



# PROMOTING BROAD-BASED ECONOMIC GROWTH

Economic growth is the cornerstone of development. Without sound economic policies, institutions and investments, it is simply impossible for any nation to consistently improve the lives of its citizens. Lasting economic growth increases income, boosts employment, enhances food security and reduces poverty. Economic growth is also integral to achieving USAID's four other development goals.

Broad-based sustainable economic growth results mainly from policies and institutions in developing countries that support private markets and sound public investments in human resources and infrastructure. In recent years, developing countries, and countries emerging from years of state-dominated economic and political systems, have made significant strides toward adopting open and market-driven economies. USAID continues to play a pivotal role in encouraging these reforms.

USAID has three principal objectives fundamental to achieving its goal of promoting broad-based economic growth: strengthening markets; expanding economic access and opportunity for the poor; and expanding and improving basic education. In Central and Eastern Europe and the New Independent States of the former Soviet Union, the agency specifically assists countries in making the transition from command economies to private sector-oriented, market-driven economies.

Analysis of annual growth in the gross domestic product (GDP), a core indicator for the agency's economic growth goal, reveals that economic growth in developing countries over the past decade has been mixed, but more rapid, more broad-based and more sustained than generally perceived. Of the estimated 2.2 billion people who lived in developing countries that received USAID assistance during this decade,

nearly two-thirds were in countries that achieved rapid annual per capita economic growth (above 2.4 percent). Another 20 percent lived in countries with growth equal to or better than the U.S. rate (1.2 percent). In almost all countries that attained positive economic growth (and for which data are available), the incidence of poverty fell. Income distribution improved in two-thirds of these cases. Over the longer term, we have also seen major declines in the incidence of poverty in countries such as Indonesia, Thailand, Colombia, Costa Rica and Morocco, among others.

USAID economic growth programs have helped a growing number of nations such as Costa Rica, Tunisia and Thailand graduate from U.S. foreign aid.

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## Learning from Experience: Exports in Uganda

The expansion of non-traditional agriculture often allows farmers to increase their incomes and benefits the United States through the increased purchase of U.S. food processing equipment by developing nations. In Uganda, USAID helps

small farmers produce and export non-traditional agricultural exports, such as snowpeas, mushrooms, peppers and roses. Crop diversification has reduced Uganda's heavy dependence on coffee for exports and government revenues. Though non-

traditional exports more than doubled from 1990 to 1993, to \$68.4 million, the USAID program did not reach its ambitious 1994 target of more than nine new agricultural products with annual exports exceeding \$2 million. In response,

and after careful analysis, USAID realized that a lack of cold-storage facilities at the airport was a major constraint to further export expansion for Uganda's farmers. With USAID support, new cold-storage facilities are being built.

### Strengthening Markets

Well-functioning, dynamic markets are essential for economic growth and poverty reduction. Open and competitive private markets stimulate economic activity and accelerate growth, providing increased incomes and employment. USAID assistance in a wide range of countries focuses on establishing a sound economic policy and regulatory environment.

Some of USAID's most dramatic successes in economic policy reform have come in privatization. The agency plays a major role in helping countries in Central and Eastern Europe and the New Independent States move from command economies to private sector-oriented, market-driven ones. The importance of these privatization efforts is difficult to overstate. They represent a major foreign policy initiative to help ensure that these nations make a permanent transition to free markets and open political systems. The cost of conducting such economic assistance programs in these regions pales in comparison to the exorbitant costs associated with a return to Cold War-style strategic confrontation.

The privatization of state-run enterprises and the dismantling of state monopolies in production, processing, marketing and the distribution of goods and services are critical to these nations' transition to free markets. Since 1993, USAID has helped 11 countries in Europe and the New Independent States privatize more than 151,000 enterprises. Those nations that have taken an aggressive approach to reform and privatization and that have fully engaged broad numbers of individual citizens in a rapid privatization process have made remarkable progress. Overall, progress toward

privatization has been mixed across the countries in the region, but — on balance — those nations receiving USAID privatization assistance have come further, faster, than even the most optimistic observers could have hoped several years ago.

