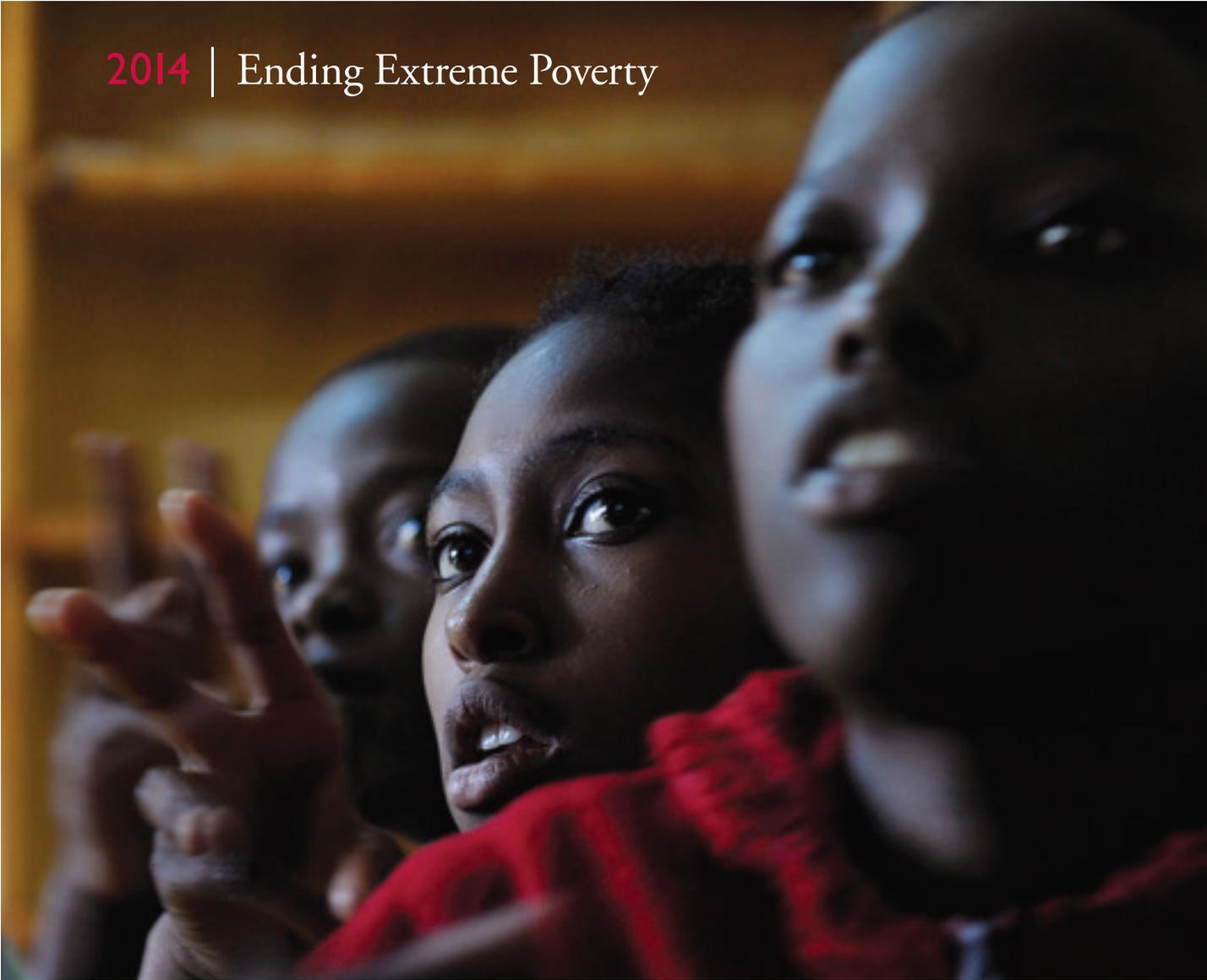




USAID FRONTIERS IN DEVELOPMENT

2014 | Ending Extreme Poverty



JOHN KERRY | WINNIE BYANYIMA | LAURENCE CHANDY | J ALEXANDER THIER
JUDITH RODIN | HOMI KHARAS | NANCY LINDBORG | ARIEL PABLOS MÉNDEZ
STEPHEN O'CONNELL | GLORIA STEELE | EDITED BY RAJIV SHAH & NOAM UNGER

“Since the dawn of humanity, extreme poverty has crowded at the heels of progress—stifling hopes and undermining growth across the centuries. Today, we stand within reach of a world that was simply once unimaginable: a world without extreme poverty.”

RAJIV SHAH, THE BROOKINGS INSTITUTION, NOVEMBER 21, 2013

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Edited by Rajiv Shah and Noam Unger
U.S. Agency for International Development



PHOTO: NOAH SEELAN / AFP



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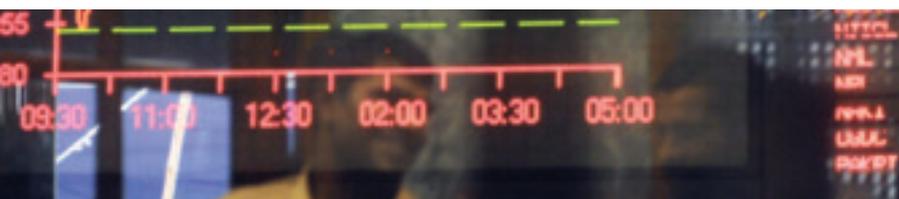
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Foreword

Two years ago, USAID convened a forum and published an associated volume of essays, all under the banner of an effort called *Frontiers in Development*. It was designed to encourage forward-looking, provocative discussion and debate that could advance development policy and practice across the full range of relevant actors.

The ultimate outcomes of such conferences can take time to unfold and are sometimes difficult to attribute. Yet these high-profile efforts are precisely where new ideas, approaches and commitments are teed up and shared, giving stakeholders across the development community opportunities to align politics, policy and practice.

Frontiers in Development served an internal function as well. The associated churn of ideas—especially around science, technology, innovation and partnerships—has informed much of USAID’s work, including the Agency’s approach to bolstering resilience and efforts around its recently established Global Development Lab.

USAID has now chosen to build upon the underlying *Frontiers in Development* concept.

Again the Agency is bringing together many of the world’s brightest minds and boldest leaders to engage in a dialogue on development. Accompanying the dialogue, and contributing to the critical exchange of ideas, is this new book of essays.

The 2014 *Frontiers in Development* Forum focuses on ways the U.S. and its partners worldwide can help eradicate extreme poverty. It is a particularly interesting and important time for wrestling with this set of issues. As countries and other global development actors come together to shape the post-2015 Development Agenda—a new set of time-bound targets to succeed the Millennium Development Goals—the elimination of extreme poverty by 2030 is likely to be a central aim.

Not only does this goal strike at our collective conscience, it appeals to our ambition and connects to a heartening reality: In 1990, more than twice as many people suffered from extreme poverty around the world than do today.

As several of this book’s essays point out, progress over the past couple of decades has given

us reason for hope, and gains against extreme poverty have given us reason to redouble our efforts to work with partners and seek out solutions that can deliver even more progress.

Secretary of State John Kerry's overview reflects upon today's pivotal moment and underscores the connections between development and climate efforts. An introduction then addresses our chosen focus on extreme poverty and how we

These essays are intended to encourage discussion and provoke debate on critical issues associated with ending extreme poverty.

are approaching this mission. Subsequent sections of the book take readers on a tour through many of the challenging issues and ideas associated with tackling extreme poverty.

As the world continues to make progress in reducing extreme poverty, will this pace necessarily decelerate or might it accelerate? Laurence Chandy and Homi Kharas explain these dueling narratives at the start of a section of essays that examine extreme poverty's multidimensionality and its connections to key issues like fragility, the importance of focusing on women and girls, and in the case of a piece by Winnie Byanyima, inequality.

Throughout the book, contributions home in on specific programs, projects and country settings. They include interviews with USAID personnel in the Democratic Republic of the Congo and the Philippines.

Development efforts at all levels must contend with the politics of societies and priorities. Where hard choices are necessary, so is leadership. Another set of essays deals with related issues ranging from capacity and culture to corruption. As Larry Garber emphasizes, where extreme poverty remains prevalent, those countries' policies (and our own) deserve critical attention. So we must ask what it means to think and work politically. This group of essays provides insights from global perspectives as well as local examples, including agricultural subsidies in Malawi, social capital in Liberia and cartels in South Africa and Mexico.

A discussion of supporting competitive markets then leads into a section about catalyzing growth and investment. Stephen O'Connell, for example, uses a historical lens to examine opportunities for pro-poor economic growth and smart redistribution policies. Other essays present ideas, as well as examples, on how to best employ aid to catalyze the sound investments and higher-functioning markets that reduce poverty.

As developing countries and their partners make progress on inclusive growth and targeted efforts to address extreme poverty, it is essential to protect those development gains. This imperative connects the book's last set of essays. Judith Rodin and Nancy Lindborg advance the concept of resilience and its practical application in the face of undermining challenges such as climate change, disasters, fragility and conflict. Ariel Pablos-Méndez highlights the importance of sustaining momentum through equitable health financing that reduces high out-of-pocket spending.

An essay by Andrea Halverson also addresses health. She uses the example of Côte d'Ivoire to emphasize the significance of investments in family planning and associated economic benefits through demographic dividends. In the final essay, Tony Pipa addresses the importance of adapting

to a changed landscape of development finance, a shift that is key to moving forward without sliding backward.

Although this book includes contributions by well-known leaders, thinkers and practitioners, it also includes voices you may not recognize. Some essays were selected through a contest open to USAID staff around the world. After multiple rounds of assessment by reviewers and an editorial board who were unaware of author names, bureaus or missions, 12 essays were chosen.

A majority of the contest submissions and most of the winning essays were penned by authors in the field, including two foreign service nationals. This reflects a welcome level of engagement and a desire among USAID staff to wrestle with ideas in this format.

The essay on agricultural growth and nutrition by Neal Donahue and Ilisa Gertner was selected through an external contest open to the public and run by Devex in partnership with USAID.

These essays do not necessarily reflect the official positions of USAID or the U.S. Government, nor were they selected based on support for official views and approaches. Rather, they are intended to encourage discussion and provoke debate on critical issues associated with ending extreme poverty.

We would like to express our deep appreciation to the organizations and individuals that have made this publication possible. The *Frontiers in Development* effort, including the event on September 18-19, 2014, was supported through generous contributions by the Rockefeller Foundation, the New Venture Fund and the William and Flora Hewlett Foundation.

Among the many people who contributed to the 2014 *Frontiers in Development* Forum, several stand out for their leadership and commitment to this publication, including Winston Allen, Hope

Bryer, Nan Dearborn, Raquel Gomes, Danielle Lee, Claire McIntyre and Ilyse Stempler.

We are also grateful for the support of the editorial and design teams at Ogilvy Public Relations, Garfinkel + Associates and Graves Fowler Creative and our interns Alex Hart, Kira Setren and Abhik Pramanik.

The many people involved in technical reviews of the essays submitted within USAID and to Devex also deserve thanks. In particular, we would like to acknowledge the leaders across USAID who served on the editorial board for the Agency staff essay contest: Christa Capozzola, Chuck Cooper, Tom Delaney, Larry Garber, Jonathan Katz, Jed Meline, Susan Pascoello, Susan Reichle, Jim Shelton, Alex Thier and Christa White. Others who also helped make this publication possible include Negar Akhavi, Bridget Basirico, Ariana Berengaut, Ken Borghese, Rob Camilleri, Amelia Corl, Clay Doherty, Tom Garwin, Jake Grover, Melissa Hough, Viju Ipe, Kamiar Khajavi, Amitabh Khardori, Ashley Marcus, Carole Muedder, David Strine, Jeff Szuchman, Elisa Walton and Zaid Zaid at USAID and Daniella Ballou-Aares at the State Department. This book and the entire forum planning effort were aided immensely by the model first laid out by Steven Radelet, who led the first *Frontiers in Development* Forum.

Last, but certainly not least, we are grateful to all the contributing authors in this collection.

Administrator **Rajiv Shah**

Senior Advisor **Noam Unger**, *Bureau for Policy, Planning and Learning*

United States Agency for International Development
August 2014





Overview

John Kerry

So much of human history, and America's story, has been defined by pioneers: by people who push all accepted boundaries in search of a better life for themselves and for their communities. By casting off the familiar, by always asking "why?" and "what can we do better?", these remarkable innovators extend our imagination beyond the current frontier.

That same spirit has always defined America's approach to diplomacy and development as we look to spur progress in the world around us. We looked to the future when we partnered with our European allies to rebuild a continent ravaged by war, led the fight against diseases like polio at home and abroad, and galvanized a global effort to confront the HIV/AIDS pandemic. We have

Maama Tina's income from her shop in Uganda doubled after a USAID loan guarantee helped make Bugala Island's development attractive to private investors. When women and girls are empowered, families, communities and countries are stronger, more stable and more prosperous.

PHOTO: BOBBY NEPTUNE

achieved key successes in these endeavors, not by accepting the status quo, but by having the courage to take smart risks, embrace partnerships across the globe, and apply new thinking to the world's challenges.

Today, we confront another transformative moment, a new frontier in global development. Networks of interconnection are replacing hierarchies of power. Old economic and political structures are becoming both more diffuse and more fragmented. Emerging and developing markets are increasingly important contributors to global growth and to our shared political decision-making. Lower-income countries are growing their private and public sectors faster than many advanced economies, and are bringing deep expertise to the global stage. At the same time, we face a changing climate that is already causing impacts which threaten some of the development gains we have made in the last 30 years. Our economies, food supply, health, oceans and forests will continue to face increasingly devastating impacts if the pace of rising temperatures is not slowed, and our

ability to respond is not strengthened.

This transformation can be seen across sub-Saharan Africa, which is now home to seven of the world's 10 fastest-growing economies. It's demonstrated by the dramatic increase in private capital flows, which are now approximately three times the size of assistance flows from the United States to developing countries. As a result, assistance represents 13 percent of flows from developed to developing nations compared to 70 percent 40 years ago. But the picture is very uneven. To be sure, persistent pockets of poverty remain, particularly

Our future prosperity and security are determined by factors beyond military might: the ingenuity of our innovators, the discoveries of our scientists, and the compassion of our spirit.

in the lowest-income and most fragile countries, to which little trade, investment or remittances go. And as the climate changes, those in poverty are the least resilient to its consequences.

The time is ripe for reinventing development through new partnerships that address our common challenges and our common interest in achieving inclusive economic growth. Rapid growth occurring in the same countries and regions that suffer from extreme poverty challenges us to rethink how we provide development investments. And no investment can ignore the risks associated with climate change, nor the benefits to economies if we tackle this problem soon. We must see our

efforts not as operating in a vacuum, but as part of an ecosystem with diverse partners striving to achieve mutually reinforcing goals. We need to take our greatest assets—America's culture of innovation, the resilience of our private sector, and our international reach—and strengthen partnerships across the global community to achieve shared priorities.

The New Frontier in Development

President Obama's 2010 Policy Directive on Global Development made significant strides in launching this transformation. Over the past four years, we've streamlined and fine-tuned our approach across the entire spectrum of our development efforts. Forging a stronger framework for development has meant investing in our partners in new ways, and investing in our people and the institutions that support them. Across the State Department and USAID, we have emphasized the importance of better linking together diplomacy and development, and are fostering innovation, including through the new U.S. Global Development Lab. We are better synchronizing investments with partner nations and the private sector, and we are deploying the full range of development tools to enable our partners to succeed, including USAID grants, Millennium Challenge Corporation Compacts, Overseas Private Investment Corporation investments, and Treasury investments in the Multilateral Development Banks.

Despite such efforts, threats to global security, prosperity and environmental sustainability remain. Smart development decisions and approaches today could build resilience and mitigate some of the most critical risks: rampant inequality, poor governance and resource scarcity. Meeting these challenges demands having an agenda for development that puts four issues at

its center: driving inclusive economic growth and ending extreme poverty; sustainability and addressing the impact of climate change; achieving gender equality and empowering all women and girls; and elevating the use of data.

Inclusive Economic Growth and Ending Poverty

For the first time in history, the world has the opportunity and potential to eliminate extreme poverty by 2030 through inclusive, global economic growth. To achieve sustainable economic growth and lift countries out of dependence on assistance, we must continue to support countries that want to build a strong environment for trade, catalyze investments, and place a particular emphasis on Africa, where growth is strong but market knowledge and the ability of outside businesses to assess and manage risk can be limited. Investing in the foundations of growth, in basic needs like food security and health, is equally critical.

Trade and investment hold the potential to fuel economic growth while reducing poverty and promoting jobs. Though trade and investment alone cannot solve every development challenge, they are necessary tools in any successful and sustainable development strategy. The African Growth and Opportunity Act, for instance, is helping build a bridge from aid to trade in African countries as their economies grow. Similarly, investments in infrastructure and markets are critical to building economies, presenting opportunities for companies today, and expanding our range of economic partners in the future. For instance, I presided over the signing of a groundbreaking new compact with Ghana this past August, at the U.S.-Africa Leaders Summit, that will enable large-scale public and private investment in power, including renewable energy.

Over the past decade, the United States has

made its most significant assistance investments in one of the most important enablers of economic growth: a healthy population. Economic growth and health are inextricably linked. As the recent Lancet Commission found, the returns on investment in global health are even greater than previously understood, with an estimated return of between \$9 and \$20 by 2035 for every one dollar invested. Through a focus on results, the U.S. President's Emergency Plan for AIDS Relief (PEPFAR) has turned the tide on the HIV/AIDS epidemic, placing more than 6.7 million people on lifesaving antiretroviral treatment. To achieve an AIDS-free generation and dramatically reduce maternal and child deaths, we are forging new partnerships built on mutual accountability. These investments not only save lives, but are enabling economic growth by increasing the lifespan of adults during their most productive years.

Food security is another essential foundation for economic growth. Alleviating global hunger is not just a priority: It is a moral, economic and national security imperative. The United Nations estimates that over 840 million people, or one in eight, suffer from chronic hunger. Success in food security means helping farmers grow more crops and improving nutrition. For example, under the president's global food security initiative, Feed the Future, the United States places special emphasis on improved nutrition during the 1,000 days from a woman's pregnancy to her child's second birthday. Better nutrition during that window impacts a child's lifetime health, development and future economic earnings—and her or his country's future economic growth.

Sustainability and Addressing Climate Change

We know that the most vulnerable and least developed countries are also the most at risk from



A man tends to mangrove seedlings, which help stop coastal erosion, anchor soils, buffer storm surges and provide habitat for countless wetland species of plants and animals. In order to protect development gains, we must prevent and adapt to the onset of climate change and improve management of natural resources. PHOTO: USAID

environmental degradation and the impacts of climate change. Shared prosperity is only possible if we grow more sustainably, mitigate greenhouse gas emissions, adapt to the impacts of global climate change, and improve our management of natural resources. Just as inclusive economic growth, food security, and health are interrelated, so too are these fundamental development issues interconnected with environmental sustainability.

Success at taking on climate change requires working with the private sector to catalyze investments that generate positive returns while contributing to a more sustainable planet. For instance, as part of the president's bold Power Africa Initiative, we are working with programs such as the U.S.-Africa Clean Energy Finance Initiative, which is

leveraging a small investment of public resources to fund early development costs of clean energy initiatives, which in turn catalyze over \$1 billion in clean energy investment from the private sector. Private sector commitments also hold the potential to stem the rapid deforestation occurring in some nations, which is destroying valuable carbon sinks. The Tropical Forest Alliance 2020 has brought together the private sector to reduce the deforestation that comes from sourcing palm oil, soy, beef, paper and pulp in developing nations. As part of this alliance, large companies have made voluntary commitments to avoid net deforestation as they cultivate and bring their resources to market.

We are also focusing on the need to protect oceans, which are critical to the nutrition and

livelihood of so many people around the world. More than 3 billion people, many of whom live in the least developed countries, rely on food from the ocean as a significant source of protein. To protect the declining health of ocean and coastal ecosystems, we are prioritizing efforts to end overfishing and to prevent illegal, unreported, and unregulated fishing, which ensures long-term sustainability of the fisheries that are so important to food security. Climate change is also causing ocean acidification around the world which is destroying crustaceans, including the smallest ones which are a critical building block of ocean life and productivity. In June 2014, the State Department's first "Our Ocean" conference, raised commitments from government and private sources valued at more than \$800 million to conserve the ocean and its resources for future generations.

The world's important development gains will not be maintained without addressing climate change and promoting a healthy environment. We must respond to and prevent the negative impacts of climate change that are facing us all. However, these challenges also present new opportunities to build partnerships and collaborative solutions that will foster more sustainable relationships between people and our planet.

Achieving Gender Equality and Empowering All Women and Girls

When women and girls are empowered, educated and equipped to contribute to society, their families, communities and countries are stronger, more stable and more prosperous. That is why we are placing an unprecedented focus on promoting gender equality and advancing the status of women and girls around the world—making the full participation of women and girls in the political, economic and social lives of their countries a key goal of U.S. foreign policy.

In addition to focusing on gender through our diplomatic and policy priorities globally, our development investments focus on integrating the empowerment of women and girls and promotion of gender equality across all sectors. Critical to this effort is our adoption of a more data-driven approach to where and how we allocate resources. Through PEPFAR investments, for instance, data disaggregated by age, sex and geography helps us to target and tailor our efforts, which includes addressing the disproportionate burden of HIV borne by women and girls.

Our work is far from done. Inequality, poverty, discrimination and gender-based violence, including the harmful practices of female genital mutilation/cutting and child, early and forced marriage, have been an accepted reality for far too long. Yet, by boosting women's economic and political participation and engagement in building peace and security; addressing the pervasive problem of gender-based violence; and investing in the future of adolescent girls, we will see results. Our vision for a peaceful and prosperous global future depends on it.

Elevating the Use of Data

Central to the new development landscape is a demand for transparency, accountability and data-driven decision-making. The United States is adopting a more data-driven approach to allocating resources, working with partners and sharing information with citizens. Tools like the Women's Empowerment Agricultural Index measure progress and help all actors understand how to focus resources and respond to a changing world. Data is not just an opportunity for better, faster information, but also an opportunity to transform the citizen-government relationship. Real-time data and feedback help citizens make informed decisions to improve their communities and ensure government is responsive to their needs.

Integrating the use of data across development, and making the information available to the public, helps programs be more effective and reach more people. We are publicly releasing more data on our development programs and funding through ForeignAssistance.gov and the Development Experience Clearinghouse, and reporting it to the International Aid Transparency Initiative. We are also piloting and expanding innovative approaches to gathering data through social media, geospatial mapping and mobile phones like the mFish Partnership, which uses mobile technology to collect and analyze data on illegal fishing, stop it at the source, and trace seafood along supply chains. These programs are more than just data collection; they allow the local communities to be engaged and contribute to the success of a development program, and serve to create long-lasting partnerships abroad.

Looking Ahead to the Next Generation

The selection of a new generation of development goals known as the post-2015 Development Agenda, the successor framework to the Millennium Development Goals (MDGs), presents a unique opportunity for the United States and its partners. A well-crafted set of goals will enable governments, civil society, the private sector and individual citizens to synchronize efforts to address the most pressing problems the world faces in the coming decades. With a strong focus on ending extreme poverty and tackling the unfinished business of the

Women walk back to the village they left after Islamists arrived in Binta, Mali. By boosting women's engagement in building peace and security we will see more results in the empowerment of women and girls across all sectors.

PHOTO: ERIC FEFERBERG / AFP

MDGs, this agenda should promote inclusive economic growth, integrate sustainability and climate change, and empower women and girls.

Agreement on a strong set of new goals will commit world leaders to work in partnership to address common challenges. Whether we are investing in clean energy, fighting disease, building infrastructure, protecting our oceans or promoting greater food security, our objective is to make our partners self-reliant by listening to their priorities and building enduring economic partnerships.

Above all, working in true partnership toward common goals will build the opportunities that the next generation of young people demand everywhere—good education and job opportunities, access to health care, institutions they can trust, freedom from discrimination and a healthy planet. These young people stand at the edge of the new global frontier, and are eager to develop a more sustainable and inclusive world for everyone in it. The expectations and potential of the next generation are high, as is our duty to work together to leave them a better future.

*United States Secretary of State **John Kerry***





Introduction

Rajiv Shah and J Alexander Thier

In one sharp instant four years ago, more than 300,000 people died when a 7.0 magnitude earthquake shattered the island of Haiti. Six weeks later, an 8.8 magnitude earthquake struck Chile, and 525 people perished. Remarkably, while Chile's earthquake was 500 times more powerful, Haiti's was 500 times deadlier—in large part, because of endemic poverty and poor governance. Haiti is the poorest country in the Western Hemisphere, with some 65 percent of Haitians living in extreme poverty. In 1984, 8 percent of Chileans lived in extreme poverty. Today, that number is just 1 percent. Chile's buildings did not fall because they were built to seismic codes, rigorously enforced.

How do we build a world where such gross inequities are more relic than reality? The hallmark of extreme poverty is not just living on less than \$1.25 a day. It is the denial of basic human dignity that locks a girl in daily terror of being sold off as a child bride. It is the denial of nutrition that allows the body to grow and the mind to thrive. It is the denial of opportunity for marginalized communities whose voices are muted and human rights

violated. It is the blindness of illiteracy, the insecurity of slum housing and the relentless carnage of millions of children dying for lack of inexpensive, low-tech cures.

We know it does not have to be this way. From 1990 to 2010, child mortality fell by half; the number of children in primary school grew to nearly 90 percent; and around 2 billion people gained access to improved water sources. In just two decades, an additional 700 million people claimed freedom from extreme poverty, as the number of people enduring these gut-wrenching conditions began falling across the world. In 1990, one in three people lived in extreme poverty. Today, it is less than one in five. Evidenced in plummeting infant mortality rates, increasing access to primary education, especially for girls, and rising incomes for poor farmers, this progress has convinced us that ending extreme poverty in a generation is possible.

An Unprecedented Vision

But just knowing we are capable of ending extreme poverty is not enough. We need the political will.



The Wanawake Kwanza (Women First) growers association in Tanzania receives Feed the Future support to boost their incomes and improve nutrition in their village. U.S. President Barack Obama launched Feed the Future to turn agriculture into a thriving business for smallholder farmers. PHOTO: USAID

In February 2013, during his State of the Union address, President Barack Obama called upon our nation to join our partners to end extreme poverty and its most devastating consequences. It was an extraordinary moment, as the president set forth a vision for one of the greatest contributions to human progress in history.

In the months since, this vision has been powerfully echoed in the World Bank's new mission and in the final report of the U.N. Secretary General's High-level Panel on the Post-2015 Development Agenda, co-chaired by the leaders of Indonesia, Liberia and the United Kingdom. To ensure that this goal serves as the focal point of USAID's efforts around the world, our Agency updated its own mission statement: "We partner to end extreme poverty and promote resilient, democratic societies while

advancing our security and prosperity."

We know the alternative. We know that where we see extreme poverty, extreme climate change and extreme ideology today, we are more likely to face conflict tomorrow. Our future prosperity and security are determined by factors beyond military might: the ingenuity of our innovators, the discoveries of our scientists and the compassion of our spirit. That is why President Obama elevated development as a core pillar of our national security and foreign policy, and leaders on both sides of the aisle have united behind the global effort to make extreme poverty a thing of the past.

A New Model of Development

To match the audacity of our goals and the resources necessary to achieve them, we need a

new model of development. A generation ago, public funding from wealthy nations like the United States represented more than a majority of the external resources that came into developing countries. Today, by some recent estimations, donor resources represent no more than one-fifth—and possibly less than one-tenth—of external financing, with foreign direct investment, remittances and private philanthropy making up the lion's share. While aid has continued to decline in importance over the last decade in most developing economies, investment, tax revenues and remittances have continued on an upward trend.

As a development community, we have to catch up to this reality. These growing sources of financing—from international private equity to local wealth to domestic public investments—are transforming our ability to encourage policy reforms and open thriving markets. New technologies connect us directly to impoverished rural families. New partnerships with faith communities and civil society are enabling us to scale efforts that reach the poorest of the poor. And a robust new focus on measurement and evaluation ensures that we know what is—and is not—working, so we can target our efforts where they will have the greatest impact.

At USAID, we are moving from a traditional model of top-down development to a new model that embraces country ownership and engages talent and innovation everywhere to achieve extraordinary goals. Building on the commitment of partner countries, we are working directly with multinational and local companies to harness the private sector as an engine of growth and development. Rather than seeking linear and incremental gains, we are investing in science and technology to bend the curve of progress. And instead of assuming good policies will follow development investment, we are insisting on transparency and policy reforms from the beginning—to create an

environment that allows private investment and civil society to flourish. In other words, we are changing the way development works, with new partnerships, a greater emphasis on innovation and a relentless focus on results.

The New Model in Action

Today, this new model serves as the foundation of our approach to addressing big challenges. In 2007 and 2008, a food, fuel and financial crisis sent tens of millions of people back to the brink of extreme poverty. In this environment, President Obama took office determined to reverse course and give millions of people a pathway out of extreme poverty. As one of his first foreign policy acts, President Obama launched a global food security initiative called Feed the Future to transform agriculture into a thriving business for smallholder farmers.

In Bangladesh, we helped rice farmers increase their yields by up to 20 percent, leading to the first-ever rice surplus in the country's poorest state. In Honduras, where nearly one in every three children is stunted, we focused on high-value horticultural crops like tomatoes and peppers. This program helped 24,000 people move out of extreme poverty as their daily per capita income shot up 237 percent—from \$0.71 to \$2.39. All told, in one year alone, we improved nutrition for 12 million children and empowered nearly 7 million farmers with the climate-smart tools they need to lift themselves and their families out of poverty.

Perhaps most importantly, country partners are making tough reforms and demonstrating political leadership, and private sector and civil society partners are making substantial new investments. Ten countries are now members of the New Alliance for Food Security and Nutrition, a global public-private partnership—launched by President Obama at the 2012 G-8 Summit—that has facilitated over \$7 billion in planned investments from



President Barack Obama's Power Africa initiative will unlock local economic growth and accelerate power generation using a new model of public-private partnerships. By mobilizing public and private funding, Power Africa has the potential to light more than 10 million homes. PHOTO: USAID

160 companies, two-thirds of which are local. The New Alliance and the Grow Africa partnerships have already helped 3 million smallholder farmers grow more food and created 37,000 new jobs across Africa.

The story is similar in energy. Since 2008, America has more than doubled renewable energy generation, strengthening our economy and protecting our environment. But for developing countries, energy access remains a significant barrier to growth. Today, President Obama's Power Africa initiative is accelerating power generation and driving economic growth globally. Through a new model of public-private partnership, several power projects adding 2,500 megawatts to the grid are fully financed, mostly by private resources, and another 5,500 megawatts are in the planning stages—together enough to light more than 10 million homes.

We recently closed a deal to build one of the largest wind power generation farms in sub-Saharan Africa. By 2017, 38 powerful turbines built by GE will capture wind energy coursing through the plains of central Kenya and add 60 megawatts of power to their national grid, enough to power 150,000 Kenyan homes. Our engagement is not a one-way street. Whether they are in energy or agriculture, advances in global development have relevance right here at home. The solutions that Power Africa pioneers today will inform our own progress, as cleaner, cheaper solar and wind technologies create new jobs and power our own nation's clean energy renaissance.

The Challenge of Fragile States

Not every country looks like Nepal or Senegal or Colombia, however. Not every community has leaders who believe in our values or who stand

strong against the forces of corruption, extremism and kleptocracy. Our goal to advance the cause of justice by ending extreme poverty has fine print.

As more nations successfully end extreme poverty, the challenge before us will narrow and toughen. By 2020, extreme poverty will primarily become concentrated in countries like Haiti, the Democratic Republic of the Congo and Bangladesh, where the rising tides and growing tempests of climate change exact pressure on the communities least able to cope. It will be found in countries like Nigeria, Kenya and Yemen, where the hopefulness for peace and prosperity is undermined by extremism. And it will live in countries like Syria and South Sudan, where leaders who have a choice between perpetual conflict and lasting peace are choosing to fight.

Conflict is essentially development in reverse. It destroys capital, scares away investment, displaces families, denies human dignity and unravels the fabric of life. In order to confront these realities, we need to recognize that development is fundamentally a political process, not a technical one.

We have not always thought this way. A decade ago, development professionals fought to keep their work insulated from politics. But ending hunger does not just require new seeds. It requires leaders who reform the seed sector, give women ownership of the land they tend and unlock local capital for underserved farmers. Ensuring that every child has a light to read by at night does not just require low-cost solar lanterns. It relies on leaders who build public-private partnerships that can attract investment and make large-scale power projects a reality. And strengthening democracy does not just mean monitoring elections, but empowering leaders who fight corruption, encourage women to vote, and protect the rights of minorities—even when it is more expedient to play on sectarian divisions.

As a development community, we need to demand tough reforms that prioritize the poor, fight corruption and strengthen a focus on fragility. In the last several years, countries around the world came together to strike a New Deal for Engagement in Fragile States. Instead of assessing progress as we would in Indonesia or Ghana, these countries are taking the lead in defining a new set of indicators that track the transition out of fragility—measuring everything from diversity in electoral representation to the incidence of sexual violence.

Peace is a precondition to long-term development. But development must take hold quickly alongside security to maintain stability and ensure that the effort to end extreme poverty succeeds. We have learned this lesson in Afghanistan. By creating a \$175-million incentive fund, we are holding the Afghan Government accountable to meet standards critical to long-term development, including advancing support for women and girls, fighting corruption, and holding free, fair and openly observed elections. Half their targets were met in the first year. And where criteria were not met, we have withheld funds, ensuring that our approach to accountability is not mere rhetoric.

Conclusion

Several years after the earthquake devastated Haiti, a local company called Surtab used seed funding from USAID to begin producing high-quality, low-cost electronic tablets that enable children to access a global library of information. The factory employs mostly women coming from poor communities, trains them to build each tablet from scratch, and has them sign each product—a quality guarantee and source of deep pride for the women. A new app lab and burgeoning uses like rapid health diagnostics, distance learning and mobile banking are driving development progress and

creating a cycle of investment and innovation.

Surtab is expanding. Its devices are already being sold in the Caribbean and Africa, and the company—with big ambitions of becoming one of the leading manufacturers of tablets outside of China—is on the cusp of expanding its market to the United States, Canada and Europe.

To match the audacity of our goals and the resources necessary to achieve them, we need a new model of development.

If we are going to end extreme poverty by 2030, we have to follow Surtab's lead and continue to push the boundaries of science and innovation. The U.S. Global Development Lab will be critical to this effort—ensuring that the United States continues to lead the world in bringing new technologies, business models and talent to our shared mission.

By sourcing new solutions in our core areas of work and scaling four game-changing technologies: e-payments, chlorhexidine, real-time data information systems and drought-resilient maize—the Lab aims to improve the lives of up to 200 million people over the next five years. Just as DARPA did for the Department of Defense, the Lab will

allow us to partner with companies from Google to Surtab and incubate new ideas, such as applied sensor technology for medical diagnostics or open data platforms that help citizens hold their governments accountable.

We are also going to focus more intensely than ever on leveraging private capital. In the coming year, we will support the first municipal bond issuance in West Africa, create a new private equity model in the Middle East that focuses investment in early stage businesses and startups, accelerate private equity partnerships in Pakistan and work with local banks in Mexico to unlock financing for new entrepreneurs.

