



**July 2007**

## **ACVFA RECOMMENDATIONS**

### **ECONOMIC GROWTH**

As defined by the F process, economic growth has three components: rapid, broad-based and sustainable. Under the matrix, the goal is to put countries on a trajectory when they no longer need foreign assistance. The matrix assumes a strategy for economic and political progress to achieve transformational development. The Working Group is concerned that there is no overall strategy for economic growth, nor an generally-agreed process to apply lessons learned and shared knowledge management for economic growth programs. The matrix also emphasizes capacity building in various program areas. Programs vary by country and region, but there should be consensus on over arching issues, such as sound monetary policy.

The Working Group has some concerns about economic growth goals. In many unstable countries (e.g. southern Sudan, DRC) “rapid” growth is not possible, and longer term programs, such as building private and public institutions are required. We see broad-based as meaning poverty reduction with a special attention to women and women entrepreneurs who are the vast majority of the poor. However, we think that there are adverse trends that focus more on export opportunities, such as fruit and vegetables, rather than staple crops (e.g. rice, maize, roots and tubers), livestock, agro-tourism and rural SMEs for domestic markets that, in turn, reach the most rural poor. Urban food markets in Africa are expected to grow by \$100 to \$150 billion by 2030 compared to horticulture exports which are estimated to grow at about \$7 billion.

In our opinion, sustainability is a critical element. The focus in sustainability should be on private sector drivers of growth, and sustainable private enterprises, all the time recognizing that many SMEs will fail under a functioning capitalist system. We have found that subsidized SME centers have not been sustainable; rather programs need to emphasize “embedded service” models in which buyers and sellers provide consulting services on a commercial basis. Sustainability should also take into consideration undue exploitation of natural resources, promotion of conservation, and have safeguards for labor and environmental standards.

While we strongly agree on the importance of macro-economic reforms and policies; we think that many of these program elements should be left to the IFC and multilateral agencies, and in some cases, Treasury. We see too many government reforms stymied by changes in ministries and governments, rather than addressing basic constraints such as those pointed out by DeSoto on land ownership and moving informal businesses into the formal sector.

We think that USAID has a major role to play in micro-economic reforms such as privatization support, legal and regulatory reform, corporate governance, and institutional reforms to build a better investment climate. We think USAID should focus more on firm level assistance, especially programs that directly help farmer organizations and rural and peri-urban SMEs.

Micro credit programs have been quite successful at poverty reduction, reaching millions in the informal economy. We believe it is now time to put more resources and attention behind growth-oriented SMEs that will promote broader based job creation and growth with a segment of businesses that will increasingly be part of the formal and tax paying economy.

Further, we encourage more programs that address the “poverty penalty” where those at the bottom of the economic pyramid pay more for basic needs and have difficulty in obtaining credit and growing their businesses. More affordable services can help the poor obtain safe drinking water, health care, transport, electricity and telecommunications. The InterAmerican Development Bank estimates a huge untapped market of \$509 billion in purchasing power from the “bottom of the pyramid” of 360 million people with incomes under \$300 a month. Thus, we encourage innovative solutions in reaching low income people so that they develop their economic potential and accumulate assets, including use of new technologies like cell phones and debit cards, and public-private partnerships for basic services. Rather than halving poverty, we endorse the poverty gap message of “opportunities for the majority” where students can attend school, workers have jobs and low income people can have hope and aspirations for themselves and their families.

We believe that competitiveness, trade, SME, informal sector and other micro-economic projects should demonstrate a direct linkage or require contractors/grantees to demonstrate that the project activities directly (and not indirectly) benefit the less well off in urban and rural areas. Currently, many “competitiveness” programs focus on the cluster approach in which some evaluations have been unable to demonstrate lasting impacts. The lens of poverty reduction should be used in the selection of clusters or subsectors for contractors/grantees to advance. For example, less than 2% of African small holder farmers participate in international trade. While there are some opportunities to link these farmers with larger firms for exports, we see the development of local and regional markets as more promising in generating economic growth. Basically, economic growth should focus on the entrepreneur, firm level assistance, and sector specific trade associations as more likely to have results and to move large numbers of less well people into a growing middle class. In this regard, strong financial institutions are necessary so that SMEs have access to loans and individuals loans for home ownership.