USAID also has helped to liberalize agricultural markets in Egypt, Zambia and Zimbabwe, leading to expanded agricultural production, heightened private sector activity and increased rural incomes. In Zimbabwe, public spending for agricultural marketing and support has declined by \$160 million since 1993. As a result of reduced government intervention in the market, the poorest households in Zimbabwe now have about 5 percent extra monthly income.

USAID efforts to help construct, rehabilitate and maintain urban and rural roads in nations such as El Salvador, Guinea, Mozambique, Nicaragua, Tanzania and Uganda have played an important role in invigorating the private sector in these nations. USAID-supported farm-to-market roads increased commerce and halved transportation time and cost in the project areas. In Tanzania, with USAID assistance and advocacy, private sector involvement in the national road program increased significantly. By 1994, 90 percent of the contracts were in the hands of private firms. Privatization has reduced transport and freight charges by 20 percent.

### Expanding Economic Access and Opportunity for the Poor

Even where markets are functioning well, economic benefits are uneven because of differential access to information, technology, credit

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and other resources. USAID activities particularly target small-scale farms and non-farm enterprises that provide much of the income for the poor in the developing world. Moreover, many of USAID's activities in this area focus on women, who make up more than half of the productive population and are disproportionately represented among the poor.

One of USAID's most enduring successes in expanding economic opportunity has been its microenterprise programs. These programs have been so effective that a number of American cities are now exploring putting similar lending programs in place. For example, USAID's support of \$3 million led to the creation of BancoSol in Bolivia, a licensed commercial bank that provides loan and deposit services exclusively to poor microentrepreneurs. At the end of 1994, after less than three years of operation, BancoSol had served over 305,000 clients—most of them Indian women — with loans averaging \$400 each. The bank makes more loans every month than the rest of Bolivia's banks combined. BancoSol's present

microenterprise loan portfolio is over \$60 million. Because the bank generates profits that are reinvested in expanding its services, and because it is able to finance almost all of its portfolio with funds from commercial sources, BancoSol can grow rapidly without any donor subsidies.

Successes like BancoSol have proved that it is possible to provide credit to large numbers of poor people without requiring continuing subsidies from donors. USAID-supported microfinance programs all around the world are progressing toward this goal. The value of these loans to recipients is demonstrated by the customers' willingness to pay interest rates that cover the full cost of the programs and to repay the loans at nearly a 100 percent rate to maintain access to future credits. USAID evaluations of its microenterprise programs found that 10 of the 11 institutions the agency examined were operationally efficient and reached large numbers of poor people with their services. Five of the institutions were fully profitable and generated positive returns on assets comparable to

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commercial financial institutions. In 1994, USAID microenterprise and small farm loans helped create over 99,000 jobs in the Dominican Republic, Honduras, Niger and Peru. More than 225,000 poor households, microenterprises and small farms in nine developing countries received USAID-assisted loans in 1994.

USAID programs work with small farmers in support of land reform in areas like establishing land titles and property transfers. USAID realizes that in large portions of the developing world, agriculture is a key component of broad-based economic growth. Property rights enhance small farmers' incentives to improve and increase their agricultural production and give them the security of knowing that their investments of time and labor will not be unfairly taken from them.

## Expanding and Improving Access to Basic Education

There are few undertakings that offer such high rates of return — for any society — as investing in education. Education is a primary means for strengthening the human resource base and, thus, productivity. Further, numerous studies have demonstrated that investments in education — particularly basic education — not only lead to valuable increases in economic productivity, but also significantly contribute to improving health, stabilizing population and increasing sound environmental management.

USAID activities emphasize increased access, efficiency, quality and equity of education, particularly at the primary level.