Perhaps most importantly, we will continue to advance our fundamental belief that ending extreme poverty requires strong political leadership—in Washington and in cities across the globe. Over the next year, we will work to ensure that the next set of Millennium Development Goals focuses on ending extreme poverty. We will engage deeply with political leaders in emerging economies—like Mexico and China—to expand their own commitment to development. And we will support peace processes from South Sudan to Colombia that serve as the foundation of development.

We have the honor of serving a mission and a country that are exceptional. With a new clarity of focus, we are carrying forward our nation's proud legacy to help end extreme poverty in our lifetime.

Rajiv Shah is the administrator for USAID and **J Alexander Thier** is the assistant to the administrator for Policy, Planning, and Learning.

Understanding Extreme Poverty





The Last Mile in Ending Extreme Poverty

Laurence Chandy and Homi Kharas

Can extreme poverty be ended by 2030—and if so, what will it take?

This audacious question posed by the architects of the post-2015 Development Agenda soon will be enshrined in a set of sustainable development goals. Answers—and progress toward these goals—begin in understanding extreme poverty’s “last mile.”

The past quarter-century has been a period of undoubted progress in the fight against extreme poverty. The first Millennium Development Goal aimed to halve the global poverty rate, based on the frugal \$1.25 poverty line, between 1990 and 2015. This goal was met five years ahead of schedule; the global poverty rate fell from 43.0 percent in 1990 to 20.6 percent in 2010.

To end extreme poverty by 2030, this same rate of progress—a reduction of one percentage point per year—must be sustained. Expressed this way, the goal seems reasonable. One might even conclude that it represents a baseline scenario for the future, since it requires no deviation from the global poverty rate’s historical trajectory.

Instead, two competing narratives have emerged on the future pace of global poverty reduction.

The first narrative assumes that the speed of poverty reduction is bound to slow. The reduction in global poverty since 1990 has been driven by spectacular performances in countries such as China, Indonesia and Vietnam. The success and scale of poverty reduction in these nations compensated for countries that recorded little or no progress. Such divergent outcomes were sufficient for meeting the goal to halve global poverty, but they will not deliver on a zero-poverty goal.

For this to happen, each developing country must individually be on a trajectory to end poverty by 2030—a significant deviation from the historical path for many countries.

We have identified 21 countries¹ with both elevated poverty rates and poor records of progress

1 Benin, Burundi, Central African Republic, Comoros, Democratic Republic of Congo, Côte d’Ivoire, Eritrea, Guinea-Bissau, Haiti, Kenya, Liberia, Madagascar, Mauritania, Mozambique, Myanmar, Nigeria, North Korea, Papua New Guinea, Somalia, Zambia and Zimbabwe.



A South Sudanese woman walks with wood to reinforce her house in an isolated makeshift camp for internally displaced people in South Sudan. Since 1990, the share of the global poor living in fragile states has doubled from 21 percent to 42 percent. PHOTO: JM LOPEZ / AFP

over the past decade. All face one or more structural challenges to inclusive growth: they are small or land-locked, have bad neighbors, are disaster- or disease- prone or have a record of bad governance or conflict. Such countries are gradually coming to dominate the composition of the world's remaining poor. The share of the global poor living in fragile states has doubled, from 21 percent to 42 percent, since 1990.

Getting to zero poverty by 2030 requires that each of these countries defies its circumstances and, in some cases, match or better the fastest recorded poverty reduction trajectories from history.

Yet in practice, it's hard to simply throw off the legacy of structural challenges to development. Weather shocks—which are expected to grow in frequency due to climate change—have been found

to have persistent effects on the welfare of the poor. For instance, even 10 years after droughts in Ethiopia and Tanzania in the 1990s, the consumption levels of poor households remained 17 to 40 percent below their pre-disaster levels.²

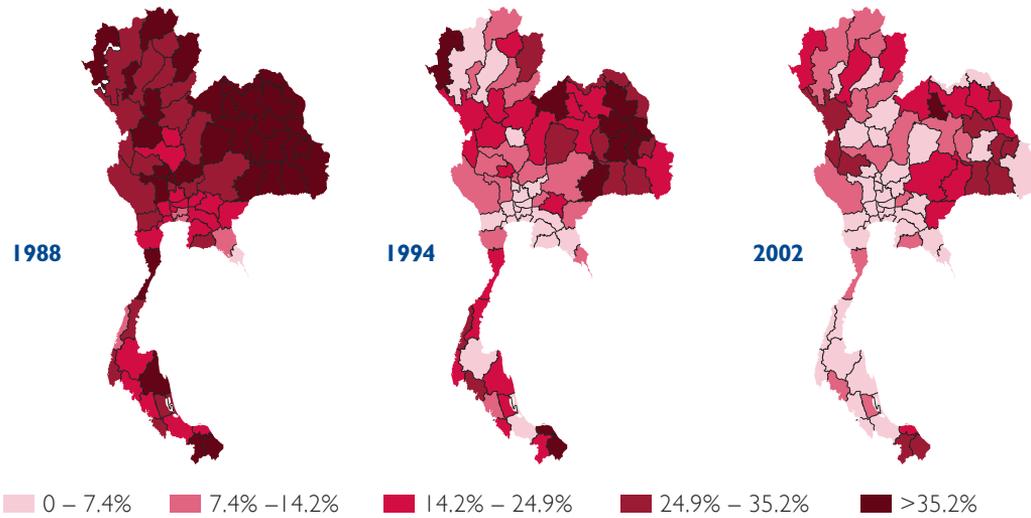
Structural factors can also interact to disastrous effect. Drought in Syria and the internal migration it precipitated have been linked with the start of the country's civil war.³ A decade ago, only 1 percent of Syrians lived below the extreme poverty line. According to today's best estimates,

2 Beegle, Kathleen, Rajeev H. Dehejia and Roberta Gatti. "Child Labor and Agricultural Shocks." *Journal of Development Economics* 81: 80-96. 2006. http://users.nber.org/~rdehejia/papers/chlldlabor_shocks.pdf

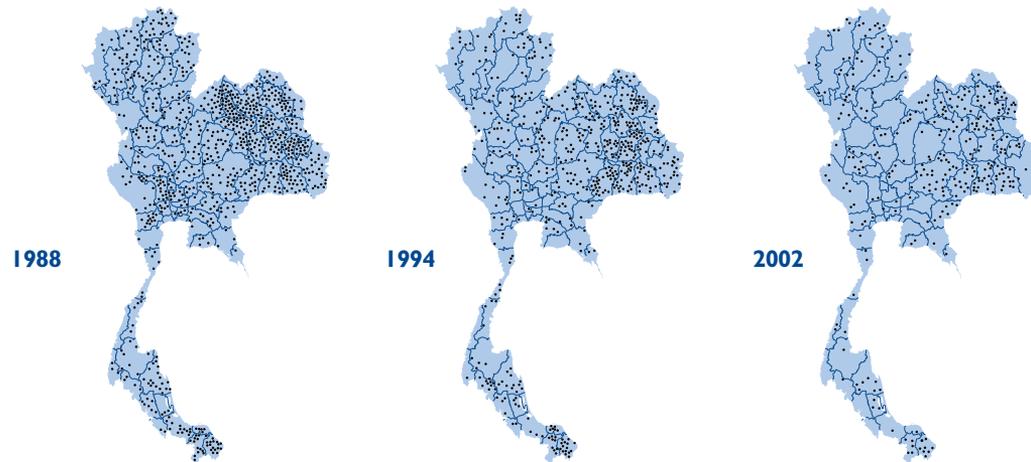
3 Werrell, Caitlin E., and Francesco Femia eds. "The Arab Spring and Climate Change." <http://climateandsecurity.files.wordpress.com/2012/04/climatechangearabspring-ccs-cap-stimson.pdf>

FIGURE I. Thailand Poverty Head Count Ratio and Distribution by Province

Head Count Ratio



Distribution



• Each dot represents 10,000 people

this fraction has risen to 31 percent—higher than the poverty rate in Ethiopia.

Even those countries that are on a trajectory to zero can expect to face headwinds between now and 2030. Because concentrations of people are typically thinner at the ends of the income spectrum, countrywide gains in income typically deliver less poverty reduction once poverty

numbers reach low levels.

The emergence of persistent pockets of poverty in lagging subnational regions, or among selected population groups, is also cause for concern. These pockets may result from market and local governance failures or discrimination and exclusion. Thailand represents one example. Despite the country's success in bringing down its poverty rate from

17.2 percent in 1988 to less than 5 percent by 1994, residual pockets of extreme poverty still existed in the northeast region of the country eight years later (Figure 1). This continues to the present.

Looking across the record of developing countries over the past three decades, there is some evidence that the rate of poverty reduction is slow in countries where the poverty rate is in single digits.⁴

Supporters of this narrative conclude that the last mile in ending extreme poverty will be the hardest, both within individual countries and globally, prompting some analysts to describe the 2030 goal as “very challenging,”⁵ “unrealistic”⁶ and “out of reach.”⁷

There is a counternarrative to this prognosis, however, that is equally compelling and grounded in empirics, in which national and international efforts successfully overturn decelerating pressures on poverty reduction.

In this second narrative, as the number of people living in extreme poverty falls, the fight against poverty will change in form and grow in effectiveness. As countries get richer and the scale of global poverty declines, the level of resources per poor person that can be deployed to reduce extreme poverty will rise.

Efforts to tackle poverty could then shift from scattershot approaches to more targeted interventions tailored to individual needs and circumstances. New technologies in identification,

communication, payment, digitization and data processing could make such targeted efforts increasingly feasible by reducing transaction costs, minimizing leakages and generating audit trails.

Meanwhile, the introduction of more rigorous evaluation methods for development programming can help identify transformative interventions that generate large and sustained increases in income for poor households. A leading example is cash transfers, which are among the most thoroughly researched interventions in global development.

The emergence of persistent pockets of poverty in lagging subnational regions, or among selected population groups, is also cause for concern.

Cash transfers have been shown to deliver annual monetary rates of return between 20 to 80 percent, sustained over several years.

Though encouraging, such microeconomic evidence historically has been considered to be of limited relevance for understanding poverty trends across the developing world. The reason for this: Poverty-focused programs and their impact rarely scale successfully.

But this, too, is beginning to change. Technology and evidence—the same factors driving efficiency gains in development efforts—are also laying the groundwork for better scaling. And since the number of people remaining in extreme poverty is falling, our notion of what constitutes “scale” is becoming more attainable, because it

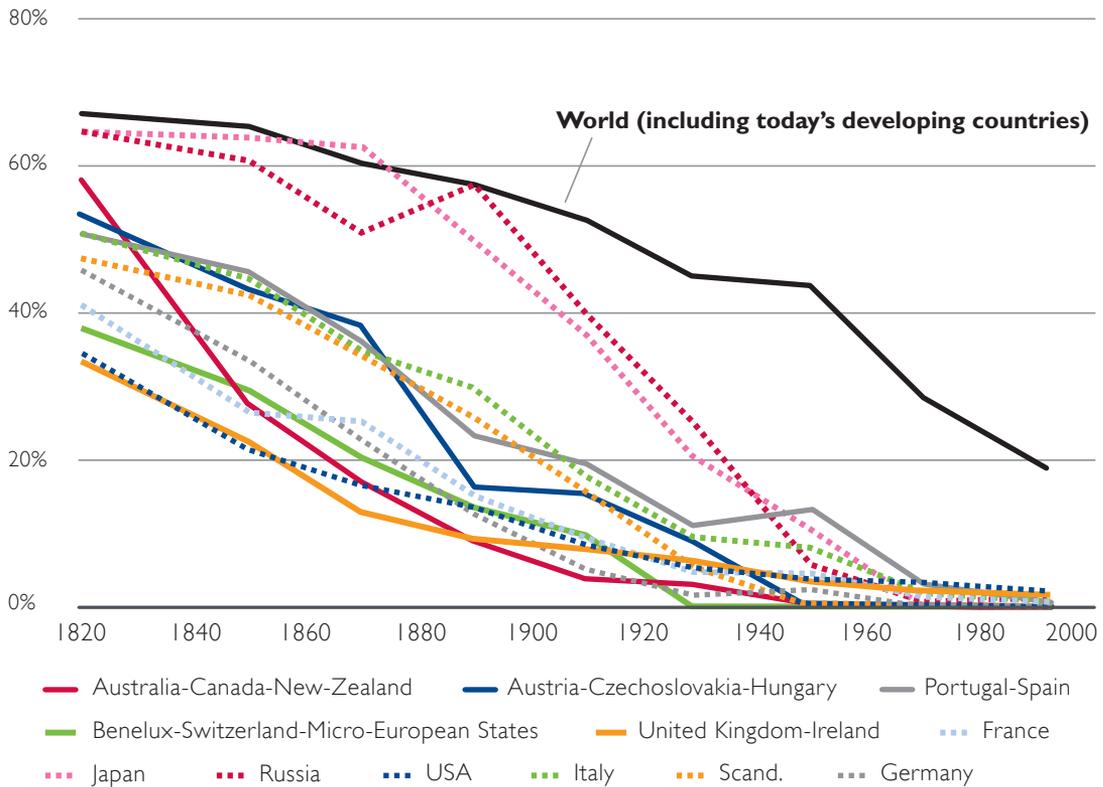
4 Ravallion, Martin. “Benchmarking Global Poverty Reduction.” *The World Bank*: 2-33. 2012. <http://elibrary.worldbank.org/doi/pdf/10.1596/1813-9450-6205>

5 Yoshida, Nobu, Hiroki Uematsu and Carlos E. Sobrado. “Is Extreme Poverty Going to End?” *The World Bank*: 1-27. 2014. http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2014/01/06/000158349_20140106142540/Rendered/PDF/WPS6740.pdf

6 Bluhm, Richard, Denis De Crombrughe and Adam Szirmai. “Poor trends: the pace of poverty reduction after the Millennium Development Agenda.” *UNU-MERIT*: 1-28. 2014. <http://www10.iadb.org/intal/intalcdi/PE/2014/13584.pdf>

7 Ncube, Mthuli, Zuzana Brixiova and Zorobabel Bicab. “Can Dreams Come True? Eliminating Extreme Poverty in Africa by 2030.” *Institute for the Study of Labor*: 1-25. 2014. <http://ftp.iza.org/dp8120.pdf>

FIGURE 2. World Poverty Rate



Source: Ravallion 2014

involves reaching a declining number of people.

The spread of cash transfers alongside other kinds of social safety nets exemplifies this shift. In 2010, an estimated 50 million people saw their incomes raised above \$1.25 a day as a direct result of all such transfers.⁸ An additional 345 million people living on incomes under \$1.25 a day benefited from these transfers but did not receive enough to rise above the poverty line. As the number of extremely poor people falls and the number of poor

beneficiaries rises, it is tempting to speculate a time when safety nets lift all people remaining in extreme poverty above the \$1.25 threshold.

Above all, this counternarrative hinges on effective policy-making. It requires both a dedicated effort to tackle poverty and efficiently designed and executed interventions. This is precisely what gave today's rich countries the ability to eliminate extreme poverty in the middle of the 20th century.⁹

This era marked the development of many of

8 The State of Safety Nets 2014. Rep. no. 1. The World Bank. 2014. http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2014/05/12/000350881_20140512111223/Rendered/PDF/879840WP0FINAL00Box385208B00PUBLIC0.pdf

9 Ravallion, Martin. "The Idea of Antipoverty Policy." National Bureau of Economic Research: 1-113. 2013. <http://www.nber.org/papers/w19210>



A displaced Syrian woman prepares bread in an abandoned factory in the Sheikh Najjar industrial zone near Syria's northern city of Aleppo. Ten years ago, only 1 percent of Syrians lived below the extreme poverty line. Now this number has risen to 31 percent. PHOTO: JM LOPEZ / AFP

today's most important social programs, such as Medicare, Medicaid, food stamps and the Earned Income Tax Credit in the United States. Countries like Japan, Russia and Belgium saw little slowdown in their rates of poverty reduction as extreme poverty approached zero, as Figure 2 illustrates.

Whether extreme poverty is eliminated by 2030 ultimately depends on which of these two narratives proves dominant. The challenge for the global development community is to reconcile, and draw insights from, both perspectives.

The “diminishing returns” trajectory serves as a reminder that the international community must do a far better job of helping conflict- and climate-affected countries and the need for inclusive growth strategies that promote education, job creation and mobility. The “accelerating to zero” narrative stresses the importance of effectively mobilizing and allocating resources in support of

poverty-reducing programs and developing tools to strengthen the resilience of poor households.

While the future trajectory of global poverty is virtually impossible to predict, our understanding of what it takes to eliminate poverty is growing. The global community now must seize this knowledge, so that the dream of a poverty-free world becomes reality.

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Understanding Poverty Amid Fragility: Moving from Rhetoric to Analysis

Aaron Roesch

Poverty persists in diverse places, from small rural farms to sprawling urban slums. But perhaps the places that evoke the least hope are those that are violent, war-torn and disaster-stricken. Hotspots for conflict and instability, it seems, are hotbeds of poverty.

This nexus of fragility and extreme poverty is now central to the discourse on international development. The High-level Panel on the Post-2015 Development Agenda, for instance, finds that, by 2015, more than half of the extreme poor will live in countries afflicted with conflict and violence. “To end extreme poverty and empower families to pursue better lives,” the panel writes, “requires peaceful and stable societies.”¹

Yet this belies a more complicated history: Many countries struggling with fragility have reduced poverty—some substantially. To reverse pernicious trends and accelerate progress already

underway across the range of “fragile states,” it is important to understand how countries have found success even amid fragile conditions, and to single out the obstacles that truly perpetuate poverty.

Correlation doesn’t mean causation

Two stylized facts about poverty and fragility are especially compelling. Poverty rates are 21 percentage points higher, on average, in countries that have experienced a major conflict since 1981.² And, during the past two decades, the total number of extreme poor in non-fragile countries has fallen precipitously, while the number in fragile states has not; in fact, it has increased by nearly 50 million.³

1 United Nations High-level Panel, “A New Global Partnership: Eradicate Poverty and Transform Economies through Sustainable Development,” New York: 2013.

2 S Cliffe and N Roberts, “World Development Report 2011: Conflict, Security, and Development,” World Bank, Washington: 2011.

3 L Chandy, N Ledlie and V Penciakova, “The Final Countdown: Prospects for Ending Extreme Poverty by 2030,” Brookings Institution, Washington: 2013; and own calculations, based on PovcalNet; K Kotoglu, DB Ray, S Jones, “Monitoring Resource Flows to Fragile States 2007,” OECD-DAC Fragile States Group, Paris: 2008; and E Letouzé,



A displaced mother and her child inspect the remains of their burnt house in South Darfur. The United Nation's High-level Panel on the Post-2015 Development Agenda reported that by 2015 more than half of the extreme poor will live in countries with conflict and violence. PHOTO: ALBERT GONZALEZ FARRAN / AFP

That fragility and conflict exacerbate poverty and impede development seems self-evident. But correlation does not necessarily imply causation.

It is equally likely that poverty perpetuates fragility. Low incomes and slow economic growth are among the best-substantiated predictors of the onset of war.⁴ The poorest 10 percent of countries are 18 times more likely to experience conflict over a decade than the richest 10 percent.⁵ This relationship appears causal; A 1 percentage-point

decline in gross domestic product increases the likelihood of war by 2 percentage points.^{6,7}

Causality can run both ways, of course, as a USAID discussion paper notes. A “fragility trap”—that is, “a self-perpetuating cycle of weak institutions, low investment, slow growth and repeated violence”—may prevent progress against poverty.⁸ Indeed, countries that experience a combination of economic shocks, income inequality, social fragmentation and poor governance see growth slow by 0.8 percent to 1.7 percent per

J Profos and SL Cramer, “Fragile States 2014: Domestic Revenue Mobilization in Fragile States,” OECD-DAC International Network on Conflict and Fragility, Paris: 2014.

4 H Hegre and N Sambanis, “Sensitivity Analysis and Empirical Results on Civil War Onset,” *Journal of Conflict Resolution* 50:4, 2006; C Blattman and E Miguel, “Civil War,” *Journal of Economic Literature* 48:1, 2010.

5 JD Fearon and DD Laitin, “Ethnicity, Insurgency, and Civil War,” *American Political Science Review* 97:1, 2003; P Collier and A Hoeffler, “Greed and Grievance in Civil War,” *Oxford Economic Papers* 56, 2004.

6 The causal direction is elucidated by an instrumental variable, annual rainfall. The authors argue that a deficiency of rain dampens growth and makes conflict more likely.

7 E Miguel, S Satyanath and E Sergenti, “Economic Shocks and Civil Conflict: An Instrumental Variables Approach,” *Journal of Political Economy* 112:4, 2004.

8 USAID, “Ending Extreme Poverty in Fragile States,” Washington: 2014.

year.⁹ In Rwanda, 20 percent of households moved into poverty following the country's civil war and genocide—driven, in particular, by land loss and the destruction of property.¹⁰ During the Bosnian War, incomes plummeted more than 80 percent. Extreme poverty, virtually nonexistent before, surged to 11 percent.¹¹

Other forms of fragility are also well established, such as the “resource curse.” A one-standard-deviation increase in primary exports slows growth by almost 0.5 percent annually, due largely to less trade openness,¹² export-crippling “Dutch disease”¹³ and corruption.¹⁴

But some findings are counterintuitive. For instance, peace tends to be more durable when wars end by military victory rather than negotiated agreement.¹⁵ Post-conflict countries tend to have more robust political participation.¹⁶ And, despite the destruction of war, many countries rebound rapidly.¹⁷ In Bosnia, for example, poverty rates returned to pre-war levels within just six years.¹⁸ In

the wake of violence in Rwanda, nearly as many households—18 percent—moved *out* of poverty as moved in.¹⁹

So the picture is muddled—even where the data seem indisputable.

For example, the 21-point disparity between the poverty rates of violent and peaceful countries actually represents an extrapolation of conflict's effect on the average country, rather than a direct estimate of countries' experiences. In fact, countries that endured major conflict in the last three decades started out much poorer, by about 15 percentage points. Since then, though, they *have* reduced poverty. Their average extreme poverty rates actually declined faster than other countries'—so much so that, today, they are on par with countries that experienced only minor conflict.²⁰

Likewise, the stagnant number of extreme poor in fragile states suggests little recent progress, if not regression. But this calculation applies the latest classification of fragile states retroactively to 1990. Doesn't this “beg the question”? Clearly, countries that are fragile today haven't performed well recently. A more interesting look would be at nations considered fragile in 1990. Standard fragility measures didn't exist in 1990; however, even comparing the Organization for Economic Cooperation and Development (OECD) fragile states lists for 2008 and 2014 is revealing. Of 47 states considered fragile in 2008, 12 have graduated,²¹ and they have continued to perform well since—but they were also on better

9 D Rodrik, “Where Did All the Growth Go? External Shocks, Social Conflict, and Growth Collapses,” *Journal of Economic Growth* 4, 1999.

10 P Justino and P Verwimp, “Poverty Dynamics, Violent Conflict and Convergence in Rwanda,” MICROCON *Research Working Paper* 4, Brighton: 2008.

11 D Djijpa, M Muzur and PF Lytle, “Bosnia and Herzegovina: War-Torn Lives,” in D Narayan and P Petesch eds., *Voices of the Poor: From Many Lands*, World Bank, New York: Oxford University Press, 2002.

12 JD Sachs and AM Warner, “Natural Resource Abundance and Economic Growth,” NBER *Working Paper* 5398, Cambridge: 1995.

13 Dutch disease is a phenomenon triggered by a large inflow of foreign currency (often from commodity exports or even foreign aid), which leads to local currency appreciation and then decreased competitiveness of other exports. See <http://lexicon.ft.com/Term?term=dutch-disease>

14 X Sala-i-Martin and A Subramanian, “Addressing the Natural Resource Curse: An Illustration from Nigeria,” NBER *Working Paper Series* 9804, Cambridge: 2003.

15 MD Toft, *Securing the Peace: The Durable Settlement of Civil Wars*, Princeton: Princeton University Press, 2009.

16 J Bellow and E Miguel, “War and the Local Collective Action in Sierra Leone,” *Journal of Public Economics* 93:11-12, 2009; C Blattman, “From Violence to Voting: War and Political Participation in Uganda,” *American Political Science Review* 103:2, 2009.

17 E Miguel and G Roland, “The Long Run Impact of Bombing in Vietnam,” BREAD *Working Paper* 111, 2006.

18 Own calculations, based on PovcalNet.

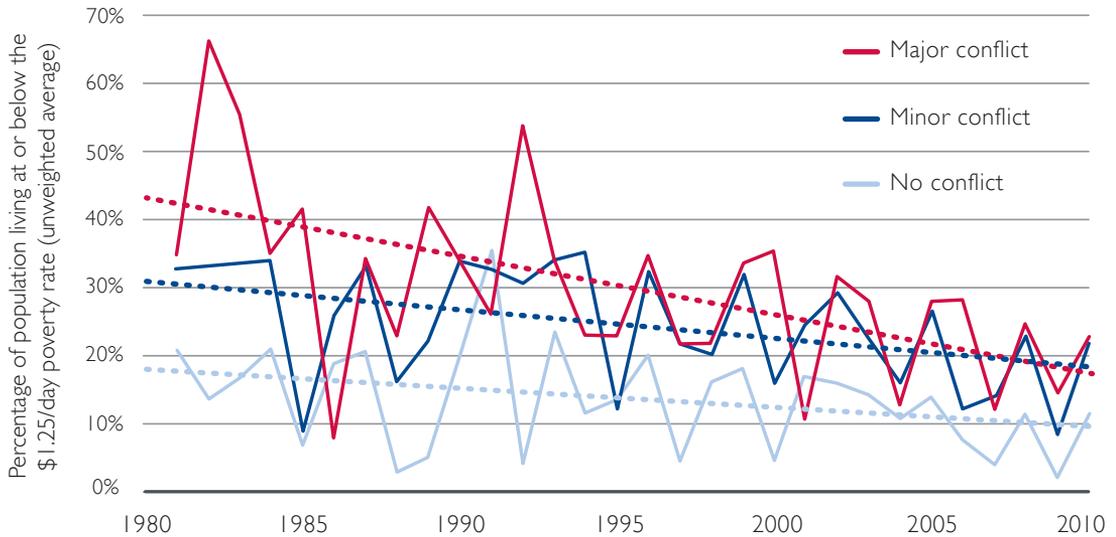
19 Bellow and Miguel, 2009.

20 Own calculations, based on PovcalNet; L Themnér and P Wallensteen, “Armed Conflict, 1946-2012,” *Journal of Peace Research* 50:4, 2013; and NP Gleditsch, P Wallensteen, M Eriksson, M Sollenberg and H Strand, “Armed Conflict 1946-2001: A New Dataset,” *Journal of Peace Research* 39:5, 2002.

21 The 12 “graduates” between 2008 and 2014 are Cambodia, Djibouti, Equatorial Guinea, The Gambia, Laos, Papua New Guinea, Rwanda, São Tomé and Príncipe, Tajikistan, Tonga, Uzbekistan and Vanuatu. Another 16 nations became newly fragile.

Conflict and Poverty Rates

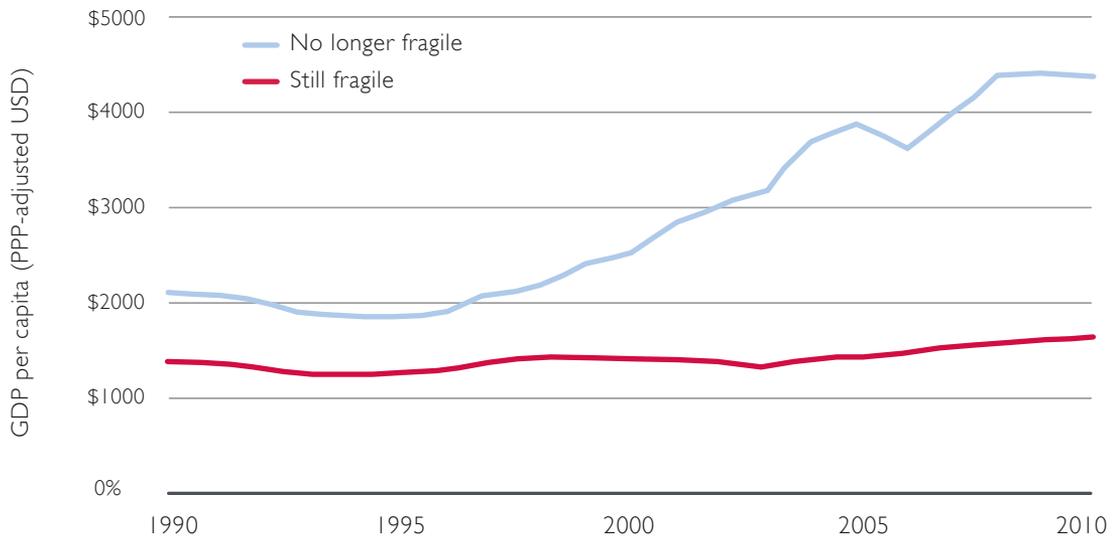
Countries that have experienced major conflict since 1981 are poorer, on average, but they are reducing poverty and their poverty rates are converging with those of other nations.



Source: Own calculations, based on PovcalNet; L Themnér and P Wallensteen, "Armed Conflict, 1946-2012," *Journal of Peace Research* 50:4, 2013; and NP Gleditsch, P Wallensteen, M Eriksson, M Sollenberg and H Strand, "Armed Conflict 1946-2001: A New Dataset," *Journal of Peace Research* 39:5, 2002.

Fragility and GDP Per Capita

Countries that have overcome fragility since 2008 started wealthier and were already on a better trajectory.



Source: Own calculations based on PovcalNet, OECD-DAC Fragile States 2007 and OECD-DAC Fragile States 2014.

Characterizations of fragility differ widely.

| Definition | Count | # LICs | % of LICs | Example |
|--|-------|--------|-----------|--|
| 1 Poor governance | 30 | 16 | 44% | World Bank Country Policy and Institutional Assessment |
| 2 Conflict and instability | 34 | 22 | 61% | Fund for Peace Fragile States Index |
| 3 Poor governance or conflict (the union of #1 and #2) | 51 | 28 | 78% | OECD Fragile States list |
| 4 Either severe conflict or else moderate conflict and poor governance (roughly the intersection of #1 and #2) | 19 | 7 | 19% | USAID's 2004–2006 approach |
| 5 Illegitimate and ineffective institutions | 33 | 20 | 56% | USAID Fragile States Strategy |

trajectories much earlier and, in fact, started out 53 percent wealthier even in 1990.²²

So, even amid fragility, countries have grown—and grown inclusively. This implies that resolving fragility is not a precondition for reducing poverty. In fact, of the 10 countries that reduced extreme poverty the most since 1981, only one did not experience a conflict in that period: Bhutan.²³ Cambodia, for example, despite 18 straight years of fighting with the Khmer Rouge, slashed poverty by 59 percentage points. Indonesia fought multiple wars, including with now-independent Timor-Leste—both saw declines of nearly 50 percentage points.²⁴

What is fragility—and is it meaningful for thinking about poverty?

So, what does “fragility” mean, if some countries are able to grow and overcome it, while others

seem mired in perpetual instability?

In fact, fragility is an ill-defined term. USAID Senior Economist Mike Crosswell identifies five distinct characterizations of fragile states.²⁵

Differing characterizations pose one immediate problem: inconsistent counts of fragile states. USAID’s mid-2000s approach, for example, identifies fewer than 20 fragile states, while the OECD finds more than 50. Under the narrower definition, fewer than 20 percent of low-income countries count as fragile; under the broader definition, nearly 80 percent do. Only nine countries meet all five criteria.²⁶

A second problem is that, while levels of fragility correlate strongly with levels of poverty, *changes* in fragility tend to correlate poorly with changes in poverty.

This complicates the narrative that mitigating

22 Own calculations, based on PovcalNet; OECD-DAC Fragile States 2007; and OECD-DAC Fragile States 2014.

23 The top 10 by total percentage-point reduction between 1981 and 2010 are, in order: Bhutan, China, Vietnam, Pakistan, Cambodia, Nepal, Indonesia, Laos, Tajikistan, Timor-Leste. Five (Pakistan, Cambodia, Nepal, Indonesia and Tajikistan) experienced major conflicts.

24 Own calculations, based on PovcalNet and Armed Conflict, 1946-2012.

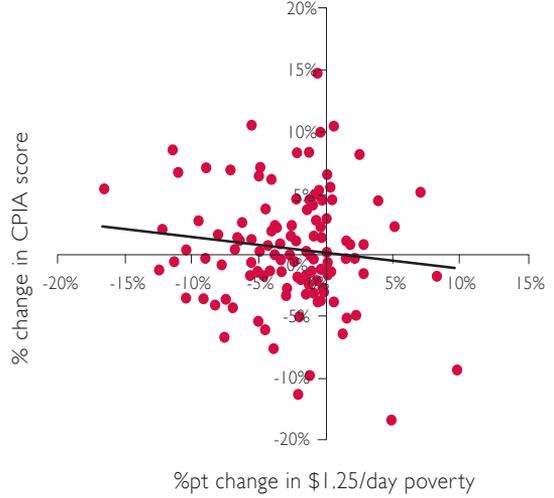
25 M Crosswell, “Identifying Fragile States: Approaches and Issues,” USAID *Senior Economist #18*, Washington: 2013.

26 Own calculations, based on Crosswell; World Bank, “Harmonized List of Fragile States FY14,” 2014; Fund for Peace, “Failed States Index 2013,” 2013; and OECD-DAC Fragile States 2014; USAID and ARD Consortium, “Measuring Fragility: Indicators and Methods for Rating State Performance,” Washington: 2005.

Country Policy and Institutional Assessment



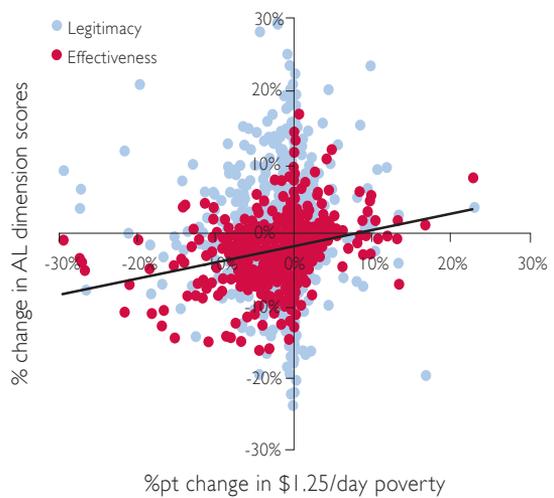
Failed States Index



Alert List



Alert List Decomposed



Source: Own calculations based on PovcalNet; USAID and ARD Consortium, “Measuring Fragility: Indicators and Methods for Rating State Performance,” 2005; World Bank, “World Development Indicators,” 2014; Failed States Index 2013.

fragility leads to poverty reduction.^{27, 28}

Third, for measures that *do* produce a correlation, such as USAID’s current definition, this

seems to be only because the metric subsumes one of poverty itself. The very notion of fragility thus becomes tautological.

For example, when USAID’s fragility measure is decomposed into its two components—legitimacy and effectiveness—it is clear that the effectiveness indicators substantiate the correlation. Yet many of these are direct or proxy measures of poverty itself: the \$2-a-day poverty rate, youth

27 The lack of statistically significant correlation is due, in part, to limited time series in fragility indices, with publicly available CPIA and FSI scores dating only to 2005.

28 Own calculations, based on PovcalNet; USAID and ARD Consortium, “Measuring Fragility: Indicators and Methods for Rating State Performance,” 2005; World Bank, “World Development Indicators,” 2014; Failed States Index 2013.

