also reviewed MSME project documents from each of the 10

missions in our sample to obtain information on the projects that the missions did and did not report in the fiscal year 2019 survey, including projects that benefited the very poor and women. Based on our review of the fiscal year 2019 survey and report, as well as our interviews with USAID officials in Washington, D.C., and at the 10 missions in our sample, we determined that the data in the fiscal year 2019 MSME results report were not sufficiently reliable for our purposes of reporting on the amount and results of MSME assistance in fiscal year 2019. Finally, to analyze USAID's process for designing and implementing the fiscal year 2019 survey, we interviewed USAID officials in the Office of Private Capital and Microenterprise in Washington, D.C. To analyze the process that USAID's missions and bureaus used to respond to the survey in fiscal years 2018 and 2019, we interviewed officials in USAID's Bureau for Resilience and Food Security in Washington, D.C., as well as USAID officials in Afghanistan, Burma, Colombia, Ethiopia, Georgia, Ghana, Jordan, the Kyrgyz Republic, Senegal, and Uganda.

We conducted this performance audit from January 2020 to March 2021 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix II: Examples of USAID's Micro, Small, and Medium-Sized Enterprise Projects Active in Fiscal Years 2015–2020

The U.S. Agency for International Development (USAID) implements micro, small, and medium-sized enterprise (MSME) development assistance in all of the geographic regions in which it operates. In fiscal year 2019, USAID identified at least 47 of its missions and bureaus that implemented such assistance. MSME development assistance cuts across all development sectors, including economic growth, agriculture, and health. We selected the projects in figure 6 and table 3 to illustrate the diversity of development sectors and countries that implement USAID's MSME assistance.

Figure 6: Pictures from USAID's Micro, Small, and Medium-Sized Enterprise Projects in Georgia, Afghanistan, and Ghana, Fiscal Years 2015–2020



Sources (left to right): U.S. Agency for International Development (USAID) Georgia, FHI 360, and University of Rhode Island Coastal Resources Center. | GAO-21-269

The projects represent those identified by USAID officials that we interviewed in 10 missions as examples of their MSME assistance, including assistance for women, very poor, or vulnerable groups.

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Table 3: Examples of USAID’s Micro, Small, and Medium-Sized Enterprise Projects, Fiscal Years 2015–2020

Country, project, and duration	Project objectives	Selected project activities ^a
Afghanistan Goldozi Embroidery Project Fiscal years 2018–2022	<ol style="list-style-type: none"> 1. Upgrade the skills of 15,000 female embroiderers in and around Kabul and other cities, thereby increasing the commercial and export potential of their products. 2. Create a class of 500 educated Lead Entrepreneurs who are equipped with new skills and access-to-market insights. 3. Raise women’s incomes and catalyze demand for embroidered products ethically and authentically made by Afghan women. 	<ul style="list-style-type: none"> • Launched Goldozi Partnership Network • Established training providers for the Goldozi certificate course • Developed the Goldozi brand • Launched domestic and global marketing and outreach campaigns • Created a cohort of lead entrepreneurs with technical and business skills • Promoted participation of Afghan women designers in fashion exhibition show in Milan
Burma Livelihoods for Food Security Fund Fiscal years 2020–2024	Strengthen Burma’s resilience, particularly of poor and vulnerable groups, through work on livelihoods, agriculture, food security, and nutrition.	<ul style="list-style-type: none"> • Worked with 28 financial inclusion partners to reach 3.8 million clients, 91 percent of whom were women • Supported microfinance institutions and deposit services, lines of credit, leasing, term finance, debt consolidation loans, financing for seasonal crops, livestock, small businesses and customized loans for low-income women, migrants, people with disabilities, and the internally displaced • Supported vocational training activities in micro and small business creation, leading to decent work opportunities for vulnerable households in 30 villages • Trained 44 rescued women in jewelry making; hairdressing; basic computer skills; sales and marketing; financial literacy; and the Burmese, Chinese, and English languages
Colombia Inclusion for Peace Fiscal years 2017–2021	<ol style="list-style-type: none"> 1. Build the capacity of the government of Colombia to respond to the different needs of ethnic communities in the peace-building process. 2. Reduce poverty through the creation of income-generating activities. 3. Address social and structural causes of discrimination and exclusion. 	<ul style="list-style-type: none"> • Worked with government and civil society to implement the 2016 Peace Agreement with the Revolutionary Armed Forces of Colombia • Worked with private sector actors to develop job opportunities • Supported cultural and communications campaigns to increase respect for ethnic diversity • Encouraged 5,577 households to start inclusive business initiatives • Helped 4,379 indigenous and Afro-Colombian community members find formal employment • Supported 105 civil society organizations

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Country, project, and duration	Project objectives	Selected project activities^a
Ethiopia Pastoralist Areas Resilience Improvement and Market Expansion Fiscal years 2013–2019	Increase household incomes and enhance resilience to climate change through market linkages.	<ul style="list-style-type: none"> • Strengthened networks of private veterinary providers • Conducted training on business development and milk hygiene for milk collectors • Provided competitive small grant opportunity to expand private agricultural input businesses • Worked with financial service providers, especially microfinance institutions, to increase access to finance for pastoralists • Provided vocational training, including garment training, for women moving out of pastoralism • Funded entrepreneurship training
Georgia Hazelnut Improvement Project Fiscal years 2016–2023	<ol style="list-style-type: none"> 1. Support capacity building among Georgia’s hazelnut producers. 2. Leverage the financial and technical resources of USAID and private sector partners to increase the scale, efficiency, and effectiveness of USAID’s development impact while advancing private sector interests. 	<ul style="list-style-type: none"> • Established a system to incentivize quality-enhancing activities • Built capacity of husking, drying, and storage centers • Facilitated access to credit for producers • Improved availability of post-harvest market infrastructure • Established sustainable associations that assist growers and processors in exporting high-quality, dried, traceable hazelnuts that sell at a premium to international buyers
Ghana Sustainable Fisheries Management Project Fiscal years 2014–2021	<ol style="list-style-type: none"> 1. Improve food and nutritional security, economic growth, and poverty eradication through structural change focused on small fisheries management. 2. Improve the livelihoods of women processors and support adoption of sustainable fisheries management approaches to rebuild targeted fish stocks on which people most depend. 3. Rebuild targeted fish stocks through adoption of sustainable practices and exploitation levels, which includes: (1) improved legal enabling conditions; (2) improved information systems and decision-making; and (3) increased constituencies that provide the necessary political will and public support. 	<ul style="list-style-type: none"> • Partnered with the Ghana Fisheries Commission to develop programs that introduce fish processors to hygienic practices that boost business, improve livelihoods, and result in a safer finished product for consumers • Strengthened legal and institutional enabling conditions for co-management, use rights, and effort reduction strategies • Introduced Village Savings and Loan Associations scheme to help diversify and grow local fishing communities’ economies • Trained fish processors in Ghana’s west coast in a number of post-harvest value chain improvement interventions, including hygienic fish handling
Jordan Building Economic Sustainability through Tourism Fiscal years 2015–2021	Transform Jordan into a globally competitive tourism destination to accelerate broad-based, inclusive economic growth in the country.	<ul style="list-style-type: none"> • Partnered with the Ministry of Tourism and Antiquities and public and private sector partners to enhance tourism offerings, encourage wider visitation and greater economic benefits, boost destination marketing, and improve access to finance for tourism enterprises

