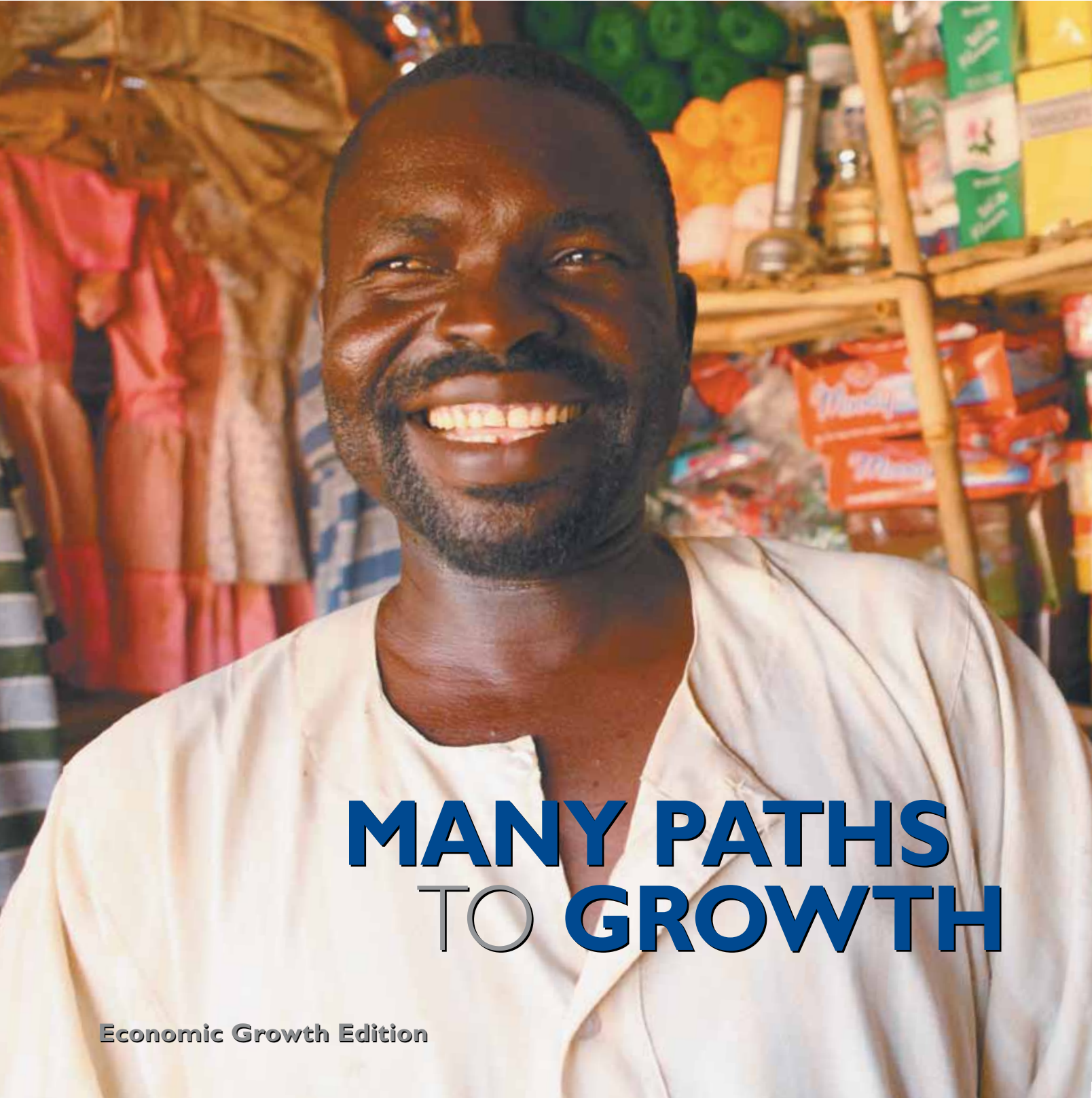


FRONTLINES

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JULY/AUGUST 2012



MANY PATHS TO GROWTH

Economic Growth Edition



INSIGHTS

From Administrator Dr. Rajiv Shah

FOR THE VAST majority of our history, humankind has been stuck in a trap. Up until the Industrial Revolution, every time the world became richer or technology led to advances, populations would subsequently grow. Aside from an extremely small number of royals and elites, people, on average, did not become wealthier. Economic growth and development as we understand it today simply did not occur.

But for the past 300 years, large parts of the world finally managed to spring that trap. The productivity gains of the Industrial Revolution took hold and the resulting economic growth began to lead to large, sustained increases in the global standard of living. The rising tide did not lift all boats—many countries were left underwater. As incomes rose and poverty fell in Europe and North America, countries in Asia and Africa saw much slower growth, leading to a great divergence between those in the West and those in the rest of the world.

For the next several decades, some developing countries began to climb out of poverty, while others were paralyzed by economic shocks. It was not until the end of the Cold War that the world witnessed the rapid growth of a very large group of emerging

economies and democracies throughout Latin America, Asia and Africa.

There is no single recipe for delivering sustainable, broad-based economic growth, but over the course of our 50-year history, we have consistently identified three key ingredients. First, a country must have strong institutions—governments and civil societies that can accountably respond to people's needs and aspirations. Second, a country must develop its sources of human capital and ensure that its people are healthy and educated enough to contribute to their societies and economies. And third, countries need a strong and dynamic private sector to efficiently allocate resources and stir innovation.

Around the world, our newly structured Bureau for Economic Growth, Education and Environment is working to drive and sustain prosperity, expand human potential and protect irreplaceable resources.

By giving people access to markets and boosting trade, we allow the world's poor to play a productive role in their economies and sell goods and services. Today, teams are working at border crossings in the West Bank to improve the flow of goods; developing an industrial park and offering well-paid jobs in Haiti; and providing technical assistance and loan guarantees to entrepreneurs throughout Africa.

In classrooms throughout the world, our teams are working to ensure children don't just have access to school but are actually learning. Through All

Children Reading, our Grand Challenge for Development, we've received hundreds of submissions of ideas for new learning materials and methods; improved collection and analysis of education data; and invested in mobile phones, tablets and apps that promise to improve literacy. Those innovations will help drive an education strategy that will improve the reading skills of 100 million children by 2015.

And our climate specialists are working tirelessly, fighting deforestation, protecting biodiversity and mitigating the effects of climate change. Right now, staff in Brazil are helping train indigenous people as firefighters, giving them an opportunity to protect their communities and fight deforestation that can leave an irreplaceable mark on precious ecosystems.

Today, the spread of democracy, better human welfare and freer markets have led to higher growth rates in developing countries than in rich countries and—for the first time in history—a declining rate of poverty in every single region. USAID's top recipients have done particularly well: Our top 21 recipients cut the number of those living in absolute poverty by 41 percent between 1993 and 2008. There are many who can claim credit for that rate of progress, the first being the countries themselves, but also well-deserving are our teams focused on growth, education and environmental protection. ■



Follow @rajshah on Twitter

“I realize that there are among us those who are weary of sustaining this continual effort to help other nations. But I would ask them to look at a map and recognize that many of those whom we help live on the ‘front lines’ of the long twilight struggle for freedom—that others are new nations posed between order and chaos—and the rest are older nations now undergoing a turbulent transition of new expectations. Our efforts to help them help themselves, to demonstrate and to strengthen the vitality of free institutions, are small in cost compared to our military outlays for the defense of freedom.”

—John F. Kennedy, Special Message to the Congress on Foreign Aid, March 13, 1962

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4 The ‘Value Girls’ from Lake Victoria’s Shores

2 Decades of U.S. Assistance Show Economic Achievement Pays Dividends

8 A Right to Land

12 Sara Gets the Message: Texts Plant Profits for Malawi Farmers

14 Palestinian ‘Liquid Gold’

16 Haiti’s Road Less Traveled

24 From Brick and Mortar to Stainless Steel: Investor Voices Help Build a Better Business Climate in Vietnam

INSIDE THIS ISSUE



20 The Mile Between the Market and the Farm

28 Achieving Growth by Changing Mindsets

30 Your Voice: A Seed in the Desert and a Seat at the Table

32 The Philippines Courts Green Growth

34 An Eggplant-Sized Difference

36 Your Voice: The ‘Mystery’ of Growth

38 Microfinance Fuels Iraq’s Growing Private Sector

40 Directionally Challenged: Effort to Name Ghana’s Streets Points the Way to Economic Progress

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Cover: After losing everything when a militia burned his village in Chad, Saboune Adakar Abdoukaye opened a shop with the help of a USAID-funded cash-for-work program. His business now supports his family and employs seven other people. July 9, 2010.

Photo by Derek Sciba, World Concern



MESSAGE FROM THE

Assistant Administrator, Bureau for Economic Growth,
Education and Environment

Decades of U.S. Assistance Show Economic Achievement Pays Dividends

By ERIC POSTEL

USAID has long recognized the importance of economic growth to development. It is the ultimate path to graduation from dependency—once countries have grown enough to pay for their own development, they don't need our help.

Economic growth obviously happens via the private sector—whether that means established companies, microbusinesses such as tailors and translators, vendors in the informal markets, farmers, or service providers like restaurateurs and dentists. The role of donors is to help businesses find new markets, reduce their costs and risks, and increase revenue potential.

There are four main areas in which donors can do this, and in this regard USAID has made extensive contributions—but significant work remains in some developing countries.

THE FIRST AREA is to create an environment where government rules and business possibilities intersect (see page 24). That includes everything from ensuring that banks operate on



Photo by Patricia Adams, USAID

sound financial footing, keeping food supplies safe, and helping property owners gain clear titles to their land and buildings (see page 8). We promote transparent and rules-based economies so that the private sector is free to do what it does best—produce the goods and services that make countries grow.

Our role is to promote “smart” regulation, not simply to create or reduce regulation. Smart regulation is grounded in evidence. It allocates scarce government enforcement resources to areas where there is greatest risk of possible

harm to the population, and includes the active participation of the regulated parties. Proper regulation is a cornerstone of good governance.

At USAID, we have decades of on-the-ground experience advising government reformers on the full range of rules.

But we know that regulations are not the only story. After the Berlin Wall came down, USAID began helping former command economies to adapt to competitive free-market systems of global trade. This required an overhaul of the commercial legal framework. USAID helped local

reformers change the laws of commerce in at least 15 Central and Eastern European countries. We worked on arbitration in Croatia, bankruptcy in Serbia, commercial courts in Romania, secured lending in Bosnia, and tax, customs, licensing and financial reform in Georgia. Today, many of our aid graduates are either members or candidates for membership in the European Community.

We've helped 28 countries join the World Trade Organization. In a number

of countries, USAID projects helped improve border processes. For example, in Jordan, we worked with the Department of Customs to cut clearance times by more than half—to less than 24 hours—through improved trade facilitation.

Besides working on commercial trade, in the 1990s, we worked to improve another sort of trade—securities trading. USAID supported dozens of projects helping reform-minded governments to modernize their securities regulations and develop their stock markets. Across four continents, billions of dollars of investment and trading is occurring via stock exchanges built or improved with USAID funding, providing an important source of financing for local businesses.

And, of course, donors are not the source of all knowledge for these reforms. We work best when we help to reknit the fabric of society—especially in conflict-affected states—by bringing the public and private sectors into constructive dialogue. That’s why we work with the Center for International Private Enterprise (CIPE), an off-shoot of the U.S. Chamber of Commerce, to promote business organizations to advocate reforms. CIPE has worked with hundreds of associations and their governments to increase participation and inclusion of the private sector in policy, law and implementation.

THE SECOND BROAD category critical to economic growth is infrastructure. Good roads, reliable power, clean and sufficient water, fast Internet and plentiful communications are all vital to growing businesses. In fact, when the economists analyze economies to determine the “binding constraints to growth”—the roadblocks—they have

found infrastructure to be the number one problem across the various countries studied.

USAID used to do a large amount of infrastructure work. In the 1960s and 1970s, large numbers of dams and roads were built with USAID assistance. Since then, the World Bank and other regional development banks have taken over that role. These days, USAID is still spending about \$1 billion a year on infrastructure but most of that work is focused on post-conflict or post-crisis countries such as Afghanistan, Haiti (see page 16), Pakistan, Liberia and Iraq. In these situations, the Agency helps to rebuild key facilities, such as water supply and power systems, that are critical to economic recovery and growth. USAID also focuses on ensuring that energy investments are sustainable by helping countries strengthen and create viable local institutions to manage energy infrastructure.

DEVELOPING or spurring the expansion of new technologies is another critical area of donor engagement. The classic example is USAID funding the Green Revolution back in the 1960s. We had moved away from that line of work for many years, but are now—with the accelerating pace of global technological developments—finding our way back.

In this new millennium, we have created Development Innovation Ventures (DIV) grants to find and support

breakthrough solutions to the world’s most important development challenges—interventions with the power to change millions of lives at a fraction of the usual cost. Akin to a venture capital approach to funding promising new technology, DIV invests in these game-changing technologies, rigorously tests them using cutting-edge analytical methods, and scales solutions that prove successful.

USAID is also defining Grand Challenges for Development to focus global attention on specific development outcomes based on transformational, scalable and sustainable change. Grand Challenges seeks to remove

critical barriers to development progress and foster innovative approaches, particularly those based in science and technology. With both our Grand Challenges and DIV, USAID is undertaking an approach to development that we believe will inspire foundations, corporations and individuals to engage in solving these challenges.

Lastly, whereas USAID helped create or improve hundreds of banks during its first 50 years of existence, it is now working to create a virtual

bank branch for every citizen of the world. Mobile money (mMoney)—using cell phones to conduct financial transactions—is transforming finance in the 21st century. In a world where there are 8,000 times more cell phones than bank branches (4 billion phones versus

continued on p. 42

“[T]rue development involves not only delivering aid, but also promoting economic growth—broad-based, inclusive growth that actually helps nations develop and lifts people out of poverty.”

**President Barack Obama
May 18, 2012**



The

Photo by Emma Odundo

Millicent Juma of Olambwe tends to her vegetables.

By Clara Kakai

Nike-USAID partnership in Kenya helps struggling female fish sellers attain safety, solidarity and success in alternative industries.

TWO YEARS AGO, 21-year-old Beatrice Kasina was a struggling fish seller on the shores of Kenya's Lake Victoria.

Seventeen-year-old Ruth Otieno was unemployed and fully dependent on the meager income of her fisherman husband.