When disaggregated, components of fragility have heterogeneous effects on poverty.¹

| | Effect on: | Poverty rate | Avg. consumption (log) | GDP per capita (log) | 5yr-lagged GDP per capita (log) |
|----------|---------------------------------------|---------------------|------------------------|----------------------|---------------------------------|
| VIOLENT | Active major conflict | 0.044 | -0.141 | -0.123 | -0.032 |
| | Per UCDP-PRIO ² | (0.94) | (1.32) | (1.73) | (0.56) |
| | Active minor conflict | 0.042 | -0.070 | -0.073 | 0.014 |
| | Per UCDP-PRIO ³ | (1.61) | (0.79) | (1.13) | (0.22) |
| | Post-conflict | 0.037 | -0.120 | -0.102 | -0.095 |
| | Per UCDP-PRIO, w/i 10yrs ⁴ | (2.14)* | (1.78) | (3.06)** | (2.70)** |
| | High violent crime | 0.001 | -0.015 | 0.094 | 0.110 |
| | Homicide rate >0.02% ⁵ | (0.12) | (0.26) | (2.01)* | (2.57)* |
| VOLATILE | Recent regime change | 0.000 | -0.300 | -0.284 | -0.186 |
| | Per Polity IV, w/i 10yrs ⁶ | (1.75e+13)** | (9.92e+14)** | (1.71e+14)** | (7.62e+14)** |
| | Resource wealth | -0.023 | 0.057 | 0.084 | 0.062 |
| | >20% resource rents ⁷ | (1.17) | (1.27) | (2.12)* | (2.07)* |
| UNFREE | Anocracy | -0.020 | 0.061 | -0.107 | -0.148 |
| | Per Polity IV ⁸ | (0.82) | (0.49) | (0.93) | (1.58) |
| | Autocracy | 0.010 | 0.052 | -0.259 | -0.198 |
| | Per Polity IV ⁹ | (0.23) | (0.42) | (1.35) | (1.87) |
| | _cons | 0.126 | 5.197 | 9.224 | 9.112 |
| | | (6.10)** | (58.75)** | (111.07)** | (133.48)** |
| | R ² | 0.05 | 0.04 | 0.05 | 0.06 |
| | N | 663 | 663 | 1,671 | 1,654 |

* p<0.05; ** p<0.01

1 This analysis of four dependent variables uses a fixed-effects regression, holding all place- and time-invariant characteristics steady, with binary “dummy” variables for eight fragility proxies.

2 LThemnér; “UCDP/PRIO Armed Conflict Dataset Codebook,” Uppsala Conflict Data Program and International Peace Research Institute, Oslo: 2014.

3 Themnér; 2014.

4 H Strand and M Dahl, “Defining Conflict-Affected Countries,” paper commissioned by UNESCO for the EFA *Global Monitoring Report 2011*, *The hidden crisis: Armed conflict and education*, 2010.

5 E Bisogno et al., “Global Study on Homicide 2013:Trends, Contexts, Data,” U.N. Office on Drugs and Crime, Vienna: 2013.

6 MG Marshall, TR Gurr and K Jagers, “Polity IV Project: Political Regime Characteristics and Transitions, 1800-2013: Dataset Users’ Manual,” Center for Systemic Peace, Vienna, VA: 2013.

7 P Collier and A Hoeffler, “Democracy and Resource Rents,” Oxford University, Oxford: 2005.

8 Marshall, Gurr and Jagers, 2013.

9 Marshall, Gurr and Jagers, 2013.

literacy, infant mortality, children’s immunizations, access to water and sanitation.²⁹ At the same time, improvements in legitimacy are, on their own, poor predictors of declines in poverty.³⁰

Of course, all else equal, poor states *are* more fragile. But we should be concerned about

endogeneity³¹—that we circularly define fragility using poverty. To understand the constraints to poverty reduction, we need a measure for fragility that is insulated from one of poverty.

29 USAID and ARD Consortium, “Measuring Fragility: Indicators and Methods for Rating State Performance,” 2005.

30 Own calculations, based on PovalNet and USAID and ARD Consortium, “Measuring Fragility: Indicators and Methods for Rating State Performance,” 2005.

31 Endogeneity is a correlation between a statistical model’s independent variable and the error term. There are various causes; one is simultaneity, when the independent and dependent variables are circularly causal. For instance, a model to predict consumer demand in a competitive market based on price may be endogenous because producers would adjust prices based on demand.

A few ideas for repurposing “fragility”

A more useful typology would disaggregate “fragility” and parse its components’ varied effects on poverty. For instance, post-conflict countries see a 3.7-point higher extreme poverty rate when controlling for several other types of fragility and for all place- and time-invariant characteristics. Likewise, a recent regime interregnum lowers mean consumption by 30 percent. Yet other manifestations of fragility—including active conflict—show mixed or insignificant effects on poverty.³²

Although insufficient data from the world’s most unstable places may skew our findings, we should consider a couple of other possibilities that may help explain the puzzling findings on conflict and poverty: Localized conflicts, while devastating for affected communities, may not appreciably hinder poverty reduction nationwide; and some wars, while destructive, may usher in better, more beneficent governments—complicating the long-run implications.

Uganda offers an illustrative example. Decades of war exacted a catastrophic toll; yet, incongruously, few countries have been more successful in reducing poverty. Uganda’s 35-percentage-point decline since 1990 is the sixth-steepest in Africa.^{33, 34}

In Uganda’s north, where the Lord’s Resistance Army roamed unchecked for years, many people lost everything—cattle, assets, homes.³⁵ Thousands of former child soldiers, who missed out on education, today earn 33 percent less than their peers.³⁶

32 Own calculations, based on PovcalNet; World Development Indicators; MG Marshall, TR Gurr and K Jagers, “Polity IV Project: Political Regime Characteristics and Transitions, 1800–2012,” Center for Systemic Peace, Vienna, VA: 2013; Armed Conflict, 1946–2012; Armed Conflict 1946–2001: A New Dataset,” *Journal of Peace Research* 39:5, 2002.

33 Undoubtedly, governance in Uganda raises other concerns, such as “no party democracy” and a venomous anti-LGBT law. But on extreme poverty, few African countries have done better.

34 Own calculations, based on PovcalNet, World Development Indicators; Polity IV; MEPV.

35 Blattman and Miguel, 2010.

36 C Blattman and J Annan, “The Consequences of Child Soldiering,” *The Review of Economics and Statistics* 92:4, 2010.

Yet this violence, however brutal, was largely relegated to three districts far from the capital. We don’t know the counterfactual, but this localized fighting does not seem to have much impeded sustained national growth.³⁷

Moreover, conflict helped galvanize Uganda’s turnaround in the first place. In the 1980s, President Yoweri Museveni, then a rebel commander, mobilized an insurgency through “resistance councils.” In peacetime, these structures morphed into local councils, an early and continued lynchpin of Uganda’s decentralized governance.^{38, 39}

We need to disentangle these causes, correlates and consequences. Fragility analyses, however, often provide an undifferentiated list of conditions. For example, the two pilot fragility assessments for the New Deal for Fragile States—for Sierra Leone and South Sudan—are clear, substantive and insightful. Yet each lists dozens of challenges; South Sudan’s identifies 62 discrete “priority” actions.⁴⁰ In contrast, the practice of differential diagnosis, popularized for identifying *binding* constraints to economic growth, may provide a more practicable model.^{41, 42}

At the same time, let’s not “take refuge in

37 World Bank, “Poverty Trends in Uganda: Who Gained and Who Was Left Behind?” *Inclusive Growth Policy Note*, Washington: 2012.

38 For example, the resistance-turned-local councils helped Museveni’s government hold 86 listening seminars, develop educational materials for all 813 sub-counties and receive and review 25,547 memoranda from groups and individuals in the effort to draft a constitution.

39 JM Weinstein, “Autonomous Recovery and International Intervention in Comparative Perspective,” Center for Global Development *Working Paper* 57, 2005.

40 Government of the Republic of Sierra Leone, “Fragility Assessment: Republic of Sierra Leone,” 2013; Government of the Republic of South Sudan, “Fragility Assessment: Republic of South Sudan,” 2012.

41 The approach, often called “constraints analysis” or “growth diagnostics,” was pioneered by Ricardo Hausmann, Dani Rodrik and Andrés Velasco. The intent is to identify the most binding constraints to an economy’s growth, and thus, the handful of policy interventions that will release the most potential.

42 R Hausmann, D Rodrik and A Velasco, “Growth Diagnostics,” Harvard Kennedy School, Cambridge: 2005.

complexity.”⁴³ We should consider each country’s unique circumstances, of course. Deep contextual understanding is essential. But if we hope to scale and replicate transformative solutions, if we want to build partnerships across countries, we also need sound comparative analysis.

For instance, can we identify reasonable country “cohorts” *among* fragile states, homing in on particular conditions—shared across countries—that pose the greatest impediments to poverty reduction? And what novel solutions have already been tested within these groups? For example, Chile’s countercyclical fiscal rules, informed by independent experts, help smooth the effects of volatile copper prices, and Botswana’s professionally managed Pula Fund, which is invested in foreign securities, offsets depleted diamond stocks and manages price fluctuations.⁴⁴ Are these replicable models for other resource-rich countries? Disaggregation does not mean atomization—there’s value in spotting similarities.

Most importantly, we should be wary of the easy narrative that some states are ensnared in fragility and avoid the conceit that—if we can only

A Syrian man reacts while standing on the rubble of his house, while others look for survivors and bodies in the Tariq al-Bab district of the northern city of Aleppo. We must encourage peaceful and stable societies in order to end extreme poverty.
PHOTO: PABLO TOSCO / AFP

free them—the end of poverty lies just ahead.

Rather, we should focus on fixing what’s fixable: building human and institutional capacity, scaling and replicating creative solutions and prioritizing the reforms and investments most likely to unlock sustained, inclusive growth. We should recognize that weak or unscrupulous leadership is hard to right and that the poorest countries are coming from much further behind.

Ending poverty—extreme or otherwise—demands that we take the long view. The path may be uneven and circuitous, but we should take heart in the extraordinary progress to date—even if, in some places, it’s far from enough.

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⁴³ R Zeckhauser, “Analytic Frameworks for Policy” (lecture), Harvard Kennedy School of Government, 2011.

⁴⁴ J Frankel, “The Natural Resource Curse: A Survey of Diagnoses and Some Prescriptions,” in R Arezki, C Patillo, M Quintyn and Z Min (eds.), *Commodity Price Volatility and Inclusive Growth in Low-Income Countries*, International Monetary Fund, Washington: 2012.



A Short Dialogue on Extreme Poverty in the Democratic Republic of the Congo

Between Diana Putman, USAID Mission Director, Christopher Darrouzet-Nardi, Mission Economist, and Victor Mangindula, Senior Program Specialist

How would you describe extreme poverty in the DRC?

Victor: The Democratic Republic of the Congo (DRC) is emerging from a long period of political turmoil and war. Despite recent progress toward the stabilization of the most conflict-affected eastern part of the country, insecurity still prevails in several locations. The consequent massive displacement of people, deterioration of basic infrastructure, destruction of productive assets and dramatic increase in urbanization have led to a prolonged economic downturn. Today no one can dispute the fact that large segments of the Congolese population live below the poverty line threshold of \$1.25 per day.

Poverty-affected people can be grouped into several clusters based on the levels and characteristics of poverty. Those in the extreme poverty, or destitution, cluster are deprived of the most basic human needs, including food, safe water;

health care, education, sanitation and shelter.

The face of extreme poverty is mostly visible in the numerous slums scattered across urban areas. In the capital city of Kinshasa, households without resources live in appalling conditions in cardboard huts along streams polluted with household or industrial wastes. Many of these families are single-parent households headed by women. These female heads have no access to economic opportunities and rely on meager resources drawn from activities that increase their exposure to health hazards and violence. They can neither afford to send their children to school nor provide them decent health care. Almost every day, they have to make the hard decision of choosing which one of their children will get one meal.

Chris: The average Congolese person is the face of the extreme poor in the DRC. With an estimated six out of seven people living on less

than \$1.25 per day, the outliers are people living above the extreme poverty threshold.

The DRC has the highest extreme poverty rate in the world. That high rate, coupled with the country's large, growing population (about 70 million today but expected to reach 100 million by 2030), puts the DRC on track to have the second-highest total number of people living in extreme poverty within 15 years.

Digging deeper, we see some trends: People living in rural areas are undoubtedly poorer than their urban peers and score worse on multidimensional aspects of poverty, including health, education and access to infrastructure. Women tend to be poorer than men, a phenomenon seen most acutely in female-headed households. Youth are especially affected due to poor employment prospects, low educational achievement and a large age cohort. In addition, certain provinces are poorer than others—notably Equateur, Bandundu and the Kasais—but extremely poor Congolese live in all regions of the country.

Looking beyond income to indicators such as infant mortality, literacy and malnourishment, considerable variability exists among the DRC's provinces. Generally speaking, Kinshasa tends to see less poverty than other provinces. Despite continued conflict in the East, the Kivus, southern Orientale and northern Katanga provinces do not fare worse categorically. In fact, they score much higher on some indicators, possibly because of extra support from donors.

Diana: I agree with how both of you characterize extreme poverty. Let me add a couple of additional comments. I have a painting in my office by a Congolese artist in shades of brown and orange that depicts people fleeing with only the things they can carry on their heads.

The latest numbers indicate that there are approximately 2.9 million internally displaced people in the Congo, many of them women and children. These are people driven from their homes—once, twice and some many times—by armed groups rampaging through the countryside, pillaging everything they find. These people have lost whatever meager assets they have been able to accumulate—perhaps a few cooking pots, farming implements, a pencil or notebook for children lucky enough to go to school or one spare change of clothes. How will they be able to get above the \$1.25 threshold?

Or can the face of extreme poverty be found in the exhausted women street vendors in major cities who spend an hour or two walking to get to the city center, hawk vegetables or bread for only a few pennies profit and then return home to figure out which of their children will eat that night?

Yet I remain inspired by these Congolese people, who will be able to rise above this poverty when given the chance. You can see their dignity in the way they wear perhaps the only outfit they possess and their eagerness to take advantage of any and all opportunities they are given, whether it be literacy training, access to a savings and loan group or new seeds and tools.

What do you see as the biggest challenges to ending extreme poverty in the DRC? What have been the most promising efforts so far for reducing extreme poverty?

Chris: The biggest challenges to eradicating poverty in the DRC include poor governance, an almost complete lack of infrastructure, the country's vast size and its low starting point, and the sheer depth of poverty. The most promising efforts to reduce poverty involve accelerating inclusive economic growth and scaling up effective programs to improve multidimensional poverty scores.

Poor governance is a deep-rooted problem in the DRC that dates back to colonial times. Government employees have a vested interest in maintaining a corrupt, malfunctioning administrative system, one in which personal enrichment is the valued norm and impunity prevails. When you add in an underpaid and under-skilled workforce, the Government of the DRC becomes overwhelmed by the needs of its citizens.

The absence of nearly any road network in the DRC—a country equal in size to Western Europe—contributes to the challenge of elevating people out of poverty. The remoteness of many regions poses an extreme limitation on access to services and markets, as well as on the amount of influence government can have in citizens' lives. Millions of Congolese effectively live out of the reach of any type of government or

donor intervention or modern economic activity.

The good news in the DRC is that the economy is growing at a steady clip, averaging 6.3 percent real growth per year for the last decade. Even given the high population growth, real GDP per capita is rising at least 3.3 percent on average each year. A key component of this success has been stable macroeconomic policy and several years of high prices for minerals—including copper, coltan and gold. Inflation is in the single digits and likely to remain that way.

When the notion of poverty is broadened to include social indicators, there is reason for further optimism. The 2014 Demographic and Health Survey shows improvements in nearly all important categories, including child and neonatal mortality, measures related to underweight children and the prevalence of malaria. Nonetheless, the absence of investments in agriculture and in infrastructure such as roads, railways, river transport and energy—the primary economic activities for the bulk of the population—makes it difficult to further accelerate and sustain inclusive growth.

Most important, the DRC is at an abysmally low starting point. With a growing population of 70 million people, a rapidly expanding urban population, poor infrastructure and a small amount of total economic activity, even substantial gains—such as a 7-percent growth rate—will compound very slowly in terms of eradicating extreme poverty. There are just so many people living so far below the poverty line.

Victor: Ending extreme poverty in the DRC will require the restoration of foundations for broad-based economic growth and an improved provision of basic social services in both urban and rural settings. A strong political commitment by the government and increased availability of financial resources are essential to attaining these objectives. More investments in the productive sectors, such as agriculture and small-scale industry, as well as support services (such as feeder roads and marketing channels) are needed to improve livelihoods at the grassroots level.

The Government of the DRC has formulated a strategic framework focused on poverty reduction and growth to guide its annual action plan and priority investments. The government is using domestic and external resources to finance substantial investments in basic infrastructure development. Over the last few years, the country has successfully stabilized the macroeconomic environment, which now reports low inflation rates, reduced public finance deficits and increased foreign exchange reserves. High growth rates have been induced by expanded foreign investment flows into the mining sector; however, concerns have been voiced that growth in this sector has no trickle-down effects at the grassroots level.

Diana: So true, gentlemen. The prerequisites for inclusive economic growth boil down to political will, vastly improved governance, infrastructure expansion and greater attention

to agriculture—and not just mining—with a focus on conserving the Congo Basin's natural resources. Importantly, the Congolese people are responsible for their own destiny, and their embrace of modern systems in areas such as justice and rule of law will be essential to building their economy. Additionally, increased attention must be paid to creating a literate, healthy workforce with fewer children per couple, so that families will be able to move out of poverty.

Let me also mention the new country development cooperation strategy of the USAID mission in the DRC. This strategy is focused on improving governance and strengthening the capacity of Congolese institutions—be they government, non-governmental, private sector, faith-based or community-based organizations.

With limited resources for funding agriculture or economic growth programs, we are severely constrained and must take a more indirect route in reducing extreme poverty. Our ample health and education funds give us the opportunity to put in place some of the precursor conditions that will enable the Congolese population to take advantage of economic opportunities as they arise.

The views expressed in this Q&A are those of the interviewees and do not necessarily represent the views of the United States Agency for International Development or the United States Government.



Capturing Women's Multidimensional Experiences of Extreme Poverty

Catherine Cozzarelli and Susan Markham

Measuring poverty

At the heart of USAID's new mission statement is a commitment to working with partners around the globe to end extreme poverty. This priority, which we share with other development practitioners, is central to the goals of the post-2015 Development Agenda. Demonstrating progress toward this target requires the assessment and tracking of extreme poverty levels.

Traditionally, poverty and extreme poverty have been assessed at the household level via income- or consumption-based measures, most frequently in relation to the purchasing-power-parity-based World Bank guidelines currently estimated at \$2 for poverty and \$1.25 for extreme poverty. However, feminists and other researchers applying a gender lens to the study of extreme poverty have long argued that these gender-blind measures do not accurately capture the prevalence of extreme poverty among females as compared to males; nor do they capture the complexities and differences in how

women and men experience poverty.¹

To accurately compare the prevalence of extreme poverty among women as compared to men, researchers must assess poverty at the individual, rather than household, level. This has proven to be a steep methodological challenge. Household-level assessments are based on the assumption that all household income or assets are shared equally among household members.

Yet a wealth of research now shows that women are often severely disadvantaged within their households, challenging the assumption that they benefit from an equal share of resources or control over income or assets. Therefore, to assess poverty at the individual level, researchers must estimate within-household inequalities. Modeling, at best an imprecise endeavor, is often used to do so.

Aside from the methodological challenges, the conceptual question exists of whether poverty should be assessed using only income-based

¹ Chant, S. (Ed.) (2010). *International Handbook of Gender and Poverty: Concepts, Research, Policy*. Cheltenham: Edward Elgar.



A Kenyan woman breaks stones for a local construction company at a quarry with her children. Women are more likely to be employed in the informal sector than men, often holding jobs that pay lower wages while also maintaining housework and care responsibilities at home. PHOTO: TONY KARUMBA / AFP

measures. Many experts have argued that, just as human well-being is a multidimensional concept, poverty measures should likewise reflect the numerous forms of deprivation that men and women often experience.

Women's experiences of extreme poverty can be more complex and multifaceted than men's. In many cases, they are starting from more marginalized, less powerful positions than men, and any additional burdens will further exacerbate these differences.² In addition, the multiple ways that social norms and expectations impact the lives of women

and men ensure that the experience of extreme poverty will be profoundly impacted by gender.

Women's experiences of poverty

Income is but one important dimension of how women experience poverty. Although no universally accepted set of key dimensions yet exists, deprivations in knowledge, nutrition and health, property ownership, time and decision-making power are among the most frequently mentioned.³ Consider, for example, Amartya Sen's very influential framing of poverty beyond the lack of

2 Coates, A. (2010). "Multidimensional poverty measurement in Mexico and Central America: Incorporating rights and equality." In Chant, S. (Ed.) (2010). *The International Handbook of Gender and Poverty: Concepts, Research, Policy*. Cheltenham: Edward Elgar.

3 Chant, S. (2008). "The 'Feminisation of Poverty' and the 'Feminisation' of Anti-Poverty Programmes: Room for Revision?" *Journal of Development Studies*, Vol. 44, No. 2, pp. 165–197, February.

economic resources to include deficits in capacities and opportunities to “lead the kind of lives that people have reason to value.”⁴ According to this formulation, economic resources are just one of many resource types needed to experience a life that has value and dignity.

Abundant research makes it clear that women in many parts of the world have lower levels of education and less access to resources, capabilities and opportunities than men.⁵ In this sense, they can certainly be considered to be poorer. Take for

The multiple ways that social norms and expectations impact the lives of women and men ensure that the experience of extreme poverty will be profoundly impacted by gender.

example the persistent gender gap in employment. In 2012, there was a 24.8 percentage point difference in the employment-to-population ratio for women as compared with men.⁶ Women are more likely than men to be employed in the informal sector, are typically stratified into jobs that pay lower wages and have less access to productive assets and financial resources.⁷

Across 63 developing countries, girls in both primary and lower secondary age groups were more likely to be out of school than boys. This school attendance gender gap widens in lower secondary education, even for girls living in better-off households.⁸

Furthermore, although the unmet need for family planning declined in all regions between 1990 and 2013, an estimated 140 million women who wanted to stop or delay childbearing did not have access to family planning in 2013.⁹ In many countries, women have less influence over household decisions than men, and they are much less likely than men to hold positions of political power.¹⁰ Finally, in most countries, gender inequalities tend to be greater among the poor than the rich, especially inequalities related to education, health and economic opportunity.¹¹

It is also important to consider differences in how women and men cope with extreme poverty and how these responses can deepen many dimensions of poverty itself. When household economic resources are constrained, for example, women may respond by increasing the time they spend earning income, in addition to maintaining routine care work in the home. Because men, regardless of whether they are earning an income, often do not increase the amount of time they spend on housework or care responsibilities, this often means that women work far longer hours, have less leisure time and suffer from higher levels of time poverty.¹²

4 Sen, A. (1999). *Development as Freedom*. New York: Anchor Books.

5 World Bank. (2011). *World Development Report 2012: Gender Equality and Development*. Washington D.C.: The World Bank.

6 <http://www.unwomen.org/en/news/in-focus/mdg-momentum#MDG1>

7 Grown, C. (2014). “Missing women: Gender and the extreme poverty debate.” A paper prepared for USAID under Award #AID-OAA-0-13-00103 Mod 1.

8 <http://www.unwomen.org/en/news/in-focus/mdg-momentum#MDG2>

9 <http://www.unwomen.org/en/news/in-focus/mdg-momentum#MDG5>

10 World Bank. (2011). *World Development Report 2012: Gender Equality and Development*. Washington D.C.: The World Bank.

11 World Bank. (2011). *World Development Report 2012: Gender Equality and Development*. Washington D.C.: The World Bank. Also, Duflo, E. (2011). “Women’s empowerment and economic development”: National Bureau of Economic Research.

12 Chant, S. (2010). “Towards a (re)conceptualization of the ‘feminiza-

Men more often than women cope with poverty by seeking escapes, through the use of alcohol or drugs or by abandoning their families and the attendant financial obligations. Such strategies deplete household resources and put the onus on women and older girls to shoulder additional responsibilities and find ways to cope.¹³

Moving forward

Moving forward in the battle against extreme poverty, USAID and its partners should measure progress not just in terms of the ability of women and girls to earn and make use of income, but also in terms of their empowerment. This can be gauged in terms of decision-making power in households and communities, increased skills and capacities, the ability to benefit equally from assets and resources and progress in building more equitable relationships with their male partners. By viewing women's multidimensional and complex experiences of poverty in this way, we will bring our work in line with current research and help it more effectively respond to the experiences of women living in extreme poverty.

Many ongoing USAID programs clearly contribute to reaching these gender equality objectives. The Agency has helped develop women's capacities as political and social leaders, increased their access to key agricultural resources and quality health and nutrition services, supported female entrepreneurs and equipped young women with the education and technical skills they need to earn a decent living.

But we could do more. This includes collecting data at the individual level that will tell a deeper and richer story about how women worldwide experience extreme poverty. Information on key dimensions such as access to or control over assets, participation in informal employment and unpaid work and use of time are not routinely collected in most countries. It will be important to build upon efforts to systematically collect these data as the international community works toward key gender goals and targets in the context of the post-2015 Development Agenda.

Programmatic responses to extreme poverty must recognize the intersections of gender roles and norms, of social structures and stratifications and of state programs and policies as determinants of outcomes for individual women and men. We must design programs tailored to the specific, gender-based challenges faced by the women we are seeking to empower.¹⁴

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tion of poverty': Reflections on gender-differentiated poverty from The Gambia, Philippines and Costa Rica." In Chant, S. (Ed.) (2010). *The International Handbook of Gender and Poverty: Concepts, Research, Policy*. Cheltenham: Edward Elgar.

13 Chant, S. (2007). *Gender, Generation and Poverty: Exploring the "Feminization of Poverty" in Africa, Asia and Latin America*. Cheltenham, UK and Northampton, MA, USA: Edward Elgar.

14 For an excellent discussion of the types of programmatic responses most likely to benefit poor and very poor women, see Grown, C. (2014). "Missing women: Gender and the extreme poverty debate." A paper prepared for USAID under Award #AID-OAA-0-13-00103 Mod 1.



Paraguay's Poverty Spotlight: Focusing on Women and Markets for Innovation, Tangible Success

Steven E. Hendrix

Paraguay's Poverty Spotlight pilot project shows how a relatively low-cost approach can help us better understand the drivers of poverty and help families improve their welfare. *Fundación Paraguaya*, a local non-governmental organization (NGO), developed this approach through reliance on new technologies, market-driven incentives and financial sustainability and with an eye toward empowering women.

In its first three years of operation, Poverty Spotlight used just \$500,000 from USAID and leveraged another \$1 million from other donors and a parallel microlending program to help improve the welfare of 18,000 families, or about 92,000 people. This replicable project illustrates how relatively small amounts of foreign assistance can generate promising, tangible steps toward reducing poverty.

An inventive approach toward multidimensional poverty

Fundación Paraguaya created Poverty Spotlight to understand and address the household-specific

constraints that keep families below the poverty line. The approach uses household-level poverty assessments and action plans and delivers opportunities to access microcredit, support for microenterprise development and access to client networks.

The Foundation implements the Poverty Spotlight primarily through its microfinance village banks. A user-friendly poverty assessment, administered by village bank agents, lies at the heart of the approach. Families use a smart phone application or tablet program to complete a self-evaluation survey with 50 indicators. These indicators address six dimensions of poverty: income and employment, health and environment, housing and infrastructure, education and culture, organization and participation, and “interiority and motivation,” which includes measures such as self-esteem and entrepreneurial spirit.

The entirely visual survey presents three depictions for each indicator—tagged green, yellow and red—of what is typical for non-poor, poor and extremely-poor households. For housing



A women's artisan committee in Horqueta, Paraguay, receives specialized training. The USAID-supported Poverty Stoplight program can use maps of communities and layers of information to help policymakers and NGOs target their technical assistance to better serve community needs. PHOTO: USAID

and infrastructure, for instance, these pictures show different toilets or water sources.

Microfinance agents then work with clients to design a Family Development Plan. The families themselves identify ways to move these indicators from red and yellow to green. Agents support the process, noting opportunities for families to draw upon training, technical assistance or small loans.

Whenever the challenge requires higher family incomes, Poverty Stoplight connects interested households with opportunities for affordable, self-financing micro-franchises. These micro-franchises, designed especially for women, include activities such as jewelry-making, selling non-prescription eyewear and door-to-door cleaning services.

The Foundation set a broad goal of helping clients increase their incomes by about \$120 per

month, roughly doubling their income. Over two-thirds of clients surpassed this goal in less than one year. Key to success has been getting clients to think of themselves less as beneficiaries and more as empowered agents of change.

The Foundation has since secured a small donation from the Inter-American Development Bank to develop new micro-franchises for program clients, based on market and client surveys. To help households make progress on other indicators, the Foundation established a client network that functions in ways similar to a buyers' club in the United States, allowing members privileged access to certain vendors and providers, including group health insurance and recreational opportunities.

While USAID funded Poverty Stoplight's



A small-scale farmer in rural Paraguay picks passion fruit that she will sell through a local farmers collective. With Paraguay's estimated poverty level at 35 percent, Poverty Stoplight has the potential to improve the welfare of Paraguay's poor communities. PHOTO: LAURA RODRIGUEZ / USAID

development, the program itself is fully paid for by the Foundation's micro-credit lending activities, making the program fully self-sustaining. Micro-credit lending finances family needs in areas such as home improvements, education and health and helps them meet the goals in their Family Development Plans. Credit advisers meet with clients once a month to assess progress and offer advice.

Beyond a single project

Poverty Stoplight's benefits are extending beyond the program's direct clients. Fundación Paraguaya has used the tool to identify issues faced by its

own employees and, as a result, provide training to reduce sexual harassment and deliver targeted assistance to some of the poorer households.

Civil society organizations in Paraguay and beyond have been using the Stoplight. British NGO Volunteer Uganda has collaborated with Fundación Paraguaya to adapt the program and has already conducted an initial survey of 5,000 families. In Tanzania, Fundación Paraguaya is working with Italian NGO Acra to launch the program for family members of students at three schools that cater to poor children. The American University of Nigeria has adapted the Poverty Stoplight for local linguistic use. Choice

Humanitarian, a faith-based NGO in Utah, has expressed interest in supporting the Poverty Stoplight in Guatemala, and Mexican NGO Promujer has offered to help the Foundation focus a program in the Mexican city of Bachuca.

Telling the full story

Rates and indexes do not tell the full story of poverty. According to the World Bank, Paraguay's poverty rate is 35 percent. But who are the poor? Where do they live? Why are they poor?

Poverty Stoplight creates geo-referenced maps of communities with layers of information as to why households are poor. It can help policymakers and NGOs geographically target their services and,

When they know why people are poor, policymakers can target interventions for the cause of a problem, not just the problem itself.

just as important, ensure that public services are more responsive to community needs.

When they know why people are poor, policymakers can target interventions for the cause of a problem, not just the problem itself. If motivation is the issue, then interventions should focus in this area. If it is access to credit, then financing may be the solution. If people lack knowledge, perhaps training is the answer.

By helping policymakers pick the right tool

for the cause, not the problem, the Stoplight has the potential to help improve the welfare of poor communities while strengthening governments' accountability to citizens.

The Poverty Stoplight has been criticized for "cherry picking" its beneficiaries. After all, the households that become clients of Fundación Paraguaya's microfinance institutions are more likely to be creditworthy and possess some entrepreneurial skills, compared to poorer households. Although this selection bias may exist, the Stoplight nevertheless remains a promising diagnostic tool. It allows us to map poverty, help those who can move out of poverty to do so and focus assistance very narrowly on the small number of people remaining who still require a helping hand.

The Poverty Stoplight still needs to be rigorously evaluated. For instance, how do poverty trends among participating households compare to those in non-participating households? How sustainable are the gains made by participating households and communities? And how have findings shaped government spending? These are but a few of the questions that remain.

Nevertheless, if a creative, \$500,000 program can help 18,000 households improve their welfare in as little as a year or two, imagine how much more we can accomplish if a national government or donor scales up this kind of approach.

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Extreme Poverty in the Philippines

*Gil Dy-Liacco, Development Assistance Specialist in
USAID/Philippines' Office of Program Resources Management*

How would you describe extreme poverty in the Philippines?

In 2012, extreme poverty in the Philippines was estimated at 19.2 percent of the population, or about 18.4 million people, based on the international poverty line of \$1.25 per day. Most of the poor in the Philippines live in rural areas and work in the agriculture sector, mainly in farming and fishing. Urban poverty, however, has been increasing in recent years. Migrants without jobs or with low-paying jobs are unable to afford decent housing. As a result, Philippine cities have high proportions of informal settlers who are among the poorest of the poor.

Moreover, poverty is severe in parts of the country with high levels of conflict. The Philippines' 10 poorest provinces are considered either conflict-affected or vulnerable to conflict.

The poor in the Philippines have families of six or more members, with greater numbers of younger and older dependents. In the majority of

poor families, the head of household has only an elementary education or below. These families have few or no assets and minimal access to electricity, water sources and toilet facilities. They also have limited access to health and education services.

Among Philippine citizens, the poor are most vulnerable to financial and price shocks and natural disasters. Often their efforts to cope with these shocks and make up for lost livelihoods and income result in deeper levels of indebtedness.

What do you see as some of the biggest challenges to ending extreme poverty in the Philippines? What have been the most promising efforts so far in reducing extreme poverty?

In the Philippines, the key challenges to ending extreme poverty are the same as the country's development challenges: weak governance and a lack of fiscal space, which reflect pervasive corruption, elite capture and state capture;

inadequate education and health services; the persistence of armed conflict in the southern island of Mindanao; inadequate natural resources management; and increased frequency and intensity of natural disasters.

The country's long history of policy distortions has led to patterns of growth that have failed to provide good jobs to the majority of Filipinos. Cities in the Philippines have not been able to keep pace with the explosive growth of urban populations, as evidenced in infrastructure and housing deficiencies, traffic congestion and environmental pollution. The private sector's reluctance to invest and create more and better quality jobs reflects the country's weak investment climate for firms of all sizes.

The Government of the Philippines currently provides targeted direct assistance to the extremely poor through social protection programs. Through a conditional cash transfer program, extremely poor families receive cash assistance when they fulfill requirements for free, government-provided child immunizations and enroll their children in school. In order to fund and implement its universal health program and improve access to basic education, the Government of the Philippines is aggressively accelerating revenue collection, improving public expenditure management and addressing constraints to effective local governance.

At the same time, the Government of the Philippines recognizes that ending extreme poverty requires strategies and programs aimed at sustaining inclusive, resilient growth. USAID, through the U.S.-Philippines Partnership for Growth, is helping the Government of the Philippines address binding constraints to inclusive growth by improving the quality of policies, regulations and their implementation;

strengthening rule-of-law and anti-corruption measures; improving fiscal performance; and promoting human capacity development. USAID supports efforts to help the second-tier cities outside of Metro Manila to become effective engines of growth in their localities and surrounding areas.

USAID is fostering peace and stability in conflict-affected areas of Mindanao, where many of the country's poor reside. USAID is enhancing environmental resilience through programs that mitigate the impact of natural disasters, so as to minimize the impact on the poor, who are disproportionately affected by these disasters. USAID is also implementing programs that improve access to quality education and health services. Finally, through humanitarian assistance work in disaster- and conflict-affected areas, USAID is supporting efforts to restore immediate access—especially for the poor—to basic services.