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Country, project, and duration	Project objectives	Selected project activities^a
Kyrgyz Republic Enterprise Competitiveness Project Fiscal years 2018–2023	<ol style="list-style-type: none"> Increase the income levels of Kyrgyzstani households through the creation of job and livelihood opportunities among small and medium-sized enterprises. Increase the competitiveness of Kyrgyz small and medium-sized enterprises and create sustainable, inclusive economic growth through expanded end-market linkages; increased human, social, and financial capital; and an improved business-enabling environment for small and medium-sized enterprises. 	<ul style="list-style-type: none"> Increased sales and jobs among Kyrgyz small and medium-sized enterprises and accelerate inclusive market-led growth Partnered with successful enterprises to co-invest in small and medium-sized enterprise market access and work with financial institutions to improve access to capital Facilitated dialogues with government to promote pro-business policies
Senegal Water, Sanitation, and Hygiene (WASH) Finance Fiscal years 2016–2021	<ol style="list-style-type: none"> Increase the number of people with access to a safely managed drinking water or sanitation service. Increase the number of people receiving improved service quality from an existing improved drinking water source. Strengthen the capability of governments to track investments in WASH activities. Mobilize sustained and reliable sources of finance to invest in improved WASH service delivery at the local level. Strengthen the ability of USAID and development partners to understand, scale, and replicate successful approaches to WASH finance. 	<ul style="list-style-type: none"> Supported the Ministry of Hydraulic and Sanitation in the design of the proposed “Blue Fund” financing facility Provided support to the National Sanitation Agency to improve their financial performance Provided transaction facilitation for private service providers in order to increase investment in safe and reliable WASH services
Uganda Digital Financial Literacy and Capability Project Fiscal years 2020–2022	<p>Institutionalize digital financial literacy and capability in one or more organizations insofar as these efforts will enable the provision of training and capacity-building of women.</p>	<ul style="list-style-type: none"> Developed appropriate digital financial literacy and digital skills-building resources that are tested, adapted, or adopted by local organizations.

Source: GAO analysis of U.S. States Agency for International Development (USAID) documents. | GAO-21-269

^aAccording to USAID documents, these activities have been or will be completed during project implementation.

Appendix III: Comments from the U.S. Agency for International Development



David B. Gootnick
Director, International Affairs and Trade
U. S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20226

Re: USAID Comments on GAO Draft Report titled, *Micro, Small, and Medium-Sized Enterprise Development: USAID Needs to Develop a Targeting Process and Improve the Reliability of its Monitoring* (GAO-21-269)

Dear Mr. Gootnick:

I am pleased to provide the formal response of the U.S. Agency for International Development (USAID) to the draft report produced by the U.S. Government Accountability Office (GAO) titled, *Micro, Small, and Medium-Sized Enterprise Development: USAID Needs to Develop a Targeting Process and Improve the Reliability of its Monitoring* (GAO-21-269).

USAID, as a champion of women's rights and economic empowerment in development, fully supports the policy aims and goals of the Women's Entrepreneurship and Economic Empowerment Act (WEEE). Sustainable and inclusive economic growth is a critical component of both gender equality and alleviation of poverty. USAID is committed to compliance with the provisions of the WEEE Act and has accepted all the recommendations GAO has suggested in this report. Many of the recommendations and reforms suggested have been partially implemented or have been in development since the engagement began in 2019. USAID knows that effective process, clear definitions and consistent guidance is the key to ensuring effective monitoring and performance of U.S. taxpayer funded assistance programs. We acknowledge that our internal processes may be strengthened and enhanced through an external review, and we welcome Congressional review of our monitoring of micro, small and medium-sized enterprise activities.

The fundamental challenge with the Microenterprise Results and Accountability Act, and now the WEEE Act, has always been identifying exactly what funding is subject to the provisions. Through this engagement, USAID recognized the need to provide this clarity on funding, specifically as GAO states, USAID needs to establish a methodology to ensure targeting is done at the "program-planning phase." This shift in methodology in our Micro, Small & Medium Enterprises (MSME) programming procedures will require a large, but necessary, effort to ensure the Agency meets the targets set forth in the WEEE Act. We expect some changes in how our field missions plan, account for, and report on their MSME activities that will occur over several years. Further improvements on the data collection process and reliability of such data is already underway and we expect a more thorough accounting of programming in this important sector going forward. Implementing these recommendations is an important step to increase USAID's transparency and accountability to the U.S. Taxpayer, Congress, and the people that benefit from America's generosity.

I am transmitting this letter and the enclosed comments from USAID for inclusion in the GAO's final report. Thank you for the opportunity to respond to the draft report, and for the courtesies extended by your staff while conducting this engagement. We appreciate the opportunity to participate in the complete and thorough evaluation of our implementation of the micro, small and medium-sized enterprise provisions in the WEEE Act.