Twenty-three-year-old Susan Opiyo, a single mother of two, was hawking tiny fish, called *omena*, by the roadside, desperate for motorists to stop and buy so she could feed her young children.

These three women's stories echo those of hundreds more in Kenya's lake region, where dependence on fish as the only economic resource is commonplace. But sadly, the fish industry is in decline. Environmental degradation, illegal fishing and interference with fish breeding sites have depleted fish reserves in the lake waters.

'Value Girls' from Lake Victoria's Shores

With rising competition for fewer fish, young women are particularly vulnerable: Many resort to risky sexual behavior because they do not own boats and have to rely on the whims of fishermen for supplies. The fish-for-sex trade has been an issue of concern for several years, with one analysis published in 2009 reporting 30 percent HIV prevalence among the people who live and work in fishing communities.

Today, however, life has dramatically improved for the three young women, who hold their own as successful micro-entrepreneurs. Kasina rears chicken;

Otieno is a vegetable farmer; Opiyo is involved in both poultry and vegetable farming. The three have one thing in common: They are all “Value Girls.”

Value Girls is a Global Development Alliance jointly funded by

USAID and the Nike Foundation to improve the socio-economic status of young women by giving them alternative sources of income. It works with women between the ages of 14 and 24 who live in the fishing

communities of rural Nyanza and Western Kenya.

“Decades of research show that improving the economic status of women improves food security, wealth creation and economic growth,” says Beatrice Wamalwa, a gender specialist at USAID/Kenya.

Studies also show that higher incomes for women result in healthier households as women are more likely to spend their incomes on their children’s nutritional and educational needs. According to the Food and Agriculture Organization, rural women are essential actors in reducing hunger, undernutrition and poverty because they make up 43 percent of the agricultural labor force in developing countries.

Value Girls is tapping into young women’s potential and is contributing to the goals of the U.S. Government’s Feed the Future initiative: reducing hunger and poverty through agriculture and improved nutrition.

The Value Girls program works through three local organizations in six districts. In market surveys, poultry and vegetable farming were deemed the most viable alternatives to fishing because of their sustainability and potential to increase women’s incomes.

According to Emma Odundo, a senior program officer with the Value Girls program, these organizations recruit women working on the beaches of Lake Victoria. “The program first mobilizes the women into self-selected groups of five or six, where they begin a savings scheme, elect leaders and decide on an income-generating activity. They are then given technical, business and financial literacy skills as well as demonstrations for either poultry or vegetable farming,” Odundo said.



Photo by Natasha Muriigu

Susan Akoth Owindu at Kaswanga farm on the shores of Lake Victoria pumps water to irrigate her vegetable garden. The Value Girls program has helped to improve the lives of over 1,400 Kenyan women.

Participants also receive start-up support. Poultry groups receive in-kind matching grants of the total value of their savings, usually the equivalent of \$20 to \$60 per group member, while vegetable-farming groups get fencing for the farms they lease. The groups can also access loans from microfinance institutions to expand their businesses or buy equipment such as water pumps for irrigation.

VALUE GIRLS ALLOWS young women to have stable incomes and reduces their susceptibility to abuse and sexual exploitation. The women's successes are also rippling through the region.

In poultry farming, for example, the young women are now the largest buyers in Nyanza and Western provinces of day-old chicks from Kenchic, the largest poultry management firm in Kenya. Between July and September 2011, 250 young women placed orders for a total of 8,000 day-old chicks—which should earn them a combined gross income of around \$36,500.

The increased incomes have propelled the women's value within their households and the community: They are now considered significant contributors to society.

"My husband has a newfound respect for me because I can now ease his financial burden," says Otieno.

"Poultry farming has changed my life," says an elated Kasina, who is now making more in a day than she used to make in a week.

For Opiyo, it is the healthy appearance of her children that gives her the

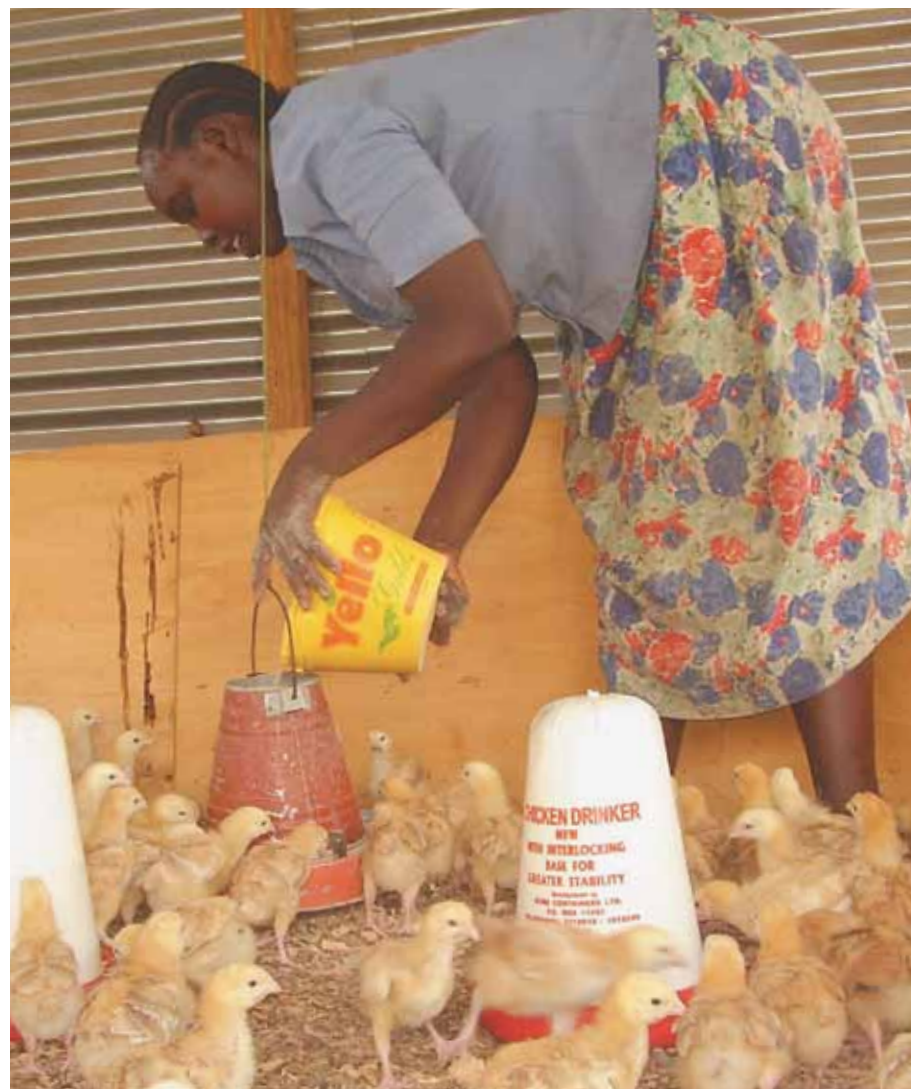
most joy. With the added bonus of a woman mentor for each of the business groups, the three are optimistic that they will surpass their current successes.

Their new lifestyles have been replicated by more than 1,400 other young women who joined the program since 2009. Having exceeded last year's target of 1,000 women, and expanded from eight to

39 beaches, USAID's \$1.9 million Value Girl program may be ending in November—but none of the young women plan to abandon their new livelihoods.

"The metamorphosis is amazing. When hundreds of dependent young women become self-reliant, the effects will be felt for generations," says Pharesh Ratego, Value Girls project manager at USAID, after visiting several beneficiaries. "By the looks of it, chicken and vegetables may soon replace fish as the local delicacy in the region." ■

When hundreds of dependent young women become self-reliant, the effects will be felt for generations.



'Value Girl' Betty Anyango, 20, tends to chicks in a demo house. She is now a successful micro-entrepreneur who helps other young women start similar projects.

Photo by Emma Odundo

Photo by Issouf Sanogo/AFP

A RI

New guidelines on property rights will support the interests of businesses and smallholder farmers, such as this one in Nigeria. Across the globe, countries can apply the relevant guidelines to build better land administration systems.

NEW international guidelines adopted earlier this year are expected to pave the way for “landowners” to establish clearer rights to land and other resources in developing countries. That seemingly simple act—multiplied many times over in countries across the globe—could

have profound consequences for the economies of developing countries, and reverse the trend of speculators snatching land without permission from the people who have historically considered it their own.

Land grabbing, as it is often called, happens every day in the developing world where weak laws and policies

allow businesses and governments—through naiveté or outright greed—to latch on to property that belongs to someone else, and to sell or lease it to the highest bidder.

Adopted in May by the U.N. Committee on World Food Security, the 35-page document sets out principles to guide countries in designing and

RIGHT TO LAND

By Angela Rucker

Property rights are proving to be a solid foundation for economic empowerment for individuals, corporations and nations, and a potential solution to shore up food security in developing countries. International guidelines adopted earlier this year address this issue.

implementing laws that govern property rights over land, fisheries and forests for agricultural and other uses.

As it is officially known, the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security is designed “so that both investors can invest with

some kind of certainty that their investments will be secure and, at the same time, those people who hold the resources or the assets—the people who have the land in the countries where we work—will also have some certainty that they will be able to benefit from the investments that are made,” says Gregory Myers, USAID’s

division chief for land tenure and property rights and chair of the negotiations for the guidelines.

USAID is keenly interested in the guidelines, not only because of the inherent economic benefits of secure property rights for individuals and communities, but because of what that can mean for the Feed the Future



Photo by Leah Butler

The Liberian Ministry of Land, Mines and Energy, supported by USAID, is working with local communities to explain the benefits of registering tribal certificates with the government. Officials here work with residents to map their property.

initiative, the U.S. Government’s effort to ramp up agricultural development in food-insecure countries.

“In many ways, that’s really at the heart of our (Feed the Future) strategy—on one hand encouraging the private sector, and on the other hand supporting smallholder farmers,” Myers said.

“Between 800 million and a billion people go to bed hungry at night, and the number is growing,” he explained. “Clearly, we need to do something to promote agriculture ... but that means there has to be investment in agriculture. So the bottom line is that we have to find a way to bring private-sector investment into this equation. And the only way that’s going to happen sustainably and in a way that’s not going to lead to a lot of violence or conflict is that we’re going to have to address the issue of property rights.”

TODAY, ESTIMATES of land acquired for investment in developing

countries are between 50 million hectares in a World Bank study and 250 million hectares from civil society organization estimates, both reported in 2011. The range is so large, in part, because many countries where this is happening have dysfunctional record-keeping systems and don’t recognize informal property rights.

An International Land Coalition study published in late 2011 concluded that, of the land deals researchers could track, 78 percent were purchased for agriculture production—mostly for biofuels, not food.

One of the most high-profile and controversial land acquisitions happened in Madagascar when a South Korean company announced it would lease 1.3 million hectares of land to grow products it would export back home. The scheme played a role in the

overthrow of the Ravalomanana administration in 2009; his successor canceled the land deal, which would have tied up about half of Madagascar’s arable land for 99 years.

Organizations that monitor the land deals say smaller acquisitions pitting Goliath companies against David landowners occur regularly. There are also disputes that pit legitimate landowners against each other.

“People sell one land to two or three persons and nothing happens to them,” said Banny Minely, who lives in the town of Sedekan in Liberia, one of the places where USAID is helping landowners formalize their property rights. “The Government of Liberia should institute punitive measures to curtail double land sale. People should know their land and property rights.”

Minely says the boundary disputes are many: “Clans versus clans, towns versus towns, and individuals versus individuals. These disputes in some instances turn violent and people die in the process.”

Adds Myers: “It’s one of those human rights issues that can be just as (highly) charged as other kinds of human rights issues—where people disappear all the time when they try to claim their land rights

in many of the countries where we’re working.”

“IT’S A PHENOMENON that’s been going on since time immemorial. But the size, the scale and the quickness with which all this took place was extraordinary,” Myers said of land acquisitions that occurred over the last few years.

GO ONLINE

to watch a short video on USAID’s land-tenure work in Ethiopia and to listen to a podcast.

It began with the global recession in 2007 and 2008. The economy tanked, leaving many investors broke. For those with substantial sums left to spend, the question became where to invest with the least amount of risk—and the most potential for profit.

“In those years, when the equity markets were bottoming and people were essentially looking for new investment opportunities, a lot of businesses around the world—private companies, sovereign wealth funds—started to look for investments in hard assets, which would be land or agriculture, forests, other hard commodities,” Myers said.

Africa was the epicenter of such buys. The practice became known as land grabbing, a retro name that often led to embarrassment for any companies whose purchase or lease ended up in the press. While some businesses and wealth funds were indeed looking to score big at the expense of small landowners, others found themselves inadvertently at odds with land-rights issues.

“There are also many good companies—and many of them are American—which are caught in this trap,” Myers said, “because they go to a country like Ethiopia or Tanzania or Madagascar or Mozambique or Ghana, and they say, ‘We would like to invest in agriculture and we would like to lease land.’ And the government of that country says, ‘Yes, we own the land, and here’s free land that you can invest in.’

“So the company believes that the government has the rights. But that completely ignores the fact of what’s

happening on the ground, that there are people living there who do indeed have those rights to that land.”

At the same time these large-scale land purchases were taking place, several countries were facing food shortages that led to protests and rioting. A few countries began limiting sales within their borders since they needed the land to feed their own people.



These two women in the village of Abeye, Ethiopia, obtained land certificates through a USAID program. After establishing rights to the land they occupy, they made investments to increase their food production.

“And that,” Myers said, “starts to drive up the price of land, which means that more speculators want to come in and try to acquire access to land or to purchase or to lease land.”

The losers in all of this: the residents with no property rights.

THE NEW guidelines are designed to ensure that doesn’t happen. They took almost three years to complete. The negotiations, at times contentious, involved 96 governments and a number of other groups representing civil

society and NGOs, the private sector and farmers’ associations.

Myers calls the guidelines flexible and broad enough to satisfy interests from different parts of the world. Gaining consensus was not easy, but the end result was applauded by several organizations as fair and equitable.

“I think the outcome is that the guidelines created both a technical and a political platform for countries to be able to address these issues in a way which they have not been able to do so in the past,” he said.

Now comes the time to put the guidelines, which are voluntary, into practice. That means urging countries to modify their land-tenure and property-rights laws and to put systems in place to measure and record rights to property. USAID also plans to help countries recognize the financial benefits that securing land rights can bring—for state coffers as well as for their citizens and potential investors.