In Africa, where some of the most significant advancements have been seen in education, the comprehensive Education Sector

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## Policy Reform in Guinea-Bissau

*Policy reforms often have far-reaching effects throughout an economy. Guinea-Bissau accounts for about 6 percent of world cashew production. Its cashew farmers have a major comparative advantage because their productivity is more than double the world's biggest producers,*

*Brazil and India. Of the estimated 79,000 rural families in Guinea-Bissau, more than 37,000 are involved in cashew production, a crop that accounted for more than 90 percent of exports in 1994. USAID encouraged a reduction of the export tax for cashews from*

*more than 50 percent to 20 percent in 1994. With this trade restriction lowered, economic activity boomed. Real GDP grew by 6.3 percent in 1994 — almost double the rate of the early 1990s. Furthermore, from 1992 through 1994, farmer income from cashews rose from \$4.2 million*

*to \$10.6 million — an average increase of \$156 a family. Private sector activity increased, as shown by the dramatic rise in the number of small traders, reaching 18,500 in 1994.*

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## Promoting Agribusiness

*Recent assessments from Bangladesh, Guatemala, Cameroon, Ecuador, Thailand, Sri Lanka and Uganda offer important insight into USAID's efforts to strengthen agribusiness. Programs to privatize fertilizer distribution succeeded beyond expectations. Most of the programs aimed at promoting non-traditional agricultural exports not only increased such exports, but also helped create a business climate conducive to private sector growth. Especially successful were programs that boosted the growth of small and*

*medium-size private agribusiness firms. Less successful were programs promoting marketing cooperatives. These had high operating costs, a habit of depending on government and donor assistance and sluggish responsiveness to opportunities. Agribusiness programs did not attract significant foreign direct investment but did facilitate collaborative arrangements between U.S. firms and local entrepreneurs. Efforts to promote membership-based private organizations of agricultural producers, processors and exporters fared*

*well. These organizations emerged as powerful voices to articulate the interests of their members and to press for regulatory reform.*

*Several important lessons emerged:*

*Agribusiness programs should focus primarily on improving a country's policy environment; assistance to individual enterprises should be secondary.*

*Agribusiness development programs should follow the lead of*

*the private sector, not assume the lead.*

*USAID should continue to design interventions geared to small and medium-size firms. These programs should promote entrepreneurship among women.*

*Programs should support cooperatives only when they demonstrate the will and ability to subject themselves to the discipline of the marketplace.*

Support programs, carried out in collaboration with other donors, emphasize policy reforms. Since 1989, when these programs started, enrollments increased from 50 percent to 65 percent in Benin and from 27 percent to 40 percent in Guinea. In Benin and Mali, between 1990 and 1994, the pass rate for primary-school leaving exams rose, respectively, from 40 percent to 58 percent and from 40 percent to 45 percent.

USAID-supported policy reforms in Guinea have resulted in a near doubling of the portion of the national budget devoted to education from 1990 and 1994 (from 14 percent to 25 percent). The per-pupil share of material and non-salary expenditures increased from \$0.20 to \$11. In Ghana, education as a percentage of the national recurrent budget increased from 17 percent in 1989 to 36 percent in 1992.

In Latin America and the Caribbean, USAID programs have contributed to significant improvements in the quality and efficiency of education, especially in Honduras, Guatemala and El Salvador. In Honduras, the percentage of students graduating from sixth grade rose from 53 percent to 70 percent between 1985 and 1994. In Guatemala, third-grade completion rates rose from 28 percent to 34 percent between 1991 and 1994. With USAID assistance, nearly 60,000 primary teachers have received training in El Salvador, Honduras and Nicaragua since 1987. Finally, materials development and distribution programs have resulted in the distribution of over 26 million textbooks to primary students in the

Dominican Republic, El Salvador, Guatemala, Haiti, Honduras and Nicaragua since 1986. The program has had an impact in Africa as well. In Ghana, between 1989 and 1994, USAID helped raise the proportion of primary school students with textbooks from 10 percent to 74 percent.

## An Integrated Strategy

USAID's integrated economic growth strategy is built on the productive synergy of its three objectives: strengthening markets; expanding access and opportunity for the poor; and expanding and improving education. Strengthening markets builds the framework and infrastructure needed for economic growth. Expanding economic access and opportunity enables the poor, women and other disadvantaged groups to participate in economic growth. Expanding and improving education equips people with skills and knowledge to actively take part in economic growth.

With all three objectives, experience shows that systemic reforms are essential for lasting progress. Without the appropriate policy and institutional environments, donor assistance is ultimately ineffective. Policy reforms and institutional strengthening efforts have proven effective for liberalizing agricultural markets, stabilizing national economies, privatizing state-owned companies, expanding access to land and capital, giving women economic opportunities and improving basic education.