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USAID/Philippines Country Development Cooperation Strategy, 2012-2016

World Bank: Country Partnership Strategy for the Republic of the Philippines for the Period FY 2015-2018, May 2014

The views expressed in this Q&A are those of the interviewee and do not necessarily represent the views of the United States Agency for International Development or the United States Government.



To Tackle Extreme Poverty, We Must Take on Extreme Inequality

Winnie Byanyima

We live in a world of extremes. Too many still toil in extreme poverty. On the other extreme, income and wealth are increasingly concentrated in fewer and fewer hands. In January 2014, Oxfam found that the 85 richest people owned as much wealth as the bottom half of humanity, 3.5 billion souls.¹ And that figure has reduced: Today just 66 people own the wealth of half the world.²

New billionaires are emerging in all corners of the globe. If poverty is declining, then why should we concern ourselves with the growing concentration of income and wealth at the top? Why should we worry about inequality?

The first reason is arithmetic. Many developing countries have achieved high rates of economic growth. But the more unequal a country, the less

the benefits of growth tend to flow to the bottom of the economic pyramid.³ In theory, the wealthiest might reinvest their income into productive enterprises and drive economic growth.

In practice, however, the wealthiest seek investment opportunities outside of their countries, hiding assets and seeking the safety and anonymity of tax-haven bank accounts. Oxfam estimates that at least \$18.5 trillion has been burrowed away by wealthy individuals, depriving governments of more than \$156 billion in tax revenue.⁴ The missing money is twice the amount required for every person in the world to be living above the \$1.25-a-day “extreme poverty” threshold.⁵

1 Oxfam, *Working for the Few*, January 2014, p. 2. (<http://www.oxfam.org/sites/www.oxfam.org/files/bp-working-for-few-political-capture-economic-inequality-200114-en.pdf>)

2 Kasia Morena, *Forbes*, “The 67 People as Wealthy as the World’s Poorest 3.5 Billion,” March 25, 2014. See: <http://www.forbes.com/sites/forbesinsights/2014/03/25/the-67-people-as-wealthy-as-the-worlds-poorest-3-5-billion/>

3 Martin Ravallion, “Inequality is Bad for the Poor,” World Bank Development Research Group, 2007. See: http://siteresources.worldbank.org/INTPOVRES/Resources/Inequality_is_bad_for_the_poor_ABA.pdf

4 <http://www.oxfam.org/en/eu/pressroom/pressrelease/2013-05-22/tax-havens-private-billions-could-end-extreme-poverty-twice-over>

5 Laurence Chandy and Geoffrey Gertz, “Poverty in Numbers: The Changing State of Global Poverty from 2005 to 2015,” Brookings Institution, January 2011, estimates that bringing everyone to a minimum of \$1.25/day would take \$66 billion in 2010. Note that this estimate was made before recent price data from the International Comparison Project that may lead to dramatically reduced global poverty estimates and



A Sudanese worker inspects damage to a burnt oil-processing facility in Heglig, Sudan. African countries hold vast mineral and energy wealth that could be converted into economic infrastructure, social progress and human capital. PHOTO: ASHRAF SHAZLY / AFP

Second, economic growth itself is undermined by high rates of inequality, as shown in new research by organizations including the International Monetary Fund.⁶ The mechanisms for reducing poverty are hurt when the benefits of growth are not broadly shared. Highly unequal societies offer less opportunity for people to improve their situations. Income mobility—the ability to improve one’s station through hard work and talent—is lower in unequal countries.

This means that millions of people face low

prospects for self-improvement for themselves and their children, destroying human and economic potential. When economic growth is stifled in highly unequal economies, it’s the extremely poor who pay the greatest price.

Third, we must recognize that the shape of poverty is changing. Most poor people no longer reside in poor countries. Most of the poorest people live in middle-income countries, like China, India and Brazil, that have achieved economic growth, have competent and functioning governments and have burgeoning middle classes.

Yet poverty remains. For these countries, the challenge of eliminating extreme poverty is different. Issues of national inequality, distribution of benefits and government interventions are much more acute in these contexts.

At the same time, we should recognize that poverty and inequality have important gender

would therefore reduce the transfers needed to bring all people to \$1.25/day. See <http://www.brookings.edu/blogs/up-front/posts/2014/05/05-data-extreme-poverty-chandy-kharas>

⁶ Andrew Berg and Jonathan Ostry, “Inequality and Unsustainable Growth: Two Sides of the Same Coin?” IMF, April 8, 2011. See <http://www.imf.org/external/pubs/ft/sdn/2011/sdn1108.pdf> and Jonathan Ostry, Andrew Berg and Charalambos Tsangarides, “Redistribution, Inequality, and Growth,” IMF staff discussion note, February 2014. See: <http://www.imf.org/external/pubs/ft/sdn/2014/sdn1402.pdf>

dimensions. There is clearly a considerable gap in the economic conditions and opportunities of men and women. This gap is linked to: women's relegation to the worst-paid and most insecure jobs—the global wage gap is such that it will take 75 years to achieve “equal wage for equal work”; women's almost-universal responsibility for care work; and laws and practices that limit women's ownership of assets and wealth.

Thus, gender inequality drives poverty and undermines economic growth. For this reason, it is both socially just and imperative that the transformative changes we seek promote opportunities for and access to decent work for women and encourage women's influence and decision-making over markets, policy and household spending.

President Obama has called inequality “the defining challenge of our time.” He also has committed to help eradicate extreme poverty. I believe we must take these issues on together.

The agenda for action starts in developing countries, but it does not end there by any means. A good example of this is in the extractive industries sector, where action is needed globally. We know that vast mineral and energy wealth will be brought to the surface from African countries in the next two decades. This wealth could be converted into economic infrastructure, human capital and improved social progress in some of the poorest countries on Earth. Or it could be wasted, lost or squandered.

African governments, working with citizens, must rapidly build their expertise to assess and manage their natural resources. They must create transparent and accountable systems to manage their resources and the income that comes with their development. Ghana's Petroleum Revenue Management Act is a good example of how targeted regulation can promote shared prosperity.

The United States and other countries must

play their part. For example, improved transparency and disclosure by oil and mining companies will help shareholders and the public ensure fair play, good business practices and accountability. This information helps keep everyone honest and can enable African governments and citizens to better understand deals and make sure they are fair and beneficial. This information will also help to keep the sticky fingers of politicians and bureaucrats off of the piles of money that are meant for citizens. Resource booms create great risks of exacerbating income inequality—but it doesn't have to be this way.

Improving tax systems and tax transparency is also vital. Secretive tax havens facilitating the hemorrhaging of income and assets from poor countries must be shut down. The United States and other G-8 countries promised to take action on this in 2013. In addition, strong programs for public services and social support must be built to ensure that the benefits of economic growth are shared.

The agenda to end extreme poverty should be matched with an agenda to end extreme and growing economic inequality. Both are historic challenges, and neither is likely to be overcome in isolation. Solutions will be synergistic: Economic growth helps to pull people out of poverty, while reduced inequality increases economic growth.

For the people living in extreme poverty, climbing a few steps on the economic ladder can be the difference between sickness and health, life and death. But having an unobstructed path to the top, a chance to hope and dream, is the difference between surviving and living.

Winnie Byanyima is executive director of Oxfam International. The views expressed in this essay are her own and do not necessarily represent the views of the United States Agency for International Development or the United States Government.

Politics, Global and Local





Thinking and Working Politically to Eradicate Extreme Poverty

Larry Garber

The call in President Obama's 2013 State of the Union address to eradicate extreme poverty over the next 20 years is comparable to President Kennedy's 1961 promise to place a man on the moon before 1970. The idea is the same: Set a bold vision, motivate policymakers and the general public, and invest sufficient resources to accelerate the necessary technological advances to meet the challenge.

However, eradicating extreme poverty worldwide will depend upon an ingredient beyond the control of President Obama and his successors: the policies of the countries where extreme poverty remains most prevalent. Therefore, as the United States and other countries shape this noble commitment into the goals that will succeed the Millennium Development Goals, and as USAID includes the eradication of extreme poverty into the heart of its new mission statement, we must understand the rationale behind host country political choices that contribute to extreme poverty. We then must determine how the international community can best play a role

in affecting those choices.

As the United Nations High-level Panel on the Post-2015 Development Agenda reveals, the fight to eliminate extreme poverty will take place primarily in countries that experience poor governance, are subject to ongoing conflicts or both.¹ The situation in Nigeria exemplifies these challenges. Even though Nigeria's economy has grown at an average rate of 7.5 percent per annum during the past decade, the number of people living in extreme poverty increased by 22.8 million between 2002 and 2010.²

This seeming anomaly exists for several reasons, including a high rate of population growth, low literacy rates and poor mobilization of domestic resources. All of these stem from policy choices made by, in this case, a democratically elected government. These choices are influenced by political elites who have made their own calculations about

1 "United Nations, Report of the Secretary-General's High-level Panel of Eminent Persons on the Post-2015 Development Agenda (2014)."

2 PovcalNet: The online tool for poverty measurement developed by the Development Research Group of the World Bank (<http://iresearch.worldbank.org/PovcalNet/index.htm>).



A protester holds a placard to mark the anniversary of a crackdown on villagers demonstrating against a Chinese-backed copper mine in Burma. Giving a voice to the poor and marginalized members of society should cause political leaders to take their needs more seriously. PHOTO: DOE THAN WIN / AFP

what constitutes their nation's best interests.

Even when Nigeria's federal and state governments adopt pro-poor policies, such as increased funding for basic education or health services, the weak capacity of local actors and siphoning of resources by corrupt leaders hamper implementation. The conflict in the country's northern regions represents a manifestation of this problem and exacerbates the challenges of responding to the specific needs of those most impoverished.

International development donors and academics traditionally focus on the constraints to growth that exist within a country and assume that eliminating these constraints will drive economic growth and simultaneously reduce extreme poverty, whether it is defined as \$1.25 a day or through a more multidimensional approach. Depending on a country's circumstances, these

constraints might include a lack of physical infrastructure, weak legal processes or inadequate human capacity—all of which discourage domestic and foreign investors and exacerbate the circumstances of extreme poverty. Hence, international donors must not only provide resource and knowledge transfers, they must also encourage host country actors—including government counterparts, the private sector and civil society—to address these constraints through policy changes and through improving implementation mechanisms.

Analyses of growth constraints, however, do not address why seemingly obvious policy changes have been so hard to make. Nor do they pay particular attention to regime type. Circumstances in China today, like those of the Asian Tigers in a past era, suggest that the eradication of extreme

poverty can occur under authoritarian regimes. On the other hand, too many governments have justified their non-democratic tendencies as essential to social and economic change, and then they've deteriorated into corrupt and abusive regimes that have resulted in a significantly poorer citizenry and profound societal ills that require decades to cure. Moreover, growing evidence exists (while still hotly disputed in academic circles) that democracy spurs economic growth by encouraging investment, increasing human capacity through schooling, inducing economic reforms, improving the provision of public goods and reducing social unrest.³

Many donor countries have developed tools to help them better understand the institutional realities that drive public policy in the countries in which they operate. These analyses map the key actors, rules of the game, existing incentive structures, and historical and foundational factors. When done well, such analyses provide profound insights into governance weaknesses and the rationale behind political choices. Ironically, by highlighting the entrenched nature of political elites and the challenges associated with achieving consequential reforms, these analyses often reinforce skepticism regarding the prospects for change.

A political economy analysis may explain the reasons behind the lack of human capacity in key ministries, the corruption that serves to benefit elite interests and the reluctance to allocate scarce government-controlled resources toward the health and education needs of the poor. However, even with such an understanding, political power structures still seem impervious to change. Therefore, we need to not only think, but also work, politically.

What does working politically mean in the context of eradicating extreme poverty? The

3 D. Acemoglu, S. Naidoo, P. Restrepo and J. Robinson, *Democracy Does Cause Growth*, NBER Working Paper 20004 (2014).

answer requires consideration of both the substantive aspects of the fight and the internal process changes in how the international community operates. The answer also assumes a definition of extreme poverty that is broader than the \$1.25 a day benchmark.

Working politically also involves a change in donor mindset, particularly in the context of addressing the concerns of the extreme poor, and it incorporates some or all of the following elements:

- Excellent understanding of local context, using political economy analysis as a knowledge base
- Prioritization of local leadership and capacity, and building on what exists
- Iterative approaches for exploring complex problems and the range of possible solutions
- Encouragement of experimentation and innovation combined with mechanisms for rapid feedback and learning
- Flexible, adaptive procedures that account for the unpredictability and uncertainty of change and allow policymakers to seize opportunities
- Long-term investments in building knowledge, relationships and networks⁴

As framed by practitioners from The Asia Foundation, working politically requires the mobilization of local “development entrepreneurs” to identify politically feasible approaches, build coalitions and networks, and seize political opportunities.⁵ The Foundation’s case studies highlight a series of reforms in the Philippines that transformed the telecommunications, civil aviation and sea transport sectors. The approach used in these reforms involved a concerted effort

4 This set of characteristics is drawn from recent publications on thinking and working politically, including most notably D. Booth and S. Unsworth, *Politically Smart, Locally Led Development* (ODI, May 2014). See also USAID, *Local Systems: A Framework for Supporting Sustained Development* (2014); D. Hudson and A. Leftwich, *From Political Economy to Political Analysis* (DLP, June 2014).

5 The Asia Foundation, *Built on Dreams Grounded in Reality: Economic Policy Reforms in the Philippines* (2013).

to carefully analyze local political context, reliance on local leaders who assumed personal responsibility for development outcomes, the seizure of emerging opportunities and perseverance over time. This perseverance contradicts the international donor community's current orientation toward immediate results.

Applying these principles to the eradication of extreme poverty requires an understanding of the incentives that shape national- and community-level decision-making and a willingness to play a facilitative role in bringing together those actors who are committed to ushering in long-term change. In other words, we must design programs that align around shared values and objectives from the beginning and build in learning opportunities for checking adherence to these values and objectives along the way. Such an approach requires different skills—including system mapping, facilitation, coalition building and iterative learning—from those involved in the management of more traditional donor-driven, sector-specific activities.

From a substantive perspective, the eradication of extreme poverty requires a series of policy choices by host governments: large increases in social assistance, massive investments in education and a pro-poor orientation to economic growth policies. These choices are not inevitable and will emerge from a constellation of primarily domestic political factors reflecting relative power structures. The international community, although limited in its ability to affect power distribution within a society, can affect the calculation of incentives through trade, aid, investment and other policies.

Second, the poor and other marginalized segments of the population must be given a political “voice.” Meaningful participation in electoral politics is part of the package; however, other venues for effective and inclusive political engagement should also be promoted. Access to

information, including transparency with respect to budget allocations, facilitates a more active and empowered citizenry. Allowing the free formation of civil society organizations that can advocate for policy change is also critical to ensuring that issues relevant to the poor are placed on the political agenda. By cataloguing situations in which the concerns and needs of the extreme poor have been taken into account, and those in which the situations have improved, we will create important models that can be built upon.

We must acknowledge that vested interests in developed countries too often have prevented policy choices that could dramatically change the lives of the poor.

A third substantive component involves legal empowerment of the poor. This requires accessible venues for the fair adjudication of claims to land and other forms of property and for the resolution of the wide range of contract, family and other disputes. In addition, literacy campaigns should incorporate a civic education component to ensure that all segments of society understand their basic rights and how to realize them.

Fourth, we must continue to focus attention on the scourge of corruption that maintains a power structure adversely impacting the poor. At the macro level, corruption results in resource allocation that benefits vested interests while limiting available resources for the needs of the poor. At the community level, corrupt officials discourage the

poor from exercising their political and legal rights and exacerbate the social circumstances—such as a lack of jobs, education, health care and other basic services—that govern their lives and opportunities.

Taken together, these substantive aspects of working politically—including improved governance capacity to deliver services, an expanded political voice for the poor and increased transparency and accountability—should change the calculus for political leaders so that they take the needs of the poor more seriously in all dimensions and act accordingly. To facilitate our understanding of this calculus in contemporary societies, we should undertake a proactive research agenda that examines the relationships between democracy, human rights and governance realities, as well as their impacts on the ability of the extreme poor to escape poverty and its associated ills.

Thinking and working politically emphasizes the importance of understanding the political economy of the countries in which donors operate. However, to achieve the goal of eradicating extreme poverty by 2030, we must also analyze the political economy of the countries that constitute the developed world. Rhetoric aside, are they prepared to make the tough choices that increase prospects for those living in the developing world to escape poverty?

Such a commitment involves more than just agreeing on specific global targets or levels of development assistance. Rather, these tougher choices involve such contentious issues as tempering subsidies, opening markets to exports from developing countries, facilitating the expedited transfer of technology and recognizing that poor

At a warehouse in Rangoon, a Burmese worker prepares to pack medicinal pills delivered into the country by USAID. Opening markets to exports from developing countries and facilitating the transfer of technology will be critical to ending extreme poverty. PHOTO: SOE THAN WIN / AFP

countries are not in the same position as their wealthier counterparts when it comes to addressing the challenges of global climate change. We must acknowledge that vested interests in developed countries too often have prevented policy choices that could dramatically change the lives of the poor. Consequently, we must also think and work politically in our own backyards.

Despite the emerging international consensus that the eradication of extreme poverty is within reach, we should not assume that this goal will be achieved easily through technological fixes or additional development resources. Ignoring the politics associated with poverty eradication is a recipe for disaster. However, this should be neither a cause for despair nor an excuse to do nothing. Instead, we must continue to focus attention on big picture considerations and develop strategies that are politically smart for dealing with the real-world contexts where the poor live and where those who seek to help them operate.

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The Political Challenges of Targeting the Poor

Thokozile Chisala and Carter Hemphill

Governments often design programs for poor households and communities as a way of maximizing the development impact of scarce resources. However, politics that favor shortsighted goals over longer-term development can derail the distributive intent of such targeted initiatives.

Malawi's farm input subsidy program, a major government program targeting the poor, demonstrates how political interference and weak controls can jeopardize a strategy intended to deliver direct benefits. It also underscores the importance of clearly understanding and planning for the local political interests that shape the design and implementation of such programs. Otherwise, we may overestimate this targeting's expected benefits.

Pro-poor targeting gone awry: Malawi's farm input subsidy program

Malawi remains one of the world's poorest countries. Of the 84 percent of the nation's population who lives in rural areas, 56 percent can be classified as poor and 24 percent as ultra-poor.

Although 70 percent of the nation's cultivated land is covered with maize,¹ household food security has worsened over the past several decades from self-sufficiency to a high dependency on food aid and imports. Smallholder farmers face low yields and soils with falling fertility. High transport costs, difficult access to markets and lack of credit hamper long-term investment. With few other natural resources and limited agricultural diversification, Malawi's economic future is further complicated by a high fertility rate that outpaces the provision of social services and further strains the use of land and other resources.²

Malawi has been subsidizing agricultural inputs since the early 1990s. The latest, which began in 2005, is the Farm Input Subsidy Program (FISP). FISP supplies seed and fertilizer to boost maize production and improve progress toward nationwide food security goals, specifically goals

1 Dorward, E. C. (2013). *Agricultural Input Subsidies: The Recent Malawi Experience*. Oxford, United Kingdom: Oxford University Press.

2 Malawi's fertility rate among women ages 15-49 is 5.7 overall; 6.1 in rural, 4.0 in urban areas (DHIS 2010).



A Malawian land worker harvests maize in Masungu, a village on the outskirts of Lilongwe, the nation's capital. Although 70 percent of Malawi's cultivated land is covered with maize, the household food security has worsened over the last few decades. PHOTO: GIANLUIGI GUERCIA / AFP

targeting the “productive poor.”³

The program is intended to provide 1.5 million smallholder households with a voucher for 5 to 10 kilograms of maize and legume seeds and two vouchers for 100 kilograms of fertilizer each growing season, enough for an average-sized family.⁴ In practice, households end up receiving fewer inputs on average because the number of eligible households has increased and because program recipients share their inputs with non-participants.

Since its inception, the government's subsidy on fertilizer, measured as a percentage of the total

cost to farmers, has become even more generous, increasing from 64 percent to more than 90 percent by the early 2010s.⁵ By 2013, the program cost about \$150 million and comprised as much as 69 percent of Malawi's agricultural budget.⁶

FISP was successful early on, increasing yields enough to make Malawi self-sufficient in maize. These gains reversed almost two decades of underperformance and contributed to Malawi's growth between 2004 and 2009.⁷ Since then, Malawi has reversed course because of two major

3 The implicit ultimate goal of the FISP is poverty reduction through improved food production and farm incomes. Rodney Lundukaa, J. R.-G. and Monica Fischer (2013). “What Are The Farm-level Impacts of Malawi's Farm Input Subsidy Program?” *Agricultural Economics*, 563-579.

4 Thurlow, K. P. (2014, March). “Malawi's Farm Input Subsidy Program: Where Do We Go From Here?” International Food Policy Institute.

5 Rodney Lundukaa, et.al. 2013, p. 567.

6 Malawi Public Expenditure Review, 2013, p. iii. FISP costs 54,904.5 billion MK in FY 2012/2013, or 150 million (366 MK = 1 USD). FISP represents 4.6 percent of GDP or 11.5 percent of total budget expenditures in FY 2012/2103.

7 Chirwa, E., and Dorward, A. (January 2011). “The Malawi Agricultural Input Subsidy Programme: 2005-6 to 2008-9.” *International Journal of Agricultural Sustainability*, p. 13. The authors assert that while it is not possible to quantify the economic gains, the “very large increases in national maize production reported by the Ministry of Agricultural and Food Security crop estimates are an important component of the higher GDP growth rates reported for Malawi.”

shocks during the 2012/2013 harvest period: a 50 percent devaluation and subsequent depreciation of the local currency and production shortfalls due to unseasonably dry weather.⁸ Prices of staple food, such as maize and cassava, rose four-fold, and the food security situation became acute in the southern region.

These recent shocks led to a reevaluation of FISP's merits, yielding at least three reasons why its approach to targeting may be problematic. First,

Targeting programs to the extreme poor can help nations focus the use of their resources. However, this targeting is more complicated in practice than in theory.

FISP enabled politicians to establish systems of patronage and rural support. On average, households in districts where the ruling party won the 2004 presidential election received 1.69 kilograms more in subsidized seed and 11.39 kilograms more in subsidized fertilizer than households in districts with comparable numbers of smallholder farmers where the ruling party did not win.⁹ During the 2008/2009 harvest, households in the southern region—the area home to then-president Bingu Mutharika—received significantly more in subsidized inputs than other districts with comparable numbers of smallholder farmers.¹⁰

Second, opaque and changing criteria for beneficiary selection made the program even more prone to political interference. FISP initially used committees to identify the “productive poor” as “full-time smallholder farmers who cannot afford to purchase one or two bags of fertilizer at prevailing commercial prices, as determined by the leaders in their areas.”¹¹ However, in 2008, the government expanded FISP's official targeting criteria to include vulnerable households, regardless of whether these households owned land or had sufficient human resources for effectively using fertilizer. The dual targeting created an added level of ambiguity and caused the total number of beneficiaries to fluctuate between 1.4 and 1.7 million.¹²

Third, in rural communal villages, effective targeting can be further complicated by local group dynamics and community leaders who may not be entirely accountable to their constituents. The more narrowly targeted the program, the more pressures it may face from powerful interest groups that want to participate but fall short of the selection criteria. Targeting criteria also can create problems of “fairness” when many households are clustered around the cut-off for extreme poverty. Researchers have found that communities often perceive programs to be unfair if less than 80 percent of households are targeted.¹³

Researchers also have found a need for intensive, costly training and facilitation to reduce the incidence of elite capture when targeting by communities.¹⁴ In theory, this locally based approach to targeting should be cost-effective. Yet, in reality, such an approach can lack transparency because of

8 Malawi Food Security Outlook Update – September 2013. (2013). Famine Early Warning Systems Network (FEWS NET).

9 Ricker-Gilbert, J., and Mason, N. M. (2012). “Disrupting Demand for Commercial Seed: Input Subsidies in Malawi and Zambia.” Indaba Agricultural Policy Research Institute (IAPRI).

10 Chinsinga, B. (2012). “Deconstructing the Success Myth: A Case of the Malawi Farm Input Subsidy Programme (FISP).” Instituto De

Estúdios Sociais e Econômicos, p. 10.

11 Rodney Lundukaa, 2013, p. 571.

12 Dorward and Chirwa as cited in Chinsinga, 2012, p. 11.

13 Chriwa, A. D. (2013). “Targeting in the Farm Input Subsidy Programme in Malawi: Issues and Options.” *Future Agricultures*. p. 14.

14 Chriwa, 2013, p. 14.



A farmer in Malawi checks her maize crop, which has benefited from improved farming practices that make her household more resilient to man-made and natural shocks. In the 2012, prices of staple foods in Malawi rose four-fold due to unseasonably dry weather and a 50-percent currency devaluation.

PHOTO: SARAH BERRY / USAID

cultural norms that keep community members from questioning the decisions of traditional leaders.¹⁵

The need for politically savvy programming

Targeting programs to the extreme poor can help nations focus the use of their resources. However, this targeting is more complicated in practice than in theory. The experience of Malawi's FISP illustrates challenges that arise when governments already overwhelmed by the need to improve extremely low levels of service delivery must address short-term demands from their electorate. In contexts like Malawi's, such programs can be especially prone to political interference.

Effective pro-poor programs require immediate political incentives that are consistent with

long-term development objectives. Otherwise, resources used in efforts to target the poor may be redirected and misspent. Likewise, donors must understand the political dynamics in the countries in which they work, including how these dynamics could influence governments to take a longer-term view of policy reform and development. Donors' understanding of—and engagement in—the host country policy process should be viewed as integral as sector-specific technical support.

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¹⁵ Chriwa, 2013, p. 14.



Revisiting Social Capital (and What to Do about It)

John Ellis

The goal of development assistance is to make itself obsolete. As President Obama said in launching the Feed the Future initiative: “The whole purpose of development is to create the conditions where assistance is no longer needed, where people have the dignity and the pride of being self-sufficient.”

Eradicating extreme poverty depends largely on social capital—the behavioral norms and networks that shape opportunities and incentives for collective action.¹ Social capital is formed on the basis of generalized trust and “obligations of reciprocity within a social network.”² In many fragile and impoverished societies, trust and reciprocal responsibility are not generalized. Rather, they are confined to small, personalized clan or patronage groups, and are weak or entirely absent in the broader networks and organizations that must work together to drive and sustain the development process.³

1 Michael Woolcock, *Social Capital: Implications for Development Theory, Research and Policy*, World Bank, 1999, p. 3.

2 Francisco Herreros, *The Problem of Forming Social Capital: Why Trust?* Palgrave-Macmillan, 2004, p. 7.

3 David Booth, *Development as a Collective Action Problem*,

As a result, local governments, businesses and civil institutions suffer critical information and cooperation failures, both within and among the individual organizations. These failures prevent them from collaborating to achieve common goals.

In the past, development practitioners tended to attribute the poor performance of these networks and institutions to shortages in technical knowledge and skills. On this basis, we focused our assistance on educating and training key individuals, expecting this education and training to translate directly into improved performance.

We hypothesized that improvements in human capital (the capacity of the individual) would automatically improve institutional capacity and assumed that the generalized, inclusive

Addressing the Real Challenges of African Governance, Africa Power and Politics Program, 2012, p. 11. In many societies, the traditional social norms that have supported effective collective action in the past, such as respect for the authority of chieftains, elders and “secret societies,” have broken down without being replaced by new forms of social capital. Clan chiefs in Liberia complain, for example, that they no longer have the authority to mobilize local labor to maintain community infrastructure because their people now consider such unpaid labor to be a “violation of human rights.”



Leymah Gbowwee, a leader in the Women in Peacebuilding Network and joint Nobel Peace Prize laureate, mobilized women to protest ongoing conflict in Liberia. Eradicating extreme poverty depends largely upon the development of social capital on the basis of trust and shared commitment to collective goals. PHOTO: ISSOUF SANOGO / AFP

social capital required for collective action either already existed or would take care of itself.

Insights from Liberia and beyond

USAID's experience in Liberia challenges these assumptions. In May 2013, the USAID mission and the Liberia Institute of Public Administration conducted a workshop to identify lessons from recent programs that were designed to strengthen systems and build capacity.

Many Liberian participants expressed deep frustration with the difficulties they faced in trying to improve the performance of the organizations in which they worked.

For example, individuals who had left to

earn graduate degrees encountered jealousy and outright hostility from their colleagues when they returned. Supervisors continued to operate within close ethnic and family circles instead of enlisting competent individuals outside of their personal circles. Leaders trusted expatriate consultants more than their own subordinates to accomplish routine tasks. Improved human capital did not necessarily translate into better performance by individuals or organizations.

Workshop participants concluded that social and behavioral issues, as much as the shortage of technical capabilities, were affecting the quality of their organizations' services. Governments did not perform because government employees would not

work together to solve problems and did not have a shared commitment to their collective goals.⁴ Confirming the insufficiency of individualized technical training to address this problem, a donor representative remarked that these behavioral issues limited the country's ability to utilize its scarce human capital.

This suggests that assistance should focus at least as much on accumulating social capital—

Assistance should focus at least as much on accumulating social capital—helping to expand and strengthen local networks of generalized trust and collaboration—as it does on improving human capital.

helping to expand and strengthen local networks of generalized trust and collaboration—as it does on improving human capital. Donors should revisit social capital as they provide assistance at local and micro levels—building the capacity of a farmers' association to efficiently meet the needs of its members, for example—and at macro levels, such as building the capacity of ministries of public works and finance to plan and implement large public infrastructure investments.

Researchers have observed that prosperity is directly dependent on the emergence of complex networks of human communication, collaboration

4 William Easterly and Jessica Cohen, eds., *What Works in Development: Thinking Big and Thinking Small*, Brookings Institution, 2009, Kindle edition, loc. 169.

and exchange, which exponentially multiply the benefits of each individual's contributions to the development process.⁵

Long before the Industrial Revolution, for example, societies in Western Europe and Asia had developed elaborate social technologies for increasing individuals' productivity, such as enforcing quarantine laws and quality standards for farm products and establishing joint stock companies and professional guilds.⁶ The extent to which such institutions were "extractive" or "inclusive" has had a critical bearing on each society's development trajectory.⁷

Through direct field experience, researchers and practitioners have learned that neglect of social capital greatly increases the risk that development assistance will fail to yield sustainable results. "Transplanted" legal systems, for example, are unlikely to be effective if they do not align with local institutions.⁸ Even practices as apparently mundane as financial management standards will not be adopted when they conflict with pre-existing perceptions and behavioral norms.⁹

The drive toward localized experimentation through randomized control trials reflects recognition of an important finding: that the impact of different development solutions may vary significantly based on the dominant institutions of their target populations.

Fortunately, we are learning how to address

5 Ricardo Hausmann, Cesar Hidalgo, et al. *The Atlas of Economic Complexity: Mapping Paths to Prosperity*, Center for International Development, Harvard University, 2011. Accessed online on April 13, 2014 at http://atlas.cid.harvard.edu/media/atlas/pdf/HarvardMIT_AtlasOfEconomicComplexity_Part_1.pdf.

6 Douglass North, *Understanding the Process of Economic Change*, Princeton University Press, 2005. Eric Jones, *The European Miracle*, Cambridge University Press, 3rd edition, 2003.

7 Daron Acemoglu and James Robinson, *Why Nations Fail: The Origins of Power, Prosperity and Poverty*, Crown Publishers, 2012.

8 Daniel Berkowitz, Katharina Pistor, Jean-Francois Richard, *Economic Development, Legality and the Transplant Effect*, 2001.

9 Matt Andrews, *The Limits of Institutional Reform in Development: Changing Rules for Realistic Solutions*, Cambridge University Press, Kindle edition, 2013.

this challenge. For example, USAID's tools for strengthening local systems and developing institutional capacity help build broad and inclusive forms of social capital—such as generalized trust and reciprocity obligations. The tools also help address counterproductive perspectives, norms and behaviors. USAID also has mainstreamed behavior change communications and social marketing interventions into its health sector practice.

In Liberia, our work with the Ministry of Health and Social Welfare demonstrates the potential of these approaches. Under USAID Forward's Implementation and Procurement Reform initiative, USAID and the Government of Liberia in 2010 agreed to implement through the Ministry public health services previously managed by USAID's expatriate contractors and grantees.

Significant internal communications and coordination challenges threatened the Ministry's ability to deliver these services. In response, mission staff and contractors with extensive experience in strengthening health systems facilitated collective action, convened meetings between different Ministry offices, mediated discussions and fostered consensus-building.

The impact of these direct interventions was complemented by the structure of the agreement, which stipulated that USAID reimburse the Ministry only after the Ministry delivered the covered health services. This appeared to increase incentives for the Ministry's employees to collaborate with one another.

The mission feels encouraged that this combination of direct engagement and supportive incentive structures appears to be bearing fruit. Despite lingering technical constraints, Ministry staff members now initiate their own problem-solving processes, collaborate with one another to develop solutions and no longer depend on USAID to move projects forward. The initiative has expanded

local networks of trust and shared responsibility and made them more inclusive and effective. In President Obama's words, the participants in this project enjoy the dignity and pride of being more self-sufficient.

Implications for practitioners

What does this mean for USAID's development assistance programs?

First, we must acquire more knowledge about each country's social and institutional environment as we design and implement poverty reduction projects. USAID's Sustainability Toolkit, which many missions rely on for new project design, is a good starting point.

Unfortunately, the rigor of our analysis varies considerably. Many project designs overlook important assumptions, such as the will for policy reform or farmers' willingness to change lifelong practices on the basis of demonstration projects supervised by strangers. We need to more carefully examine our assumptions about local ownership.

Second, we need to develop—through honest and open dialogue with our host country partners—explicit strategies for influencing norms and behaviors that constrain collective problem-solving. In some situations, this may be controversial. Some critics and practitioners of foreign assistance considered this type of engagement morally offensive, because by definition it engages outsiders to influence local social and cultural development. At the same time, this practice is already broadly accepted in certain areas, such as efforts to change local values and behaviors related to health, sanitation and human rights.

As the Liberian participants in our capacity-building workshop recognized, the development of social capital may often be a precondition for project success. Extractive patronage systems that capture public resources for private gain, for example,

cannot and will not deliver quality infrastructure and agricultural extension services to impoverished populations. If we and our local partners neglect the social roots of such failures, then our efforts to eradicate extreme poverty and achieve other development goals may fail.

Third, we need to develop or tap into specialized expertise in the field of institutional and behavioral change. A highly developed branch of business advisory services exists in the United States, producing dozens of materials, like “how-to” manuals and books, on this subject every year. Behavioral economics, which aims to understand how psychological, social and emotional factors shape individual and societal economic decision-making, is another growing area of academic research.

Behavioral science techniques have been successfully applied to collective action challenges in the United States, including the State of Texas’ “Don’t Mess with Texas” public outreach campaign. The campaign employed carefully designed psychological “subsidies” and “taxes” to discourage Texans from littering their highways.¹⁰ Similar techniques could be applied to a range of critical development problems in USAID’s partner countries.