USAID already has spent \$200 million in the past five years on land-tenure issues and hopes to put the new guidelines into practice in at least six countries. “We know in our own programs that there are significant productivity jumps when men and women have secured rights to property,” Myers said.

In Ethiopia, for example, after a USAID program helped people there secure property rights, productivity—as measured by the Ethiopian Government—increased 19 percent between 2005 and 2008. A World Bank assessment of the same program found a

continued on p. 43

Sara Gets the Message: Texts Plant Profits for Malawi Farmers

By Vince Langdon-Morris

AT THE END of the year in Malawi, the “planting” rains arrive. Families get to work swinging hoes, clearing land, weeding and planting maize, beans, soy and tobacco. By March, if rainfall is sufficient, the parched landscape transforms into an emerald ocean of ripening crops that by mid-year are safely in store. This is when speculative grain traders arrive.

Farmers everywhere need cash to pay loans, school fees, medical bills and other expenses such as agricultural inputs. Traders know this and rural farmers usually succumb, selling their crops well below market value. Later, traders sell these grains in bulk, posting significant profits for themselves.

Challenging this system that leaves farmers with little profit has been difficult without access to widespread, reliable market information and alternative outlets. Modern cellular communications and widespread cell phone ownership, however, are beginning to provide windows of opportunity across Africa. Texting has exploded in many African countries as an

important tool that bypasses lack of traditional infrastructure and links providers of products and services to their customers.

Sara Maunda is one of a growing number of farmers doing just that—taking charge of marketing their own crops and keeping more profit for themselves with the help of market information. With training from USAID/Malawi’s Market Linkages Initiative, she registered to receive regular market information updates on her cell phone from Esoko, a Ghanaian company with a franchise in Malawi. The “E” stands for electronic, and *soko* is Swahili for market.

USAID/Malawi started the project with Esoko in 2011 to equip farmers, who have little bargaining power, with a tool that provides them with current market information, which helps them to receive a fairer price for their crops. Currently, the Market Linkages Initiative uses Esoko to collect prices from markets around Malawi. Local enumerators upload prices onto the system via their cell phones and, after approval, the prices are automatically sent out to registered users via SMS. To date,

the service has been provided free of charge by the project. Starting in July 2012, the Agricultural Commodities Exchange for Africa (ACE) will take over Esoko price alerts commercially.

SO FAR, THE MOBILE messages have provided farmers information they needed to sell 2,500 metric tons of grain valued at \$750,000—with much more expected from 2012’s harvest. Maunda was one of those farmers who reaped the benefits from receiving an Esoko text. Her story illustrates the value that timely information can have.

“In June 2011, a grain trader arrived at my gate offering me 30 kwacha per kilo for my peanuts,” Maunda said. “My SMS from Esoko told me that the price was more than four times the trader’s price. When I showed him, he said, ‘These people are lying to you—you will go very far and find that you have lost money.’”

Maunda trusted both her instincts and the text messages. She and four neighbors rented a pick-up truck in Madisi, the nearest town, and headed south to Lilongwe, 80 kilometers away, to sell their groundnut crop themselves.

“The market price there was five times the vendor’s offer. My share of the sale cleared 24,000 kwacha (\$130) after all expenses. If I had sold to the vendor at my village I would have made only 4,500 kwacha (\$27),” she said.

Farmers everywhere need cash to pay loans, school fees, medical bills and other expenses such as agriculture inputs.

Agriculture is the driver of the Malawian economy, fueled largely by poor smallholder farmers. With the steady decline of tobacco production, the main cash crop and export earner, alternative crops are needed to drive future growth. Like so many countries, Malawi also has to grapple with the challenges of a degrading natural resource base, climate change, a growing population, widespread poverty, undernutrition and disease.

“ACE offers a structured and transparent place where traders big and small can interact and access markets on a more level, fair and open playing field,” says Cybil Sigler, economic growth team leader at USAID’s mission in Malawi. In the larger scheme of things, ACE and the Market Linkages Initiative support Malawi’s Feed the Future strategy by linking smallholder farmers to markets that will eventually lead to improved quality and higher prices for the produce they sell.

IN JULY 2012, when ACE agents begin collecting market information from 17 markets across Malawi, they will also advertise “warehouse receipts” to farmers and farmer organizations. The new product will allow farmers to deposit their crops into storage and use them as collateral to access financing. Farmers will also take advantage of higher prices for their crops later in the season when the market is not flush from the harvest. As ACE expands and more households begin to use such services, incomes are expected to follow suit. ■



Sara Maunda checks her cell phone for pricing information. She is wearing a *chitenje* that was made especially for the USAID 50th anniversary celebration in Malawi.

Photo by ACD/VOCA, Malawi

Palestinian ‘Liquid Gold’

By Anna-Maija Litvak

With USAID assistance, Palestinian olive oil is flowing to international markets, providing a boost for struggling growers.

THE FRAGRANT and healthy oil extracted from the fruit of the olive tree, indigenous to the rocky hills of the West Bank, has long been important to the Palestinian people and their culture. Some historians even argue that the first cultivation of olive trees may have taken place in the area now comprising

the West Bank and Israel. However, frequent droughts and inefficient growing practices have led to inconsistent quantity and quality, making it tough for farmers to realize profits from selling the fruit and the products derived from it on the world market.

Today, about 200,000 Palestinian farmers support their families by growing

olives. Most of the olive products are produced for local consumption, but Palestinian olive oil is fast gaining international recognition for its unique aroma and flavor.

USAID is working with Palestinian farmers to improve the quality of the olives and make the methods used throughout the production process more sustainable, equitable and environmentally friendly. Newer, more efficient methods should boost incomes in a region where rural families often struggle just to get by. This project comes on the heels of an eight-year-old effort that was among the first to acquaint Western palates with Palestinian olives.



Photo by Anna-Maija Litvak

Nasser Abufarha, the owner of Canaan, was the first to create an internationally recognized standard for fair-trade olive oil.

Photo by Canaan Fair Trade



A Palestinian woman harvests olives.

In 2004, Nasser Abufarha, an entrepreneur from Burqeen in the northern West Bank, was looking for a way to boost the local olive oil market, and came up with a winning combination: authentic organic Palestinian olive oil coupled with the desire of Western consumers for responsibly produced goods. To bring the local oil to international dinner tables, he established Canaan Fair Trade, a company that processes, packages and markets the organic olive oil produced by artisan farmers throughout the West Bank.

“We are not just making a bottle of olive oil. We are working on the relationship between the socially ethical consumer and the Palestinian farmer producing the oil,” said Abufarha.

This unique concept has made Canaan the largest exporter of fair-trade and organic Palestinian olive oil to Europe and the United States—while providing a sustainable income for more than 1,700 farming families. Canaan’s Estate Olive Oil is highly

prized by gourmets around the world, even at a cost of \$15 for a small 12.7 fluid ounce bottle. Farmers traditionally make approximately 18 Israeli shekels (about \$4.50) per kilogram when they sell their oil locally. With Canaan, each farmer gets about 24 Israeli shekels (\$6) per kilogram—an almost one-third increase in earnings.

But Abufarha believes his company goes even further: “We go beyond being fair to farmers. We also affect social change by organizing the farmers into cooperatives. This increases interaction between the producers and stimulates the overall culture of olive oil production.”

Currently, there are 43 farmers’ fair trade cooperatives and nine women’s cooperatives focused specifically on empowering rural women to become economically successful. The members of the cooperatives support each other, while Canaan provides them services to

improve their products. Through the cooperatives, the farmers benefit from collective pressing that enables them to press smaller quantities of olives on a daily basis, leading to higher-quality oil with lower acidity, as well as other shared benefits. In this way, the olive farmers, who usually produce around 60 kilograms of olive oil a week, can double their production.

IMPROVING THE harvesting and production process is an important part of the work Canaan does with the farmers. And this is an area where USAID’s assistance to West Bank agriculture has helped make a measurable difference. USAID has invested in training the olive producers and improving growing methods to increase yields and to cultivate products of a high enough standard to compete internationally.

continued on p. 44

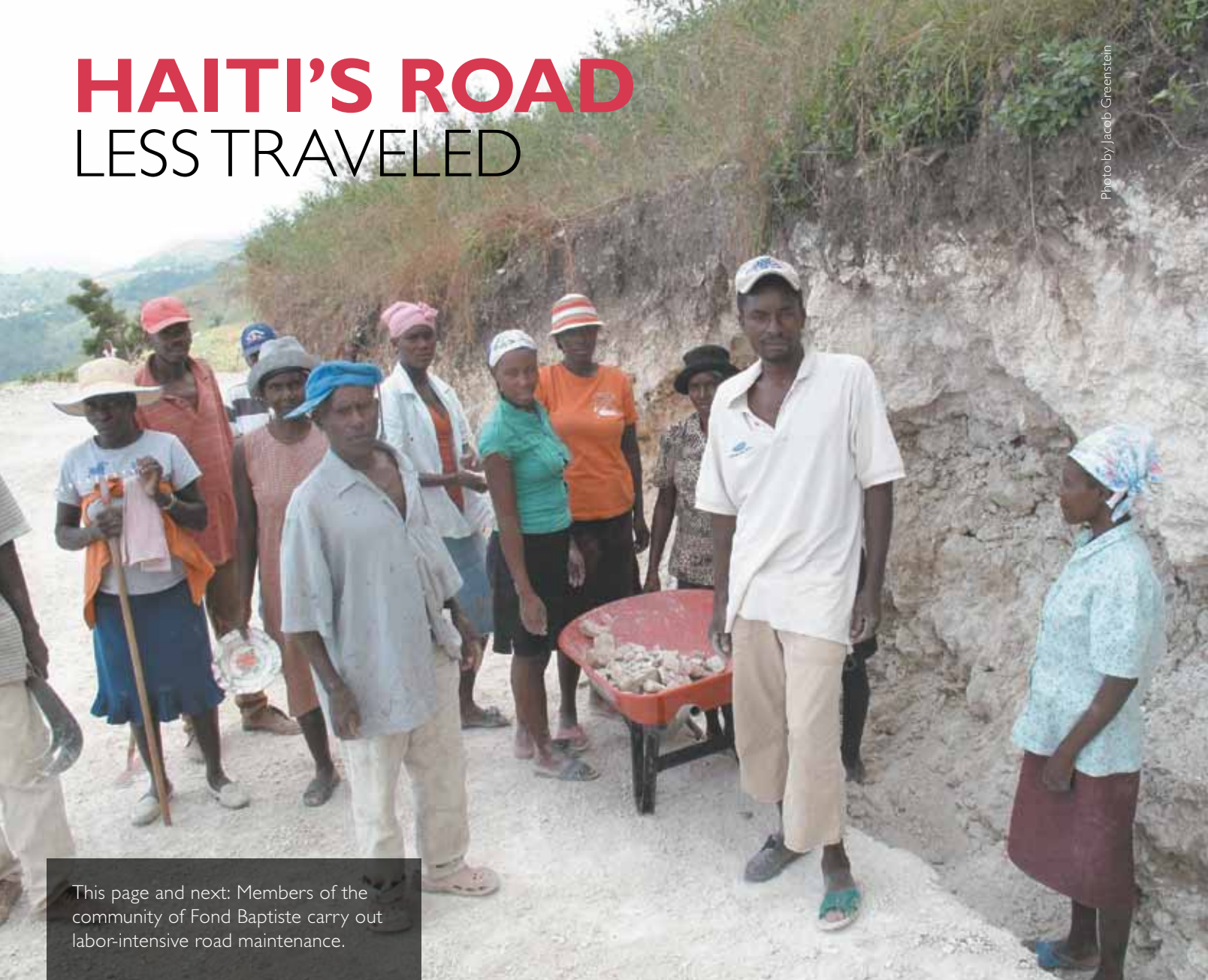


Photo by Anna-Majja Litvak

The olive tree is indigenous to the rocky landscape of the West Bank.

HAITI'S ROAD LESS TRAVELED

Photo by Jacob Greenstein



This page and next: Members of the community of Fond Baptiste carry out labor-intensive road maintenance.

By Juan Belt and Steve Olive

Roads improve commerce, facilitate services and open up an array of other opportunities, but Haiti's poor are often stymied by lack of infrastructure. With careful planning and an eye on sustainability, USAID is helping improve access in the Caribbean nation.

TWENTY-FIVE years ago, Marie Lucienne Joseph abandoned needlework in favor of agriculture. “Last season was so terrible, I regretted my decision,” recalls Joseph, now 50 years old.

Constant logistical challenges in Fond Baptiste—including heavy rains and seasonal flooding that sometimes made the mountain road impassable—often impeded transport of her potato crop to markets.

“When it rained, only the bravest took the road, and often came back with injuries. We suffered sprains and strains—even the donkeys would fall,” she said.

A key constraint to agricultural development in Fond Baptiste and throughout Haiti is the poor condition of its rural road infrastructure. Without sufficient planning and proper maintenance, a rural road is not useful beyond a couple of harvests and may not survive the first rainy season after rehabilitation.

The relationship between rural road infrastructure and well-being is clear

throughout the Caribbean nation. It impacts access to schools, health centers and other key services, as well as economic livelihoods for the 5 million people who live outside of cities. Physical access to markets is crucial to improving life for the country's approximately 6 million agricultural workers. Access to basic services in rural areas is very limited, as only 10 percent of those living in rural areas have access to electricity and less than 8 percent have access to potable water. Poor road conditions lead to damaged products and increased post-harvest losses. In a nation where 88 percent of

the rural population lives under the poverty line, these losses often come as devastating blows.

A development approach that incorporates community participation and regular maintenance can extend the life of a road and justify future infrastructure investments. "Our work on improving roads in Haiti is an important step toward strengthening markets in selected development corridors," says James Woolley, senior agronomist at USAID/Haiti. "A well-built road that is regularly maintained by communities is a strategic investment that reduces post-harvest

losses, increasing farmers' incomes. It really means a way forward for the people struggling to survive in these communities.

"We have estimated that reducing spoilage that results from poor roads has the potential for increasing gross farm income by between 10 and 30 percent, and contributes to greater food security. Improved roads can also increase school attendance and visits to health facilities."

TO BENEFIT farmers like Joseph, the U.S. Government's flagship food security initiative, Feed the Future, is testing innovative models to select the most effective roads to rehabilitate and to increase regular maintenance by involving communities in the process and raising awareness of the benefits.