Sincerely,

Colleen R. Allen

Colleen R. Allen
Acting Assistant Administrator
Bureau for Management

Enclosure: a/s

COMMENTS BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT ON
THE DRAFT REPORT PRODUCED BY THE U.S. GOVERNMENT
ACCOUNTABILITY OFFICE (GAO) TITLED, *Micro, Small, and Medium-Sized
Enterprise Development: USAID Needs to Develop a Targeting Process and Improve the
Reliability of its Monitoring (GAO-21-269)*

The U.S. Agency for International Development (USAID) would like to thank the U.S. Government Accountability Office (GAO) for the opportunity to respond to this draft report. We appreciate the extensive work of the GAO engagement team, and the specific findings that will help USAID achieve greater effectiveness in our implementation of the micro, small and medium-sized enterprise provisions in the Women's Entrepreneurship and Economic Empowerment (WEEE) Act.

As a general comment, USAID notes that during most of the investigative period of this engagement GAO's primary office for correspondence, the Private Capital and Microenterprise (PCM) Office, was designated as the office that coordinated the implementation of Section Four of the WEEE Act across USAID operating units. On November 16, 2020, the Bureau for Development, Democracy and Innovation (DDI) began operations as a new entity within USAID. Consequently, PCM was transformed to the Private Sector Engagement (PSE) Hub within DDI with a new mandate^{1 2} and responsibility. USAID acknowledges and understands accountability to a single office is critical to successful implementation of these recommendations, however the PSE Hub may or may not be the responsible office to carry these recommendations forward and report on future Micro, Small & Medium Enterprises (MSME) activities to Congress. Therefore, USAID requests that the recommendation text be changed to "Private Sector Engagement Hub or other appropriate entity" for each of the six recommendations below.

Recommendation 1: The USAID Administrator should direct the Private Sector Engagement Hub to establish a method to identify the total funding subject to the WEEE Act's requirements in order to develop a process that provides reasonable assurance of compliance with the Act's requirements for targeting assistance to the very poor and women.

USAID Response: USAID accepts this recommendation. As explained below, USAID has an existing methodology for determining funding subject to the provisions of the Women's Entrepreneurship and Economic Empowerment Act (WEEE). USAID agrees that a new methodology at the "program-planning phase"³ would make the process more predictable and help to clarify how USAID complies with the requirements under the subject law.

Under the Microenterprise Results and Accountability Act (MRAA), USAID has consistently reported all microenterprise spending as attributed and reported by Agency Missions, Bureaus and Independent Offices for 15 years. Previous USAID practice did not pre-define what monies would be subject to the MRAA targeting requirements due to the administrative cost of implementing the controls necessary because of the uncertainty of spending levels for

¹USAID Reorganization Congressional Notification #6, dated August 3, 2018

² See USAID ADS 101.3.1.20.i, <https://www.usaid.gov/sites/default/files/documents/101.pdf>

³ *Micro, Small, and Medium-Sized Enterprise Development: USAID Needs to Develop a Targeting Process and Improve the Reliability of its Monitoring (GAO-21-269)*, page 14

microenterprise for any given year. Rather, data on spending and performance was collected after the relevant fiscal year had concluded.

What constitutes “total funding” is also subject to interpretation. USAID in previous practice has defined spending for MRAA reporting and the FY 2019 WEEE Act report to be the recorded obligations⁴ that **occurred** during the fiscal year of the report. Thus the spending reported and subject to the requirements in prior year reports contained monies appropriated in different fiscal years. With the WEEE Act enactment occurring after fiscal year 2019⁵ had already begun, USAID continued the previous practice under the MRAA for the FY 2019. USAID recognizes that the specific targeting requirements for programming that affects the very poor and women owned, managed and controlled enterprises would be difficult to achieve ex post facto as was done under the methodology instituted under the MRAA. The complicated nature of the targeting requirements in the WEEE Act that arise due for the very poor applied to micro, small and medium enterprise spending while women owned enterprises only applies to small and medium enterprises, leaving out microenterprise.

In response to Recommendation #1, beginning with the FY 2022 appropriation, USAID will institute controls to ensure compliance with the targeting requirements of the WEEE Act at the operational plan stage of program planning. USAID will define the spending subject to the WEEE Act as the same as the directed amount for MSME included in the annual appropriations, currently set at \$265 million in FY 2021. In addition spending levels will be separately coordinated and monitored across all missions through changes to the Department of State (State) and USAID’s annual Operational Plan (OP) exercise. Through combined efforts of USAID and State Bureau for Foreign Assistance (State/F), USAID missions will be able to report on planned spending levels by enterprise size. Additional analysis will be performed by the appropriate office(s) in USAID to track and program against the targeting requirements for the very poor and women-owned enterprise. Annex 1 provides a timeline of the implementation of this change.

Any planned assistance spending over and above the directed levels will not be subject to the targeting requirements. USAID will, as recommended, “ensure that it collects data from all relevant missions and bureaus with micro, small, and medium-sized enterprise assistance” and report the results to Congress through the annual report and published on the USAID website.

Recommendation 2: The USAID Administrator should direct the Private Sector Engagement Hub to provide information and guidance to bureaus and missions on their roles in meeting the agency’s targeting requirement regarding the very poor.

USAID Response: USAID accepts this recommendation. USAID’s programs that affect the very poor encompass a wide range of sector technical assistance efforts. These efforts are robust, cross-cutting and therefore challenging to capture across all USAID’s programs. To encourage additional reporting USAID will update any relevant Automated Directives System (ADS) Chapters, including a rewrite of Chapter 219⁶ *Microenterprise Development* to incorporate

⁴ GAO-05-734SP, “A Glossary of Terms Used in the Federal Budget Process”, page 70

⁵ The WEEE Act was signed into law on January 8, 2019. Fiscal Year 2019 begins on October 1, 2018 and ends on September 30, 2019.

⁶ <https://www.usaid.gov/ads/policy/200/219>

precise definitions of programming affecting the very poor and women-owned, managed and controlled enterprises by the end of FY 2021.