In essence, we should strive to nurture “tipping points” for social behaviors that are conducive to development,¹¹ catalyzing the

Children light candles to mark World Aids Day in the northern Philippines. Local officials, gay communities and club owners joined forces to promote a reproductive health bill and endorse the use of condoms in local entertainment establishments. This is one example of a “tipping point” for social behaviors that are conducive for development. PHOTO: JES AZNAR / AFP

institutional “epidemics” that only take hold when supported and advocated by a large number of institutional entrepreneurs within their own social frameworks.¹²

When this happens, new practices and technologies that depend on complex coordination and collaboration—such as modern public financial management systems, mobile money networks and production systems for nutritionally fortified food products—can have true local ownership. Sustainability is better ensured, providing a solid foundation for scaling up project results. Most important, this approach cultivates the social capital critical for achieving President Obama’s ultimate goal of self-reliance.

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10 Dale T. Miller and Deborah R. Prentice, Psychological Levers of Behavioral Change, Eldar Shafir, ed., *The Behavioral Foundations of Public Policy*, p. 303.

11 Malcolm Gladwell, *The Tipping Point: How Little Things Can Make a Big Difference*, Little Brown and Company, 2002.

12 Andrews, op cit. Kindle edition, loc. 2594 ff.



Expecting More, but Getting Less

Nicholas S. Klissas

“Expect more, pay less” is the catchphrase of Target, one of America’s fastest-growing mass merchandisers. Through innovation spurred by vigorous competition, a sound regulatory environment and good governance, firms like Target benefit consumers by driving competition in the areas of price, variety, accessibility and quality.

Unfortunately, many of the world’s poorest are denied these benefits. Essential goods and services—including the food, fuel, fertilizer, power, medicines, telecommunications and transportation products and services that lie at the heart of many USAID initiatives—easily fall victim to anticompetitive behavior by vested interests. As a result, the poor expect less and pay more.

Economies where vested interests predominate to the detriment of all others represent extractive political systems, described by Acemoglu and Robinson in “Why Nations Fail.” The authors posit that an evolution to inclusive political systems—where robust, responsive institutions freely operate in a transparent, democratic system

of governance—can erode the power of the vested interests. Competition agencies, typically government agencies mandated to enforce competition laws and protect consumers, can be an important part of these inclusive systems.

How uncompetitive markets hurt food security

Lack of competition especially disadvantages the poor when it comes to food security. Part of the problem is that the food industry is highly concentrated at both the retail and food-processing levels. Industries that transform crops such as maize into foodstuffs like flour or tortillas are often susceptible to anticompetitive behavior.¹

¹ A 2013 OECD Global Forum Roundtable addressing poverty and competition revealed a high degree of market concentration at the level of food manufacturing in numerous countries. A USAID economist, reviewing a draft of this essay, observed similar patterns when conducting cost benefit analyses in several Feed the Future priority countries. The economist noted the frequency with which food processors were shielded from market competition, enabling them to buy inputs at low prices (reducing both farmers’ disposable incomes and their incentives to produce more) and sell outputs high. In this situation, both farmers and consumers suffer. In one country, it was noted that millers and processors typically were former government officials or political insiders, and that these individuals



A Kenyan food vendor sells maize at his shop near Nairobi. Kenya's Competition Authority found that a cluster of families coordinated to fix maize prices in the country. After putting a stop to this practice, maize flour prices dropped by 15 percent. PHOTO: SIMON MAINA / AFP

Since poor households tend to spend a greater share of their incomes on food, they bear relatively more of the brunt of artificially higher food prices. They also are more greatly harmed by anticompetitive behavior than wealthier households. A 2008 study by the Mexican Federal Competition Commission found that anticompetitive behavior reduced the effective incomes of the nation's poorest decile by 20 percent. Even worse, the negative impact of monopoly power grew in relative terms as households became poorer.²

A similar study in South Africa pointed out

were able to use their political connections to access cheap land for their operations and low-cost finance to purchase imports of milling equipment.
2 Source: Carlos M. Urzúa (2008). According to the Mexican Federal Competition Commission, Mexicans pay 30 percent to 40 percent too much for their basic basket of goods and services because of a lack of competition, and it is the poorest people in the poorest regions who are hit the hardest.

the dire effects on food security: While average South African households in 2013 spent about 13 percent of their income on food and non-alcoholic beverages, the poorest households spent 33 percent on such items.

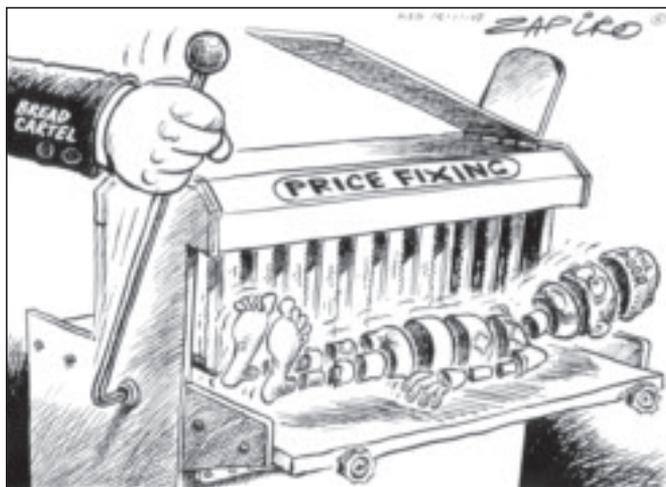
The role of competition agencies

Competition agencies can deter uncompetitive behaviors that hurt the poor. Examples follow, many of which have received technical support from USAID:

Curbing cartels. Mexico is a country with a long history of monopolies and anticompetitive business conduct that result in firms fixing prices, restricting output or agreeing to other behaviors that artificially increase their profitability.³ In

3 The most obvious example is that of Carlos Slim Helú, named by *Forbes* magazine in 2014 as the world's second richest man, who amassed

These two political cartoons appeared in the South African press after the country's Competition Commission brought a price-fixing case against sellers of bread. They illustrate the disproportionate effect anticompetitive conduct in the agricultural sector can have on the poor. © 2007-2014 ZAPIRO (ALL RIGHTS RESERVED)



2007, tortilla prices in some Mexican markets soared more than 60 percent, sparking consumer outrage. When the Mexican Federal Competition Commission launched an investigation in Mexico's poorest state, Chiapas, it found a cartel that divided the capital city of Tuxtla Gutiérrez into four areas with exclusive member rights. Municipal authorities were complicit by adopting ordinances regulating the location of new tortilla shops, setting the prices new shops could charge and requiring them to use local ingredients.⁴ Public outrage

imparted the Commission with enough political clout to fine the tortilla sellers and municipal authorities. News of this enforcement of the law led to similar investigations and prosecution in other major markets across the country.

In South Africa, the Competition Commission uncovered and fined cartels that were fixing the prices of bread and milk. The bread cartel had increased the consumer price of basic bread by 35 cents. Meanwhile, the milk cartel had lowered the price dairy farmers received for raw milk to its lowest level in 40 years⁵ and raised

his estimated \$71 billion fortune by creating an effective monopoly in Mexican landline and mobile telephone services. Although now number two, Slim was in *Forbes'* top position from 2000-2013. Source: <http://www.forbes.com/profile/carlos-slim-helu/>.

⁴ Source: Federal Competition Commission of Mexico presentation

made by its president, Eduardo Perez Motta, to USAID, April 2013.

⁵ *The Island Online*; "World Competition Day: Impact of cartels on the poor." December 4, 2012, 6:32 pm http://www.island.lk/index.php?page_cat=article-details&page=article-details&code_title=67543

prices to consumers by removing surplus milk from the market, directly fixing the price of ultra-high-temperature processed milk and allocating exclusive member rights to discrete geographic areas.

Halting vested interests. Ruling families, oligarchs and state-owned enterprises can use their power to restrict the supply of goods and services, which raises prices and profit margins. Kenya's Competition Authority found a cluster of related individuals controlling the country's milling industry for maize, the country's most widely consumed cereal.⁶ Oligopoly power does not itself violate competition laws. However, the abuse of such power in this case spurred the Authority to issue "stop and desist" orders for price coordination. Prices for maize flour subsequently declined by about 15 percent.⁷

Curtailing public failures. Many countries inadvertently hurt their own citizens by adopting regulations, such as tariffs on imports, that shield local firms from global competition. Although such measures offer the superficial appeal of protecting local jobs, they also reduce competitiveness, raise consumer costs and cost jobs.

In 2012, Papua New Guinea was ready to grant a single firm exclusive 20-year rights for operating commercial rice production, exempting it from import tariffs while placing an 80-percent import tariff on other importers. Papua New

Guinea's Independent Consumer and Competition Commission found that this deal would have granted an effective monopoly on rice imports, production and marketing—doubling the market price for rice and reducing the incentives for domestic rice production. Publicizing these findings prevented the government from following through with this deal.

Improving public procurement. Complex or slanted procurement rules also can engender noncompetitive behavior. The Government of Zambia, like governments in other countries, provides fertilizers to farmers through its Farmer Input Support Program. In 2013, Zambia's Competition and Consumer Protection Commission discovered that a fertilizer cartel had overcharged the government by \$20 million and fined the two firms involved.⁸ The government also made changes to the program, including adoption of an electronic voucher system that facilitated direct negotiations between farmers and fertilizer suppliers.

How USAID supports competition agencies

USAID recognizes the crucial role competition agencies can play in promoting food security and development more broadly and supports their efforts through capacity building and technical expertise in market analysis.

This includes a longstanding partnership with the U.S. Federal Trade Commission and U.S. Department of Justice that has provided capacity-building support for many of the competition agencies mentioned in this piece. In South Africa, the partnership helped the Competition Commission strengthen its ability to detect, investigate,

6 Organisation for Economic Co-operation and Development (OECD) Competition and Poverty Reduction: Contribution from Kenya. OECD Document DAF/COMP/GF/WD (2013) 36, 31 January 2013. Prepared by the Kenya Directorate For Financial And Enterprise Affairs, Competition Committee. See [http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP/GF/WD\(2013\)36&docLanguage=En](http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DAF/COMP/GF/WD(2013)36&docLanguage=En).

7 An unpublished working paper from the World Bank Group Competition Policy Team suggests that additional income gains equivalent to lifting more than 40,000 families above the poverty line could be had if the Kenyan authorities allowed free international trade in maize and reined in the National Cereals and Produce Board from paying above-market prices to maize producers. See "Competition in Kenya and Its Impact on Income and Poverty"; Working Paper from the World Bank Group Competition Policy Team; September 2013 (unpublished/draft).

8 The exact value of the fines was not disclosed. <https://www.competitionpolicyinternational.com/zambia-fertilizer-co-slammed-with-fine-for-20m-cartel/>

analyze and remedy anticompetitive conduct. The Competition Commission has become the most effective competition agency in Africa and now is partnering with the the U.S. Federal Trade Commission and USAID in a regional program to mentor other African competition agencies.

USAID provided similar support to the Mexican Federal Competition Commission, which is now mentoring other countries in the Western Hemisphere. In Central America, USAID is working with the FTC, DOJ and the World Bank on a regional program to build competition agencies' capacity for addressing food security concerns.

In the area of market analysis, USAID developed and helps countries use the Agribusiness Commercial Legal and Institutional Reform (AgCLIR) diagnostic tool.⁹ AgCLIR helps competition agencies deal with systemic limitations—such as export delays, input monopolies, overregulation and inappropriate taxation—that inhibit improvements in productivity and limit market access. The AgCLIR tool not only helps countries identify constraints, but also provides concrete, practical recommended actions for strengthening their agriculture and food sectors.

For instance, the use of AgCLIR in Zambia in 2010 helped identify problems—which the government then addressed—with the public procurement system for fertilizer purchases. More recently, the Asia Pacific Economic Cooperation forum has been using AgCLIR to assess the region's enabling environment for food security.

And a forthcoming AgCLIR assessment in Liberia¹⁰ found retail and wholesale competition, especially for fresh fruits and produce, to be

restricted by law that gave the Liberian Marketing Association exclusive control over sales at all of the country's retail market stalls. This restriction hurt street vendors and smallholder farmers, most of whom are vendors at these markets.

Conclusion

Vested interests that distort markets pose one more challenge to reducing poverty, especially when poor consumers are also politically weak. Although nearly all developing countries now have competition agencies, these organizations often are not as effective as they could be. Donors can empower these agencies by encouraging legal reforms and institutional capacity building and through promoting and improving the economic analyses civil society groups and competition agencies use in their advocacy for the poor. These two actions taken together are vital steps in the evolution to an inclusive political system where robust, responsive institutions freely operate in a transparent, democratic system of governance.

Competition agencies and competition can make a difference—these examples show it. Beyond food security, initiatives in areas such as power, education, health and telecommunications also could benefit enormously from more competitive markets. By more carefully considering improvements in market competition and integrating them into donor programs, hopefully we may soon see the day when the poor can expect more and pay less.

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⁹ The diagnostic takes a cross-sector approach to determining the constraints within the enabling environment for agricultural enterprises. See <http://egateg.usaidallnet.gov/country-reports/zambia-agclir-report>.

¹⁰ The field study was conducted in January 2014 with a final report under preparation at the time of the writing of this article.

Catalyzing Growth and Investment





Redistribution with Growth, 40 Years On

Stephen A. O’Connell

I recently revisited *Redistribution with Growth* (1974), both on sentimental grounds—Hollis Chenery¹ was USAID’s first chief economist—and to gain some perspective on the Agency’s new mission of ending extreme poverty. Chenery mentored a generation of development economists, including two of my own mentors, Lance Taylor and Larry Westphal.

Chenery’s goal in *Redistribution with Growth* was to make distributional objectives “an integral part of development strategy.” To an economic modeler, this meant two things: developing empirically grounded models of a country’s distribution of income (or consumption) over time, and replacing gross domestic product (GDP) with an explicit measure of welfare when evaluating development strategies and projects. These agendas—one basically technical, the other basically political, despite

its technical guise—have come a long distance over 40 years, and reviewing some of the twists and turns can help us think through what lies ahead.

Redistribution with Growth provides a springboard for this essay’s two main points. The first is that ending extreme poverty will require new ways of overcoming barriers to pro-poor economic growth. These barriers were present in 1990—the “start date” for the Millennium Development Goal of cutting the global poverty headcount in half by 2015—but the intervening period has shifted the global composition of poverty toward countries with relatively weak institutions and resource endowments that bias their exports in favor of primary commodities and away from globally competitive employment. The so-called “resource curse” will have to be overcome if extreme poverty is to be eliminated. The second point is that smart redistribution policies have expanded the scope for efficient redistribution beyond what Chenery and his associates imagined. Such policies are likely to play an important role in achieving the goals of the post-2015 Development Agenda.

¹ Hollis Chenery, Montek S. Ahluwalia, C.L.G. Bell, John H. Duloy, and Richard Jolly (1974), *Redistribution With Growth* (Oxford: Oxford University Press). By the early 1970s, Chenery had moved (via Harvard) to the World Bank, where he became the Bank’s first and longest-serving chief economist and vice president for development economics research.



Men sit and stand atop a wall at a USAID help center next to a refugee camp on the outskirts of Goma, in the North Kivu region of the Democratic Republic of the Congo (DRC). The DRC illustrates the intersection of three effects of the “resource curse,” causing the nation to become a major nexus of global poverty today. PHOTO: ROBERTO SCHMIDT / AFP

Redistribution with Growth in retrospect

Chenery’s concern in the early 1970s was that progress against poverty had been inadequate despite more than a decade of strong economic growth. The idea of replacing GDP with a welfare-based measure was equal parts elegant and radical. The argument was that economic planners needed a measure of development success that captured social attitudes toward poverty and inequality. Chenery and associates considered the growth rate of GDP inadequate for this purpose, because it violated what they viewed as a universal feature of social welfare judgments: The idea that a costless transfer of consumption from a rich household to

a poor household would make the world better off.

Chenery and his co-authors argued that, instead of simply averaging the gains of different households or social groups (as done in calculating GDP per capita), planners should use “distributional weights” that were higher for poor households. Planners could provide an elegant grounding for the weights by specifying the degree of diminishing social returns to income. For example, if social utility were a function of the log, rather than the level, of individual incomes, the weights applied to gains or losses of different income groups would be inversely proportional to income.²

² The log transformation was later adopted by the UNDP in the construction of its Human Development Index.

Distributional weights never came into regular use by economic modelers, and were rarely applied (after a brief period of enthusiasm) in the cost/benefit analysis of public investment projects. As one of Chenery's successors at USAID observed, this was not because development economists didn't care about poverty. The problem was that no technical basis existed for consensus on the appropriate weights.³ My guess, however, is that Chenery and his co-authors lost little sleep over the short half-life of distributional weights. The spirit of the idea was what mattered. Spurred on by the thinking in *Redistribution with Growth*, economists were proceeding with many alternative ways of formalizing distributional concerns.

Regrettably, Chenery died in 1994, too early to see the triumph of his broader agenda in the policy realm. He may have had an inkling in 1974 that events would intervene; his introduction to *Redistribution with Growth* speaks forebodingly about the 1973 increase in energy prices. But he could not have anticipated that the collapse of the Bretton Woods system in the early 1970s and the oil price shock of 1973 to 1974 would be followed by nearly two decades of global economic turmoil. Distributional concerns would be swept to the margins as the developing world—particularly outside of Asia—entered an extended period of crisis and market-based economic reforms.

Gradually, however, the consolidation of policy reforms and the limitations of the structural adjustment paradigm brought Chenery's concerns back to the fore. The markers of this process gathered pace during the 1990s: The World Bank published its first international poverty line in 1990; the Poverty Reduction Strategy Paper process for multilateral debt relief was initiated in 1996; and

the Millennium Development campaign began in 2000. Throughout the 1990s, developing countries introduced innovative social protection programs to promote asset accumulation among the poor and protect them from the effects of macroeconomic crisis.

Fast-forward to USAID's new mission statement, with its striking reference to ending extreme poverty. The World Bank's newly adopted dual mission pairs a similar commitment with a focus on "shared prosperity," defined in terms of the income growth of the lowest two quintiles.

In my own view, no single idea has done more to unify the global development community since the early 1990s than the idea that distributional objectives should be integral to development strategy.

A shifting target

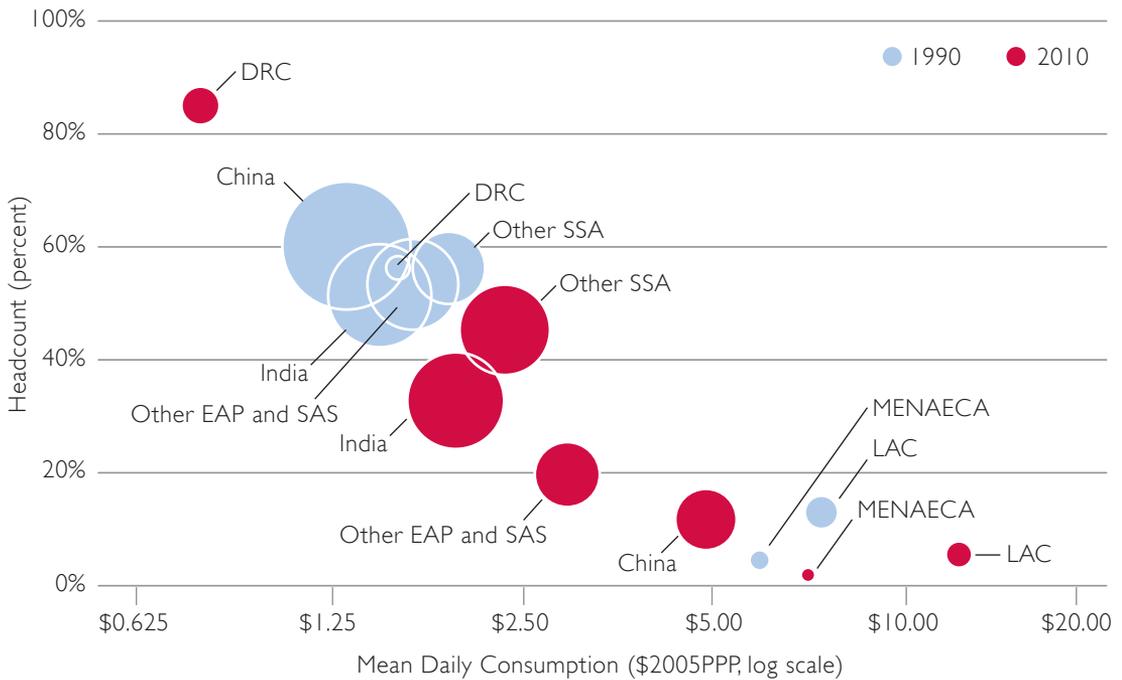
The clarity and prominence of recent commitments are triumphs of the political component of Chenery's agenda. But *Redistribution with Growth* was as much about mechanisms as it was about goals. Planners needed a reliable way to model the distributional consequences of alternative policy choices, and—in Chenery's view—this required new data and new analysis.

Forty years later finds us in an immensely stronger position on the microeconomics of poverty and the impact of targeted interventions in areas like finance, education and health. But, to apply Chenery's lens: What does a poverty-eliminating development strategy look like? I'll stress two findings that would have surprised Chenery in 1974—and that bear importantly on what lies ahead.

Figure 1 summarizes the evolution of poverty on a regional basis since 1990. The vertical axis shows regional- or country-level headcount ratios, defined as the proportion of a population with consumption under \$1.25 a day at 2005

³ Arnold Harberger (1978), "On the Use of Distributional Weights in Social Cost-Benefit Analysis," *Journal of Political Economy* 86(2), Part 2: Research in Taxation: S87-S120.

FIGURE I. Regional Headcount Ratios at \$1.25 per day



DRC = Democratic Republic of the Congo **EAP** = East Asia and Pacific **SAS** = South Asia **LAC** = Latin America and Caribbean **SSA** = Sub-Saharan Africa **MENAECA** = Middle East and North Africa combined with Europe and Central Asia

Source: Country-level data are from nationally representative household surveys, interpolated or extrapolated to non-survey years by the World Bank for the construction of regional aggregates; see <http://iresearch.worldbank.org/PovcalNet/index.htm>. Figure includes all developing countries in these regions with data for both 1990 and 2010.

international prices. The horizontal axis shows average consumption per capita, measured on a log scale so that equal displacements along the axis represent equal amounts of economic growth. The diameters of the circles are proportional to the number of poor in each location.

Two observations leap from this picture. The first is the importance of economic growth, particularly in China, to the successful achievement of the income poverty goal of the Millennium Development campaign. Average consumption grew so rapidly in China that the nation's poverty

headcount fell by roughly three-quarters, despite an increase in inequality. What would have surprised Chenery, I think, is the robust power of economy-wide growth for increasing the incomes of the poor. Data across countries from repeated household surveys show no systematic tendency for the distribution of consumption to worsen with growth. In addition, distributional changes in either direction typically have been much less important than overall growth in changing poverty headcounts.

No consensus exists on the reasons for these findings. In this crucial respect, the development

research community has yet to respond to Chenery. However, unless these correlations change substantially over the next 15 years, what will matter most for eliminating poverty is the achievement of rapid economic growth in the countries where the poor now live.

The second observation conveyed by Figure 1 is that 20 years have altered the geographical location of the poor. On a regional basis, Asia has given way to sub-Saharan Africa. A key feature of this shift is that the poor are increasingly located in countries with large rents on the export of primary commodities, defined as the difference between the value of the exports and the cost of the resources required to extract them.

Primary-commodity rents are an easy source of government revenues that can help drive growth through public investments in security, infrastructure and human capital. Chenery, with his economic planner's mindset and little systematic evidence to the contrary, would likely have viewed commodity wealth as a clear development opportunity. But global evidence since the early 1970s suggests that this kind of wealth has tended, on balance, to undermine economic growth.

Among the numerous potential channels of the "resource curse," three stand out when thinking of implications for the poor. One is economic: In an era of globalization, primary commodities tilt the economy away from the manufactured goods and traded services that generate internationally competitive jobs and economy-wide productivity gains. One is political: Resource rents allow a political elite to subsist without delivering useful public services in exchange for tax revenues, an exchange that many political scientists view as fundamental to the construction of state capacity and legitimacy. The third lies at the intersection of the economic and political: Resource wealth can be a prize that supports the

recruitment of underemployed young men into political violence.

The Democratic Republic of Congo illustrates the intersection of all three effects. This nation was not a major nexus of global poverty in 1990; it is now.

Although economic growth is a high-level objective of U.S. development assistance,⁴ it is not uniformly a focal point of U.S. Government programming at the country level. Among low-income countries, those that qualify for a Millennium Challenge Corporation Compact are guaranteed to have a strong growth component. This set is limited by construction, however, to countries that meet demanding—although income-adjusted—standards of institutional quality. It excludes many of the countries where the poor now live.

This allocation may be the right concession to reality, given our limited understanding of growth dynamics in difficult places and our limited policy leverage in the presence of resource wealth. However, it suggests high returns, when implementing USAID's extreme poverty agenda, to understanding the experiences of the few countries—such as Indonesia, Chile and Botswana—that have achieved sustained and rapid growth from a primary commodity base. It also underscores the crucial importance of initiatives like Power Africa that address known constraints to growth.

Assets and cash transfers

Chenery and his co-authors argued that the best distributionally weighted development strategies over a horizon of a decade or more were those focused on increasing the assets, rather than the consumption, of the poor. Since outright

⁴ Presidential Policy Directive 6, Sept. 22, 2010 (<http://fas.org/irp/offdocs/ppd/>).

reallocation of existing assets was either politically infeasible—as in land reform absent a revolution—or impossible (reallocation of human capital, for example), strategies should focus on enhancing the capacity of the poor to access public infrastructure and to invest in assets including land, education and health.

USAID’s portfolio in low-income countries—with its emphasis on health, physical capital, education and the productivity of smallholder agriculture—is well aligned with these broad priorities. In fact, it may be particularly well aligned in countries where the policy pathways to broad-based growth are unclear and where development partners can help create the infrastructure and human capital platforms for future growth. The experiences of Indonesia, Chile and Botswana suggest, however, that such efforts need to be complemented with initiatives to increase fiscal discipline, enhance the transparency of public financial management and support the rigorous evaluation of public investment projects.

Writing in the early 1970s, Chenery and associates placed less emphasis on the detailed design of redistribution programs than on the need to realign government priorities and redirect development research. First things first: If the economic and political costs of redistribution were large, then getting to the design step required a combination of stronger political motivations and improved models that could quantify distributional outcomes.

Starting in the mid-1990s, however, innovative social protection programs began to open up new avenues for “smart” redistribution, defined as politically sustainable redistribution with low administrative costs and high efficacy in reaching the intended beneficiaries. One example is conditional cash transfer programs, which have been implemented worldwide following the success of

Mexico’s *Progres a Oportunidades* program. With their emphasis on pairing income support to low-income mothers with investment in the human capital of their children, these programs epitomize the *Redistribution with Growth* approach.

Looking ahead, information technology will expand the scope for transformative redistribution policies. In countries with weak institutions and large commodity rents, for example, the technological barriers to a very different type of transfer program, involving the *pro rata* distribution of a modest portion of natural resource revenues directly to citizens, are rapidly eroding.⁵

Imagine, for example, if all citizens of the Democratic Republic of Congo could rely on a regular cash transfer financed from mineral revenues. Such transfers would be distributionally progressive by definition—and more so with a greater initial degree of income inequality. Moreover, the limited existing evidence suggests that the distinction Chenery and associates drew between consumption transfers and “investing in the poor” was too stark. Cash transfers increase asset accumulation by the poor even when beneficiaries are free to allocate their transfers as they wish. If such a system altered political dynamics in a growth-promoting way, the prospects of the poor would improve even more dramatically.

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⁵ Unlike conditional cash transfers, such transfers would be neither targeted nor conditional. Todd Moss and the Center for Global Development have championed this idea: see <http://international.cgdev.org/initiative/oil-cash-fighting-resource-curse-through-cash-transfers>.

Crowding In Private Investment

Christopher Powers and William M. Butterfield

Inclusive economic growth is vital to eliminating extreme poverty. When average incomes rise, incomes in the poorest two quintiles increase proportionately, according to *Growth Still Is Good for the Poor*, an August 2013 World Bank report.¹

So what, in turn, drives economic growth?

Private investment is critical because it expands demand while also enhancing supply in a country's economy. Foreign direct investment (FDI) is one type of investment flow that not only transfers money across borders but knowledge and best practices as well.² Following the global financial crisis of 2008, FDI flows to the developing world recovered, reaching a new high of \$759 billion in 2013 that far surpassed official development assistance flows of \$150 billion in 2012.

Yet FDI has not recovered in the poorest countries, which are being left behind. The regions of sub-Saharan Africa, the Middle East and North Africa, and South Asia combined represented just 6 percent of the world's total FDI, an amount similar to development assistance and well below remittances (Figure 1).³

Booming remittance flows have eased the burden of poverty by putting money directly into people's hands. However, individuals most often use remittances for consumption rather than investment and remittances do not appear to be associated with long-term economic growth according to research by the International Monetary Fund.⁴

The poorest countries need private investment

Private investment can be constrained by a number of factors, including weak macroeconomic policies,

1 David Dollar, Tatjana Kleineberg and Aart Kraay, "Growth Still Is Good for the Poor", World Bank Policy Research Working Paper, August 2013 Available at: http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2013/08/13/000158349_20130813100137/Rendered/PDF/WPS6568.pdf%20

2 Michael Klein, Carl Aaron and Bitá Hadjimichael, "Foreign Direct Investment and Poverty Reduction," World Bank Policy Research Working Papers, June 2001. Available at <http://elibrary.worldbank.org/doi/book/10.1596/1813-9450-2613>

3 World Bank, World Development Indicators.

4 Adolfo Barajas, Ralph Chami, Connel Fullenkamp, Michael Gapen and Peter Montiel, "Do Workers' Remittances Promote Economic Growth?" IMF Working Paper, July 2009. Available at: <http://www10.iadb.org/intal/intalcdi/pe/2009/03935.pdf>



In Uganda, a USAID Development Credit Authority (DCA) 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. DCA secures financing for borrowers and mitigates risks for equity investors. PHOTO: MORGANA WINGARD

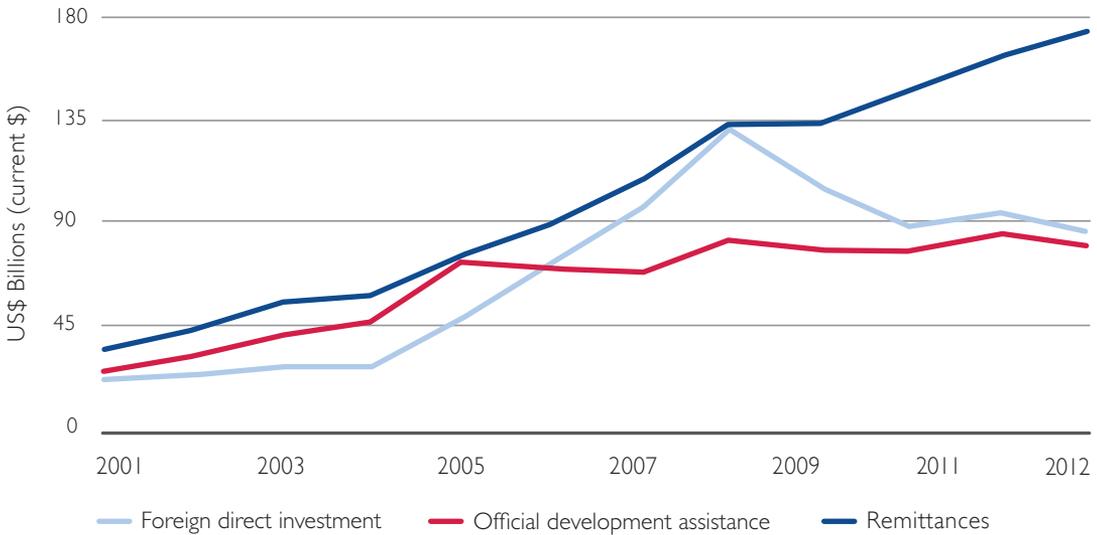
high costs of doing business, poor financial intermediation and political instability. Banks within many developing economies, such as Egypt and Pakistan, operate as a primary source of financing for the government. When a substantial portion of a bank's balance sheet goes to financing large budget deficits, the cost of borrowing goes up, and entrepreneurs are "crowded out" of access to capital.

In addition, domestic financial institutions may be unwilling to lend to new businesses because they view new areas or sectors as too risky or because they fail to see the potentially profitable opportunities. Banking standards, although critical for risk mitigation, can restrict lending and force small- and medium-sized enterprises (SMEs) to rely on informal, and more costly, modes of financing. The financing such firms often do receive is highly collateralized short-term working

capital rather than capital targeted for growth.

To counteract these constraints, development organizations must service the missing links that will catalyze private investment deals that otherwise would not have taken place. This is the essence of "crowding in," and ways of doing so include:

- Creating or seeding investment funds
- Incentivizing local financial institutions through credit guarantees
- Partnering with local institutions that are well positioned to help entrepreneurs and startups
- Partnering with larger private-sector firms to scale up investments with shared commercial and development benefits
- Providing technical assistance to help companies strengthen business management and advocate for the removal of legal and regulatory barriers that limit private investment

FIGURE I**Financial Flows to Sub-Saharan Africa, North Africa & Middle East, and South Asia**

Source: World Bank, World Development Indicators OECD, Official Development Statistics

Directly seeding investments

In some nations, domestic financial institutions are unable to invest in businesses because of underdeveloped markets or capital flight. Donor organizations can fill these gaps by allowing local investment funds to manage assistance resources or by developing their own funds. Such funds must simultaneously consider development and commercial priorities. In other words, they must have a “dual bottom line” and only undertake profitable investments that also produce meaningful social returns and demonstration effects that validate and encourage expanded private investment.

Direct investment with USAID funds began after the fall of the Soviet Union and in response to market liberalization in Eastern Europe. The U.S. Congress authorized nearly \$1.2 billion for 10 Enterprise Funds, managed by proven investors, to support private firms in the region. The Enterprise

Funds succeeded in producing some impactful demonstration effects, supporting the establishment of debt and equity markets in previously Communist countries and collectively leveraging \$6.9 billion in private capital over their two-decade lifespan.⁵

Newly established USAID direct investment funds in Egypt, Tunisia and Pakistan have the opportunity to build upon these successes while supporting SMEs through the demonstration of innovative financing mechanisms. For example, “mezzanine” products that mix debt and equity can benefit investors by reducing risk while allowing them a share in the revenues and profits of investees. SMEs in turn gain access to capital without having to manage the broadening ownership and increased level of sophistication that pure equity financing requires.

⁵ The Enterprise Funds in Europe and Eurasia: Successes and Lessons Learned. USAID, September 2013.

Using guarantees to enhance credit and confidence

Where domestic financial institutions are able but unwilling to increase access to finance, development organizations can indirectly invest by incentivizing local banks through credit guarantees that protect a percentage of a bank's portfolio against default. USAID's Development Credit Authority (DCA) has had significant success getting debt-based financing into the hands of previously unserved borrowers.

Yet there are opportunities for DCA to not only engage in the aforementioned debt products, but also be more proactive in reducing risks to equity investors in new markets. For example, through a partnership with J.P. Morgan Chase, DCA guaranteed an \$8 million loan to an equity investment fund for SMEs in East African agriculture markets. The guarantee was supported by a \$17-million equity investment from the Bill & Melinda Gates Foundation, the Gatsby Charitable Foundation and the Rockefeller Foundation. This arrangement also included \$1.5 million in USAID Feed the Future technical assistance resources, a superb example of development impact investing aimed at poverty alleviation.