Jacob Greenstein, a senior engineer at USAID's Washington, D.C. headquarters, says that the selection of roads should be based on multiple criteria, including agricultural potential, population density, status of accessibility, and potential for increasing access to health and education facilities. "Involving the communities in the selection of roads and in maintenance lowers unit costs, and more importantly, makes them feel real ownership of the road," he says.

The positive effects of this approach can now be seen along *La route de Fond Baptiste* in the Matheux region—one of the high-impact areas selected. As a preliminary condition for rehabilitating the 18-kilometer Fond Baptiste road, which bridges more than 500 small farms, USAID signed an agreement with the Arcahaie municipality and two local farmers associations with a total of 1,230 members—over half of them women.



Photo by Jacob Greenstein

ECONOMIC GROWTH

Under the agreement, USAID will work with a local engineering firm to perform the rehabilitation work, while the municipality will provide maintenance materials and permits. The farmers associations have committed to devoting 15 days per year to maintenance work after each rainy season and to plant vetiver grass along the road to stabilize the banks of drainage ditches. Vetiver grass is a hardy plant used to protect soil against surface water runoff and erosion.

Jannius Delice, a local association coordinator, remembers what the road used to look like after each heavy rain. “Access to the road was completely blocked after the rain would fall. Whether on foot or by horse, it was basically impossible to travel on the road because of the rocks, soil and mud that would come down from the mountain and cover the passage. Now, even when the rain causes some damage in the zone, the road does not become blocked like it used to.”

Joseph agrees. “Now after heavy rain, we only need to do small reparations to the road, something that the people from the region can do themselves. My husband is one of the community members committed to participating in this maintenance work.”

FOR FARMERS worldwide—including those in rural Haiti—poor infrastructure and other barriers to markets not only affect their participation but also their motivation. “Fond Baptiste farmers



Photo by Ben Edwards, USAID

A farmer works the field at the USAID-funded Sustainable Rural Development Center in Bas Boan, Haiti. Access to markets is crucial to the country's 6 million agricultural workers.

lost interest in agricultural production because their products could not reach the market because of bad roads. With this road rehabilitation work, we believe [they] will see some improvement in their lives,” Delice said during the project’s inauguration in November of last year.

Six months after the project began, Delice’s prediction has come to fruition. The Fond Baptiste community associations volunteered to maintain the road during the current rainy season, which runs roughly from May to November, rehabilitating drainage canals at critical points.

In doing so, communities were socialized to the long-term benefits of consistent road quality. Prior to the rehabilitation, which was accompanied by distribution of improved seed varieties to people along the road, crops were primarily consumed by farm families. There was often not enough surplus to spare, and markets were hard to reach. When farmers did try to reach market, their crops would often spoil on the way, discouraging farmers from taking the risk.

“I live much better now,” says Joseph, “I do not have to wake up at 1 a.m. to go sell my goods to market.”

The road has reduced transportation costs from \$15 to \$5 per potato crate because of fewer damaged crops. These cost savings further increase the competitiveness of Fond Baptiste’s goods in the market.

“Now we have enough to eat and to sell!” exclaimed Joseph when asked how her life has changed. The road rehabilitation has also enabled her to send food and other supplies to her children who live in the capital, allowing her to feel more confident that her children are eating well and are taken care of.

“Confidence in the farm sector among rural Haitians will only increase



Photo by Jacob Greenstein

A key constraint to agricultural development in Fond Baptiste, Haiti, is the poor condition of rural roads.

with expanded road rehabilitation,” said USAID’s Haiti Mission Director Carleene Dei.

ACCORDING TO the World Bank, only 5 percent of the rural population in Haiti has access to paved roads, while 33 percent use dirt roads.

“With so much need, perhaps the most innovative part of this program is its concern for sustainability and making the best use of limited resources to benefit the most people,” says Haiti Deputy Mission Director Tony Chan.

A key aspect of this strategy in Haiti was improving the selection of rural roads to be rehabilitated, according to Woolley. “This selection not only includes cost-benefit analysis but also consultations with the affected communities—an international best practice—and the creation of a rural road maintenance fund,” he said.

In line with reform efforts designed to bolster local capacity in the countries USAID works in, the Agency will

contract directly with local businesses and organizations to repair rural roads in Feed the Future target areas—the country’s potential agricultural breadbaskets. The development corridors selected by the U.S. and Haitian Governments have strategic production areas that will then sell better quality products to Haitian and international markets.

In addition, hiring members of the community for maintenance will provide additional income to rural households, while farmers reap the benefits of improved market access. Meanwhile, non-farm-related benefits show up in increased access to basic services.

In order to ensure sustainability, the Agency is working with the Ministry of Agriculture to create a maintenance fund and hire local partners to continue the upkeep and repair of rural roads beyond the life of the program, and ensure that farmers like Marie Lucienne Joseph will better endure the wear and tear of many rainy seasons to come. ■



The Mile Between the **Market** and the **Farm**

By *Todd Crosby*

Community-based service providers link Senegal's rural populations to the private sector for better food security.

DIAWARA, Senegal—

MAMADOU Doucouré was born in France of Senegalese parents. As an adult, he longed to rediscover his roots and return to his familial home.

Diawara, his ancestral village, is located in Senegal's extreme northeast near the sand-swept border of Mauritania, a far cry from the glitzy restaurants and vibrant nightlife of Dakar, let alone the boulevards of Paris.

Here, on the southern rim of the unforgiving Sahara Desert, food security is a matter of life and death. And here is where Doucouré found, through USAID, that he could make a difference in the quality of life for those in his ancestral community while building a successful business for his own family's livelihood.

Feed the Future, the U.S. Government's flagship food security initiative, seeks to reduce poverty and hunger in places like Doucouré's village by accelerating

growth in the agriculture sector. Under the Feed the Future strategy, USAID/Senegal developed a project called *Yaajeende*, signifying "abundance" in the region's Pulaar language, to respond to specific nutritional challenges in high-priority areas. The project seeks to increase the amounts of nutritious foods being grown in these target zones as well as to improve the ability of the local people to use those foods to their maximum benefit. Rather than give handouts to local communities, the project improves the ability of private-sector companies to provide better products and services to these isolated areas.

"The mile between the market and the farm is the longest in terms of getting products, information and services down to the small producers who are often isolated in distant villages," Doucouré said. "Working with USAID/*Yaajeende*, I can help companies bridge that gap and provide local farmers access to better products, services and

Better crop yields are benefitting residents of northern Senegal, including the woman pictured here.

Photo by Ndoumbe Sacko Ba



Northern Senegal is a long way from France, but Mamadou Doucouré, above, makes a living and helps his fellow farmers in the country's most remote region with USAID support.

information. Not only do I help companies sell products locally, but I work side by side with them to get the best results in the fields.”

To date, USAID has trained Doucouré and 200 others, including 25 women and 20 expatriates from other countries in the region, to be community-based service providers. USAID/*Yaajeende* recruits and trains these providers to act as a kind of intermediary between farmers and private companies in Senegal's most food-insecure areas.

The service providers help farmers purchase better seeds, fertilizers and equipment; teach them new production techniques; facilitate access to credit; and broker the sale of crops to interested buyers. USAID expects to train up to 1,500 community-based service providers by the project's end in 2015.

IN THE PAST, farmers in Senegal's most food-insecure areas have been trapped in a cycle of humanitarian aid, not only because of frequent droughts, but also due to the poor quality of the

seeds, fertilizers and tools available to them. Companies in Dakar that sell high-quality agricultural products have not expanded to the hardest hit regions since it is difficult to drum up enough business to make expansion worthwhile.

USAID's service providers fill the gap by consolidating orders from a large number of local farmers, providing a financial incentive for companies to expand to new zones, and, consequently, furnishing local people with access to better products and services.

Community-based service providers are, in essence, sales representatives who work on behalf of both local communities and private companies, representing a community to a broad range of suppliers and buyers. They are elected by their peers based on their demonstrated talents in agriculture or business, and are trained in basic business skills by USAID and in technical skills by the private companies that use their services.

Once USAID identifies and trains the service provider, the Agency helps

facilitate credit for his/her operations and simultaneously reaches out to the private companies, helping them understand how to use the service-provider network to increase sales. Finally, the project helps companies present their products and services to the local communities in order to generate interest.

Thus, the service provider plays multiple roles, acting as a sales broker for commercial products and services and as a technical consultant to producers. For their work, the providers receive commissions from both the producers and the suppliers.

The community-based service provider model turns the classic distribution model upside down by selecting the sales representatives from the communities rather than from the companies. It also builds on long-established relationships and allows for greater trust. Because he's based locally, Doucouré has built enduring trust with his peers, and villagers are comfortable allowing him to collect communal money and negotiate important deals for seeds, fertilizers and tools. Because Doucouré's revenues depend on keeping his local customers satisfied, he

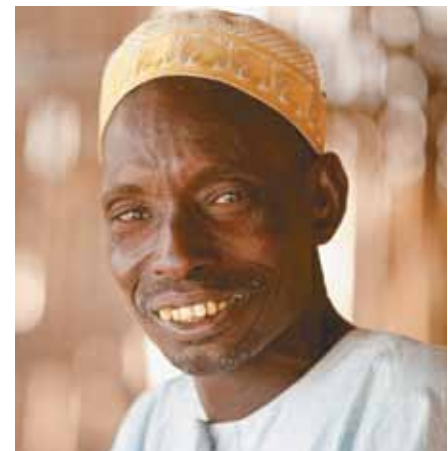


Photo by Olivier Asselin

“Community-based service providers know how to work with farmers and businessmen alike,” says this farmer from Sinthou Fissa, Senegal.



Photo by Olivier Asselin

USAID's agro-nutrition project *Yaajeende*, which means abundance, touches all aspects of food security in some of Senegal's most vulnerable regions.

has a vested interest in establishing and sustaining a successful network of cultivators. If the villager farmers produce more and earn more, so does Doucouré.

USAID IS ALSO using the community service-provider model to improve nutrition. Nutrition-focused service providers are negotiating with private companies to sell enriched flours for infants, micronutrient powders made from locally grown fruits, and water purification tablets. Sales of these products are already taking off in rural areas of Senegal, ensuring the long-term sustainability of the activity.

In addition to selling new products, some service providers have started business services such as crop spraying, irrigation system maintenance, livestock vaccination, land preparation and crop maintenance.

Better products and services translate into more productive agriculture

and ultimately lead to more stable and more diverse food supplies. "In the long run, it is the private sector that will ensure food security," USAID/Senegal Mission Director Henderson Patrick said. "Only through a market-based approach will rain-deficient areas like Northern Senegal be able to escape the cycle of humanitarian aid."

Drawing on his USAID training, Doucouré recently negotiated a competitive price for high-yield maize hybrid seeds for which he earned a commission after marketing the seed to his fellow villagers in Diawara. "With these hybrid seeds, producers can greatly increase their yields and earn significantly higher profits if they use them properly," he said.

To ensure that the farmers got the maximum benefit from these seeds, Doucouré worked hand-in-hand with them to apply the technical training that he received from the seed supplier.

For the upcoming 2012 agricultural season, he plans to expand his business to include land preparation services.

USAID helped facilitate a \$20,000 loan from local lender ACEP to help Doucouré purchase a tractor and a soil ripper. With these tools, he estimates that he can help more than 100 producers prepare their fields using conservation farming methods which will, in turn, increase their crop yields substantially.

"This young man sets an example for everyone, and especially for expatriates reluctant to return to Senegal for fear of not finding a stable job," Demba Dembele, a Diawara farmer, said of Doucouré. "He is effective, patient and passionate about farming. He knows how to work with us and with businessmen, too." ■

USAID's Zack Taylor contributed to this article.



Employees at the Sonha Corporation produce stainless steel water tanks in Hanoi.

From Brick and Mortar to Stainless Steel: *Investor Voices Help Build a Better Business Climate in Vietnam*

By Richard Nyberg

HANOI'S SKYLINE is rapidly changing as modern office buildings here, as in other major cities of Vietnam, are rising. Looking down from one of the capital's taller buildings, one can see shiny new water tanks glistening in the midday sun, perched like bright pods atop buildings big and small.

This is a reflection of Vietnam's transformation. Twenty years ago, water was stored in heavy brick and mortar containers that leaked and leached cement particles on roofs and into homes across Vietnam.

Back then, the average Vietnamese got by with much less. Over the past two decades, market-oriented reforms have transformed Vietnam's economic outlook. GDP per capita rose from

around \$100 in 1990 to \$1,400 in 2011, dramatically reducing poverty levels and propelling Vietnam to the ranks of lower-middle-income countries.

In 1998, a new private-sector company, Sonha, found its niche with a successful home-grown solution—lightweight and hygienic stainless steel water tanks. The industry has since boomed, and as the market leader, Sonha now produces about 130,000

tanks a year with factories in Hanoi and Ho Chi Minh City, and ventures in solar power, steel piping, waste treatment and real estate. It recently presented its wares for export at a trade fair in Germany.

The company exemplifies entrepreneurship in Vietnam today, where firms can make informed business decisions, and where the Vietnamese people are reaping the benefits. However, it wasn't always this way. Back in the brick and mortar days, knowing where to invest and what investors were thinking was often pure speculation. That changed as a result of a partnership between USAID and the Vietnam Chamber of Commerce and Industry (VCCI), and the development of a survey tool for provincial and business leaders like those at Sonha.

Jointly implemented by USAID and VCCI since 2005, the Provincial Competitiveness Index (PCI) is a comprehensive annual survey of Vietnamese firms about the in-country business environment.

It ranks all provinces in the country in terms of transparency and ease of doing business. Few reports covering the private sector receive as much media and industry buzz as the PCI, especially about which provinces come out on top. Over the past two years, the PCI has garnered over 200 media mentions on the front pages of newspapers and magazines and on prime-time news shows, including interviews with provincial, USAID, VCCI and private-sector leaders.

"The PCI helps to improve the business environment to benefit private small- and medium-sized enterprises," said Dam Quang Hung, Sonha's deputy director general.

"The way it does this," said Todd Hamner, director of USAID's Economic Growth Office in Vietnam, "is by encouraging local governments to become more accountable and transparent as they seek to be well-reflected in this annual survey."

THE 2011 VERSION of the index surveyed almost 7,000 Vietnamese businesses across all 63 provinces and major cities. It reflects perceptions of provincial government performance

regarding ease of doing business, economic governance, and administrative reform efforts that support private-sector development. The survey drew mixed reactions in the early days.