Recommendation 3: The USAID Administrator should direct the Private Sector Engagement Hub to establish a definition for enterprises owned, managed, and controlled by women in order to develop a process that provides reasonable assurance of compliance with the WEEE Act's requirements for targeting assistance to small and medium-sized enterprises owned, managed, and controlled by women.

USAID Response: USAID accepts this recommendation. This report touches upon some of the challenges in meeting this requirement, namely "ownership" in different country contexts is difficult to define universally. Whereas a woman may have functional control and manage a business, legal, regulatory or cultural constraints may prohibit official government recognition of ownership. As noted in the World Bank's *Women, Business and Law 2020*⁷, "All over the world, discriminatory laws continue to threaten women's economic security, career growth, and work-life balance. Such barriers to employment and entrepreneurship at every stage of life limit equality of opportunity, creating a business environment that does not adequately support working women." For the FY 2020 WEEE Act report, USAID is using a modified US Small Business Administration definition of a women-owned small business⁸ with the caveat to account for the difficulties some missions may encounter to determine true ownership. This definition will be reviewed again after the FY 2020 results are published and incorporated into the USAID ADS.

Recommendation 4: The USAID Administrator should direct the Private Sector Engagement Hub to disaggregate MSME data to distinguish among micro, small, and medium-sized enterprises in order to develop a process that provides reasonable assurance of compliance with the WEEE Act's requirements for targeting assistance to small and medium-sized enterprises owned, managed, and controlled by women.

USAID Response: USAID accepts this recommendation. As noted in recommendation #1, USAID and State/F will institute controls in place to distinguish, track and monitor planned spending in the OP. Annex 1 details the process for the OP integration.

Recommendation 5: The USAID Administrator should direct the Private Sector Engagement Hub to develop a methodology to ensure that it collects data from all relevant missions and bureaus with micro, small, and medium-sized enterprise assistance.

USAID Response: USAID accepts this recommendation. USAID has already identified eight standard foreign assistance indicators that USAID missions are reporting against in the annual Performance Plan and Report (PPR) that will improve the data availability and reliability for monitoring MSME. An additional indicator specifically for tracking the programming for the very poor is being developed with the goal of incorporating the indicator into the FY 2021 PPR. These changes are anticipated to greatly improve the reliability and availability of MSME related data to monitor and report. USAID has well established data quality standards as articulated in

⁷ <https://openknowledge.worldbank.org/bitstream/handle/10986/32639/9781464815324.pdf>

⁸ <https://www.sba.gov/offices/headquarters/oed/resources/3690>

ADS 201⁹ and other guiding documents. Through the use of standard indicators, Congress can be assured that the data received is timely, accurate, reliable and consistent reported among different programs and missions. Per PPR guidance, the standard foreign assistance indicators are all required as applicable. Missions are not only assigned indicators by Washington based indicator owners, they are required to review the standard foreign assistance indicator master list each year and select indicators that are applicable to their programming and report that data in the PPR. This combination of higher level controls and processes is meant to ensure full and complete reporting.

Recommendation 6: The USAID Administrator should direct the Private Sector Engagement Hub to take steps to ensure the reliability of the micro, small, and medium-sized enterprise assistance data reported to Congress.

USAID Response: USAID accepts this recommendation. As noted in recommendation #5, full incorporation of data collection procedures in the PPR and the use of standard foreign assistance indicators will provide reasonable assurance that the data is a reliable and accurate portrait of MSME assistance for that year. All data reported externally, which includes data reported in the PPR, is required to have a valid data quality assessment (DQA) and thus meet USAID's five data quality standards. The DQA policy referenced in ADS 201 was updated in 2020 to clarify DQA requirements. Data reported into the PPR reporting system, FACTS Info NexGen, must include valid DQA dates in order to pass system validation before final submission. Annex 2 provides a timeline of the implementation of this change.

⁹ <https://www.usaid.gov/ads/policy/200/201>

**Appendix III: Comments from the U.S. Agency
for International Development**

Annex I

Assistance Targeting (Section 252(c))- Under the MRAA			Denotes significant changes from prior year practice		
Description	Element	MRR Reports (FY 2004 to FY 2018)			
TARGETED ASSISTANCE—50 percent of all microenterprise resources shall be targeted to clients who are very poor.	Funds subject to requirement	Activities that used poverty assessment methodologies only.			
	Methodology of compliance	For only activities using poverty assessment methodologies, calculate based on the percentage that reached the very poor			

Assistance Targeting (Section 252(c))- WEEE Act					
Description	Element	FY 2019 WEEE Act Report	FY 2020 WEEE Act Report	FY 2021 WEEE Act Report	FY 2022 WEEE Act Report (Full compliance)
<i>(c) TARGETED ASSISTANCE—In carrying out sustainable poverty-focused programs — (1) 50 percent of all micro, small, and medium-sized enterprise resources shall be targeted to activities that reach the very poor, and</i>	Funds subject to requirement	All MSME reported activities during the fiscal year regardless of original fiscal year of appropriation	All MSME reported activities during the fiscal year using FY 2020 funds	Funds that meet the congressional directive for MSME in FY 2021 (\$265 million total)	Funds that meet the congressional directive for MSME in FY 2022 (historically \$265 million).
	Methodology of compliance	Based on self reported results by activity that demonstrated targeting for very poor populations using the graduation approach or other method.	Based on self reported results by activity that demonstrated targeting for very poor populations using the graduation approach or other method.	Monitoring of spend planning through the operational plan process.	Controls in place at the program planning phase (Operational Plan) to ensure that at least \$132.5 million (half of the directive for MSME) for the very poor is programmed
<i>(2) 50 percent of all small and medium-sized enterprise resources shall be targeted to activities that reach enterprises owned, managed, and controlled by women.</i>	Funds subject to requirement	All MSME reported activities during the fiscal year regardless of original fiscal year of appropriation	All MSME reported activities during the fiscal year using FY 2020 funds	Funds designated by USAID missions for only small and medium enterprise development	Half of the congressionally mandated directive for MSME. Historically, it is \$265 million, therefore \$132.5 million will be designated for SMEs. Of that half or \$66.75 million will be for programs that target women owned, managed and controlled enterprise.
	Methodology of compliance	Based on self reported results by activity that demonstrated targeting for women owned enterprise	Based on self reported results by activity that targeted women beneficiaries directly or indirectly	Monitoring of spend planning through the operational plan process.	Controls in place at the program planning phase (Operational Plan) to ensure that at least \$66.75 million for the women owned, managed and controlled enterprises.