DCA can also help turn remittances into investment through guaranteeing the issuance of "diaspora impact bonds," sold mainly to nationals working abroad. The bond proceeds fund development projects in sectors such as health and education. Meanwhile, bondholders reap returns while contributing to poverty alleviation in their home countries.

Recently, some countries have issued diaspora bonds, most notably Kenya and Ethiopia. Yet most investors still see the product as high risk. By offering a partial guarantee (usually 50 percent) on the repayment of the bonds, DCA could help mitigate this perception and encourage social investment.

Guaranteeing equity-based investments and sub-national bonds is admittedly risky. However, with a default rate of less than 2 percent on its guaranteed

loan portfolio, DCA so far has collected more in fees from banks than it has paid out in defaults. USAID should therefore continue to structure guarantee products more aggressively to fill financial gaps.

Accelerating partnerships for investment

Credit guarantees cannot compensate for obstacles SMEs often encounter, such as lack of credit qualifications and audited financial statements. Commercially driven "accelerators" (or incubators) can play a role. By taking an ownership position in the firm and providing business development resources, these organizations can help SMEs access formal financial markets or obtain funding from individual ("angel") investors.

Accelerators and angel investor groups, however, may lack the information, capacity and coordination to function most effectively in this role. USAID is filling this gap through broader engagement. For example, USAID's Partnering to Accelerate Entrepreneurship and the Middle East North Africa Investment Initiative support investors and businesses with co-investment and matching capital approaches as well as relevant technical assistance.

In addition, USAID's Global Development Alliance⁶ partners with larger firms to help SMEs overcome local risks and capacity constraints—leveraging over \$2.5 billion in private investment to date.⁷ For example, since 2005, USAID has collaborated with Coca-Cola for clean water development projects (a shared commercial and development interest). Existing USAID development programs (e.g., improving water resources management) complement Coke's investments and vice versa, all in collaboration

6 GDA is a form of public-private partnership whereby shared interests are identified and USAID and private sector partners agree to contribute toward the cost of a project, at minimum on a 1:1 basis.

7 Evaluating Global Development Alliances, DAI. Available at http://www.usaid.gov/sites/default/files/documents/1880/GDA_Evaluation_reformatted_10.29.08.pdf

with other donors and host-country governments.

USAID's new position of field investment officer responds to the need to develop more private-sector partnerships like this one. These mission-based foreign service officers use their knowledge of the business and development worlds to identify areas where the private sector and USAID can work together to achieve commercial and development success.

Strengthening policy and business management

Technical assistance is a critical component of any crowding-in strategy, particularly when it equips local businesses and other stakeholders with the finance and management skills needed for growth. Assistance should also be used to generate demand-driven reform of key policy bottlenecks that local firms face, making doing business easier.

The European Bank for Reconstruction and Development (EBRD) has successfully employed such an approach through its complementary Business Advisory Services facilities. These services give SMEs reduced-cost access to local and international business consultants while the Legal Transition Programme aids them in identifying and overcoming policy and institutional impediments to their investments. Both the EBRD and USAID are helping the Social Fund for Development in Egypt strengthen its capacity to serve as the main government authority on SME policy reform—further improving the investment climate for their SME technical assistance programs.

Moving forward

Other U.S. Government institutions should also look to increase efforts to crowd in private investment. The Millennium Challenge Corporation⁸ has recently

⁸ The Millennium Challenge Corporation (MCC) is an independent bilateral U.S. foreign aid agency, established by Congress in 2004,

Abebow Gessese received a loan from Dashen Bank thanks to USAID's Development Credit Authority (DCA). The loan enabled him to expand his farm, employ more workers (half were women) and add to Ethiopia's economy.
PHOTO: MORGANA WINGARD

explored ways to structure its compacts' resources to attract higher levels of private-sector co-financing.

The Overseas Private Investment Corporation (OPIC),⁹ which has turned a net profit for 35 years in a row, holds the ability to combine financing, guarantees and technical assistance in ways that make more and larger deals possible. Yet OPIC is legally prohibited from making minority-share equity investments—an authority allowed to most of its peer institutions in Europe. This excludes OPIC from many potential deals and limits its ability to scale up its efforts while limiting U.S. businesses' access to frontier markets.

Leveraging private investment to fight poverty is no easy task. The constraints are myriad and complex. However, by supporting innovations that utilize development assistance to “crowd in” private investment, USAID and partner institutions can get resources into the hands of the local firms and individuals that need them and spur the inclusive economic growth that reduces poverty.

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which applies selection-based criteria and a country-led approach to its assistance, which it delivers through “compacts.”

⁹ OPIC is the U.S. Government's development finance arm. It provides debt-based financial products, political risk insurance and seed money for investment funds to help American businesses expand into developing countries.



USAID's Role in Extreme Poverty Reduction: Lessons from Peru

Joshua Templeton

Peru was a desperately poor country as recently as 1990. Ravaged by civil war and hyperinflation, food consumption had fallen below 1,950 calories per capita, and public sector wages had dipped to \$39 per month.¹

Macroeconomic stabilization in the early 1990s, followed by political reforms in the early 2000s, set the stage for improved economic growth. Yet this growth was disproportionately concentrated in the capital, leaving out Peru's poorest regions. In 2004, 20 percent of Peru's population remained extremely poor,² and it began to look as if Peru might become a case study for economic growth *without* poverty reduction. But, as growth spread to the highlands, extreme poverty fell to 11.2 percent by 2007 and 6 percent by 2012.³ Inequality, as measured by the Gini coefficient, also fell.

How did Peru achieve such a dramatic transformation? Three efforts were key to Peru's inclusive economic growth: infrastructure investment, particularly investments to improve the rural transportation network;⁴ economic stimulation of market systems in poor regions;⁵ and Juntos, a well-designed conditional cash transfer program.⁶ Largely thanks to these efforts, coastal prosperity spread to the country's impoverished interior.

USAID helped Peru fight poverty on two of these fronts, roads and market systems, by identifying market and government failures that the Agency was well positioned to tackle. USAID's contributions were small compared to efforts by the Government of Peru and the private sector, yet they nevertheless reflected the potential of catalytic interventions in reducing poverty.

1 Cuanto. 1991 Ajuste y Economía Familiar 1985–1990. Lima: Cuanto.

2 World Bank, 2004 "Peru Poverty Assessment." <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/LACEXT/0,,contentMDK:20862551~pagePK:146736~piPK:146830~theSitePK:258554,00.html>

3 Instituto Nacional de Estadística y Informática. <http://www.inei.gob.pe/estadisticas/indice-tematico/sociales/>

4 Webb, Richard. "Conexión y Despegue Rural," Instituto del Perú, Universidad San Martín de Porres, Lima, 2013.

5 Riordan, James. *We Do Know How: A Buyer-Led Approach to Creating Jobs for the Poor*. 2011.

6 Elizaveta Perova and Renos Vakis. "Welfare impacts of the "Juntos" Program in Peru: Evidence from a non-experimental evaluation." World Bank, 2009.



A woman sells star fruit at the wholesale fruit market in Lima, Peru. Extreme poverty in Peru fell to 6 percent in 2012 as coastal prosperity spread to the country's interior thanks to investments that promoted Peru's inclusive economic growth. PHOTO: ERNESTO BENAVIDES / AFP

An innovative approach to financing infrastructure

Peru has had remarkable success improving rural access to markets. From 2001 to 2011, the country cut average travel times from 176 of the poorest rural districts to the nearest city by more than half. Districts with these improvements reported rising market prices of both agricultural land (up 88 percent) and housing (up 166 percent).⁷ Day labor incomes, adjusted for inflation, rose 73 percent. Rural roads also improved access to health and education services.

Public investment in the transportation

⁷ Unless otherwise noted, all the data on roads are from Webb, Richard. "Conexión y Despegue Rural," Instituto del Perú, Universidad San Martín de Porres, Lima, 2013.

sector increased from 5 percent of the federal budget in 2000 to 14 percent in 2010. Yet Peru's successes depended as much on public-sector innovation as they did on increased funding.⁸ These innovations included build-operate-transfer (BOT) concessions. Under a BOT concession, the government gives a private company a permit to build, operate and maintain specific infrastructure, such as a road or port. For a defined number of years, the private company charges road tolls or port fees to repay its loans and earn a profit. At the end of the concession agreement, the company transfers ownership and operation

⁸ Data on government spending is from the World Bank's *Gasto para Resultados: Revisión del Gasto Público para Perú*. June 2012.

of the infrastructure facility to the government.⁹

BOT concessions align political incentives with the public interest more effectively than either government ownership or privatization.¹⁰ Previously, the Government of Peru tended to build roads to garner voter support and it neglected road maintenance, even though maintenance tends to be more cost-effective than rebuilding roads over time. Instead, BOT concessions incentivize the private sector to include maintenance as part of their contracts. The better the roads, the more likely toll-paying drivers will be to use them.

Privatization, however, creates another set of incentive problems. Instead of focusing the sale on the long-term public interest, governments often try to achieve the highest possible sale price with offers to the private owner such as monopoly pricing power. In contrast, BOT concessions offer the benefits of privatization—increased investment in infrastructure, specialized technical competency and elimination of the drain on public funds—without generating immediate public funding windfalls. Since no funds change hands between the government and the private entity under a typical BOT concession, the government has no incentives to sell out future consumers for an immediate payout, as has been alleged in past Peruvian privatizations. Instead, future governments benefit from the BOT when the infrastructure facility is transferred to government control.

Successful design of these concession arrangements requires complex economic, legal and engineering expertise. In fact, the Government of Peru decided to concede 11 roads in 1995, but did not actually concede any roads until

9 United Nations. “Best Practices in Investment for Development.” 2009. http://unctad.org/en/docs/diaepeb20092_en.pdf

10 Larry D. Qiu, Susheng Wang, “BOT projects: Incentives and efficiency,” *Journal of Development Economics*, Volume 94, Issue 1, January 2011, pp. 127-138.

2002 because of a lack of technical expertise.

In 2003, USAID began to help the Government of Peru design concessions for two highways connecting the coast with the impoverished interior as well as design an upgrade to the country’s most important port. USAID’s technical assistance also helped the government design contract terms and engineering studies that reduced project risk, resulting in two concessions that attracted private-sector bidding.

USAID invested just \$8 million in this activity. Yet the three successful concessions stimulated more than \$800 million in private investment for infrastructure.¹¹ The infrastructure built with this investment opened up markets to the interior of the country and played a key role in Peru’s recent economic growth.¹² It also likely helped to reduce poverty, although knowing exactly how much is difficult to determine in light of the many other factors affecting poverty reduction. We have not evaluated whether the roads and port would have been built without USAID assistance, and at what cost. This represents one example of a project where the full impacts and attribution may be difficult to measure, but one that USAID will need to pursue in order to influence national poverty rates.

Brokering market linkages

Peru drastically liberalized trade over the past 20 years through numerous bilateral free trade agreements, joining the Asia-Pacific Economic Cooperation and founding the Pacific Alliance with Chile, Colombia and Mexico. However, the informal firms for which Peru’s poorest people are most likely to work¹³ are seldom equipped

11 Fox, James. “Peru Concessions: The Overall Approach.” 2007. http://www.energytoolbox.org/library/peru_transportation_concessions/peru_usaid/Peru_Concessions_The_Overall_Approach.htm

12 Webb, Richard. “Conexión y Despegue Rural,” Instituto del Perú, Universidad San Martín de Porres, Lima, 2013.

13 Japan Bank for International Cooperation. “Poverty Profile: Peru.” 2007.



A merchant offers his goods on his truck along the road crossing southeastern Peru near Madre de Dios. Infrastructure improvements helped create market linkages from Peru's impoverished interior to the flourishing coastline cities. PHOTO: AFP PHOTO / STR

to insert themselves into the supply chains that benefit from such agreements.

Why do buyers, such as exporters or grocery stores, purchase from large national suppliers rather than the small local suppliers found in Peru's poorer regions? In many cases, lack of trust, rather than economies of scale or transaction costs, is the crucial market failure.¹⁴ Buyers suspect that small suppliers will fail to live up to their quality or quantity commitments. Meanwhile, small suppliers fear being exploited by large buyers. The government, with its own political interests, is not well positioned to step into the role of honest broker. Likewise, it is unreasonable to expect a buyer and a seller to pay a private consultant to help them trust each other.

¹⁴ Riordan, James. *We Do Know How: A Buyer-Led Approach to Creating Jobs for the Poor*. 2011.

In this context, USAID is well positioned to serve as an honest broker. Instead of helping suppliers improve production of goods for which there may not be a market, which many development projects have done in the past, USAID's Poverty Reduction and Alleviation (PRA) program first helped suppliers identify potential buyers. From there, PRA identified technical constraints, provided modest technical assistance or equipment to pave the way toward new business transactions, and acted as an honest broker for a sale.

PRA saw the win-win potential for a partnership between Piscifactoría de los Andes, a trout processing company in Huancayo, Peru, and SAIS Tupac Amaru, a large farm nearby. Piscifactoría had the capacity to sell up to three times more fish than what its own ponds produced, but it doubted that SAIS and other local farms could provide quality

fish. SAIS had been unable to maintain production of its once high-quality trout and did not trust Piscifactoría as a business partner. Yet a partnership could help Piscifactoría expand its operations and bring much-needed investments and jobs to SAIS.

PRA worked as a mediator to help both groups see the value of a potential relationship. As a result of this brokering, Piscifactoría invested \$70,000 in the rehabilitation of SAIS's ponds and improved its ability to meet market quality demands. SAIS enhanced its production to Piscifactoría's specifications and became a reliable supplier. The approach was profitable for Piscifactoría, enabling the company to turn to additional local suppliers, expand sales by \$5.8 million and create 550 jobs.¹⁵

The PRA benefited local Peruvians in many ways. Contracts brokered in Huancayo and elsewhere increased the incomes of suppliers, many of whom live near Peru's poverty line. The work involved in meeting these contracts required additional hired labor. This resulted in improved opportunities for unskilled workers and lifted some above the World Bank's extreme poverty line. In some cases, PRA also demonstrated the viability of products not previously produced in the region, such as quinoa or artichokes, opening new markets and attracting imitator firms. Finally, workers and suppliers spent their new earnings in the local economy, benefiting entire communities.

USAID funding for PRA ended in 2013, partly as a reflection of the Agency's move away from economic growth programming. Although PRA was not rigorously evaluated, what it left behind is promising: local market actors better connected to each other and to external buyers, increasing local production, generating jobs and investing locally. In fact, between 2000 and 2007,

15 Riordan, James. "One Buyer at a Time." *Stanford Social Innovation Review*. Winter 2007.

To improve economic conditions in Peru, USAID used Development Credit Authority (DCA) loan guarantees to get local capital to underserved farmers, such as Juanita. Peru's progress in reducing extreme poverty can be attributed to economic growth and efforts to ensure that the poor shared in this growth. PHOTO: BOBBY NEPTUNE

1,500 microenterprises and 37,500 individual producers participated in transactions facilitated by PRA, generating \$232 million in sales.¹⁶ PRA's role as facilitator paved the way for business relationships that continue to benefit Peruvians.

Conclusion

Peru's reduction in extreme poverty over the past eight years can be attributed to both economic growth and targeted efforts to ensure that the poor shared in this growth. Before 2003, Peruvian markets and governments failed to connect the country's impoverished interior to its increasingly prosperous coast. USAID helped address this failure by helping the government design infrastructure concessions and helping small producers connect to markets for their goods. These are no doubt small contributions to the much broader economic growth process. Nevertheless, they are contributions worth learning from and replicating, as they reflect ways that USAID can help catalyze local resources and networks for development.

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16 Weidemann Associates, Inc. *Final Evaluation of USAID/PERU Poverty Reduction and Alleviation (PRA) Activity*. 2008. http://pdf.usaid.gov/pdf_docs/PDACN110.pdf





Getting Serious about Investment Appraisal: A Call for Building Local Capacity for Economic Analysis

Jerrod Mason

Improving the quality of public investments in developing countries is crucial to ending extreme poverty within the next generation. Investments in education, health and public infrastructure promote broad access to economic opportunities and have the potential to help individuals and firms increase productivity and improve lives—but they must be efficient and effective.

Many partner governments, however, lack the capacity to evaluate investment options and select those with the greatest benefits. Donor agencies, which regularly apply economic analysis to their own development investments, should support a concerted effort to build this capacity.

Development organizations—including USAID—have long recognized the importance of applying cost-benefit analysis, cost-effectiveness analysis, or other forms of economic analysis to their own investments to safeguard against poor decision-making and maximize the impact of their development dollars.

Over the last 25 years, however, donor-funded

activities have declined dramatically as a share of total capital inflows into the developing world. In this new landscape, the biggest lever that development agencies hold is not improving the effectiveness of their own spending—important as that is—but rather improving the ability of host governments to evaluate and select the most effective investments.

Donor investment is declining in relative importance

Between 1990 and 2012, total official development assistance (ODA) to lower- and middle-income countries grew at an annual rate of about 4 percent. By contrast, foreign direct investment (FDI) to lower- and middle-income countries increased by about 16.5 percent annually over the same time period.^{1,2} As a result of this massive

1 World Bank, “World Development Indicators,” 2014. [Online]. Available: <http://databank.worldbank.org/data/views/variableSelection/selectvariables.aspx?source=world-development-indicators>. [Accessed 20 03 2014].

2 OECD, “QWIDS,” 2014. [Online]. Available: <http://stats.oecd.org/qwids/>. [Accessed 20 03 2014].



Construction workers prepare the new biomass energy power plant in Marigat, Kenya, as part of a USAID-fostered partnership between Cummins Cogeneration Kenya Ltd. and the Kenyan Government. Improving the host government's ability to evaluate and select the most effective investments can have a huge impact on economic growth. PHOTO: USAID

growth, FDI flows to the developing world in 2012 were nearly five times larger than all ODA flows combined.

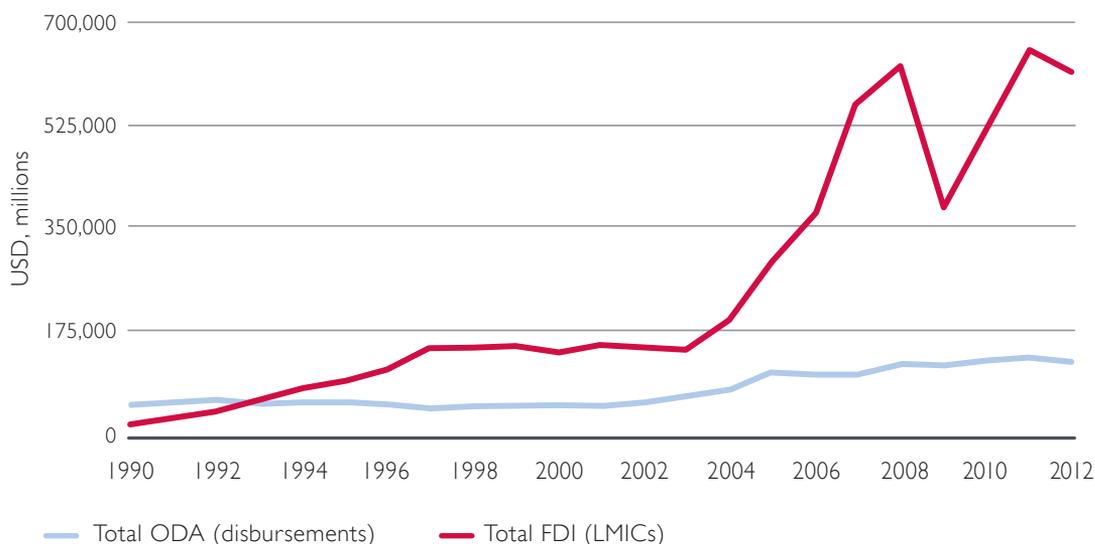
In addition to the massive expansion of foreign private investment all over the developing world, developing-country governments have begun to access domestic and foreign debt markets, many benefiting from lower overall debt levels as a result of the Highly Indebted Poor Countries Initiative. Within the last decade, sovereign foreign-currency bonds have been issued on international markets—attracting strong demand at relatively low prices—by the governments of Ghana, Gabon, Nigeria, Zambia and Rwanda.

Finally, developing-country governments have increasingly turned to public-private partnerships to finance projects in investment-intensive sectors such as power, water, transport and information and communications technology. Growing

incomes in many countries and the lure of new markets create strong incentives for private-sector investors. Meanwhile, governments and their people benefit from increased competition and expanded access to goods.

This sea change in external finance has had, and will continue to have, a fundamental impact on bilateral and multilateral development agencies. Donor-directed funds no longer account for the lion's share of foreign capital flows and public investment into many of the developing countries in which USAID operates. For instance, Kenya's government budgets between FY 2010–11 and FY 2012–13 called for an average of about \$4.6 billion in government-financed development spending each year.³ During that same period, total annual official development assistance to

³ Kenya Ministry of Finance, "Budget Reports for FY 2010–11 to FY 2012–13."

FIGURE 1.**FDI has far outstripped development spending over the past two decades.**

Sources: World Bank, OECD

Kenya averaged approximately \$2.25 billion, or less than half as much as the Kenyan Government development spending. Public-private partnerships and private investments influenced by the Kenyan Government through policy and regulation-setting have further reduced the relative role of donors in the investment landscape.

While making better decisions regarding design and management of donor-funded or financed projects remains key to poverty reduction, it is no longer the only important source of investment that must be considered.

Improving partner country investment decisions is crucial

Although many developing-country governments have made strides in improving domestic resource

mobilization and in accessing financial markets, they still face real budget constraints and cannot afford to waste their investment dollars. Countries that make prudent public investment decisions at both the strategic and project levels can usher in a future of dynamic, poverty-reducing growth, while those that do not may suffer from anemic or narrowly shared growth that fails to broadly improve overall living standards.

There is rightly a great responsibility for developing-country governments to manage investments wisely. These include investments undertaken within national development budgets, funded through domestic resources or through debt offerings. They also include private investments that require some government cooperation or direction, such as public-private partnerships

for infrastructure development. For the latter types of investments, private investors ensure a financial return for their stakeholders, but governments should also ensure that the project benefits society as well.

One important way to improve the quality of investments in developing countries is to build capacity within government ministries, implementing partners, civil society and academia for rigorous investment appraisal. These efforts have the potential for enormous returns, as publicly financed and directed investment continues to play a larger and larger role in facilitating (or in limiting) economic growth.

Sustained efforts are needed to build appraisal capacity

Some USAID missions have begun to recognize the power of this type of capacity building and have hosted country counterpart trainings in economic analysis. Over the last two years, USAID's Bureau for Economic Growth, Education and the Environment, working in cooperation with missions, has conducted intensive training in cost-benefit analysis and other forms of economic analysis for government counterparts in South Africa, Afghanistan, Haiti and Kenya.

Through courses tailored to fit host country needs, participants gained hands-on experience in developing economic analyses of actual development projects in their own countries—gaining the tools for making better public investment decisions. USAID employees participated in these trainings as instructors and students, working with their host country counterparts to build a foundation for future cooperation on the design and analysis of public investments. One example is a two-week cost-benefit analysis course that took place in Afghanistan during February 2014. Among the course's 29 participants were 12 from

the Afghan Government, representing the Ministry of Finance and line ministries, and the Afghan water and power utilities.

Through hands-on case studies, participants learned how to conduct financial and economic analyses of projects and gained experience in building, interpreting and using the results of cost-benefit analysis models for decision-making. These are the skills needed for identifying, designing and managing effective projects that maximize the social benefits of public investments. Moreover, participants evaluated actual investments in their own countries and selected alternatives with the greatest societal benefits.

Members of society who understand the impacts of public investment are better able to defend their rights and interests as decisions are being made about how public funds are spent.

These few examples of host-country training initiatives occurred in the absence of any broader strategic focus at USAID to encourage these efforts. A few ad hoc training courses, however, will not create the institutional change necessary to achieve further large gains in poverty reduction. To address this need, the USAID mission in Afghanistan is pursuing a longer-term mechanism for providing ongoing local-language instruction in economic analysis to Afghans in government, civil society and academia on a longer-term basis. The USAID mission in Haiti is developing a similar program.

USAID is also partnering with institutions on the ground to build their capacity for teaching economic analysis of public investments. The USAID mission in Kenya recently worked with the Kenya School of Government to design and conduct a course for government officials on analyzing power sector investment and regulation. Future capacity building programs evaluate a range of training alternatives to identify the most effective options.

These types of longer-term training programs can yield huge benefits as governments learn how to design and manage their investments more effectively. Additionally, offering civil society organizations and other groups access to these tools strengthens the ability of citizens to hold governments accountable for the impact of public spending. Members of society who understand the impacts of public investment are better able to defend their rights and interests as decisions are being made about how public funds are spent. In this way, building the capacity for evaluating investment options outside of government helps ensure that benefits are widely shared and contribute to extreme poverty reduction, rather than benefiting the few at the expense of the many.

Strengthened capacity for economic analysis is no panacea for poor government accountability; reforms that encourage government transparency and the rule of law and curtail the influence of entrenched interests are often key pieces of the solution as well. However, equipping groups across society with the tools to challenge ineffective

Workers survey the site of a new biomass energy power plant in Marigat, Kenya. Developing countries have increasingly turned to the private sector to finance critical projects in the power, water and transport sectors. PHOTO: USAID

or misdirected spending is an important step in reducing the undue influence of entrenched interests in many developing economies.

Conclusion

Development agencies must continue to improve the quality of their own investments and to increase their impact on poverty reduction. However, we must look beyond simply increasing the impact of an official assistance portfolio that represents a continually shrinking piece of the overall development pie. Instead, donors should consider how to improve the effectiveness of all investments in developing countries. Building local government and stakeholder capacity for economic analysis is a vital step. Such an effort is crucial for achieving our goal of eliminating extreme poverty. It's time we get serious about making it happen.

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Ending Extreme Poverty in the Philippines through Urban-Led Growth

Gloria Steele, John Avila, Daniel Miller and Gerald Britan

A development paradigm focusing on cities as engines of growth

In the Philippines—and quite possibly in many other rapidly developing countries—urban-led development focused on second-tier cities as engines of growth promises to be an effective approach for addressing poverty and the inequitable distribution of income.

USAID’s mission in the Philippines believes that the development of more competitive second-tier cities can drive inclusive growth that improves the welfare of both urban populations and people living in surrounding peri-urban and rural areas.¹ As a recent white paper on urbanization noted, “cities can be engines of economic growth” and

“urban growth, in turn, drives rural development.”²

This approach is grounded in data that report higher growth in economic output in several increasingly urbanizing Asian countries. In these countries, the development of secondary cities effectively stimulated surrounding rural development.³ For example, from 1970 to 2006, China and India each produced an average 6 percent increase in per capita GDP for every 1 percent increase in urban population. Vietnam and Thailand exhibited 8 percent and 10 percent increases, respectively.⁴

Cities in the Philippines, however, have not generated the same high rates of economic growth or reductions in poverty that were realized in China, India, Vietnam and Thailand. This has been attributed to the nation’s archipelagic geography, highly

1 Michael Spence in the preface to the 2009 *Urbanization and Growth*, published by the World Bank, noted, “Deciding whether urbanization causes growth or growth causes urbanization is very difficult, and largely beside the point. We know of no country that either achieved high incomes or rapid growth without substantial urbanization, often quite rapid. There is a robust relationship between urbanization and per-capita income: Nearly all countries become at least 50 percent urbanized before reaching middle-income status. In all known cases of high and sustained growth, urban manufacturing and services led the process.”

2 International Housing Coalition. 2010. *The Challenge of an Urban World: An Opportunity for U.S. Foreign Assistance*. Washington, DC.

3 Ramos, C.G., J. Estudillo, Y. Sawada and K. Otsuka. 2012. Transformation of the Rural Economy in the Philippines, 1988-2006. *Journal of Development Studies*, 48(11): 1629-1648.

4 World Bank. 2014. *Country Partnership Strategy for the Republic of the Philippines, FY 2015–18*. Washington, D.C.



A shop owner receives payment from a girl buying rice in the Philippines. USAID is focusing its efforts on second-tier cities like Cagayan de Oro as drivers of urban-led economic growth, which in turn will spur rural development. PHOTO: ROMEO GACAD / AFP

fragmented structures for spatial and infrastructure planning and poor metropolitan governance.⁵

Conventional approaches to development planning have failed to meet the challenges of rapid urbanization—particularly the poverty, exclusion, informality and vulnerability produced in its wake.⁶ USAID’s urban-focused Cities Development Initiative in the Philippines is designed to address these challenges and make a significant difference in alleviating poverty.

Poverty and the imbalance of development

Despite an impressive average annual GDP growth rate of 7 percent from 2011 to 2013,

unemployment and under-employment remain high in the Philippines, hovering around 7 and 20 percent, respectively. National poverty levels have scarcely budged. Economists call this the paradox of hollow, or jobless, growth.

Income inequality likewise persists: According to national statistics, the top 20 percent of Filipinos capture nearly half of the nation’s total income, while the bottom 20 percent possess only 6 percent. Viewed from another perspective, total income for the wealthiest 20 percent of Filipinos is more than eight times greater than the total income of the poorest 20 percent.

Simply stated, economic gains in the Philippines have not yet generated tangible improvements in the lives of most Filipinos. Estimates by the Philippine Government and multilateral development agencies predict that the

5 World Bank. 2014. *Country Partnership Strategy for the Republic of the Philippines, FY 2015–2018*. Washington, D.C.

6 Asian Development Bank. 2011. *Inclusive Cities*, Manila.

Philippines will miss both the poverty and hunger targets set under the Millennium Development Goals. The proportion of the nation's population living in extreme poverty (less than \$1.25 a day) has been declining—but at the very slow pace of 21.6 percent in 2003 to 19.2 percent in 2012.⁷

For the last 50 years, most development assistance in the Philippines has focused on rural growth as the principal means for poverty alleviation. The strategy seemed to make sense, historically at least, since the vast majority of the poor lived in rural areas.

Despite a continuous long-term focus on rural-led growth, however, rural poverty, at 39.4 percent, remains significantly higher than the national average of 26.5 percent and more than three times higher than the percentage in urban areas.⁸ Moreover, agricultural productivity remained depressed, and the agricultural growth that did happen was not accompanied by increases in labor productivity.⁹

In addition, about 62 percent of Philippine growth has been concentrated in the major urban center of Metro Manila and the areas surrounding it: CALABARZON (four provinces to the southeast of Manila)¹⁰ and Central Luzon (seven provinces in the plains north of Manila). This rural-urban imbalance is also noticeable in the incidence of poverty across the nation. Only the National Capital Region and two of its immediate neighbors had household poverty rates less than the national average. The entire rest of the country had poverty rates above the national average.

7 World Bank. 2014. *Country Partnership Strategy for the Republic of the Philippines, FY 2015–2018*. Washington, D.C.

8 World Bank. 2014. *Country Partnership Strategy for the Republic of the Philippines, FY 2015–2018*. Washington, D.C.

9 World Bank. 2014. *Country Partnership Strategy for the Republic of the Philippines, FY 2015–2018*. Washington, D.C.

10 CALABARZON includes the provinces of Calamba, Laguna, Batangas and Rizal just south of Metro Manila.

An urban-led development strategy that undergirds the Partnership for Growth

Through the Partnership for Growth (PFG), launched in November 2011, the United States and the Philippines are working together to accelerate and sustain broad-based and inclusive economic growth. The PFG identified binding constraints to growth—weak governance, inade-

The goal: Increase local capacity to manage urbanization and growth, improve the enabling environment for local enterprise development and strengthen the connectivity between urban and surrounding rural areas.

quate fiscal resources, insufficient infrastructure, weak human capacity and pervasive corruption—and concentrates on the policy, regulatory and institutional changes critical to achieving more inclusive and sustainable growth. To have transformative impact on economic growth, the PFG requires strong and sustained levels of engagement from both governments.

Starting in 2011, the Government of the Philippines has been implementing major policy and institutional reforms and has been strengthening its anti-corruption efforts. Since then, the Philippines has significantly advanced its position in international rankings of business climates worldwide, jumping 30 places in the World Bank's Doing Business survey, 28 places in the World Economic Forum's measure of global

competitiveness and 35 places in Transparency International's Corruption Perceptions Index. Real GDP growth has averaged 7 percent per year in the last three years, well above the 4.7 percent average recorded from 2008 to 2012.

Strong economic fundamentals, combined with enhanced confidence in the government, also led the big three credit rating agencies to raise their ratings for the Philippines, further improving the environment for investment. Thanks to the country's fiscal policy reforms and improved tax administration, total tax revenues grew by 13.2 percent and tax effort increased from 12.3 percent to 12.9 percent of GDP—the highest increase in decades.

Thus far, economic growth has been heavily concentrated in and around the national capital region. Rather than fight these trends, USAID's urban-led strategy applies and takes advantage of PFG-generated policy and institutional improvements in second-tier cities, where the potential for urban-rural growth is the greatest.

Why focus on second-tier cities?

Our rationale begins with understanding the close link between the growth trajectories of nations and dense human settlements. Cities, benefiting from physical proximity and increased density, become magnets for entrepreneurial talent and innovation. They typically produce a disproportionate share of a nation's economic output, as measured in GDP. In the Philippines, cities already offer higher average standards of living compared with surrounding rural areas. The poverty incidence in urban areas (12.8 percent) is roughly half of that in the country as a whole (26.5 percent).

Cities also stimulate growth in surrounding peri-urban and rural areas. A recent study on the transformation of the Philippines' rural economy found that growth in the rural nonfarm sector

occurred in tandem with the development of infrastructure integrating rural areas with urban centers. This growth opened up employment opportunities to male and female workers across age groups, which is vital to reducing poverty and achieving more egalitarian distributions of income.¹¹

Most second-tier cities in the Philippines, with relatively small populations and far less economic activity than Metro Manila, are at relatively early stages of urban development. Development of these cities can help ease congestion and pressure on Metro Manila's resources and infrastructure—further contributing to broad-based, inclusive, sustainable national growth. Furthermore, second-tier cities in the Philippines are more closely located to the rural and peri-urban areas, where most of the country's poor people live.

Thus, USAID's mission in the Philippines aims to assist in the development of second-tier cities using the ideas and plans that underlie our new urban-led growth strategy.

Developing an urban-led strategy: the Cities Development Initiative and USAID's mission in the Philippines

Our strategy is to strengthen cities' economic competitiveness and resilience through a carefully coordinated and integrated set of interventions. The goal: Increase local capacity to manage urbanization and growth, improve the enabling environment for local enterprise development and strengthen the connectivity between urban and surrounding rural areas. These interventions will draw upon USAID projects that foster economic

11 Ramos, C.G., J. Estudillo, Y. Sawada and K. Otsuka. 2012. Transformation of the Rural Economy in the Philippines, 1988-2006. *Journal of Development Studies*, 48(11): 1629-1648.

growth and improved governance, health, education and environmental resilience.

As part of the PFG, we initiated the Cities Development Initiative (CDI) in three cities: Batangas south of Manila, Iloilo in the Visayas region and Cagayan de Oro in the Northern Mindanao region. Through our urban-led growth strategy, we hope to help create cities in the Philippines that are effective engines of growth, foster broad-based and inclusive growth, and are environmentally sustainable and resilient.

More effective engines of growth

Emerging-growth cities must foster environments that enable new, job-generating businesses to thrive. This means lowering the costs of doing business, facilitating new investments, particularly for small- and medium-sized enterprises, and protecting property rights.

To build upon conditions in Batangas, Iloilo and Cagayan de Oro, USAID assisted in efforts to improve overall business climates, particularly for starting a business, and establish Investment Promotion Offices to attract more investment.