"The first time the PCI was launched, many provinces, especially the top leaders, reacted to the PCI very strongly, and in some ways, very negatively—especially those provinces ranked toward the bottom," said Vu Xuan Tien, who has responded to most of the annual surveys and is both the



Dang Thi Phuong shows new water tanks at the Sonha factory in Hanoi.

Photo by Richard Nyberg, USAID

director of VFAM Consulting and head of the Hanoi Lawyer Association. “Before the PCI, there was no benchmark, no measurement whatsoever to provide an overall picture in Vietnam. At that time, normally, when you read an annual report of a particular province, it was always improving, it was always getting better.”

According to Dau Anh Tuan, deputy head of VCCI’s legal department, economic governance at the provincial level was “not given sufficient attention” in the years before the PCI. “People often talked about favorable geographical position, good infrastructure, high-quality labor, [and] large market size as factors that drove investment and competitiveness. With the introduction of the PCI, both local and provincial governments in Vietnam could see that economic governance plays a very important role for investors while considering investment destinations. I think economic governance really matters in helping provinces to become more competitive.”

Even critics have since embraced the survey. “Provinces in Vietnam that formerly reacted negatively to the PCI have turned around, and they have seriously considered the PCI as a useful tool,” said Tien. “They have researched the PCI report carefully and they also look at areas in which they can improve.”

VCCI, with support from USAID’s Vietnam Competitiveness Initiative project, has sent the 20-page surveys to over 200,000 domestic firms since 2005 in all 63 provinces and cities. The index measures key indicators on each province’s business-entry costs, land access and security of business premises, transparency, labor training, time spent on administrative procedures,

quality of provincial leadership in solving problems for enterprises, and other issues of importance to businesses.

“The PCI provides valuable information to different audiences, both in and outside of government, including central and provincial government leadership, potential investors, researchers and donors,” said USAID/Vietnam Mission Director Francis Donovan. “Many now look forward to the annual PCI report and its reflection of current economic governance and transparency across Vietnam and how it changes from year to year.”

U.S. assistance through the PCI and other activities has contributed to the Government of Vietnam’s regulatory and market-opening reforms that underpin Vietnam’s economic progress and expand trade and investment opportunities for U.S. businesses, benefiting both Vietnamese and Americans. In 2011, bilateral trade between the United States and Vietnam reached nearly \$22 billion, and U.S. exports to Vietnam grew 17 percent.

AT THE PROVINCIAL level, the PCI provides information on where a province is excelling in economic governance, and on where improvement is needed. Rankings can help leaders improve future performance. For investors and businesses, it provides valuable information regarding business climates. For the international donor community, it is helpful in monitoring the progress of reforms and understanding the development needs of different provinces. Researchers use the rich PCI data for analysis, research and publications.

Generally, provinces are performing better since the tool was launched in 2005. The 2011 results show that the

difference in scores between the top and the bottom provinces has narrowed greatly after only a few years, with only one province ranked in the “mid-low” range.

The work really starts once the annual rankings are announced and each province sees how it has fared. USAID’s project team then presents findings and analysis at diagnostic workshops—at the request of provincial leaders and with the participation of local businesses—to analyze results and discuss ways to improve performance.

In 2010, for example, Quang Ninh province hosted a live webcast conference with nine remote districts to review and improve on its score. Over 30 provinces have issued directives, action plans and resolutions on ways to improve the business environment.

Tuan, of VCCI’s legal department, noted that some provinces have established a PCI task force headed by high-ranking leaders. “Binh Phuoc went from 49th spot in 2007 to earn a position in the top 10 in 2011. Some provinces, like Ba Ria-Vung Tau, carry out training courses annually for government officials at district and commune levels,” he said.

The province of Lao Cai has steadily climbed the PCI rankings, and currently is in top place. Lao Cai created its own website to highlight transparency and other governance issues, and understands what it takes to stay in first position. “If you ask me if we feel pressure being at the top of the PCI ranking, frankly, I would say ‘yes,’” said Nguyen Van Vinh, chairman of Lao Cai People’s Committee. “It is important that we maintain our level of competitiveness and ease of doing business in Lao Cai, and fulfill well our role as provincial leaders.”

There have been some remarkable changes in performance. Ha Tinh province jumped from 37th place in 2010 to 7th place in the rankings following changes in regulations and with increased efforts to improve transparency, while Binh Dinh slid 18 positions, from 20th to 38th place.

The PCI 2009 report notes that a one-point improvement in the PCI transparency score is associated with a 17 percent improvement in investment per capita for the average company.

PERHAPS THE MOST important result of the survey tool is that businesses are seeing direct benefits from reforms put in place following PCI diagnostic workshops.

“I think the business environment of Ninh Thuan has improved over the past year,” said Tran Dinh Minh, director of Nam Thanh Construction and Production Co. Ltd., a recycling company that produces plastic, rubber and packaging material for the local market in southern Vietnam. “The establishment of the Economic Development Office is a great way to centralize all licenses regarding foreign and local investment in a one-stop shop that has made it a lot easier to do business. We are seeing improvements in areas such as business registration, time for administrative procedures and a dynamic commitment of local leadership.”

In 2011, the PCI team also surveyed nearly 2,000 foreign companies with investments in 61 provinces in Vietnam to help identify challenges for building a competitive economy with growth of foreign and domestic enterprises. Key findings from that survey revealed that, despite increased revenues in 2011, there was greater pessimism among



Photo by Richard Nyberg, USAID

Water tanks by Sonha and other producers dot Hanoi's cityscape.

foreign companies operating in Vietnam for the next two years due to global economic challenges as well as high inflation and a perceived inefficiency of Vietnam's financial system. Foreign investment in the country accounts for approximately 19 percent of Vietnam's GDP.

Just as the PCI survey results inform government about domestic private-sector concerns, the survey of foreign companies also provides important information about international investor concerns.


“Results of the foreign-invested firm survey confirm our concerns about decreasing optimism among the FDI [foreign direct investment] community for business prospects in Vietnam in the near future,” said Alain Cany, chairperson of the European Chamber of Commerce of Vietnam. “Eurocham looks to the Vietnamese Government for stronger reform commitments to improve the local business environ-

ment and sustain the country's impressive economic growth.”

Creating an attractive investment climate is about promoting a proactive, supportive culture within government that works directly with the private sector. The engagement and support of provincial and business leaders over the last seven years demonstrates their belief that the PCI is a valuable tool that informs Vietnam's entrepreneurs and officials on important governance issues.

Dam Quang Hung, Sonha's deputy director general, is banking on the confident, collective voice of his peers through the annual survey. “We use the PCI as a reference to measure changes and the ease of doing business in cities and provinces,” he says. And for Sonha and so many other companies, investing in Vietnam has become easier now that provincial leaders and the private sector are listening to and working with each other to make Vietnam a better place to do business. ■

Achieving by Changing



In Uganda, a USAID guarantee enabled an entrepreneur to receive a loan large enough to expand his business. As a result, his profits more than tripled, and he was able to hire 40 additional workers, including the chef in this photo. The borrower repaid his loan in full and has since received another loan, double in size, without a guarantee.

By Stephanie Grosser

SOUTH BASE Agro Ltd., a cotton ginnery located in Buslowe, Uganda, is critical to the country's growing cotton market. Established in 1994 by CEO Kandap Kinariwalla, South Base provides thousands of small farmers with

cotton seeds and plants. International cotton millers depend on South Base's cotton exports.

But South Base's bank had very conservative lending practices to agriculture enterprises it perceived as high risk. Therefore, despite its success,

South Base was unable to qualify for the large amount of financing it needed to grow.

As part of its assistance strategy in the country, USAID wanted to find a way to channel excess capital back into the local economy, and in doing so took a non-traditional approach to development.

Growth Mindsets



Instead of relying on training to sharpen the business skills of South Base and other similar businesses, USAID in 2002 decided to also work with local banks to encourage them to invest more of their capital in local businesses. Using the Development Credit Authority, a USAID credit guarantee program, the mission was

able to mobilize local money—and not just that of U.S. taxpayers—to finance development.

By offering to share risk, USAID successfully encouraged local banks to increase their investments in small businesses like South Base. Under the risk-sharing agreements, seven banks lent \$26 million of their own funds over five years to pre-identified sectors and, in the process, learned that lending to small businesses can be profitable.

In addition to opening up local financing, USAID offered a complementary technical assistance program that taught Ugandan small business owners how to represent themselves to financial institutions and showed banks how to evaluate small business risk. By building capacity and equipping the banks with the guarantee facility, the system began to produce results.

Entrepreneurs no longer needed to depend on loan sharks for access to capital. Thanks to the credit guarantee and technical assistance, 273 small businesses and microfinance institutions received loans totaling \$26.3 million. Given the central role these businesses played in their supply chains, the impact reverberated throughout the Ugandan economy.

South Base received \$600,000 in local financing, and within four years, the company saw its annual sales top \$500,000, and purchased cotton directly from 3,000 rural farmers and 24 middlemen. Uganda Microfinance Union used its loan to lend small amounts to more than 27,000

borrowers. A Ugandan fish exporter, Begumisa Enterprises Ltd., used its credit to purchase fish from 7,000 fishermen.

“Today we buy cotton directly and indirectly from 20 to 30,000 cotton farmers and our annual sales top \$2 million. Financing has enabled us to grow ...,” said Kinariwalla.

In Uganda, as in most of the countries where it works, USAID uses credit guarantees to grow new markets. Through this guarantee, USAID demonstrated to banks that loans to small businesses are not as risky as perceived. After the guarantee expired, 70 percent of the borrowers received subsequent loans. Two international banks involved in the guarantee went on to open small business lending divisions.

“The Development Credit Authority guarantee facility is a partnership where the U.S. Government shares risk with a local bank. It is not U.S. Government money. It is local capital,” said Jackie Wakhweya, development finance specialist from the USAID mission in Uganda. “The DCA financing model fits into our Feed the Future strategy of investing in agriculture as a long-term driver of economic growth and food security.”

“All of this matters because, at the beginning of the value chain, there is a small farmer relying on the entire system to function,” said Ben Hubbard, director of the Development Credit Authority. “Making agriculture value chains work by unlocking financing is the key to enabling people to grow their way out of poverty.” ■

By offering to share risk, USAID successfully encouraged local banks to increase their investments in small businesses like South Base.

A Seed in the Desert and a Seat at the Table

By *Emilia Pires*

Your Voice, a continuing FrontLines feature, offers personal observations from USAID staff and development voices. *Emilia Pires is the finance minister of Timor-Leste, chair of g7+, and co-chair of the International Dialogue on Peacebuilding.*



EVERY MORNING, I am greeted by the local gardener, Guilherme, who busily tends half-broken trees and overgrown bushes, planting seeds in the modicum of soil available in the suburbs of Dili, the capital of Timor-Leste. Hopefully, the seeds will bring new life to a city that had been almost wholly destroyed in 1999, devastated by war and cyclical instability. Salutations are brief.

In early 2008, Guilherme said to me: “Minister, we are not producing; bellies will not be full come rainy season.”

He knew what I knew: Food security and peace go hand in hand.

As I entered the office that day, I asked my chief economist to look up the price of rice. He returned ashen-faced bearing the bad news: The price of rice had risen 218 percent. With a reduction in domestic production and rice imports rising, our budget was now in shambles. This is what the international community calls an “external shock.” As minister of finance, I call it “being in shock,” a state I have come to know well since coming into office on August 8, 2007.

On day one of my mandate as minister, I walked into the Ministry of Finance with no handover, no functioning computers that could spit out the kind of standard information ministers of other nations would expect, and a highly politicized public service that was deeply loyal to the previous ruling party. I admit I was never trained in how to “rule”; I am a technocrat with a background in public service. We were a government formed to serve.

In 2007, we started identifying national priorities and insisting that donors align and harmonize with those national priorities. Within two years, we had reduced poverty by 9 percent. These are results achieved for our people. These are the results of true development partnerships.

In 2011, Timor-Leste launched the Strategic Development Plan 2012–2030. We rifled through some 4,000 reports written on and about Timor-Leste over the past decade, and to our surprise, not one cross-sector analysis had been done on how to build the nation or what the global costs would be in a state the size of a small town

in the United States. Not one town-planning document for the capital had been developed.

We wanted to know [the answer to] one simple question. How much will it cost to create the basic and core infrastructure for Timor-Leste? Not one donor, international partner, or government office had coordinated the most basic of information. This should cause a moment of pause for any partner in development. Why have we not gotten the basics right? Data, planning, alignment, interventions?

When I look at my own country, in many ways we are starting from the beginning and are lucky to have established one of the best resource petroleum funds that will benefit our people now and in the future. Internationally, we are recognized for our revenue transparency; however, that level of transparency must start at the global level.

We went from being a failed state to being one of the top-10 fastest-growing economies in the world. It is a success story because of inclusive politics, because we, as a nation, fought a common enemy—poverty—and we made our national motto “Goodbye Conflict, Welcome Development.”

From the smallest village to the city centers, our people were looking to the future with this phrase and with economic and social policies reigniting hope. It was their united will that brought peace and stability. When the United Nations handed over primary policing responsibilities to the Timorese police, there was no increase in crime. This was a benchmark that trust and confidence had been earned, and communities were normalized to a new way of life.

Recently in a g7+ meeting, my colleague from South Sudan said, “Nothing about us, without us.” I echo his sentiment. There should be no more policy where we are not at the table, no more research where we cannot contribute, no more forums where we are not offered a seat. And every “G” meeting should embrace our little “g” because we represent the largest population of the globe, but also the most vulnerable, and we deserve the opportunity to contribute to peacebuilding for all regions and continents.

One day, I asked Guilherme the gardener about the fruit in Timor-Leste. He said that the banana was the most common fruit but that durian was the most coveted. From that advice, I created the “Banana Show” for my cabinet members to target the success of budget execution. Every minister had to hit a certain budget execution rate that was associated with a Timorese fruit, banana being common (less than 25 percent), papaya the next higher (between 26 percent and 50 percent), with the durian being outstanding (above 75 percent execution rate). The Banana Show would be transparently published in the local paper for our people to judge the performance of their government.

Through humor, good will, a common purpose and a little innovation, the Banana Show became legendary. Budget execution was the highest ever, rising from 49 percent when we came into office, reaching 89 percent and continuing to progress on increased budget amounts. It worked.