We see too much top down “economic reform” efforts through technical assistance to government, rather than bottom up business advocacy. Too frequently, governments may institute reforms, but their capacity to implement them is very weak, and they result in reforms in name only. Business groups are better able to know what they need from government in terms of an enabling environment and corruption free supportive institutions.

We believe that USAID relies too heavily on a few contractors for its economic growth programs which are usually led by former USAID staff without direct business experience. We would like to see modifications in proposals that placed a greater emphasis on practical business experience than USAID knowledge or academic degrees. The most effective programs are led by Chief of Parties who have sound business experience in commercial operations and an ability to identify and solve key business programs of client firms. We also strongly support the use of U.S. business volunteers in economic growth projects since they often bring lifelong experience to SME challenges.

We think that the current USAID approach to economic growth tries to fit the same activities into all countries, no matter their level of development within the matrix. Too many current programs focus on exports and larger firms with an ability to get investment. Few of these programs filter down to lower income people. These types of economic programs are not appropriate for most of the “rebuilding states” and many of the “developing states” in the matrix

that have had little ability to broadly enter into international markets. Export-oriented programs are more appropriate for sustaining partnerships with linkages to U.S. investment and trade.

For rebuilding states, we believe that USAID and development experts do not have a handle on how elites and warlords manage the economy in ways that maintain their monopolies on power. These groups benefit from conflict, and we do not have successful models for how to “democratize” economic development programs. We suggest more work on linkages between economic growth and democracy programs in such countries. We also believe that economic and democratic programs need to be integrated since most reforms take place within a few months after the election of new governments (e.g. Georgia).

Given USAID management units and reliance on large contracts, smaller PVOs and cooperatives with specialized business knowledge are becoming less competitive. We believe that USAID is losing a major resource when so many of the projects are operated through large contracts to a few for profit companies. Current IQC and large contracting mechanisms discriminate against smaller PVOs, NGOs and specialized cooperatives. The choice is basically to fight over declining opportunities or change the basic mission of the organization to be able to compete for more generalized and larger contracts. In addition, more resources need to be provided for economic growth programs which are too concentrated in a few countries; are relatively less costly in terms of critical technical assistance at the right time; and can have major transformational impacts that make possible more sustainable government funding in social, education, health and other critical fields.

We strongly support an increased USAID Operating Expense budget that can reduce management workloads, assure adequate field missions, and provide senior managers with sufficient staff to be able to oversee multiple, smaller contracts and grants. In particular, we are concerned about the loss of experienced USAID economists, dwindling number of USAID private enterprise officers and the need for training all USAID managers in basic economic development literacy so that programs are better integrated across all sectors. We believe that more USAID private sector officers are needed in the field to take advantage of local opportunities.

The World Bank’s 2007 World Development Report, entitled “Development and the Next Generation,” discusses how the youth bulge entering the work place in the next 10 years “must be better trained, supported and financed.” Unemployment and underemployment are already dangerously high for the under 30 cohort in most developing countries. Without investment and broad-based economic growth, there is no way to bring these rates down in countries where the numbers of people entering the job market is growing. Job creation has a “bonus” through increasing the tax roles and addressing social and political instability in most developing countries. We think that USAID should consider the allocation more basic education funding to out-of-school youth so they are work ready and employable. Such training should be done in close coordination with employers to make sure that youth training meets their employment gaps. More attention needs to be given to human capacity development in the business sector in developing a cadre of owners/managers and employees. Higher education programs are also important in building a country’s human and institutional capacities, and have been neglected in recent years.

The ACVFA’s Economic Growth Working Group wishes to thank all those who submitted feedback and thoughts. While all comments were appreciated and considered, they may not have been deemed appropriate for incorporation into the final recommendations of the working group.