**Appendix III: Comments from the U.S. Agency
for International Development**

Annex II

Monitoring System and Reporting (Section 253 & 258): Under the MRAA			Denotes significant changes from prior year practice			
Description	Element	MRR Reports (FY 2004 to FY 2018)				
<p>Monitoring System (Section 253) The monitoring system shall include performance goals, including goals on a gender disaggregated basis, for the assistance and expresses such goals in an objective and quantifiable form, to the extent feasible.</p>	Results Data Collection	Results are collected for the current fiscal year through a customized survey to points of contact at implementing partners. The results are from any type of funding and fiscal year of appropriation.				
	Results Data Quality	Data quality validation was assumed by the implementing partner. No further data quality checks were required by policy.				
	Goal setting	Goals for the year was set in Washington, through a trends analysis of the prior year.				
<p>Reporting (Section 258) (a) CONTENTS— To the extent practicable, the report submitted under subsection (a) should contain the following: (1) Information about assistance provided under section 252, including— (A) the amount of each grant or other form of assistance; (B) the name and type of each intermediary and implementing partner organization receiving assistance; (C) the name of each country receiving assistance; and (D) the methodology used to ensure compliance with the targeted assistance requirements under subsection (c) of such section. (2) The percentage of assistance provided under section 252, disaggregated by income level, including for the very poor, and by gender. (3) The estimated number of individuals that received assistance under section 252, disaggregated by income level (or an appropriate proxy for income level, including for the very poor), by gender, and by type of assistance. (4) The results of the monitoring system required under section 253.</p>	Spending Data Collection	Spending is from self-reported amounts through USAID staff overseeing the implementing partner through custom survey. Spending was based on obligations for the current fiscal year which could include money from many different fiscal years in the same contract.				
	Spending Data Quality	Spending is based on estimates from the USAID staff, but difficult to verify the exact amounts. Spending was validated to the extent possible through the Phoenix Accounting system.				(Note: The report covers both spending and performance via the monitoring system, as well as other elements. The changes to the monitoring system are noted above and are part of the report.)
Monitoring System and Reporting (Section 253 & 258)- WEEE Act						
Description	Element	FY 2019 WEEE Act Report	FY 2020 WEEE Act Report	FY 2021 WEEE Act Report	FY 2022 WEEE Act Report (Full compliance)	
<p>Monitoring System (Section 253) The monitoring system shall include performance goals, including goals on a gender disaggregated basis, such as improvements in employment, access to financial services, education, enterprise development, earnings and control over income, and property and land rights, for the assistance and expresses such goals in an objective and quantifiable form, to the extent feasible.</p>	Results Data Collection	Results are collected for the current fiscal year through a customized survey to USAID staff. The results are from any type of funding and fiscal year of appropriation. Two indicators were derived from the annual Performance Plan and Report (PPR).	Results are collected for the current fiscal year through a customized survey to USAID staff. The results are from ESF, DA and AEECA funded projects and without regard to the original fiscal year of appropriation. Nine indicators were derived from the annual Performance Plan and Report (PPR) with an additional data point reported through the survey.	Results are entirely derived from the PPR without needing a custom survey. The PPR reports results based on what occurred in the current year without regard to the original fiscal year of appropriation.	Results are entirely derived from the PPR without needing a custom survey. The PPR reports results based on what occurred in the current year without regard to the original fiscal year of appropriation.	
	Results Data Quality	Data quality validation was assumed to be conducted by USAID staff at the mission. ADS 201 requires regular data quality assessments to be conducted for reporting information.	Data quality validation strengthened by incorporation of nearly all data collection through the PPR.	Data quality strictly enforced based on USAID policy in ADS 201 and State/F guidance.	Data quality strictly enforced based on USAID policy in ADS 201 and State/F guidance.	
	Goal setting	Goals were not set for the FY 2019 report due to the law passing in the middle of the fiscal year.	Goals will be set through an analysis of the PPR and a trend analysis.	Goals will be set through an analysis of the PPR and a trend analysis.	Goals will be set through an analysis of the PPR and a trend analysis.	Goals will be set through an analysis of the PPR and a trend analysis.
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	Spending Data Quality	Spending is based on estimates from the USAID staff, but difficult to verify the exact amounts. Spending was validated to the extent possible through the Phoenix Accounting system.	Spending is verified through USAID staff managing the contract and checked against the Operational Plan.	Spending through the OP is overseen by State/F and USAID BRM offices to ensure its accuracy.	Spending through the OP is overseen by State/F and USAID BRM offices to ensure its accuracy.	

**Text of Appendix III: Comments from the U.S. Agency
for International Development**

Page 1

David B. Gootnick

Director, International Affairs and Trade

U.S. Government Accountability Office

441 G Street, N.W.

Washington, D.C. 20226

Re: USAID Comments on GAO Draft Report titled, Micro, Small, and Medium-Sized Enterprise Development: USAID Needs to Develop a Targeting Process and Improve the Reliability of its Monitoring (GAO-21-269)

Dear Mr. Gootnick:

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USAID, as a champion of women's rights and economic empowerment in development, fully supports the policy aims and goals of the Women's Entrepreneurship and Economic Empowerment Act (WEEE). Sustainable and inclusive economic growth is a critical component of both gender equality and alleviation of poverty. USAID is committed to compliance with the provisions of the WEEE Act and has accepted all the recommendations GAO has suggested in this report. Many of the recommendations and reforms suggested have been partially implemented or have been in development since the engagement began in 2019. USAID knows that effective process, clear definitions and consistent guidance is the key to ensuring effective monitoring and performance of U.S. taxpayer funded assistance programs. We acknowledge that our internal processes may be strengthened and enhanced through an external review, and we welcome Congressional review of our monitoring of micro, small and medium-sized enterprise activities.