Soon after the day I had learned of skyrocketing rice prices, we were one of the first countries to set up an economic stabilization fund. The international community said it was not the right thing to do and accused us of



Ana Florinda da Costa (left), 25, who got her job through a USAID internship program, works with a colleague at the Discovery Inn in Timor-Leste.

intervening in the private sector by subsidizing the purchase of rice. However, we had enough rice for our people come rainy season and every season thereafter. A year later, we witnessed one of the largest interventions into the market in world history with the U.S. banking sector. I was not surprised. Right or wrong, governments, either from fragile nations or world powers, must often make difficult decisions for their people.

The very same people who criticized the Timor-Leste economic stabilization fund offered an apology. I accepted.

Now, I am not sure if Guilherme the gardener ever knew that I listened so much, but this is inclusive politics on the local level. As for the global level, Guilherme can teach us this: Listening and planting seeds to grow, even in the most arid places where you think they could never grow, is worth the risk ... and Timor-Leste is an example. ■

This essay originally appeared in longer form in USAID's Frontiers in Development publication, available online.

The Philippines Courts Green Growth

NEARLY A quarter of Filipino households still lack access to electricity—3 million out of 14 million homes. Poverty, the high cost of energy, lack of investment in the power industry, and slow implementation of the government's energy policies contribute to so many Filipino homes remaining stifled in darkness.

The country will need to increase access to power nationally and to electricity services locally for its economy to reach its potential rate of growth. The Philippine Government is working on both fronts to achieve its target of expanding basic electricity services to 90 percent of households by 2017.

But it is also courting a particular kind of growth—a green economy that increases energy production while

decreasing the rate of greenhouse gas (GHG) emissions.

While its economic growth forecast presents an improving trend, from 3.7 percent in 2011 to 6.4 percent in the first quarter of 2012, the Philippines continues to be threatened by the adverse impacts of climate change. According to a U.N. study, the country incurs economic losses of about \$230 million annually due to severe typhoons, floods and extreme droughts.

Although the Philippines is not a major greenhouse gas emitter, it recognizes the need to take a more active role in mitigating the effects of climate change by shifting to clean and renewable energy sources. The Philippine National Framework Strategy on Climate Change demonstrates the country's commitment to this low-emission pathway to growth.

The U.S. Government is helping approximately 20 countries implement low-emission development strategies (known as LEDS) by 2014. In the Philippines, U.S. experts are increasing the country's ability to better track greenhouse gas emissions—an integral step in monitoring, reporting, and, eventually, limiting the main drivers of climate change. LEDS entails rigorous analysis and long-term planning to support development objectives and unique circumstances.

OLIVER GONZALES, environment and natural resources officer of Batangas City, is leading the efforts to complete a GHG inventory report to use as a foundation to design a local climate change action plan.

“GHG inventory is a way of measuring the livability of a community. If we know our emissions, we know our source. We know what to do, when and how to act, and then we live healthy,” Gonzales said.

Batangas City, a USAID partner for LEDS, and a top revenue-earning city, is also considered one of the Philippines' economic growth centers.

Since 2010, USAID has provided training countrywide on global climate change, greenhouse gas accounting and management to more than 1,000 individuals like Gonzales from the government, academic institutions and private organizations through online courses and face-to-face workshops.

At the national level, in February and April, USAID held planning and technical meetings on greenhouse gas inventory for the agriculture, forestry, land use and energy sectors.

USAID/Philippines Mission Director Gloria Steele said: “Tracking GHG emissions enables governments and



Photo by Ezekiel Laurence Enrique, USAID

USAID Deputy Administrator Donald Steinberg, right, views an exhibit highlighting the environmental partnership between USAID and Batangas City, Philippines. USAID has helped the city develop its greenhouse gas inventory and provide electricity for schools using renewable energy technology.

industry to identify the most cost-effective options for reducing emissions while growing their economies. By monitoring emissions and other key data in a transparent and rigorous way, the public, government and industry can properly gauge if changes are leading to the desired environmental and economic impact.”

Transparent, high-quality data are also essential for the Philippines to access international climate funds for its energy reforms, and attract private investment for energy projects.

“The transparent and participatory nature of LEADS strengthens governance, facilitates investment, and highlights opportunities for growth, while reducing opportunities for graft,” said Steele.

TO COMPLEMENT its technical expertise in devising the LEADS strategy, USAID has been supporting programs in the Philippines on energy conservation and efficiency and the use of clean energy. Since 2002, the Agency, through its Alliance for Mindanao Off-Grid Renewable Energy (AMORE) project, has provided electricity to more than 13,000 households in 474 remote rural villages. Using solar photovoltaic cell and micro-hydro power systems—harnessing the power of the sun and water—USAID/AMORE has installed more than 300 renewable energy-powered street lights and illuminated more than 140 community centers.

The project has also provided 224 schools with equipment that converts solar power to electricity, enabling students to access distance education services and audio-visual materials.

Batangas City is also moving towards developing a comprehensive GHG management plan to complement its

advocacy for green infrastructure and eco-industrial park development.

“We are not just talking about a city that is an award-winning livable community or one that has environmental protection. We’re not simply talking about the city that has won awards for its good governance. We are talking about a city that draws together the best of its entire population,” said USAID Deputy Administrator Donald Steinberg on a recent trip to Batangas City.

IN THE PHILIPPINES, LEADS is likely to lead to public and private investments in power generation, energy efficiency, transport planning, clean energy, and sustainable forest and mangrove management.

“Improving management of forests and mangroves is a strategic investment because they not only absorb and store carbon, but also serve as a buffer to storms and flooding, helping the Philippines protect itself from the negative effects of climate change,” says Steele.

Protecting and sustaining the country’s natural resources is a key component of the U.S. and Philippine Governments’ joint pursuit of broad-based and inclusive growth under the Obama administration’s Partnership for Growth (PFG) initiative as well (see sidebar). The PFG will mobilize the resources of both governments to address the most serious constraints to economic growth and development in the Philippines.

Gonzales attributes the success of Batangas City’s green programs not only to the leadership of the city government but, more importantly, to the commitment of private partners and the community to sustainable development.

“As we continue to pursue initiatives for sustainable and inclusive development, we will continue to rely

A Partnership for Green Growth

What prevents a country from reaching higher growth rates? The Philippines, along with Ghana and Tanzania, are part of the first group of pioneer countries the United States is working with to solve this economic riddle.

Launched in Manila in 2011 by Secretary of State Hillary Rodham Clinton, the Obama administration’s Partnership for Growth (PFG) seeks to identify the various bottlenecks that keep the Philippines from achieving its maximum economic potential. Over a five-year period, analysts from both countries identified two primary constraints to growth: weak governance and poor investment climate.

LEADS interventions, such as improving transportation through alternative technologies, reducing the high cost of electricity, and promoting access to affordable power, will directly address those constraints.

“The Partnership for Growth is fostering inclusive economic growth in the next generation of emerging markets, while LEADS is key to achieving the country’s economic goals by focusing on sustainable natural resources management,” says USAID/Philippines Mission Director Gloria Steele. “Together, both efforts will work together to achieve sustainable and inclusive economic growth in the Philippines.”

on our progressive relationship with the community. We also hope to serve as a role model for communities throughout the Philippines so that we can make a huge contribution in the global campaign against climate change,” Gonzales said. ■

This article was written by staff from USAID’s mission in the Philippines.

An Eggplant-Sized Difference

How learning simple techniques improves production and boosts income from a lucrative but fickle cash crop in southwestern Bangladesh.

MOHAMMED Azad has been involved with eggplant production since 1998, when he joined his father in vegetable farming after finishing eighth grade near Hurgati, Jessore, in southwestern Bangladesh.

In 2006, the then-22-year-old Azad took over management of his father's farm, growing eggplant and other seasonal vegetables on his quarter-hectare plot (about half the size of an American football field). Eggplant is one of the crops most prized by smallholder farmers in Bangladesh, and it is the second most commonly grown vegetable in the south, where demand is high.

But Azad's crops—like those of many Bangladeshi farmers—suffered from pest attacks, poor yields and high production costs. Each year, around 30 percent of his produce was ruined.

With two families to support—his own wife and child, as well as his parents and siblings—Azad nearly gave up on the lucrative but fickle cash crop. But with USAID's help, he was able to take advantage of several agricultural technology initiatives and turn his fortunes around.

Starting in 2008, the USAID project began supporting training for 2,050 eggplant farmers on modern growing practices. The project organized farmer field schools, which have an educational curriculum and extension approach that is popular worldwide.

Such “schools,” which are essentially regular training sessions, use a group, hands-on approach to help farmers make decisions, solve problems and learn new techniques. Demonstration plots have showcased best practices.

“Field days” have also helped growers identify pests and diseases, implement cost-effective control measures, learn to assess the maturity of eggplant crops, and improve harvesting methods to reduce produce spoilage. The USAID project, which ends next year, has also supported improved market linkages for participating farmers.

SINCE AZAD had no clear idea about the type of pest affecting his eggplant field, he would randomly apply—and often overuse—pesticides, increasing his costs without solving the problem. Since he didn't know how to manage seedlings in a nursery, he rarely received the good yields and prices that could result from high-quality produce—a common problem in the nation of 160 million people, around half of whom are farmers.

In November 2010, Azad attended a two-day training course on growing eggplant with improved technology. He learned practical, modern, yet easily applicable care for eggplant crops, including the advantages of low-cost compost fertilizer, biological pest control methods such as pheromone traps, and irrigation best practices.

“I have been involved with eggplant cultivation for the last 14 years. I never knew that eggplant crops need nursing. I had no idea about the proper way to irrigate, manage pests, how to use the right amount of fertilizer in a certain area of land, or use compost fertilizer for better production,” Azad said.

To address the ongoing problem of pest attacks, the project promoted Integrated Pest Management, a time-tested, cost-effective and environmentally friendly approach to pest management that uses a mix of mechanical, biological and chemical control methods.

Around 300 eggplant farmers who trained through the program in Hurgati reported spending a total of about \$77,000 for pest management prior to adopting the new practices. After using biological control agents such as pheromone traps and minimizing use of pesticides, farmers spent just \$25,000 for the same area cropped to eggplant, and the percentage of crops lost to pests was reduced from between 12 percent and 15 percent to about 2.5 percent.

With higher-quality produce, Azad could now consider new markets. Previously, he sold his eggplant to middlemen at a comparatively lower price because of the crop's low quality and his lack of knowledge about pricing in local and regional markets.

The USAID project helped Azad build market connections, and now he and his fellow neighborhood farmers aggregate their higher-quality produce and take it to two wholesalers in a regional market in Manirampur. Thus, they get a premium price for a reliable, high-quality supply of produce. Through linkages established as part of the program, Azad also was able, for the first time, to supply

eggplant to other major markets such as Dhaka and Khulna.

IN BANGLADESH, where most people live in rural areas, agriculture employs around half the labor force and accounts for a fifth of the country's GDP.

And smallholders are not only the driving force behind the overall growth in the agriculture sector, but are also key to the country's efforts to counter the second-highest undernutrition rates in South Asia.

Nationally, 30 percent of women are underweight, and 41 percent of children under age 5 are chronically undernourished or "stunted." Because chronic undernutrition is higher in rural areas, children there are less likely to be physically and mentally developed than their urban peers. The condition is aggravated by lack of food variety in meals; for example, about 80 percent of dietary energy comes from cereals (75 percent from rice alone). Smallholder farms can counteract this by contributing to more diversity in the diet.

The U.S. Feed the Future strategy in Bangladesh, focused in the southern part of the country where Hurgati is located, aims to increase the productivity of about 1 million small-farm households. Through this U.S. Government flagship food security initiative, rice yields are expected to increase by 20 percent over the next four years, freeing up land for more diversified production, including fruits, vegetables, beans and fish.

RECOGNIZING THAT it takes time to adopt new technology, the USAID program provided refresher training in 2011 before the eggplant production season started. Azad

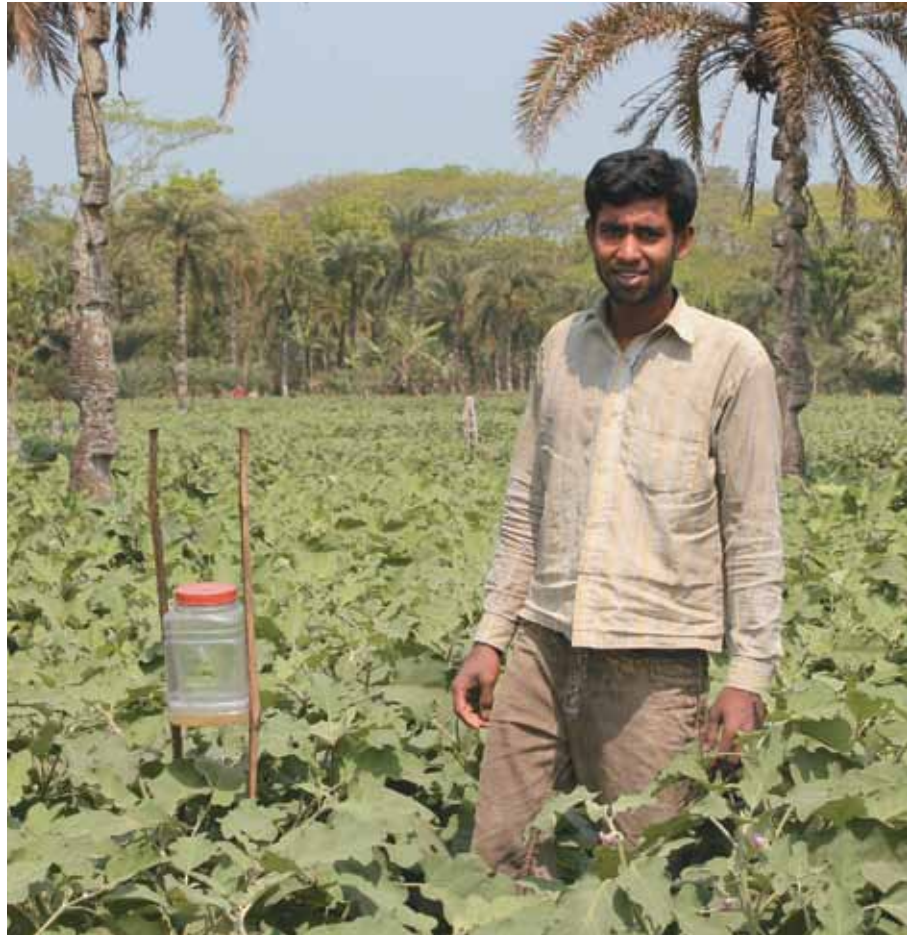


Photo by USAID

Mohammed Azad stands next to a pheromone trap, which lures insects and decreases the need for pesticides.

attended the day-long session, and that year he put his learning into practice, applying the new techniques at every step, from seed sowing in the nursery to harvesting.