The three CDI cities made significant progress streamlining the business registration and license renewal processes. This included introducing a single application form, reducing the number of steps from as high as 27 to just three or four, reducing the number of required signatories from 13 to one and decreasing overall processing time from several days to just an hour. Businesses now can submit renewal forms online, receive tax orders of payment through email and pay their business taxes and fees at city hall. In Cagayan de Oro, the streamlining of business processes led to an increase of 38.7 percent in business registration fees in the first quarter of 2014 compared to the same period in 2013.

Improved business processes attract investors,

leading to the more plentiful and higher-paying jobs that increase buying capacity for goods and services provided by the poor in rural and peri-urban areas. More investment should also result in more taxes to fund education and health services for the poor.

More economically broad-based and inclusive

Cities can serve as economic growth hubs that create jobs for their poorest residents, deliver and improve services and link rural agricultural producers with urban markets. Economically thriving cities can provide farmers with growing markets for their products, reducing the need to migrate to cities in search of employment.

Based on our experience with the pilot cities, we expanded CDI's focus beyond its initial emphasis on the economic climate and business environment to a "whole of mission" approach that encompasses urban planning, health, education, environmental resilience and other services essential to engaging the urban and rural poor, developing their human capital and ensuring equitable, sustainable growth.

USAID's mission in the Philippines is also working to create and improve links between cities and surrounding rural areas. This involves reducing policy and regulatory barriers, lowering connectivity and information costs related to the spatial flow of goods and services, strengthening supply-chain linkages between urban markets and rural producers and developing arrangements that improve coordination and exchange.

More environmentally sustainable and resilient

Given the Philippines' vulnerability to natural hazards, disasters cost the Philippines as much as 2 percent of GDP annually and put large urban

populations at risk. For cities to achieve sustainable development and inclusive growth, they must increase environmental resilience by improving the management of natural resources and reducing the risks associated with natural disasters.

CDI has helped build environmental resilience in its three pilot cities. To increase access to water and sanitation, USAID forged partnerships for network optimization and septage management between local water service providers in Iloilo and Cagayan de Oro and providers in Manila. Through conducting training in cost-benefit analysis, USAID helped local governments strengthen their capacity to prioritize initiatives and increase their cities' resilience to impacts related to hydrologic climate change.

Low-emission development also plays an important role in resilient urban development and growth, and CDI helped pilot cities implement these strategies. This included using the Rapid Assessment of City Emissions tool in Batangas to promote low-carbon and resilient urban development growth. Also in Batangas, USAID partnered with the private sector and the local government to launch an interactive learning hub about the environment and climate change. CDI also organized business forums to promote clean and renewable energy investments. In Cagayan de Oro, one such forum facilitated a connection that led to a green development loan from the Land Bank of the Philippines to a local property developer.

Conclusion

The three cities supported by USAID's mission in the Philippines are now some of the fastest growing and progressive cities in the country. Cagayan de Oro and Iloilo ranked first and second, respectively, among 122 cities in the National Competitiveness Council's 2013 City

Competitiveness Survey. Batangas garnered the second-highest satisfaction score among 14 cities included in a customer satisfaction survey for business registration and renewals. Streamlining of the business-permitting process led to increases in business registrations across the three cities and increases in combined local revenues.

Based on our experience working in the first three CDI cities, we will scale up the program to include other urban areas and mobilize a wide range of assistance instruments to increase impact. This

The three cities supported by USAID's mission in the Philippines are now some of the fastest-growing and progressive cities in the country.

includes leveraging private capital, partnering with the private sector to improve the investment climate and more fully engaging local academia and civil society. While we do not yet have extensive data on the CDI's impact on reducing poverty, increasing growth in the country combined with increasing engagement of the poor bodes well for the future.

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Resolving the Tension Between Agricultural Growth and Nutrition

Neal Donahue and Ilisa Gertner

When it comes to lifting 1.2 billion people out of extreme poverty by 2030, one thing is certain: It is not going to happen without agricultural growth and greater food security, particularly in sub-Saharan Africa and South Asia. As U.N. Secretary-General Ban Ki-moon recently remarked, “We will not eliminate extreme poverty or achieve sustainable development without adequate food and nutrition for all.”¹

With 70 percent of the world’s extreme poor living in rural areas and relying at least partially on agriculture for their livelihoods, agricultural growth is key to raising the incomes of the world’s poor. We know that this growth needs to include smallholders, both male and female, who constitute the majority of those in extreme poverty. We also know that growth needs to be driven by market demands if it is going to be sustainable.

Approaches and best practices for spurring inclusive, market-led agricultural growth, such as the

facilitative value chain approach, are well-grounded in research and experience. These approaches are being implemented around the world in various iterations with a good deal of success.²

Our understanding of food security, by contrast, is undergoing something of a revolution. For years, food security was primarily thought of in terms of caloric intake, and development goals centered on boosting agricultural output to ensure an adequate volume of food. Over the past few years, however, research has stressed a greater focus on nutritional intake and the quality and types of foods consumed. In particular, we now know that caloric and nutritional intake—especially for pregnant women and children under the age of 2—can have a lifelong impact on economic potential and

1 <http://www.un.org/News/Press/docs/2014/sgsm15827.doc.htm>

2 Jeanne Downing, Ruth Campbell and Olaf Kula, “Note from AMAP: Developing a Shared Commitment to the Value Chain Approach,” April 4, 2012, <http://www.microlinks.org/learning-marketplace/notes/note-amap-developing-shared-commitment-value-chain-approach>. Also see USAID, “Feed the Future Progress Report: Accelerating Progress to End Global Hunger,” May 2014, <http://www.feedthefuture.gov/progress>. USAID’s Mali Cereal Value Chain project is an example of a successful facilitative value chain approach under the Feed the Future initiative. See <http://www.acdivoca.org/site/ID/mali-cereal-value-chain>.



Winnowing, pictured here, improves the quality of farmers' grains by removing impurities. Through the MARKETS II project, USAID worked with commercial buyers and banks to help smallholders access training and high-quality seeds and fertilizers. These market-driven systems have a significant impact on poverty. PHOTO: ADOLPHUS OPARA

quality of life. Recent research has also shown that increased income alone does not necessarily lead to improved nutritional behaviors and reduced malnutrition.³

Agricultural growth initiatives going forward must therefore be designed to boost farmers' incomes and increase the demand and supply of nutritious food. A frequent challenge in the fight against extreme poverty and food insecurity, however, is the underlying tension between these seemingly complementary goals. The crops farmers produce for self-consumption or for the market may not be the most nutritious, and the market demand for nutritious crops may not be enough to drive supply.

³ L. Haddad, H. Alderman, S. Appleton, L. Song and Y. Yohannes, "Reducing Child Malnutrition: How Far Does Income Growth Take Us?" World Bank Economic Review 17 (2003): 107-131.

This situation challenges donors and their partners to increase the demand for nutritious foods in ways that make financial sense to the farmers who supply the crops. To accomplish this, donors and partners must understand and address household decisions and behaviors related to purchasing and consuming food.

Inclusive, market-led agricultural growth

For market-driven agricultural growth to lift people out of extreme poverty, it needs to be more inclusive of smallholders, especially women.⁴ In many poor and food-insecure countries, smallholders' limited access to resources like technology,

⁴ FAO, "Men and Women in Agriculture: Closing the Gap." <http://www.fao.org/sofa/gender/home/en/>

inputs, finance and information has constrained their yields. Low crop yields limit the availability of food for smallholders' families and the wider food system. Low yields also constrain farmers' ability to sell or trade surplus food, which limits their access to available food. If farmers increase their yields and improve the quality of their crops, they can boost their incomes while helping to meet an ever-growing global population's increased demand for food.⁵

Nigeria is just one country where we have seen inclusive agricultural productivity through market-driven systems make an impact on poverty. Through the Maximizing Agricultural Revenue and Key Enterprises in Targeted Sites (MARKETS) and Bridge to MARKETS II (BtM2) projects from 2005-2012, USAID and Chemonics International worked through large-scale commercial buyers and agricultural lending banks to help smallholders access training and high-quality inputs, such as seeds and fertilizers.

Not only did the projects' facilitative value chain approach build stronger relationships between smallholders and buyers, it increased the productivity of rice farmers by an average of 285 percent and generated \$614 million in revenue for agribusinesses, farmers and farmer groups. It also increased smallholders' ability to produce the high-quality long-grain paddy that commands high prices.⁶

Because the projects worked entirely through market actors, the commercial buyers who initially

partnered with smallholders have continued to provide training and high-quality inputs, even after the projects have ended. For example, Olam, one key buyer under MARKETS, is still motivating other rice processors to work more closely with farmers and is interested in pursuing similar activities in other value chains.⁷ BtM2 continued working in these value chains with an expanded partner base—with women constituting 51 percent⁸ of the participants—and showed \$32 million in incremental sales in its first year.

Although evidence-based approaches to inclusive, market-led growth are well established, incremental innovations continue to improve agricultural development. Under a Feed the Future project in Uganda, Chemonics is taking an unconventional approach to strengthening value chains for maize, beans and coffee.

Rather than bypass "middlemen" due to their reputation for squeezing producer margins, which aid programs have been doing for years, we are helping traders and village agents provide farmers with production and marketing services, leading to improved relations and a win-win for all sides. Traders and village agents benefit from higher sales of inputs and crops. Farmers, meanwhile, increase their use of improved seeds, fertilizers and production practices and increase their sales.

To ensure sustainability, we are embedding technical assistance and technology transfer—areas traditionally subsidized by governments and donors—into the business plans and budgets of value chain actors. Within its first year, the project is seeing strong preconditions for sustainability.

5 We are not taking a position on whether land is best used in industrial (e.g., large, specialized and mechanized) farms versus smallholder productivity structures. We do know that smallholders have great efficiency potential and that we cannot have any of these structures be inefficient if we are going to meet global food demands.

6 "Commercializing Nigerian Agriculture: USAID Maximizing Agricultural Revenue and Key Enterprises in Targeted Sites (MARKETS)." Final Report. April 2012. Note that this report incorporates BtM2 results. http://www.chemonics.com/OurImpact/SharingImpact/Documents/Nigeria_MARKETS_Final%20Report.compressed.pdf

7 McNally, Tyler, Jonash R., Patel, H. Greenovate! Companies Innovating to Create a More Sustainable World. IXL Center, Hult International Business School, Imaginatik. p. 76.

8 USAID Maximizing Agricultural Revenue and Key Enterprises in Targeted Sites (MARKETS) II. Quarterly Progress Report. January – March 2014. http://www.chemonics.com/OurImpact/SharingImpact/Documents/Nigeria_MARKETSII_Quarterly%20Report%20Jan%20-%20March%202014.pdf

Traders sponsored 384 self-financed demonstrations to promote the adoption of improved production technologies and inputs. In the first quarter of 2014, farmers purchased \$375,000 worth of improved inputs at prevailing market prices.⁹

The impact of nutrition

There is a growing consensus that nutrition is one of the best investments for advancing global health and development.¹⁰ To address extreme poverty in the decades ahead, nutrition needs to be more fully integrated into agriculture and food security initiatives, with a focus on increasing the demand for nutritious food.

Chemonics has seen the potential impact of integrating nutrition with agricultural growth more widely in food-insecure countries. In Nepal, encouragement of Nepalese farmers to diversify their crops to improve their incomes and their nutrition has led thousands to provide more nutritious foods to their families.¹¹

In northern Nigeria, the MARKETS project piloted an activity related to livelihood and household nutrition to address the nation's alarming number of malnourished children. The activity, which integrated economic empowerment and nutrition education for 4,000 mothers, was based on the 1,000 Days partnership. This partnership targets action and investment on improving nutrition during the 1,000 days between a woman's pregnancy and her child's second birthday.¹²

9 USAID, "Feed the Future Commodity Production and Marketing Activity: Quarterly Performance Report: January-March 2014." April 2014. <http://www.chemonics.com/OurImpact/SharingImpact/Documents/Uganda%20Commodity%20Production%20and%20Marketing%20Activity%20%20QRT%20report%20%20Jan%20-%20Mar%202014.pdf>

10 <http://www.thousanddays.org/about/>

11 USAID, "Strengthening the Foundations for Inclusive Economic Growth: Nepal Economic , Agriculture, and Trade (NEAT) Activity: Final Report," August 2013, <https://dec.usaid.gov>

12 For examples of 1,000 Days practices and successes, please refer to: <http://www.thousanddays.org/resources/success-stories/>

An assessment revealed important changes in attitude and behavior. The number of participants who considered nutrition to be the top factor when making food choices for their families rose, from just 4.9 percent to 39 percent, as did the number of women who reported exclusively breastfeeding their babies, from 20 percent to 75 percent.¹³

Resolving the tension

With so many of the world's extremely poor dependent on agriculture in sub-Saharan Africa and South Asia, we need to improve farmers' yields and profits in those regions. As research links nutrition to an individual's and country's economic potential, we also need to encourage the consumption of more nutritious foods.

Integrating nutritional education and behavior change activities in agricultural growth programs, as Chemonics has done in Nepal and Nigeria, is a promising step in this direction. As Feed the Future enters into its next phase and the larger development community commits to eradicating extreme poverty by 2030, now is a crucial time for donors and partners to more fully integrate nutrition and agriculture toward improving the lives of people living in poverty.

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13 USAID MARKETS Livelihood and Household Nutrition Activity Assessment. January 2011. The assessment measured the impact of a pilot activity targeting women from food-insecure households in Northern Nigeria and was designed and rolled out to more than 4,000 participants between June and September 2010. http://www.fsnnetwork.org/sites/default/files/usaid_markets_livelihood_and_nutrition_assessment.pdf



Reducing Rural Poverty through Targeted Use of Technology

Besa Ilazi and Brian Fahey

In the past, Dukagjin Dedaj, like many farmers in Kosovo, felt disconnected from the marketplace through which he sold his dairy products. The local processor that bought the raw milk from his cows often disputed its quality, and the lack of a transparent information source to suggest otherwise left Dedaj and other dairy producers at a distinct disadvantage for receiving adequate compensation for their milk.

Frustrated farmers often resorted to selling the raw milk their farms produced outside of regular—and regulated—channels. Frequently, they hawked unpasteurized and poorly packaged product by the roadside. This significantly inhibited the ability of farmers to expand their dairy herds and improve their incomes. Additionally, this sapped consumer confidence in the quality of domestically produced dairy products and constrained growth in Kosovo's dairy processing sector. As a consequence, imports dominated the marketplace.

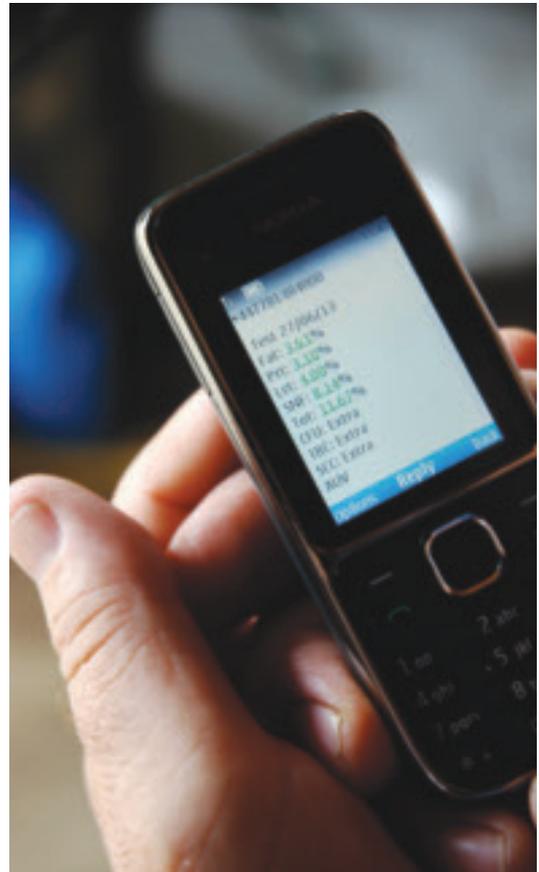
To address this constraint, USAID established an integrated program to strengthen the linkages

between dairy farmers and dairy processors. This integrated program included targeted technical assistance on-site at farms, development of an unbiased milk testing system and use of SMS messaging to share test results.

In Kosovo, as in many developing economies, the agricultural sector fails to reach its full potential as a driver of growth. The manifold reasons include poor infrastructure, low productivity and limited access to markets. These constraints are particularly acute for operators of small farms in the most remote rural areas, who are often among the poorest of the poor.

Technical assistance may target each facet of the problem individually. A technological solution, however, can incentivize across-the-board positive change.

In this situation, technology enabled a positive feedback loop that gave actors within the agricultural sector—producers and processors—affordable access to the timely, relevant information they required to respond proactively for their businesses.



Dukagjin Dedaj, a dairy farmer, displays a message from Kosovo’s state laboratory grading his milk “extra class.” This classification allows him to charge premium prices for the milk his 52 cows produce.
PHOTO: USAID

The text-messaging platform, which in this case disseminated test results for raw milk from a centralized laboratory, has been used in other development projects to share market price, weather and health information. In Kosovo, the technology fostered an increase in the quantity and quality of the milk produced by the nation’s dairy herds. It also spurred a variety of equally positive, knock-on effects, including improved access to credit for farmers and improved collaboration within the dairy industry. This net result augurs well for incorporating technologically enabled feedback loops into development projects.

A text message away

USAID, working with partners, established Kosovo’s national raw-milk sampling laboratory in the mid-2000s. Milk samples, collected from farms on a biweekly basis, are blinded so that their origins remain unknown to the experts conducting the testing. This eliminates the potential for bias and increases confidence in the results.

Initially, farmers received the results from field officers or through a password-protected website, also developed by USAID. However, many owners of small farms do not have immediate access to a computer, which means that they could only

receive test results in the form of paper printouts delivered by field officers and milk collection agents. This led to time delays that hindered the effectiveness of the program.

To provide more immediate access to test results, USAID engaged a local IT company to develop software for disseminating test results by SMS—a development that enabled the program to finally reach its full potential. Now, roughly 1,700 Kosovo dairy farmers, including those with only a few cows, receive their milk test results on their phones twice a month.

SMS messaging has resulted in Dedaj increasing his dairy herd from 15 to 52 cows and significantly improving his family's livelihood. He always believed his cows produced excellent quality milk, but now the proof is in his pocket. Pulling out his mobile phone one recent morning, Dedaj showed off an SMS message received from a state laboratory. It concisely measured his cows' raw milk against eight standardized parameters, including percentages of fat, protein and sugar.

The SMS message graded Dedaj's milk as "extra class," a classification that allows him to command premium prices for the 720 liters of milk his cows produce each day. It also earns him a government subvention earmarked to increase the domestic supply of the highest grades of raw milk.

"This is the biggest thing USAID has done for farmers," Dedaj said. He and other farmers receive testing results just days after their milk has been sampled, and purchasing dairies gain access to the same information. The two parties then use the results to set wholesale prices for the raw milk.

"We no longer argue about quality—that's a third party's job to determine now. All we talk about is price," Dedaj said.

Prompt information means better products

The SMS test results also allow Dedaj and other farmers to respond more quickly to any deficiencies in their raw milk. For example, a decrease in the milk's butterfat content would prompt an adjustment of the cows' feed regimen, perhaps by mixing in more soybean meal.

Recently, Dedaj received a message indicating that his cows' milk had slipped a grade.

"I immediately checked every cow. Which one had contributed to the slip in quality? I had to find the reason," Dedaj said.

Testing revealed one of his cows had mastitis in one of its teats. This infection eventually leads to inflammation; however, it would not have been detected at such an early stage had Dedaj not been alerted by the SMS notification.

"It's a miracle. I am sitting at home, and a message shows up and tells me about the health of my cows," Dedaj said.

Improving access to credit

The milk testing program resulted in more consistent, predictable and constructive relationships between farmers and dairy processors. Farmers, armed with information, felt confident in the quantity and quality of their cows' milk and therefore sought to expand their dairy herds. However, many still faced difficulties accessing the bank credit to do so.

Backed by the SMS test results, Kosovo's farmers could make a stronger case for increased lending. Yet banks failed to respond, mostly due to a lack of competition and general unfamiliarity with lending to the agricultural sector. The situation left the owners of small farms with limited means for adding cows, improving their barns and purchasing necessary equipment, like cooling tanks.

To address this constraint, USAID established

a Development Credit Authority (DCA) guarantee funded by the Government of Kosovo. This was the first DCA guarantee of its kind to be funded by a foreign government, demonstrating a high degree of confidence and collaboration between the Government of Kosovo and USAID.¹

The credit access project involves six banks and provides a 50 percent guarantee for up to \$26 million in agricultural loans². To foster healthy competition, USAID only allocates half of the guarantee up front. Future allocations of the remaining guarantee are awarded to the banks that lend most aggressively to rural farmers. This is measured by metrics such as interest rates and collateral requirements, which often are the two biggest impediments farmers face in borrowing.

The DCA guarantee is permanently changing banking behavior.³ Banks now are hiring and training dedicated agro-lending experts who understand how to structure loans to the agricultural sector. One bank has even utilized the DCA guarantee to establish an agro-lending card. This enables the owners of small farms to purchase necessary inputs, such as small-scale equipment, with extended grace terms linked to the agricultural season.

Expanding farms, growing relationships

The improvements in milk output and quality catalyzed by the SMS system have also helped foster constructive working relationships between

ethnic groups in Kosovo who share a long and often bitter history of conflict. This divide is evident even in rural areas immediately outside Kosovo's capital of Pristina, where village populations often are segmented by ethnicity. Fostering business linkages among opposing ethnic groups is often the first step to healing these deep divisions.

In Gračanica/Gračanicë, a Kosovo Serb majority area a 20-minute drive from the capital, the owners of small dairy farms used the SMS

He always believed his cows produced excellent quality milk, but now the proof is in his pocket.

messages in their efforts to seek bank financing and expand their dairy herds. They also used the SMS system to seek new sales outlets. The Serb farmers used technical and marketing advice from USAID's agricultural support project to connect with a Kosovo Albanian dairy processor in nearby Miradi e Epërme/Gornje Dobrevo. This processor now uses the raw milk it purchases in pasteurized fluid milk, cheese and yogurts sold in supermarkets across the country.

Implications

The SMS program proved an important catalyst for economic growth within Kosovo's dairy industry. By combining high-tech testing with a relatively low-tech and inexpensive means of dissemination, it puts information within reach of even the poorest of Kosovo's farmers. It applies to

1 While USAID typically funds DCAs, this DCA was funded through the Government of Kosovo. A few years earlier, USAID established and funded a DCA with one bank in Kosovo to encourage increased lending. It was so successful that the Government of Kosovo expressed a desire to duplicate the DCA but did not have sufficient funds to establish its own stand-alone credit guarantee program. By collaborating with USAID, the Government of Kosovo made funds available to USAID to fund a much larger credit access program through the DCA mechanism.

2 DCA agreement signed in September 2012.

3 Kosovo DCA Assessment Report, January 2014.

industries everywhere that rely on rapid, consistent, low-cost provision of quality information to incentivize assertive action. Moreover, the positive associations it engendered—evidenced in all players’ feedback—should ensure its continued operation, which is key in empowering the beneficiaries of development assistance to take control of their futures.

Due to the SMS program’s success, the agricultural community is generating ideas about further applications. For example, members of the dairy sector are now in discussion with USAID to develop an SMS system that would advise dairy farmers about the feed formulation that is critical to achieving high milk production. With this system, which is in the early design stage, farmers input information related to forages, milk quality and anticipated yields. The system then returns messages about the right balance of rations and

feed mix for achieving optimal milk production.

USAID and the agricultural sector are also exploring ways to use SMS messaging to link rural farmers with a network of agricultural experts to ask questions and receive immediate advisory services. Although these developments depend upon widespread cell phone coverage, they are an encouraging sign that technological advancements, such as SMS messaging, are helping optimize complementary development efforts elsewhere in the agricultural sector.

Besa Ilazi is a project management specialist and **Brian Fahey** is a senior private sector adviser with USAID’s Kosovo mission. The views expressed in this essay are their own and do not necessarily represent the views of the United States Agency for International Development or the United States Government.

Going Forward (Without Going Backward)





From Fragility to Resilience

Nancy Lindborg

Throughout the last 50 years, we have made steady and heartening progress in global development, achieving a string of accomplishments that many once feared impossible. Since 1990, maternal mortality rates have been nearly cut in half, as has the number of children dying before age 5. Five years ahead of the 2015 deadline, we met the Millennium Development Goal of reducing extreme poverty rates by half, and we are well within reach of cutting world hunger in half by 2015.

The number of extremely poor has fallen drastically over the last 20 years in middle-income, non-fragile states, such as China, India, Vietnam and Brazil. And with the promise of new partnerships, science, technologies and innovations, we are poised to propel global development in ways never before possible.

But by contrast, trend lines point to greater concentrations of extreme poverty in the coming decades in fragile states like the Democratic Republic of the Congo, Nigeria, Haiti, Yemen, Chad and the Central African Republic. In these

countries, the number of those in poverty remains stubbornly high, and the most vulnerable populations face even greater risk.

As we look ahead to this new frontier of development, we must be ready to confront the twin punches of climate change and conflict. As climate change results in more cycles of drought and higher frequency and intensity of storms, development gains come under increasing threat. Stubborn clusters of poverty are increasingly concentrated in fragile states, where cycles of disaster and conflict are ever more persistent and devastating.

We will need to double down on our efforts to shock-proof development and make building resilience a central tenant of our development agenda by managing risk and tackling fragility.

The cost of ignoring risk and vulnerability **Climate change**

In the Horn of Africa and the Sahel, what used to be 10-year drought cycles now occur every few years. Before households have time to recover, the



A victim from Typhoon Haiyan observes the devastated waterfront community in Tacloban. The Philippines loses up to \$5 billion every year as a result of natural disasters. PHOTO: ODD ANDERSEN / AFP

next shock hits, setting them even further back. Communities throughout the Sahel were unable to recover from the droughts of 2008 and 2010 before the 2012 drought hit, pushing 18 million people across the region into crisis.

In 2011, the worst drought in East Africa in 60 years hit hardest in the arid drylands of northern Kenya, a historically marginalized and underdeveloped part of the country. Yet the cost of the drought was felt nationwide. The World Bank estimated an economic loss of \$13.2 billion, in a country where 16 million to 18 million people still live on less than \$1.25 a day.

Asia experiences more floods, cyclones and hurricanes than any other region of the world. For example, when Typhoon Haiyan—the largest recorded cyclone to hit land—struck in November 2013, it was the 25th storm in the Philippines that

year, large enough to merit a name, and affected 16 million people. Every year, the Philippines loses up to \$5 billion as a result of natural disasters, an amount equal to roughly 2 percent of its gross national product. As a country that still lags behind in several Millennium Development Goal benchmarks, the Philippines is not in a position to absorb losses of this magnitude year after year.

As the impact of climate change escalates, the shocks of natural disaster—droughts, floods and typhoons—come more fiercely and frequently. Recent findings from the Intergovernmental Panel on Climate Change confirm that we are already seeing the effects through variable rainfall, rising temperatures and sea levels, stronger storms and increased drought. The High Level Panel of Eminent Persons on the Post-2015 Development Agenda identified climate change as the single



A Somali boy is checked for malnutrition at a refugee camp in Kenya. Somalia, which has endured 20 years of conflict, descended into famine during the 2011 drought in East Africa. In fragile states, we must be ready to confront the twin punches of climate change and conflict. PHOTO: PHIL MOORE / AFP

greatest factor that will determine whether we reach our development goals.

As we see in East Africa, in the Sahel and across Asia's islands and cities, the effects of climate change disproportionately have an impact on the least-prepared populations: people who are marginalized—especially women—and those who are chronically poor, who are unable to survive repeated shocks and who live in areas without government capacity for preparedness and risk management.

Fragility and conflict

The shocks of climate change prove most profound in the countries least prepared to deal with them. Ample evidence now makes plain the correlation between fragility and conflict. Nearly 80 percent of the 50 countries currently affected by conflict exhibit significant levels of fragility, which USAID sees as a function of effectiveness and

legitimacy in the state–society relationship. As the current arc of conflict simmering across the Sahel through Somalia demonstrates, weak, ineffective institutions, coupled with exclusive or marginalizing politics and chronic poverty, can catalyze conflict that eventually throws an entire country into chaos. According to the World Bank, one in every three development dollars was lost over the last 30 years due to reverses from conflict or disaster.

We see this explosive mix playing out all too clearly in South Sudan, where leaders have squandered the precious development gains of the last several years in their fight for political gains. The spasms of violence that began in December 2013 have plunged the new nation back into crisis. With longstanding humanitarian needs and only nascent institutions, South Sudan spiraled quickly into chaos and now faces the threat of famine in its three conflict-affected states. Similarly, during

the 2011 drought across East Africa, Somalia, a collapsed state consumed by 20 years of conflict, descended into famine—and was the only nation in the region to do so.

Globally, the international community mobilizes an average of \$18 billion annually for lifesaving humanitarian assistance. In nations like Thailand, Indonesia and the Philippines, a decade of disaster risk reduction efforts including strong partnerships with USAID means they have an ability to respond successfully to all but the most devastating disasters. A 10-year partnership with the Philippines to develop early warning systems and train first responders at the local and national levels in incident command response contributed to the government's ability to evacuate 800,000 people in advance of Typhoon Haiyan, saving hundreds of thousands of lives.

With the onset of climate change, middle-income and even fully developed nations may be overwhelmed by disasters like Typhoon Haiyan and will continue to need humanitarian funding. However, the bulk of global humanitarian aid currently flows urgently and repeatedly into the same group of fragile states, where chronic poverty, often linked with persistent cycles of conflict and natural disaster, keeps millions in need of continued humanitarian assistance. These nations, all too often places with the lowest development investments, become instead a permanent humanitarian caseload.

Shock-proofing development

Over the next several decades, development and humanitarian policymakers and practitioners have the imperative—and the opportunity—to tackle this challenge together. As 2014 marks new levels of crisis and humanitarian need, we can no longer rely on humanitarian action after a crisis or disaster hits. Instead, we must shift from emphasizing only a growth-oriented model of development

to one also focused on risk and vulnerability. We must break down the stovepipes to enable a shared understanding of problems and goals among humanitarian and development actors and to consistently fulfill our commitment to early, effective action in response to early warning.

USAID is committed to answering that challenge, and two approaches provide important pathways forward: the Resilience Agenda and the g7+ New Deal for Engagement in Fragile States. At the heart of both is recognition that sustained development success ultimately requires effective, inclusive democratic government partners, working together with civil society and the private sector.

Resilience

From New Orleans after Hurricane Katrina to the Philippines after Typhoon Haiyan, battered communities around the world have faced long, often painful journeys to dig out, rebuild and regain what they have lost. As these storms become more frequent, the important concept of resilience has entered the international lexicon.

Prior to the 2011 drought in the Horn of Africa, development programs in Kenya starkly illustrated a common problem: Government and donor investments focused on productive regions in the south, while the arid northern drylands received little government or international development investment. While decades of humanitarian assistance did save lives in the north, longer-term development languished.

Since 2011, USAID has been at the forefront of a global effort to transform this assistance delivery system. Our goal is to accelerate investments that help countries, communities and households get ahead of shocks; more effectively align global development partners; break down stovepipes; and support country-led resilience strategies.

In the Horn of Africa and the Sahel, we



Despite drought in Ethiopia, a farmer was able to grow a bountiful harvest thanks to a drought-tolerant variety of chickpea. New science, technologies and innovations are poised to propel global development in ways never before possible. PHOTO: ALINA PAUL-BOSSUET

have worked closely with international development partners to support the Intergovernmental Authority on Development and the Economic Community of West African States as they provide important leadership for regional resilience efforts. As a result, countries across both regions are developing their first-ever resilience strategies. Kenya, Ethiopia, Uganda and Djibouti now all have national government platforms for mainstreaming resilience across the appropriate country ministries.

After three years, Kenya has its first resilience strategy for the arid drylands and has pledged to cover 40 percent of the costs on its own. Niger has developed a groundbreaking strategy, called *Nigeriens Nourish Nigeriens*, which provides ministries with a comprehensive framework for

building resilience. USAID has used these country strategies to guide our new comprehensive resilience investments in the Horn of Africa and the Sahel. We have brought together sectors and partners with the common goal of building resilience so communities can withstand shocks and stay on the pathway to development.

To institutionalize and accelerate this vital shift, USAID in 2012 adopted a new policy for resilience. Drawing upon our strategies for food security, climate change adaptation and mitigation, and disaster risk reduction, resilience informs a comprehensive systems approach that layers, sequences and integrates funding and programs for humanitarian and development assistance. New USAID programs in the Horn of Africa, the Sahel and Asia have embraced this approach, reflecting a

commitment within the agency to a different way of doing business.

Tackling fragility head on: the new deal for engagement in fragile states

In 2008, a set of self-identified, conflict-affected states first began work on a framework now known as the g7+ New Deal for Engagement in Fragile States. These states identified five goals for peace-building and state-building: inclusive politics, security, justice, economic foundations and revenues and services. The resulting New Deal, based on research by the World Bank and Organization for Economic Cooperation and Development, recognizes that security, development and governance are deeply intertwined and must be pursued simultaneously.

Countries are pledging to work with civil society and the private sector to develop country compacts based on the five peace-building and state-building goals to chart a pathway out of conflict. This is an audacious undertaking for many fragile states, and the road will be long and bumpy, but it offers a bright spot of hope.

At the Fourth International Dialogue on the New Deal in Freetown, President Koroma of Sierra Leone delivered a remarkable speech. He poignantly called Sierra Leone a “living manifestation of the maxim that ‘conflict is development in reverse’” and highlighted that a decade of bloody civil war had displaced 2.6 million people. Just over a decade later, President Koroma noted, a spirit of hope exists in the country. He credited this to a commitment to inclusive political dialogue and new partnerships between the government and civil society, to ensuring the provision of critical services to citizens, schools and clinics and to reforming the security and justice sectors. His vision is middle-income status for Sierra Leone within a generation, based on the pathway offered by the New Deal.

The new frontier of resilience

Meeting the twin challenges of climate change and conflict will be critical for preserving development gains and ending extreme poverty. In the face of mounting global humanitarian needs, these challenges demand a transformation in how we provide international assistance. Because no one organization or nation has the resources or ability to solve these challenges alone, we must continue to drive toward frameworks and platforms that align action for results in partnership with people and their leaders.

With that challenge in mind, USAID has partnered with the Rockefeller Foundation to create the Global Resilience Partnership, a bold new vision for building resilience in three zones most vulnerable to shocks: the Horn of Africa, the Sahel and South/Southeast Asia. With an initial investment of \$100 million, the Partnership will work with international, regional and local partners to catalyze new ideas, amplify best efforts and align resources for helping the most vulnerable withstand the inevitable shocks and stay on the pathway to development.

We know that shocks will come from climate and political instability. We can no longer rely on simply responding to crisis after it hits; instead, our collective commitment must be to work through partnership and alliances to move from fragility to resilience. We then have the potential to maintain the incredible progress already achieved and reach the audacious goal of ending extreme poverty by 2030.

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What the Resilience Dividend Could Mean for Alleviating Extreme Poverty

Judith Rodin

When Cyclone Phailin hit India's east coast last fall, early warning and evacuation systems saved countless lives. Fewer than 30 people died in the initial storm, compared with a storm of similar impact and location 15 years ago which killed 10,000. Although the loss of human life was minimized, the impact on livelihoods was severe. The cyclone destroyed fishers' boats, decimated crops and damaged homes. While rebuilding and recovery is under way, the reality is that another typhoon season is just around the corner. Another storm of similar size could knock communities back to square one.