The fundamental challenge with the Microenterprise Results and Accountability Act, and now the WEEE Act, has always been identifying exactly what funding is subject to the provisions. Through this engagement, USAID recognized the need to provide this clarity on funding, specifically as GAO states, USAID needs to establish a methodology to ensure targeting is done at the "program-planning phase." This shift in methodology in our Micro, Small & Medium Enterprises (MSME) programming procedures will require a large, but necessary, effort to ensure the Agency meets the targets set forth in the WEEE Act. We expect some changes in how our field

missions plan, account for, and report on their MSME activities that will occur over several years. Further improvements on the data collection process and reliability of such data is already underway and we expect a more thorough accounting of programming in this important sector going forward. Implementing these recommendations is an important step to increase USAID's transparency and accountability to the U.S. Taxpayer, Congress, and the people that benefit from America's generosity.

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Sincerely,

Colleen R. Allen

Acting Assistant Administrator

Bureau for Management

Enclosure: a/s

Page 3

COMMENTS BY THE U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT ON THE DRAFT REPORT PRODUCED BY THE U.S. GOVERNMENT ACCOUNTABILITY OFFICE (GAO) TITLED, Micro, Small, and Medium-Sized Enterprise Development: USAID Needs to Develop a Targeting Process and Improve the Reliability of its Monitoring (GAO-21-269)

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² See USAID ADS 101.3.1.20.i, <https://www.usaid.gov/sites/default/files/documents/101.pdf>

³ Micro, Small, and Medium-Sized Enterprise Development: USAID Needs to Develop a Targeting Process and Improve the Reliability of its Monitoring (GAO-21-269), page 14

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microenterprise for any given year. Rather, data on spending and performance was collected after the relevant fiscal year had concluded.

What constitutes “total funding” is also subject to interpretation. USAID in previous practice has defined spending for MRAA reporting and the FY 2019 WEEE Act report to be the recorded obligations⁴ that occurred during the fiscal year of the report. Thus the spending reported and subject to the requirements in prior year reports contained monies appropriated in different fiscal years. With the WEEE Act enactment occurring after fiscal year 2019⁵ had already begun, USAID continued the previous practice under the MRAA for the FY 2019. USAID recognizes that the specific targeting requirements for programming that affects the very poor and women owned, managed and controlled enterprises would be difficult to achieve ex post facto as was done under the methodology instituted under the MRAA. The complicated nature of the targeting requirements in the WEEE Act that arise due for the very poor applied to micro, small and medium enterprise spending while women owned enterprises only applies to small and medium enterprises, leaving out microenterprise.

In response to Recommendation #1, beginning with the FY 2022 appropriation, USAID will institute controls to ensure compliance with the targeting requirements of the WEEE Act at the operational plan stage of program planning. USAID will define the spending subject to the WEEE Act as the same as the directed amount for MSME included in the annual appropriations, currently set at \$265 million in FY 2021. In addition spending levels will be separately coordinated and monitored across all missions through changes to the Department of State (State) and USAID’s annual Operational Plan (OP) exercise. Through combined efforts of USAID and State Bureau for Foreign Assistance (State/F), USAID missions will be able to report on planned spending levels by enterprise size. Additional analysis will be performed by the appropriate office(s) in USAID to track and program against the targeting requirements for the very poor and women-owned enterprise. Annex 1 provides a timeline of the implementation of this change.

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sized enterprise assistance” and report the results to Congress through the annual report and published on the USAID website.

Recommendation 2: The USAID Administrator should direct the Private Sector Engagement Hub to provide information and guidance to bureaus and missions on their roles in meeting the agency’s targeting requirement regarding the very poor.

USAID Response: USAID accepts this recommendation. USAID’s programs that affect the very poor encompass a wide range of sector technical assistance efforts. These efforts are robust, cross-cutting and therefore challenging to capture across all USAID’s programs. To encourage additional reporting USAID will update any relevant Automated Directives System (ADS) Chapters, including a rewrite of Chapter 219⁶ Microenterprise Development to incorporate precise definitions of programming affecting the very poor and women-owned, managed and controlled enterprises by the end of FY 2021.

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Recommendation 3: The USAID Administrator should direct the Private Sector Engagement Hub to establish a definition for enterprises owned, managed, and controlled by women in order to develop a process that provides reasonable assurance of compliance with the WEEE Act’s requirements for targeting assistance to small and medium-sized enterprises owned, managed, and controlled by women.

USAID Response: USAID accepts this recommendation. This report touches upon some of the challenges in meeting this requirement, namely “ownership” in different country contexts is difficult to define universally. Whereas a woman may have functional control and manage a business, legal, regulatory or cultural constraints may prohibit official government recognition of ownership. As noted in the World Bank’s Women, Business and Law 2020⁷ , “All over the world, discriminatory laws continue to threaten women’s economic security, career growth, and work–life balance. Such barriers to employment and entrepreneurship at every stage of life limit equality of opportunity, creating a business environment that does not adequately support working women.” For the FY 2020 WEEE Act report, USAID is using a

⁶ <https://www.usaid.gov/ads/policy/200/219>

⁷ <https://openknowledge.worldbank.org/bitstream/handle/10986/32639/9781464815324.pdf>

modified US Small Business Administration definition of a women-owned small business⁸ with the caveat to account for the difficulties some missions may encounter to determine true ownership. This definition will be reviewed again after the FY 2020 results are published and incorporated into the USAID ADS.

Recommendation 4: The USAID Administrator should direct the Private Sector Engagement Hub to disaggregate MSME data to distinguish among micro, small, and medium-sized enterprises in order to develop a process that provides reasonable assurance of compliance with the WEEE Act's requirements for targeting assistance to small and medium-sized enterprises owned, managed, and controlled by women.

USAID Response: USAID accepts this recommendation. As noted in recommendation #1, USAID and State/F will institute controls in place to distinguish, track and monitor planned spending in the OP. Annex 1 details the process for the OP integration.