The effect was tremendous. Azad's profits increased along with his production. In 2010, he made a profit of \$120 by selling 4,000 kilograms of eggplant, and in 2011 he made a profit of \$490 by selling over 13,500 kilograms of eggplant, all produced on the same plot of land. As the market develops further, Azad's profits should increase as the quality of his crop improves.

His additional profits have enabled him to buy more land and to take out a long-term lease for additional land to

supplement his production. He built his own house and bought some cattle. He can now better support his own family, as well as his parents and siblings.

"I am truly grateful ... as it has now changed the level of my living. I came to know many things about safe eggplant production, and now I know how to produce more eggplant fruit with less investment," said Azad.

This year, Azad took the logical next step in his eggplant odyssey. He began acting as an agent of change in his neighborhood, encouraging other eggplant growers and helping guide them to use better technology—all lessons he learned from the USAID-supported training. ■

The ‘Mystery’ of Growth

By Lisa Ortiz

Your Voice, a continuing FrontLines feature, offers personal observations from USAID staff and development experts. Lisa Ortiz is division chief for economics in the Bureau for Economic Growth, Education and Environment.



THE ECONOMIST Robert Lucas once said: “Once you start thinking about [economic] growth, it’s hard to think about anything else.” Over the years, I have thought about that line more times than I can count. I have thought about it even more so lately as a small group of my fellow Agency economists and I have volunteered to spend some of our time thinking about just that issue. As economists, we all know what economic growth is—in its abstract form, it’s just a number—but it doesn’t feel like a number when I drive through the back roads and villages of Rwanda. There it has a very human face.

In many ways, figuring out how to unleash the growth potential of a given country remains the holy grail of economics. That’s not to say that it all remains a mystery. In fact, we know a great deal about growth and the conditions that foster and support it. But the quest goes on for better tools and better answers.

In 2005, economists Ricardo Hausmann, Dani Rodrik and Andres Velasco proposed a new methodology known as HRV [the initials of their

last names] that would help countries identify key constraints to growth. That might not seem radical. In many countries, the constraints to growth seem all too clear. But are they the *key* constraints? When the cost of being wrong is so high, how can we know that we’re right? And how do we make those choices when they are so hard to make?

A couple of years ago, when I was working for a different development agency, I was asked to evaluate the economic potential of building a series of roads on a fairly sparsely populated island. Not surprisingly, the economic returns were nil. But the implementers still wanted to go forward. So one of the vice presidents of the agency called me into his office.

He listened closely as I laid out all of the reasons why funding the project was a terrible idea. And then he said: “I understand what you are saying, but don’t those people deserve a road?”

I knew that his concern was real. So I thought for a moment how best to respond and said: “Of course they deserve a road. Everyone deserves a road. Everyone deserves a decent home, food to eat, a good education.

But what you are forgetting is that somewhere out there is another group of people with another project, a better project that could make a real difference in their lives. And just because you can’t see their faces and just because you don’t know their names doesn’t mean they aren’t there.”

As a child, some long forgotten teacher gave me a social studies book to keep for my own. I think it’s because I had read it so often and made the pages so dog-eared that she figured she might as well just give it to me. The pages were filled with the faces of children from exotic places that I knew I wanted to go to someday. But there was one page with one little girl that I kept going back to. She seemed around my age, with dark brown hair and eyes, sitting with her little brother on the steps of what was probably their home, but what was in fact little more than a few wood boards and tin sheets being held together by some miracle.

Even though I was also growing up poor in a housing project in the South Bronx, I knew that little girl’s life was so much harder than mine. And I wanted to understand why. Why was she there and I here? Why were there places so poor and people so poor that they couldn’t even have a decent roof over their heads? Did she go to school? Did she have toys to play with? Why wasn’t she sitting in my place with me staring back at her from the pages of that book?

That first set of questions, a child’s way of asking about growth, started a long journey of actually thinking about growth through college, graduate school, and finally, through 12 years working in development. But

through all of it, the questions never changed and, for me, the nameless, faceless people we can't see—the ones who can't advocate for themselves because they are invisible to us—are all that little girl.

IN MANY WAYS, HRV's proposal is elegant and simple. It says, let's take what we know about growth and the requirements for growth and apply them in a systematic way within a particular country-context to see what we can uncover. But the true beauty of the approach is that, although it's a tool that's about economic growth, it's not a tool that is just about economics. It's about everything that contributes to growth—health, education, governance—the things we do and the things we care about. When USAID applied this approach in El Salvador, as part of the Partnership for Growth process, safety and security emerged as one of the key constraints. Not access to finance. Not macro policy. But something as basic as the fact that economic activity cannot function effectively in an environment where crime and the uncertainty of what the future will bring persist.

A tool that can give us such important and unexpected answers to a core problem—helping countries to grow—is one worth keeping.

So back to that group of USAID economists sitting in a room thinking deep thoughts about growth. What we've been asking is: Can we make HRV an even better tool to address our development issues? Of course, we should feel heartened by the fact that a preponderance of empirical evidence shows that sustained growth is associated with a clear drop in poverty levels. Due in no small part to astounding

global growth rates, between 1981 and 2008 the percentage of the world's population living on less than \$1.25 per day went from 52 percent to less than half of that—and HRV is targeted exactly on the issue of growth.

But it's still a fair question to ask. Can we uncover the mechanics of how that process works at a more fundamental level and use that knowledge to better target our resources?

Currently, we are piloting some exciting alternative methodologies developed by USAID economists that are based on the original HRV,

but that ask deeper questions about poverty and the poor. It will still be some months before we have solid results, but we are excited about the prospects of making a good tool even better.

A long time has passed since I was that little girl sitting with a ragged book on her lap. But even though I'm a big girl now and know so much more about the way the world works and how poverty can persist in a world with so much wealth, understanding why that little girl and I lived such worlds apart isn't any easier. ■



With the Salvador del Mundo monument in the background, the Salvadoran Youth Movement Against Violence prepares to launch a major national campaign in March 2011. USAID analysis during the U.S.-El Salvador Partnership for Growth process found that safety and security were among the country's key impediments to growth.

Photo by Claudia Escobar de Flores, Creative Associates International



Faris Malik in his expanded Tikrit workshop.

Microfinance Fuels Iraq's Growing Private Sector

By David DeVoss

SAAD ABDUL Ridah Hassan grew up poor in Diwaniyah, an impoverished town of 450,000 almost 100 miles south of Baghdad. At age 7, he began selling newspapers to motorists at traffic lights. It took 17 years for him to scrape together enough money to rent a tiny space for a stationery shop.

But Hassan's life began to change in 2005 when a USAID-supported microfinance institution loaned the

ambitious entrepreneur \$3,000 to expand his shop.

He paid the money back and received four additional microloans to open two more stores, enlarge his three shops and lease another to sell men's clothing, housewares and costume jewelry. At 32, Hassan has wisely invested five microloans totaling \$38,000. His businesses currently employ five people, earn \$15,000 a month in profit, and generate double that in monthly revenues.

Iraq's future depends on economic growth led by the private sector. And USAID's support for reliable institutions that provide predictable sources of credit is enabling thousands of businesses like Hassan's to expand, fueling Iraq's growing private-sector economy.

These efforts have created over 212,000 new jobs in the service, trade, manufacturing, construction and agricultural sectors. Indirectly, microfinancing has generated over 300,000 more jobs by saving existing businesses temporarily short of cash, allowing entrepreneurs to take advantage of opportunities they otherwise could not have, and inducing wholesale suppliers to add workers. Strategic microfinance loans also help subsistence farmers to get by between planting and harvest.

The absence of a significant modernized banking system or microfinance industry in 2005 strained Iraqi enterprises and entrepreneurs. The rising tide of civil conflict was an additional burden on the economy.

During those war-torn years, USAID helped establish the country's first indigenous microfinance institutions and began to support the transition of the country's private commercial banks towards modern standards. Since then, nearly 400,000 microloans—ranging from \$500 to \$5,000—have been disbursed throughout Iraq with a combined value of more than \$1 billion and a 98-percent pay-back rate.

There are currently nearly 89,000 active microloan recipients—nearly a quarter of them women—who have borrowed a combined \$134 million for anything from starting a kindergarten, mini-market or auto garage to buying a taxi, expanding a home-based business or buying industrial equipment.

Since 2004, in fact, USAID partner microfinance institutions have disbursed loans to more than 64,000 women in Iraq, sustaining 52,000 women-held jobs.

Iraq's microfinance industry has matured with the assistance of USAID/Iraq's *Tijara* Provincial Economic Growth Program. Three years ago, microfinance institutions began disbursing solidarity group loans to small market and neighborhood vendors who guarantee each other's repayment. Such loans have enabled more than 60,000 borrowers, who were previously unable to qualify for a loan, to

invest around \$60 million in microloans to start or expand their businesses. Many, like Hassan, are disadvantaged men and women who, before gaining access to credit, were forced to survive at the Iraqi national poverty line of \$2.20 a day.

"Thanks to increased staff capacity and strong operating systems, the Iraqi microfinance industry, as of April



Five microloans totaling \$38,000 helped Saad Abdul Ridah Hassan build four retail shops, a wholesale warehouse and a city-wide distribution network in Diwaniyah. "I built my business rapidly because of help from USAID," he says.

2012, has achieved a remarkable 13 percent growth in the number of clients and 22 percent growth in outstanding portfolio compared to the previous year," said Abbas Saedy, general manager of the Al-Thiqa Organization for Microfinance in Kirkuk.

THE ISLAMIC prohibition against charging interest required financial institutions to adapt. Because tribal sheiks were consulted on the design of *sharia*-compliant microfinance loans, religious leaders in provinces such as Anbar issued

fatwas asserting that USAID-supported microfinance institutions were religiously acceptable. About 14 percent of all microfinance loans outstanding in Iraq are based on Islamic *murabaha* financing, which involves charging a service fee rather than interest.

Outside the Islamic world, a customer borrows money from a lender at a fixed rate of interest for a specific amount of time. The money, plus interest, is paid back to the lender when the loan is due. In *murabaha* financing, the lender purchases the goods directly and delivers them to the customer, who, at an agreed time, repays the lender for the cost of the goods plus a fee for the lender buying the merchandise.

The Al-Aman Center in Kirkuk, one of 12 microfinance institutions supported by USAID, began providing Islamic financing in 2009 to young couples who wanted to start their own families but lacked the money to furnish homes of their own.

A \$1,800 microfinance loan made it possible for Ziyad Fadel Nayif, 35, and his 30-year-old wife, Bahya Awad Hasn, to move into their own apartment after three years of engagement. Instead of loaning money with interest, Al-Aman purchased the newlyweds' furnishings, decorations and appliances. Al-Aman then charged the couple a fee based on the amount of money it spent to buy the household items. This different structure allowed the couple to get the things they needed to live independently. Says Nayif: "Having my own home means Bahya and I now
continued on p. 45

Directionally Challenged:

Effort to Name Ghana's Streets Points the Way to Economic Progress

By Peter Fricker

ASK FOR directions in Ghana and you will likely hear something like this: “When you get to the next junction, turn right, look out for the coconut tree, behind which you will find a yellow kiosk. Ask whoever you see for Auntie Akua’s house. Next to Auntie Akua’s house is the house you are looking for.”

In 2010, Ghana’s urban population exceeded 50 percent. Ten years earlier,

44 percent of Ghanaians lived in cities, with the remainder residing in rural communities. As the country of over 24 million rapidly urbanizes, many communities still lack street names and house numbers, and rely instead on informal directions and local landmarks. Mail delivery is restricted to P.O. boxes, and access by emergency services—including ambulances, firefighters and police—is

limited. It is also a barrier to efficient commerce and has a negative impact on small business and the country’s economic growth as a whole.

Businesses, including financial institutions and telecom service providers, currently have a difficult time tracking their debtors. “Sometimes, it takes weeks, and even months, to locate a person my company loaned money to, if we are lucky. We have to resort to asking, for example, ‘Do you know Auntie Akosua?’ and more often than not the answer is ‘no,’” said Wilfred Ashong, a microfinance business owner.

However, this is changing with a new Ghanaian initiative supported by USAID. In April, Ghanaian Vice President John Dramani Mahama launched the National Policy Document and Operational Guidelines on Street Naming and Property Addressing System. These policy documents provide local metropolitan, municipal and district assemblies (MMDAs) with guidance to develop land-use plans for their cities as well as to name existing thoroughfares.

In December 2011, USAID signed memorandums of understanding with five districts and has since provided them with state-of-the-art computer equipment, satellite imagery and training in geographical information system (GIS) mapping. Through the use of the GIS tools and mapping software, planners can now digitally assign unique identification numbers and issue permits for specific parcels of land, making it easy to track who owns which parcel, and for what purpose. As a result, it will be easier to maintain a more reliable database of all physical structures, including residences, recreational facilities and businesses.



Ghanaian Vice President John Dramani Mahama is briefed on street naming and numbering projects, April 28, 2012.

In parallel, the district assemblies formed street addressing teams and have begun to generate digital maps of their districts. Once the mapping and street naming is complete, USAID will fund street signs to be customized and installed by district assemblies. The street names will be generated by consulting with traditional chiefs and elders of the various communities who are abreast of an area's history and culture.

The new street names and property identification will have another economic benefit beyond helping customers and business connect—the addresses will be digitally integrated into a tax-collection database with future taxes slated to help sustain district development and growth. USAID, in fact, predicts a 30-percent increase in tax revenues once cities begin using GIS databases to assess property taxes. The effort will save on property valuation as it will no longer be necessary to produce new base maps.

“The street naming exercise will now provide the Internal Revenue Service and other revenue-generating organizations the opportunity to access all businesses and properties that are taxable,” said Mahama. This kind of increase in local revenue generation will enable Ghana to achieve its goal of aid independence.