Recommendation 5: The USAID Administrator should direct the Private Sector Engagement Hub to develop a methodology to ensure that it collects data from all relevant missions and bureaus with micro, small, and medium-sized enterprise assistance.

USAID Response: USAID accepts this recommendation. USAID has already identified eight standard foreign assistance indicators that USAID missions are reporting against in the annual Performance Plan and Report (PPR) that will improve the data availability and reliability for monitoring MSME. An additional indicator specifically for tracking the programming for the very poor is being developed with the goal of incorporating the indicator into the FY 2021 PPR. These changes are anticipated to greatly improve the reliability and availability of MSME related data to monitor and report. USAID has well established data quality standards as articulated in

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ADS 201⁹ and other guiding documents. Through the use of standard indicators, Congress can be assured that the data received is timely, accurate, reliable and consistent reported among different programs and missions. Per PPR guidance, the standard foreign assistance indicators are all required as applicable. Missions are not only assigned indicators by Washington based indicator owners, they are

⁸ <https://www.sba.gov/offices/headquarters/oed/resources/3690>

⁹ <https://www.usaid.gov/ads/policy/200/201>

required to review the standard foreign assistance indicator master list each year and select indicators that are applicable to their programming and report that data in the PPR. This combination of higher level controls and processes is meant to ensure full and complete reporting.

Recommendation 6: The USAID Administrator should direct the Private Sector Engagement Hub to take steps to ensure the reliability of the micro, small, and medium-sized enterprise assistance data reported to Congress.

USAID Response: USAID accepts this recommendation. As noted in recommendation #5, full incorporation of data collection procedures in the PPR and the use of standard foreign assistance indicators will provide reasonable assurance that the data is a reliable and accurate portrait of MSME assistance for that year. All data reported externally, which includes data reported in the PPR, is required to have a valid data quality assessment (DQA) and thus meet USAID’s five data quality standards. The DQA policy referenced in ADS 201 was updated in 2020 to clarify DQA requirements. Data reported into the PPR reporting system, FACTS Info NexGen, must include valid DQA dates in order to pass system validation before final submission. Annex 2 provides a timeline of the implementation of this change.

Annex 1

Assistance Targeting (Section 252(c))- Under the MRAA

Description	Element	MRR Reports (FY 2004 to FY 2018)
<p><i>TARGETED ASSISTANCE.—50 percent of all microenterprise resources shall be targeted to clients who are very poor.</i></p>	<p>Funds subject to requirement</p>	<p>Activities that used poverty assessment methodologies only.</p>
	<p>Methodology of compliance</p>	<p>For only activities using poverty assessment methodologies, calculate based on the percentage that reached the very poor</p>

**Appendix III: Comments from the U.S. Agency
for International Development**

Assistance Targeting (Section 252(c))- WEEE Act

Description	Element	FY 2019 WEEE Act Report	FY 2020 WEEE Act Report	FY 2021 WEEE Act Report	FY 2022 WEEE Act Report (Full compliance)
<p><i>(c) TARGETED ASSISTANCE.—In carrying out sustainable poverty-focused programs —</i> <i>(1) 50 percent of all micro, small, and medium-sized enterprise resources shall be targeted to activities that reach the very poor; and</i></p>	Funds subject to requirement	All MSME reported activities during the fiscal year regardless of original fiscal year of appropriation	All MSME reported activities during the fiscal year using FY 2020 funds	Funds that meet the congressional directive for MSME in FY 2021 (\$265 million total)	Funds that meet the congressional directive for MSME in FY 2022 (historically \$265 million).
	Methodology of compliance	Based on self reported results by activity that demonstrated targeting for very poor populations using the graduation approach or other method.	Based on self reported results by activity that demonstrated targeting for very poor populations using the graduation approach or other method.	Monitoring of spend planning through the operational plan process.	Controls in place at the program planning phase (Operational Plan) to ensure that at least \$132.5 million (half of the directive for MSME) for the very poor is programmed
<p><i>(2) 50 percent of all small and medium-sized enterprise resources shall be targeted to activities that reach enterprises owned, managed, and controlled by women.</i></p>	Funds subject to requirement	All MSME reported activities during the fiscal year regardless of original fiscal year of appropriation	All MSME reported activities during the fiscal year using FY 2020 funds	Funds designated by USAID missions for only small and medium enterprise development	Half of the congressionally mandated directive for MSME. Historically, it is \$265 million, therefore \$132.5 million will be designated for SMEs. Of that half or \$66.75 million will be for programs that target women owned, managed and controlled enterprise.
	Methodology of compliance	Based on self reported results by activity that demonstrated targeting for women owned enterprise	Based on self reported results by activity that targeted women beneficiaries directly or indirectly	Monitoring of spend planning through the operational plan process.	Controls in place at the program planning phase (Operational Plan) to ensure that at least \$66.75 million for the women owned, managed and controlled enterprises.

Annex 2

Monitoring System and Reporting (Section 253 & 258)- Under the MRAA

Description	Element	MRR Reports (FY 2004 to FY 2018)
<p><i>Monitoring System (Section 253)</i> <i>The monitoring system shall include performance goals, including goals on a gender disaggregated basis, for the assistance and expresses such goals in an objective and quantifiable form, to the extent feasible.</i></p>	Results Data Collection	Results are collected for the current fiscal year through a customized survey to points of contact at implementing partners. The results are from any type of funding and fiscal year of appropriation.
	Results Data Quality	Data quality validation was assumed by the implementing partner. No further data quality checks were required by policy.
	Goal setting	Goals for the year was set in Washington, through a trends analysis of the prior year
<p><i>Reporting (Section 258)</i> <i>(b) CONTENTS.—To the extent practicable, the report submitted under subsection (a) should contain the following:</i> <i>(1) Information about assistance provided under section 252, including—</i> <i>(A) the amount of each grant or other form of assistance;</i> <i>(B) the name and type of each intermediary and implementing partner organization receiving assistance;</i> <i>(C) the name of each country receiving assistance; and</i> <i>(D) the methodology used to ensure compliance with the targeted assistance requirements under subsection (c) of such section.</i> <i>(2) The percentage of assistance provided under section 252, disaggregated by income level, including for the very poor, and by gender.</i> <i>(3) The estimated number of individuals that received assistance under section 252, disaggregated by income level (or an appropriate proxy for income level, including for the very poor), by gender, and by type of assistance.</i> <i>(4) The results of the monitoring system required under section 253.</i></p>	Spending Data Collection	Spending is from self-reported amounts through USAID staff overseeing the implementing partner through custom survey. Spending was based on obligations for the current fiscal year which could include money from many different fiscal years in the same contract. ¹⁰
	Spending Data Quality	Spending is based on estimates from the USAID staff, but difficult to verify the exact amounts. Spending was validated to the extent possible through the Phoenix Accounting system. ¹¹