IMPROVED SPATIAL data will be an important boon to local governments. Currently, most MMDAs in Ghana do not have accurate information on property ownership and are unable to collect all property taxes. The central government funds each decentralized district budget from a common pot. These quarterly transfers are typically delayed, and even if received in full, in some cases will only



Photo by Henry Boaschi, MSI/USAID

Ghanaian Vice President John Dramani Mahama presents the new national policy on naming streets and addressing property, April 28, 2012.

cover 10 percent of development needs. As a result, a district's ability to raise its own revenue is a key ingredient to improving the quality of life for its residents.

“We will have data about the types of businesses and residencies and their respective locations, following the street naming and property addressing. We will then be able to group residencies and businesses, and collect the appropriate revenues to build the schools and hospitals our people need,” said Enoch Appiah, district chief executive of Shama.

Many challenges remain to meet the vice president's goal of implementing the guidelines throughout the 212 districts of the country. Conservative estimates based on USAID's experience with five districts suggest that Ghana would need at least \$30 million to implement the program nationwide. This estimate does not include

the major cities, as cost may vary depending on size. The Ghanaian Government may have to solicit these funds from external sources. Another challenge: Ghanaians, like most people in the world, are not the most enthusiastic tax payers, and collection enforcement can be difficult.

While there are legitimate challenges to achieving nationwide street naming and property numbering, the Ghanaian Government remains optimistic that it will ultimately be an important driver of progress.

“Hopefully, when we are able to collect the right revenues following the street naming and property identification, it will help us to greatly speed up the development of this country,” said Mahama. ■

Peter Fricker is chief of party of USAID's Local Governance and Decentralization Program in Ghana.

Economic Achievement

continued from p. 3

500,000 bank branches), mMoney can exponentially increase access to financial services. mMoney approaches help root out corruption by eliminating middlemen to financial transactions and by taking poor peoples' financial transactions out of alleyways and into the formalized financial system.

The fourth and final area where we put our focus is in risk sharing. In developing countries, many sound business investments do not take place due to perceived high risk. As a result, jobs are not created and income opportunities are lost. USAID works with the private sector to reduce risks through several mechanisms.

USAID's Development Credit Authority (DCA) (see page 28) provides a partial guarantee when a bank extends a loan to a viable local business. A DCA guarantee reduces the risks faced by local financial institutions and unlocks financing that helps businesses to grow. Whether it's getting working capital to promising entrepreneurs or input financing to small farmers, DCA seeks to prove the commercial viability of lending to local entrepreneurs so that lending and investment continues long after we exit.

The Global Development Alliance (GDA) is an innovative public-private partnership model for improving economic and social conditions in developing countries. Under this model, USAID provides grants in combination with the assets and experience of strategic partners. Working with multinational

corporations, and regional and local companies, USAID builds public-private partnerships that can have significant and sustainable impact on major development challenges while reducing the risks faced by our private-sector partners.

USAID works with the private sector through cooperation with the U.S. Overseas Private Investment Corporation (OPIC). OPIC achieves its mis-



Ethiopian native Getinet Enyew returned to his country after learning a local bank was approving loans for qualified members of the diaspora to start businesses. He jumped at the chance to build an organic farm in Menagesha. The local loans are partially guaranteed by USAID.

sion by providing investors with financing, guarantees, political risk insurance and support for private equity investment funds. In some cases, USAID provides technical assistance alongside the OPIC financings, thereby enabling worthy private-sector transactions to proceed.

ALL OF THESE endeavors have helped create the conditions necessary for private companies to grow in many countries.

Adoption of such policies helped Thailand increase real per capita

incomes by 5.5 percent per year between 1965 and 1995—quintupling average incomes in three decades. Botswana grew even faster, with 7.2 percent annual growth in per capita incomes over the same period, resulting in an eight-fold increase in the average incomes of its citizens. These achievements allowed Thailand and Botswana to graduate from USAID assistance—along with other successful countries like Costa Rica and the Czech Republic.

And as these countries grow, it helps our own economy grow. In USAID's 21 largest recipient countries, the number of people living in extreme poverty fell by more than 136 million between 1993 and 2008. These income improvements are creating markets for U.S. goods and services, and jobs for U.S. workers. Today, developing countries buy roughly half of all U.S. exports.

In 1954, USAID's Food for Peace program brought flour to Taiwan and taught people how to bake. Today, the country is our sixth largest agricultural market and the United States is Taiwan's largest supplier of wheat and corn.

Our entire history of development aid to Taiwan cost the American taxpayer about \$1.4 billion between 1949 and 1963—or about \$100 million a year. Taiwanese tourists now spend over \$1 billion every year traveling to the United States.

In this issue of *FrontLines* you will read about some of the innovative economic projects that USAID is undertaking with its partners to ensure that more growth occurs, more countries graduate from assistance, and more markets are created for American companies. ■

Land Tenure

continued from p. 11

40 percent increase. The result: More people, particularly women, sell more crops and keep more of the profits.

“I think at the end of the day, it creates a more vibrant economic environment where local populations are able to secure a better return on their own investments. And that means that local populations are then contributing to the economic growth of the country,” Myers said.

IN ETHIOPIA, success is also measured in progress for women, who are often marginalized in many aspects of society, including land ownership. That is slowly changing. One older woman told Myers during a recent visit that she was leasing her property to a man and believed him when he said she owned only a quarter hectare. After USAID’s land-tenure efforts, which included measuring her property, revealed she actually owned 1 hectare, the woman started charging the man four times as much. She used the extra money to send a daughter to school.

“And when we talked to other people who had received certificates, we started to hear similar stories about how now they had really much greater economic empowerment as a result of just having information about what they had rights to,” Myers said.

In Liberia, USAID began conducting an inventory of tribal certificates in March, an early step in the registration process, as the country works to reform its land ownership rules. Tim Fella, a USAID land tenure and conflict adviser, explained that traditionally, people would obtain a tribal certificate as a first step in acquiring a property deed, but would not complete the registration

process with the government. Once the extent of the tribal certificates is known, the country can better decide how they will factor into its new land tenure laws.

Melvin Pouh, town chief of Sedecken, in Liberia, applauds the government’s and USAID’s efforts to help put land-rights issues in order.

“Our grandparents did not know what a tribal certificate is and, therefore, they were not interested to secure the land. That is why we have these companies taking over our land,” he said, referring to a nearby rubber plant. “All our people knew was that the land is for them. They were born here and died here—no interference until these companies came.”

He said the people in his community are suffering as a result of having nowhere to plant food.

In South Sudan, communities are also organizing around the issue of land rights, said Tidiane Ngaido, chief of party for USAID’s Sudan Rural Land Governance Project. Many residents are clear on the boundaries of their town and individual properties. But disputes are inevitable as returnees find it difficult to reclaim land being occupied by others.

“The state of Jonglei, which was composed of four great communities—Bor, Pibor, Akobo and Pangak—is now divided into 11 counties,” he said. “This process of decentralization will foster many disputes until the various communities agree on their respective boundaries and the rules and regulations governing access and use of these resources.”

Ngaido acknowledges that, in the long term, South Sudan will need public and private investments to exploit its natural resources. The Comprehensive Peace Agreement signed in 2005 that helped usher in the existence of the new

country also called for community and individual land registration as well as for community consultation and compensation when land is to be acquired.

“These two provisions will ensure peace and security, and enable communities to be involved in the negotiation processes and receive compensation for the use of their resources,” Ngaido said. “This will facilitate access to land for investors, and preclude many of the problems that they are facing for accessing land.”

MYERS, WHO HAS worked on land tenure issues for more than two decades, says the new guidelines should create the conditions for smart, sustainable investments that profit everyone with a stake in the deal.

“We all firmly believe that a fundamental building block of any democracy or market-based economy is the right to property,” he said. “If you don’t have the right to property, you cannot be a member of the economy. You can’t participate in a broader economy or a market system. And you don’t have a say in the political process.

“I believe that, as countries move forward toward recognizing or toward addressing this issue, this will reduce the kinds and the types of investments which we need to make in development, because people will have a greater political standing and greater economic opportunities to be able to do the kinds of things that you and I do here in the United States: to make our own individual decisions about how we best deem to manage our lives, how we want to engage in political decisions or political discourse, and how we want to engage in economic opportunities that will benefit ourselves and our families.” ■

West Bank

continued from p. 15

Recently, Canaan, in partnership with the Palestinian Center for Agricultural Research and Development, participated in an agricultural pilot project supported by USAID. In an olive grove near Nablus, 300 trees were divided into designated plots. During the course of a year, the different plots received specific amounts of organic liquid fertilizers and supplementary irrigation, as well as improved pre- and post-harvest handling processes. At the same time, a control group of olive trees was cultivated using traditional methods with no additional fertilizers or irrigation.

At the end of the season, the targeted olive trees produced fruit twice the weight and size of the control group, doubling the volume of olive oil per tree. In the current season, USAID will help 80 farmers to apply these best practices to produce international standard olive oil.

“USAID’s assistance to olive farmers helps them increase the quantity and quality of the oil they produce, and is part of a larger economic growth initiative to bolster the Palestinian economy by connecting it with external markets,” said Michael Harvey, USAID’s mission director for the West Bank and Gaza.

Local farmers have produced olive oil for thousands of years. Yet ensuring that the Palestinian olive oil industry continues to thrive and can compete internationally requires adopting a Canaan-style model, including the new methods piloted with USAID, to

increase yields and produce a high-quality oil.

“The business model that Canaan has created is exciting,” says Denis Gallagher, chief of party of USAID’s Compete Project, which aims to make agriculture and other main economic sectors in West Bank/Gaza more competitive. “We want to replicate this approach in other agricul-



Newly harvested olives. The sooner the olives are pressed into oil, the lower the acidity and the better the quality of the oil.

ture production processes throughout the Palestinian territories. In a sense, Canaan is setting a standard and creating an incentive to others to create a higher-quality product.”

CAANAN’S NASSER Abufarha believes that marketing and packaging must tell the story of this region’s olive crop to appeal to customers willing to pay top dollar for organic products with an impressive pedigree.

“We sell products that come from this land and share an ancient narrative. The terrain is hilly and rocky, and olive trees grow slowly on terraces

carved on the side of the mountain, the way they were cultivated a few thousand years ago,” explained Abufarha. “This setting allows biodiversity and sunlight, leading to healthier olives and better tasting olive oil.”

This message, combined with the fair-trade production methods, has proven its appeal to thousands of international customers who choose Canaan fair-trade olive oil over other big name olive oil brands. Today, Canaan supplies its oil to large retailers like Whole Foods Market in the United States and Sainsbury’s in the United Kingdom.

Abufarha has worked hard to create international marketing networks for this distinctive Palestinian product. But Canaan has been able to boost its sales even further by participating in the 2010 and 2011 Fancy Food Show in New York, the largest specialty food fair in North America. At the show, local producers and chefs are able to showcase their products to an

audience of over 40,000 people, including representatives of trade and consumer media outlets.

But there is a lot more that can be done to increase sales and profits for farmers in the region. Canaan Fair Trade currently exports 500 tons of organic virgin olive oil a year, but the company hopes to reach 2,500 tons in the coming years.

The hope is that this substance, which the poet Homer famously called “liquid gold,” will continue to serve as a steady, renewable resource supporting not just healthy diets but also a healthy economy for the Palestinian population. ■

Iraq

continued from p. 39

can think about having a real family of our own.”

Because of their smaller amounts, microloans can only finance micro-enterprises; small- and medium-sized enterprises need larger amounts of credit, usually between \$5,000 and \$250,000. The *Tijara* project also works with 13 private commercial banks that have dedicated small- and medium-sized enterprise lending units.

These lending units have disbursed nearly 8,500 loans with a combined value of \$150 million. For example, with a \$26,000 loan, the underserved neighborhood of Al-Obaidy in Baghdad was able to set up a profitable medical clinic staffed with doctors, pharmacists and dentists. And a \$13,000 loan allowed the Al-Sabaya Sweets shop in Mosul to rebuild three bakeries after they were destroyed by terrorists.

Nearly 700 of these larger loans went to Iraqi women, and as a result, around 1,500 women now have access to better employment opportunities.

THE *TIJARA* PROJECT is now working with three microfinance institutions and five commercial banks to implement the Iraqi Vulnerable Groups Support Initiative (IVGS), which aims to provide low-cost microfinance and small- and medium-enterprise loans to internally displaced persons, ethnic and religious minorities, female-headed households, youth and other vulnerable groups.

Faris Malik, a 35-year-old carpenter who escaped to Salah ad Din province when his Baghdad neighborhood was engulfed by sectarian violence, used a \$10,000 loan to expand his Tikrit workshop, purchase better tools and hire three young employees. Before he got his IVGS loan, Malik had already received and repaid five microfinance loans,

several of which enabled him to win a major contract renovating classrooms at the University of Tikrit. Says Malik: “Because of USAID loans, my business is well-equipped and always busy.”

IVGS gives vulnerable Iraqis like Malik the opportunity to rebuild their lives by establishing sustainable livelihoods, providing economic value to the communities in which they have settled, and offering a long-term path toward a better life.

“Because we have helped to establish a sustainable network of microfinance institutions, we are well-positioned to help vulnerable groups,” says Alex Dickie, USAID’s mission director in Iraq. “This new program specifically targeting vulnerable groups simply wouldn’t be possible without years of work to build a broader, sustainable microfinance industry in Iraq.”

Iraq continues its transition from a state-dominated economy under dictatorship to a more market-oriented one under a democracy. Access to credit for micro-, small, and medium enterprises and strong financial institutions is critical to Iraq. It is the private sector that helps offset fluctuating oil prices and infuses the country with an entrepreneurial spirit that could generate the majority of the country’s jobs in the future.

“A successful private-enterprise economy begins with small businesses like Mercy Clinic in Baghdad, Mosul’s Al-Sabaya Sweets and Saad Abdul Ridah Hassan’s gift shops in Diwaniyah,” says Ali Al-Hussainy, the project manager for USAID-*Tijara*. “Iraq’s future prosperity will be determined by these small companies growing into larger ones.” ■

David DeVoss is communications director for USAID-Tijara.



Photo by USAID

Erbil Gov. Nawzad Hadi (in gray suit) and USAID representatives from Baghdad inspect handicrafts produced by microloan beneficiaries at a 2011 microfinance marketplace that attracted 160 people, making it the largest microfinance event in the history of Iraq.

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Employees at the Sonha Corporation in Hanoi produce stainless steel water tanks, a symbol of Vietnam's transformation. Twenty years ago, water was stored in heavy brick and mortar containers that leaked and leached cement particles on roofs and into homes across the country.

Photo by Richard Nyberg, USAID