¹⁰ [Note: The report covers both spending and performance via the monitoring system, as well as other elements. The changes to the monitoring system are noted above and are part of the report]

¹¹ [Note: The report covers both spending and performance via the monitoring system, as well as other elements. The changes to the monitoring system are noted above and are part of the report]

**Appendix III: Comments from the U.S. Agency
for International Development**

Monitoring System and Reporting (Section 253 & 258)- WEEE Act

Description	Element	FY 2019 WEEE Act Report	FY 2020 WEEE Act Report	FY 2021 WEEE Act Report	FY 2022 WEEE Act Report (Full compliance)
<p><i>Monitoring System (Section 253)</i> <i>The monitoring system shall include performance goals, including goals on a gender disaggregated basis, such as improvements in employment, access to financial services, education, enterprise development, earnings and control over income, and property and land rights, for the assistance and expresses such goals in an objective and quantifiable form, to the extent feasible.</i></p>	<p>Results Data Collection</p>	<p>Results are collected for the current fiscal year through a customized survey to USAID staff. The results are from any type of funding and fiscal year of appropriation. Two indicators were derived from the annual Performance Plan and Report (PPR).</p>	<p>Results are collected for the current fiscal year through a customized survey to USAID staff. The results are from ESF, DA and AEECA funded projects and without regard to the original fiscal year of appropriation. Nine indicators were derived from the annual Performance Plan and Report (PPR) with an additional data point reported through the survey.</p>	<p>Results are entirely derived from the PPR without needing a custom survey. The PPR reports results based on what occurred in the current year without regard to the original fiscal year of appropriation.</p>	<p>Results are entirely derived from the PPR without needing a custom survey. The PPR reports results based on what occurred in the current year without regard to the original fiscal year of appropriation.</p>
	<p>Results Data Quality</p>	<p>Data quality validation was assumed to be conducted by USAID staff at the mission. ADS 201 requires regular data quality assessments to be conducted for reporting information.</p>	<p>Data quality validation strengthened by incorporation of nearly all data collection through the PPR.</p>	<p>Data quality strictly enforced based on USAID policy in ADS 201 and State/F guidance.</p>	<p>Data quality strictly enforced based on USAID policy in ADS 201 and State/F guidance.</p>
	<p>Goal setting</p>	<p>Goals were not set for the FY 2019 report due to the law passing in the middle of the fiscal year.</p>	<p>Goals will be set through an analysis of the PPR and a trend analysis.</p>	<p>Goals will be set through an analysis of the PPR and a trend analysis</p>	<p>Goals will be set through an analysis of the PPR and a trend analysis</p>

**Appendix III: Comments from the U.S. Agency
for International Development**

Description	Element	FY 2019 WEEE Act Report	FY 2020 WEEE Act Report	FY 2021 WEEE Act Report	FY 2022 WEEE Act Report (Full compliance)
<p><i>Reporting (Section 258)</i> <i>(b) CONTENTS.—To the extent practicable, the report submitted under subsection (a) should contain the following:</i></p> <p><i>(1) Information about assistance provided under section 252, including—</i></p> <p style="padding-left: 20px;"><i>(A) the amount of each grant or other form of assistance;</i></p> <p style="padding-left: 20px;"><i>(B) the name and type of each intermediary and implementing partner organization receiving assistance;</i></p> <p style="padding-left: 20px;"><i>(C) the name of each country receiving assistance; and</i></p> <p style="padding-left: 20px;"><i>(D) the methodology used to ensure compliance with the targeted assistance requirements under subsection (c) of such section.</i></p> <p><i>(2) The percentage of assistance provided under section 252, disaggregated by income level, including for the very poor, and by gender.</i></p> <p><i>(3) The estimated number of individuals that received assistance under section 252, disaggregated by income level (or an appropriate proxy for income level, including for the very poor), by gender, and by type of assistance.</i></p> <p><i>(4) The results of the monitoring system required under section 253.</i></p>	<p>Spending Data Collection</p>	<p>Results are collected for the current fiscal year through a customized survey to USAID staff. The results are from ESF, DA and AEECA funded projects and without regard to the original fiscal year of appropriation.</p>	<p>Spending is collected through a custom survey for only ESF, DA and AEECA funded activities using FY 2020 funding.</p>	<p>Spending is collected through the Operational Plan (OP) review and analysis without the need for additional surveying of mission staff for FY 2021.</p>	<p>Spending is collected through the Operational Plan (OP) review and analysis without the need for additional surveying of mission staff for FY 2021.</p>
	<p>Spending Data Quality</p>	<p>Spending is based on estimates from the USAID staff, but difficult to verify the exact amounts. Spending was validated to the extent possible through the Phoenix Accounting system.</p>	<p>Spending is verified through USAID staff managing the contract and checked against the Operational Plan.</p>	<p>Spending through the OP is overseen by State/F and USAID BRM offices to ensure its accuracy.</p>	<p>Spending through the OP is overseen by State/F and USAID BRM offices to ensure its accuracy.</p>

**Appendix III: Comments from the U.S. Agency
for International Development**

Appendix IV: GAO Contact and Staff Acknowledgments

GAO Contact

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Staff Acknowledgments

In addition to the contact named above, Celia Thomas (Assistant Director), Rachel Dunsmoor (Analyst in Charge), James McCully, Martin de Alteriis, Mark Dowling, Jill Lacey, Bill Johnson, Christopher Keblitis, and Daniel Dye made key contributions to this report.

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