For poor and vulnerable people, increases in the frequency and intensity of events like Phailin loom large. The uncertainty of where or when another disaster might strike makes it difficult to plan or save for the future. But we do know that, with every passing year, more people are threatened by the possibility of life-changing disaster. By 2030, up to 325 million extremely poor people will be living in the world's most hazard-prone

countries, the majority in South Asia and sub-Saharan Africa.

The increasing frequency and impact of these shocks and stresses hinder more than individual sense of security; they stymie development progress in many parts of the world. An estimated one out of every three dollars spent on development is later forfeited to the destruction of natural disasters. Meanwhile, year after year, humanitarian aid continues to pour into the same regions to address immediate recovery needs.

We need a new approach—one that more effectively captures synergies across the provision of humanitarian and development assistance and optimizes investments that forestall the underlying vulnerabilities that turn man-made and weather-related shocks into disasters.

At The Rockefeller Foundation, we believe that approach is building resilience, defined as the capacity of individuals, communities, organizations and systems to survive, adapt and grow in the face of shocks and stresses—and even to transform, when conditions require it.



Technological solutions have the ability to catalyze financing for resilience dividends. Crop and climate modeling led to the financing of this irrigation site at Awda-Guanda watershed in Ethiopia. Irrigation canals such as this one are built by communities in exchange for crop insurance or food aid.

PHOTO: KELLY RAMUNDO / USAID

More than disaster response, resilience focuses on investments that can be made before disruption strikes. And unlike risk mitigation, which focuses only on vulnerabilities, resilience takes into account capabilities and strengths—for example the unique services provided by local ecosystems or the strong cultural cohesion among societies—resources that can be leveraged not only in times of disaster, but every day.

These are elements of what we call the resilience dividend, which has two parts. First, resilience minimizes the amount by which households, or any other scale we might look at, experience a drop in their economic and health security as the result of a shock. It maximizes the speed at which a sustained recovery can begin.

The second part of the resilience dividend can be broadly defined as the co-benefits of investing

in resilience—that is, stronger social services, more diversified economic opportunities, more tourism or new (and more) jobs. In the context of development, resilience investments can contribute to increased economic and social progress in vulnerable parts of the world, maximizing the expenditures of foreign governments or development banks.

The Rockefeller Foundation has organized our resilience work around helping communities, cities and entire industries achieve this resilience dividend. We've been doing this work for nearly a decade, first in post-Katrina New Orleans, then in dozens of Asian cities to help them build resilience strategies to address climate change. Last year, we launched our biggest effort yet, the 100 Resilient Cities Challenge. This \$100-million effort focuses on building resilience in 100 cities worldwide and creating a platform of goods and services that carry

the additional capacity to leverage public-finance and private sector resources.

Across all of our work, we have learned a number of principles that guide successful resilience-building, from the importance of empowering local actors to identify problems and develop tailored and evidence-based solutions to the power of cross-regional collaboration and the critical role of innovation in incubating novel solutions and scaling high-potential ideas.

Another component that underpins resilience is the principle of inclusion—ensuring that people are consulted on and become collaborators in decisions that affect their lives and facilitating access to the physical, financial and social resources that will help them through times of shock and stress.

With these learnings top of mind, and in consultation with humanitarian and development actors building resilience around the world, we've identified four gaps we must address to better integrate resilience into future work.

The first is building capacities for forecasting and managing risk. Today, a limited ability to predict and quantify risk leads to consistent and widespread under-investment in activities for building resilience. Through inputting rapid, responsive and representative data into a combination of predictive analytical models, we could more easily diagnose regional problems and gain an earlier line of sight regarding where assets and investments are most required.

Second, good measures of resilience are essential for diagnosing problems, deploying resources and designing appropriate resilience-building strategies. Further improving the evidence base and understanding around what works and attracts investments for resilience is imperative.

Third, financing vehicles are needed that increase the flexibility and responsiveness of current funding flows and provide resources for currently

under-funded—but potentially high impact—solutions. Resilience Impact Bonds—bonds issued by a government backed by a donor—could be one example. These bonds could finance a range of projects—from strengthening natural ecosystems (through activities such as mangrove planting) to large-scale coastal protection and small-scale infrastructure, such as sea walls or storm-resistant housing, which would protect key assets.

Fourth, technological solutions are needed to accelerate resilience-building. Predictive modeling, for example, can generate compelling evidence and catalyze financing toward resilience dividends. The Rockefeller Foundation saw this happen in 2008 when we funded Stanford University researchers to develop climate and crop models at the country level for sub-Saharan Africa. These models helped inform our support of Oxfam's launch of the HARITA/R4 partnership, which led to the development of a crop insurance program in Ethiopia that protects poor farmers in times of drought in exchange for their labor on community projects, such as irrigation ponds, that build resilience against future dry seasons.

To date, this effort has grown from a pilot of 200 farmers to a program serving over 20,000 farmers in Ethiopia. Oxfam enlisted a host of collaborators to fuel the partnership, including Swiss Re, the International Research Institute for Climate and Society (IRI), the Relief Society of Tigray, Dedebit Credit and Savings Institution, Nyala Insurance Company and Africa Insurance Company. The initiative is being replicated in Senegal, beginning with 500 households.

This is just one example of success—but we need many more. To this end, The Rockefeller Foundation and USAID have launched the Global Resilience Partnership, a \$100-million effort. This partnership builds upon our combined successes in applying resilience concepts in development



A man participates in a water conservation project as part of the Kenya Drylands Livestock Development Program. An estimated one dollar of every three dollars spent on development is forfeited to destruction by natural disasters such as droughts or hurricanes. PHOTO: USAID

and humanitarian sectors to leverage hundreds of millions—possibly billions—of dollars toward innovative and scalable resilience solutions in the Horn of Africa, the Sahel and South and Southeast Asia, all dramatically impacted regions.

Although this partnership is in its early stages, we're already seeing great enthusiasm and engagement. The goal is not to compete with the host of actors already doing successful work but rather foster their ingenuity and investment and help them amplify their efforts by offering expertise, solutions tailored to their challenges and added capacity to realize their ideas. Ultimately, the Global Resilience Partnership aims to help vulnerable communities and organizations better anticipate, prepare for and recover from shocks and stresses of increasing frequency and intensity and to protect the lives and

livelihoods of hundreds of millions of people.

We hope this effort will contribute to the alleviation of extreme poverty in these regions. When families and households are able to save more money, protect their assets and make plans for the future, they will have a better chance of rising from their economic circumstances, rather than getting knocked back down again and again. That's the potential of the resilience dividend for meeting our development goals. We believe it's an investment worth making.

Judith Rodin is president of The Rockefeller Foundation. The views expressed in this essay are her own and do not necessarily represent the views of the United States Agency for International Development or the United States Government.



The Economic Transition of Health: New Directions for Health Finance

Ariel Pablos-Méndez

President Barack Obama has set forth a vision to realize one of the greatest contributions to human progress: the elimination of extreme poverty. The protection of human life and health is a key component of this vision.

Developing countries are now experiencing an economic transition of health, driven by economic growth, trends in health spending and the changing role of official development assistance. Because of this promising transition, we have a first-ever opportunity to work with these countries to build effective, efficient and equitable health systems with financing approaches that protect people from extreme poverty. Health coverage that ensures universal, equitable access to affordable, quality health services will be an essential ingredient to ending extreme poverty by 2030.¹

Big returns on investment

According to the 2013 *Lancet Commission on*

Investing in Health report, financing health services to reduce mortality will play a critical role in ending poverty. The Lancet Commission, co-chaired by Larry Summers and Dean Jamison, noted that reductions in mortality account for 11 percent to 24 percent of recent economic growth in low- and middle-income countries. If we invest an additional \$24-\$61 billion (\$13-\$26 per person) annually in health services in low- and middle-income countries, 169 million lives will be saved by 2035, and enhanced financing for health services will result in income returns that are 9 to 20 times the original investment (Figure 1).²

These investments make a grand convergence in life expectancy between rich and poor countries a feasible goal for our generation. Adults and children living longer, healthier lives become robust contributors to income growth. The impact of improved health outcomes on a country's economic productivity

1 World Bank, "Universal Health Coverage for Inclusive and Sustainable Development—A Synthesis of 11 Country Case Studies." (April 11, 2014).

2 The Lancet Commission on Investing in Health, *Global Health 2035: A World Converging Within a Generation*. (December 2013); *Global Health 2035—Supplementary Web Appendices*, www.globalhealth2035.org (June 2014).

FIGURE I. Scaling-up to Grand Convergence & UHC

Full-income return 9 to 20 times the investment

| | Annual incremental lives saved (2035) | Annual incremental cost* (2015–2035) | Proportion of real GDP growth by (2035) |
|---|--|---|--|
| Low-Income Countries | 7.4M | \$23B–27B | 3% |
| Low- and Middle-Income Countries | 7.4M | \$38B–53B | <1% |

**Approximately half the investment is in health systems*

Sources: The Lancet Commission Investing in Health; World Development Indicators

plays a vital role in ending extreme poverty.

Investments in health by USAID and our partners have produced concrete results. Over the past 50 years, infant and child death rates in the developing world have fallen by 70 percent. Deaths of children under 5 decreased from 7.7 million in 1990 to 4.8 million in 2011 in the 24 priority countries of USAID’s Ending Preventable Child and Maternal Deaths initiative.³ In countries with efforts focused on maternal and child health, the maternal mortality ratio decreased by more than half, from 695 deaths per 100,000 women in 1990 to 315 per 100,000 in 2010.⁴

From 2005 to 2011, in conjunction with USAID’s work toward an AIDS-free generation, deaths due to AIDS-related causes fell 25 percent.

3 USAID, *Fifty Years of Global Health, Saving Lives and Building Futures—USAID’s Tradition Continues*. (2014).

4 USAID Annual Progress Report to Congress: Global Health Programs FY 2013.

In sub-Saharan Africa, the number of AIDS-related deaths declined by nearly one-third. Furthermore, over 46.5 million people received HIV testing and counseling through the U.S. President’s Emergency Plan for AIDS Relief, including 11 million pregnant women.⁵

Economic transition in health

What do we mean by an economic transition in health? This transition occurs when developing countries, through economic growth and associated increases in total health expenditures, reach a point where they can fund an essential package of cost-effective public health services and clinical health services and support health systems that are capable of substantially reducing the country’s disease burden through domestic resources alone.

5 USAID, *Fifty Years of Global Health, Saving Lives and Building Futures—USAID’s Tradition Continues*. (2014).

As many low-income countries experience rapid growth, their total health expenditures grow as well, putting essential health services within reach for entire populations. Countries that reach this economic transition point are able to use their newly available domestic resources to provide everyone with access to health care, including people in extreme poverty.

Concurrently, it's becoming more affordable to ensure these essential health services. In 2014, the World Health Organization's Commission on Macroeconomics and Health estimated a \$51 cost per capita for its essential package of health care services—which includes clinical and public health interventions in tuberculosis, malaria, HIV and maternal and child health. Also in 2014, the International Health Partnership High Level Task Force on Innovative Financing of Health Systems estimated a \$71 per capita cost for its essential package of health services.⁶

In some developing countries, the challenge is not affordability but how the newly available domestic resources are spent, namely how to shift health care financing away from a status quo that largely involves out-of-pocket payments by people when they need services.

Without equitable health financing, countries are likely to experience the high out-of-pocket spending associated with the growth of unregulated private providers and the inadequate delivery of public services, leading many people into ill health and poverty. High out-of-pocket spending is associated with catastrophic health spending, impoverishment and underutilization of essential services, such as immunizations, by the poor. Countries worldwide recognize the need to

decrease their reliance on out-of-pocket payments at the point of service delivery.

According to a comprehensive analysis of surveys from 89 countries, around 150 million people each year suffer financial catastrophe; 100 million are pushed to live below the poverty level because they need to pay for health services. More than 90 percent of the people pushed into poverty by health spending live in low-income countries.⁷

Unfortunately, a problematic “financing ditch” can occur as countries begin to move out of low-income country-status (Figure 2). Official development assistance providers often respond to the new prosperity by cutting aid. However, the country's public sector does not quickly or automatically fill the gap.

Instead, households are forced to compensate, often through out-of-pocket spending or by missing out on lifesaving services. Sustainable emergence from poverty is a complicated picture. One key solution is: Proactively pool risks through equitable financing arrangements for health.

Universal health coverage—the new frontier

Universal health coverage has been defined as a condition where all of the people who need health services—including health prevention, promotion, treatment, rehabilitation and palliative care—receive them without undue financial hardship,⁸ and countries are adapting diverse approaches to achieving it. Some nations use a national insurance system that buys services from both private and public providers. Others use the public delivery system to provide better access to health services.⁹

6 These 2014 cost calculations for the two different packages of essential services assume an inflation rate of 2.5 percent annually for the CMH package and 3.5 percent annually for the TFIF package (using medium costing scenario for the TFIF package).

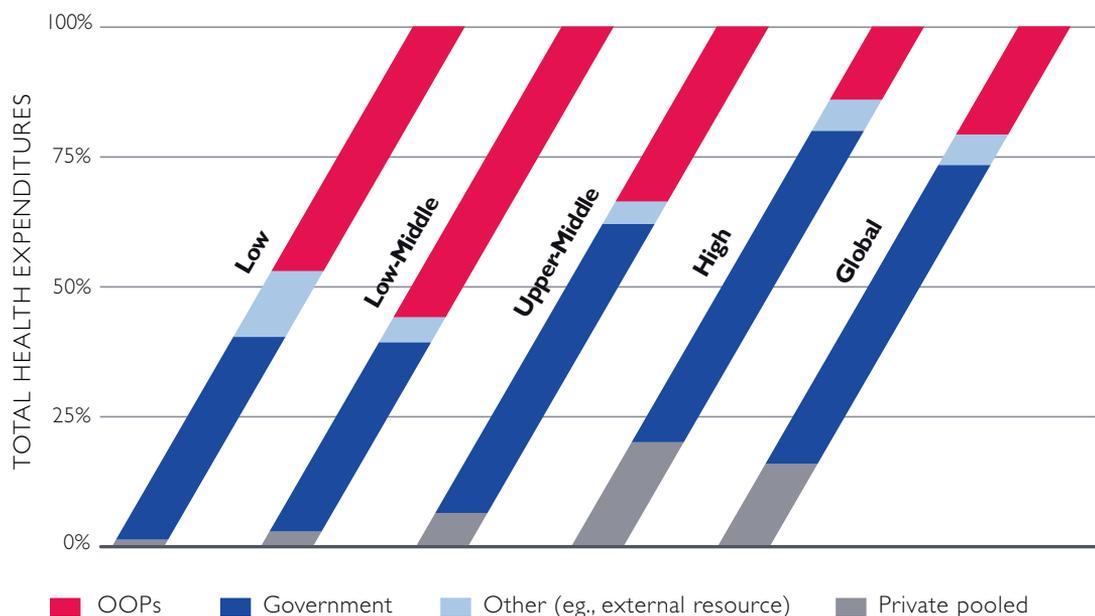
7 Ke Xu, David B. Evans, Guido Carrin, Ana Mylena Aguilar-Rivera, Philip Musgrove and Timothy Evans, “Protecting Households from Catastrophic Health Spending,” *Health Affairs*. Vol. 26, no.4 (2007).

8 WHO (World Health Organization), *The World Health Report—Health Systems Financing: The Path to Universal Coverage*. <http://www.who.int/whr/en/index.html>. 2010.

9 World Bank, *Universal Health Coverage for Inclusive and Sustainable*

FIGURE 2. Out-of-Pocket Expenditures

Inefficient and regressive



Source: WHO 2011 data based on World Bank Country Income Groupings

Over the past decade, there has been growing evidence of developing countries with relatively low incomes improving their health financing arrangements, thereby improving health coverage with essential services and protecting people from impoverishment. Countries as diverse as Colombia, Chile, Ghana and Thailand have introduced such health-financing arrangements.

In Thailand, after a universal health coverage scheme was introduced in 2002, health care usage rates improved, equity of usage increased and the incidence of impoverishing health expenditures declined.¹⁰ The number of households pushed

under Thailand’s national poverty line as a result of out-of-pocket spending fell from 120,000 in 2002 to 40,000 in 2009.¹¹

The Parliament of Ghana, in an effort to reduce the very heavy burden of out-of-pocket payments, passed the National Health Insurance Law in 2003, requiring that all citizens enroll in government-sponsored district health insurance schemes. Seventy to 75 percent of the funds for this insurance program comes from the value-added tax on goods; an additional 20 to 25 percent of the funding comes from Social Security and National Insurance Trust contributions by workers in the

Development—A Synthesis of 11 Country Case Studies. (April 21, 2014).

10 Final report of the Centre on Global Health Security Working Group on Health Financing, “Shared Responsibilities for Health—A Coherent Global Framework for Health Financing,” May 2014.

11 Thailand’s Universal Coverage Scheme: Achievements and Challenges: An Independent Assessment of the First 10 Years (2001-2010) (2012), Nonthaburi: Health Insurance System Research Office.

formal public and private sectors. Finally, direct premiums from workers account for approximately 5 percent of the financing. Indigents, minors under age 18, the elderly over age 70 and all pregnant women are covered and exempted from premium payments. Most outpatient and inpatient care services are covered.¹² As of 2008, 12 million people out of a total population of 21 million, or 61 percent of the population, were insured.¹³

Universal health coverage implies equity of access for all, including those living in extreme poverty who may be unable to pay for out-of-pocket costs or make payments to prepaid or pooled health insurance arrangements. Equitable access is critical for the extremely poor, who typically forgo even essential health care. This underutilization of essential services by the poor leads to an ongoing cycle of poverty, as people who are sick and vulnerable are unable to participate in the labor market.

Out-of-pocket costs should be zero for the poor, and coverage should focus first on services for conditions that typically affect the poor, such as infectious diseases.¹⁴ When the Government of Ethiopia introduced a health extension program in 2003 in certain regions, a first step toward universal coverage of primary care, the program focused first on conditions that disproportionately affect the poor. Today it is fully integrated into the broader health system and provides 16 defined packages of essential health services. All health extension program services are free and available to everyone.¹⁵

12 African Health Economic Association Conference on Towards Universal Health Coverage in Africa—Key Issues. <http://afhea.org/conference/conference2011/files/Key-Issues.pdf> (2011).

13 Joint Learning Network for Universal Health Coverage, www.jointlearningnetwork.org (June 2014).

14 Final report of the Centre on Global Health Security Working Group on Health Financing, “Shared Responsibilities for Health—A Coherent Global Framework for Health Financing,” May 2014.

15 World Bank, *Universal Health Coverage for Inclusive and Sustainable Development—A Synthesis of 11 Country Case Studies*. (April 21, 2014).

Universal health coverage is the new frontier in global health. As countries continue to evolve, official donors will shift from providing commodities and services directly to countries and beneficiaries to strengthening health and finance systems in low- and middle-income countries. This shift will occur as some countries graduate from reliance on foreign assistance, instead generating domestic income to finance health expenditures. Ultimately, improving domestic resources for universal health coverage, which includes spearheading tax administration and policy changes, is the path that will sustain viable health systems in developing countries.

Not all low-income countries will travel this path toward self-sufficiency expeditiously. Some rapidly growing economies will be starting from such a low base that they will be unlikely to generate enough domestic revenue to fully pay for health. These countries will continue to need aid to achieve critical health goals.

Pioneering new health financing

In the face of this evolving economic transition in health and current patterns of high out-of-pocket spending on health, what should we do to help poor people get the health services we know they need to thrive? I believe we should continue to embrace the challenge of working with developing countries to harness their growing prosperity to fundamentally shape the future of health financing and universal health coverage.

USAID investments in global health in particular can support President Obama’s vision of ending extreme poverty because they involve:

- Collaboration with countries on mobilizing emerging domestic resources to empower them to face the inevitable insufficiency and fluctuations of official development assistance. As part of achieving our goals for an AIDS-free generation, for example, USAID has been increasing

country capacity to self-finance and sustain HIV epidemic control efforts.

- Expertise working at the intersection of health and finance, gathered from over 50 years' experience applying integrated, sustainable solutions to individual country contexts. As our development partner countries face enormous struggles unique to the current transition period, we understand our responsibility to work with them to recalibrate the mix of official development assistance and domestic resources for health.
- Experience by the U.S. Government homing in on two primary health goals: ending preventable child and maternal deaths by 2035 and ensuring an AIDS-free generation. This work with low- and middle-income countries on health systems and finance gives us the ability to help these countries guarantee adequate focus on essential services related to these goals.

USAID historically has taken a leadership role in helping eliminate extreme poverty through global health programs that address diverse diseases and complicated public health challenges. Since 2010, for example, USAID nutrition programs have reached more than 46 million children under the age of 5, including 12.5 million in FY 2013.¹⁶

From 1990 to 2012, there has been a 72-percent reduction in the risk of a child dying from pneumonia or diarrhea, from 50 per 1,000 to 14 per 1,000. USAID's health programs ensured the safety of drinking water; in 2013 they supported the treatment of 3.2 billion liters, enough for over 4 million people. Additionally, USAID supported the introduction of vaccines against rotavirus and pneumococcus, two of the leading disease agents for

diarrhea and pneumonia, and provided low-cost treatment in more than 1.8 million cases.¹⁷

Under the President's Malaria Initiative, in FY 2013, USAID protected over 45 million people from malaria with some type of prevention measure.¹⁸ Deaths from tuberculosis have decreased 41 percent since 1990, and the overall prevalence of tuberculosis reduced 40 percent in USAID-supported programs. USAID's support for neglected tropical diseases since 2006 has expanded to reach 25 countries, leveraging a total of \$6.7 billion in donated medicines from a \$386-million investment.¹⁹

Overall, USAID's health-sector work contributes to efforts that ensure that poor and vulnerable people can survive and join the labor force as productive contributors. These efforts catapult poor countries toward unprecedented economic growth, making the end of extreme poverty possible. With our partners, USAID is stressing the imperative of health policy reform to prioritize customized strategies and institutional arrangements that increase domestic financing, improve value for money and ensure fair, sustainable universal health coverage.²⁰ With these actions, I believe all USAID global health programs will be key to dramatically increasing the number of people in developing countries who are able to avoid living in extreme poverty.

Ariel Pablos-Méndez is the assistant administrator for Global Health at USAID.

¹⁷ *Ibid.*

¹⁸ *Ibid.*

¹⁹ *Ibid.*

²⁰ Ariel Pablos-Méndez, Caroline Ly, Allyla Nandakumar, Timothy Evans, Patrick Eozenou, Olusoji Adeyi, "The Economic Transition of Health in Africa: A Call for Progressive Pragmatism." *Oxford Handbook on Africa and Economics*. (March 13, 2014).

¹⁶ USAID Annual Progress Report to Congress: Global Health Programs Fiscal Year 2013.



Women's Empowerment and Family Planning: Investments Essential to Poverty Reduction

Andrea Halverson

Around the table, each woman raised her hand when asked if she was a mother. Most women spoke of five or six children; one was a mother of 11—numbers not unusual for the area. We were in western Côte d'Ivoire, visiting a USAID-funded community program for HIV-affected households. We had met the women who had been keeping their communities intact during political upheaval and economic uncertainty by caring for children orphaned by HIV and AIDS in addition to their own.

In western Côte d'Ivoire, each woman will give birth six times on average. The national average is five births per woman.¹ At the same time, 27 percent of women in Côte d'Ivoire would like to delay or avoid pregnancy but are not using any family planning method.²

This unmet need, coupled with post-conflict

political fragility, weak institutions and overall economic insecurity, creates a challenging environment for ending extreme poverty by 2030 in Côte d'Ivoire and throughout sub-Saharan Africa. Family planning programs as part of a robust system of maternal and child health care are essential to achieving this goal.

Setting the stage: family planning in the context of economic fragility

Like most African countries, Côte d'Ivoire has not realized the progress toward contraceptive prevalence and fertility reduction that has been seen throughout the world since 1990. In all other parts of the world, fertility rates have declined to fewer than three births per woman.³

Africa remains the exception, with a continental average of 4.7 births per woman and regional rates of up to 6.3 in Central Africa and

1 Côte d'Ivoire Demographic and Health Survey (DHS) (2011-2012). MEASURE DHS, ICF International, Maryland, USA. June 2013.

2 *Ibid.*

3 Population Reference Bureau (PRB). (2013) "2013 World Population Data Sheet." www.prb.org. Funded by USAID.



Women carry goods on their heads as they return from shopping in Abidjan. In Côte d'Ivoire, unmet family planning needs, combined with economic insecurity, political fragility and weak institutions, create a challenging environment for ending extreme poverty by 2030. PHOTO: ISSOUF SANOGO / AFP

5.7 in Western Africa.⁴ Contraceptive prevalence throughout sub-Saharan Africa remains below 20 percent. Furthermore, in Côte d'Ivoire, only 18 percent of married women use any form of family planning.⁵ Use of contraception in other conflict-affected states is similarly low.

In part due to a decade of conflict, Côte d'Ivoire also does not share in global and regional poverty reduction trends. Between 1990 and 2012, the percentage of persons living on less than \$1.25 per day in sub-Saharan Africa declined from 56 to 48 percent.⁶ Over a similar timeframe in Côte d'Ivoire, the poverty rate for people living

on less than \$1.41 per day increased from 33.6 percent to 48.9 percent,⁷ an alarming spike for a country that was previously seen as an engine of regional economic growth. According to a World Bank analysis, the number of extreme poor living in Côte d'Ivoire is projected to increase from 4.3 million in 2010 to 10.3 million in 2030 if current trajectories continue.⁸

Equitably achieving and sustaining poverty-reduction goals here and in other fragile,

⁴ *Ibid.*

⁵ Côte d'Ivoire DHS (2011-2012).

⁶ Chandy L., et. al. (2013) "Africa's Challenge to End Extreme Poverty by 2030: Too Slow or Too Far Behind?" The Brookings Institution. www.brookings.edu.

⁷ Fonds monétaire international. (2009) "Côte d'Ivoire: Stratégie de Réduction de la Pauvreté Rapport 2009." The IMF report uses the measure of 661 CFA franc per day, which is the equivalent of \$1.41 in US dollars at the 2009 exchange rate.

⁸ Yoshida, Nobuo and Uematsu, Hiroki and Sobrado, Carlos E., "Is Extreme Poverty Going to End? An Analytical Framework to Evaluate Progress in Ending Extreme Poverty" (January 1, 2014). World Bank Policy Research Working Paper No. 6740. Available at SSRN: <http://ssrn.com/abstract=2375459>

conflict-affected states will require inclusive, sustained development, partnership and investments in voluntary family planning programs. Without these efforts, Africa's high fertility rates will translate to a growing global share of inequality, and sub-Saharan Africans will continue to represent a disproportionate absolute number of the percentage living in extreme poverty.

The complexities and benefits of gender-sensitive family planning programming

Demographics need not be destiny. Extreme poverty can be eradicated. However, doing so requires understanding the complex relationship between family planning, gender equality and economic growth.

Access to contraception is critical to women's self-determination and empowerment and has mutually reinforcing benefits for women and society. Women who have fewer children have more opportunities to become wage earners, boosting family income levels.⁹ As women gain access to productive resources, they also report better health outcomes, achieve higher levels of education and experience a lower incidence of intimate partner violence.¹⁰

These same positive effects are also true for their children.¹¹ Adolescent girls who delay pregnancy tend to complete more years of schooling, and women with more years of school tend to have fewer children.¹² Investments in family planning thus create a reinforcing cycle of empowerment, supporting healthy, educated

and economically productive women and families.

Family planning is also an extremely cost-effective intervention. For every dollar invested in family planning, up to six dollars are saved in future health, education, immunization and maternal health costs that instead can be invested in public spending for stable communities.¹³ With effective family planning, governments can make targeted social investments without the added pressure of exponential population growth and its concomitant needs. Meeting the family planning needs of HIV-positive women is especially critical in sub-Saharan Africa and delivers a return on investment by eliminating the costs of prevention of mother-to-child transmission programs and future HIV treatments for children who are born HIV-positive.

In addition, investments in family planning could generate a demographic dividend. When the size of the dependent population (i.e., children and the elderly) shrinks relative to the size of the working-age population, it creates an economic advantage—especially in countries that lag economically. If developing countries with high birth rates like Côte d'Ivoire reduce fertility, the combination of increased wage earners and decreased dependency will fuel major economic growth.¹⁴

However, the fragility of Côte d'Ivoire and other states vulnerable to conflict and corruption creates myriad programmatic challenges for health and family planning services, including a lack of trained medical personnel and a low number of available, stocked service centers.¹⁵ Furthermore,

9 Bongaarts, John and Sinding, Steve. (2011) "Family Planning as an Economic Investment." SAIS Review of International Affairs. Vol. 31.

10 Head, Sarah, et al. (2014). "Women's Lives and Challenges: Equality and Empowerment since 2000." ICF International. Funded by USAID.

11 *Ibid.*

12 World Health Organization (2012). "Adolescent Pregnancy Fact Sheet." <http://www.who.int/mediacentre/factsheets/fs364/en/>

13 United Nations, Department of Economic and Social Affairs, "What would it take to accelerate fertility decline in the least developed countries?" UN Population Division Policy Brief No. 2009/1.

14 Bongaarts, John and Sinding, Steve. (2011) "Family Planning as an Economic Investment." SAIS Review of International Affairs. Vol. 31.

15 McGinn, et al. "Family planning in conflict: results of cross-sectional baseline surveys in three African countries." *Conflict and Health* 2011, 5:11.

threats of conflict can deter health-seeking behavior when women do not feel safe traveling to health clinics and therefore fail to receive care. The security situation in Côte d'Ivoire continues to stabilize, providing hope for synergy between political reconciliation and stronger health systems. Yet here and in other fragile states, weak institutions make family planning particularly challenging.

USAID's investments in voluntary family planning programs

Although investments in international family planning programs have lagged since the mid-1990s, recent international movements have re-galvanized attention and resources, especially to address unmet family planning needs in sub-Saharan Africa.

USAID is playing a key leadership role in scaling up informed, voluntary, evidence-based family planning approaches throughout the region. USAID's record of success includes two decades of focus in Asia and Latin America. In these two regions, 24 countries have graduated from family planning assistance by demonstrating their governments' abilities to maintain progress toward key family planning indicators.¹⁶

Much of the work that remains now resides in sub-Saharan Africa, home to 16 of USAID's 24 current family planning focus countries.¹⁷ USAID has tripled its monetary investments here,¹⁸ and many of the countries are already achieving important gains, including increases in

contraceptive prevalence rates from 2004-2011 in seven countries identified as USAID family planning priorities.

Success stories include Rwanda, where family planning use increased from 10 percent to 45 percent and total fertility reduced from 5.54 to 5.34. Malawi saw gains from 28 percent to 42 percent and a fractional decrease in fertility from 6.00 to 5.98. In Ethiopia, contraceptive use increased from 14 percent to 29 percent and total fertility decreased from 5.09 average births per woman to 4.04.

Reductions in total fertility tend to lag behind gains in contraceptive prevalence; thus, while these countries have seen moderate reductions in birth rates (as have most countries in Sub-Saharan Africa since 2000), future surveys will likely measure additional decreases in birth rates as a successful follow-on effect of these recent increases in contraceptive prevalence.¹⁹

USAID's family planning programs focus on contraceptive access and method choice; they use community health workers to reach women in their communities—a strategy especially key in fragile contexts where women face barriers to reaching health facilities. USAID includes long-acting and permanent methods in the mix of options and has successfully negotiated unit cost reductions for its most in-demand injectable methods and implants.²⁰

Programmatic success depends upon integrating family planning into existing maternal and child health service settings, especially HIV-positive mothers who wish to delay or avoid pregnancy. To that end, USAID has supported groundbreaking innovation and research on new

16 USAID. (April 2013) Family Planning Program Overview. http://www.usaid.gov/sites/default/files/documents/1864/fp_overview.pdf

17 Kaiser Family Foundation. "USAID Family Planning Program Countries." FY2011. Available online: <http://kff.org/global-indicator/usa-id-family-planning-program-countries/>. Full list: Zambia, Uganda, Tanzania, South Sudan, Mozambique, Nigeria, Ghana, Mali, Malawi, Kenya, Liberia, Senegal, Rwanda, Madagascar, Ethiopia, Democratic Republic of the Congo, Yemen, Haiti, Nepal, Afghanistan, Bangladesh, India, Philippines, Pakistan.

18 USAID. (April 2013) Family Planning Program Overview.

19 Sharan, et. al. "Family Planning Trends in Sub-Saharan Africa: Progress, Prospects, and Lessons Learned." *Yes Africa Can. Success Stories from a Dynamic Continent* (2011) World Bank Publication.

20 USAID. (April 2013) Family Planning Program Overview. http://www.usaid.gov/sites/default/files/documents/1864/fp_overview.pdf

commodities that protect women against both pregnancy and HIV acquisition. Several new dual-protection methods are on the horizon, including a long-lasting, anti-retroviral contraceptive ring that protects against HIV, herpes and pregnancy.²¹ This method is now undergoing clinical trials.

Family planning: the essential investment

Côte d'Ivoire is a country at a crossroads. As one of seven fragile states unlikely to achieve its Millennium Development Goals, it represents the final leg of extreme poverty reduction as 2030 approaches.²² At the same time, political transition and economic growth have created a window of opportunity conducive to a demographic dividend and the resulting economic and social advantages.

USAID's efforts to reduce extreme poverty

21 Fellman, Megan. (March 5, 2014) "Long-lasting device protects against HIV and pregnancy." Northwestern University. <http://www.northwestern.edu/newscenter/stories/2014/03/long-lasting-device-protects-against-hiv-and-pregnancy.html>

22 USAID (2014) "Ending extreme poverty in fragile contexts: Getting to Zero: A USAID discussion series."

A young woman hands over condoms in a working district of Abidjan, Cote d'Ivoire, as part of an AIDS prevention program. Contraception access is critical to women's empowerment and has benefits for women and society. Voluntary family planning programs empower women to make decisions for their households and communities.

PHOTO: SIA KAMBOU / AFP

here and throughout Africa must account for the various factors that contribute to social and political vulnerability, especially weak maternal and child health care. They also must invest in the voluntary family planning programs that empower women as decisionmakers in their households and communities, programs that will be key to eradicating extreme poverty in Côte d'Ivoire and around the world.

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The Financing Revolution: Implications for Ending Extreme Poverty

Tony Pipa

Innovation. Disruption. Revolution. These are the types of words we often use to describe transformative changes in a sector or market.

Today, the significant shift in the amount and types of financial resources flowing into developing countries is hardly newsworthy. In fact, it's one of the frequently cited headline statistics at development conferences these days. In the 1960s, aid from the member countries of the Organization for Economic Cooperation and Development's (OECD) Development Assistance Committee represented a majority of the total financial flows into developing countries. By some recent estimations, this figure now stands at just 7 percent.¹

This decrease in the relative share of aid is all the more significant because absolute totals continue to grow. Preliminary figures for 2013

show a 6.1-percent annual increase in official development assistance to its highest level ever, \$138.1 billion.

Yet the question remains: Has this shift in overall financial flows been—and will it be—revolutionary and disruptive in accelerating progress to end extreme poverty? How must the aid enterprise adapt in order to maximize the impact of these resources for the world's poorest people?

Understanding the landscape

Private resources by far comprise the majority of dollars now flowing into developing countries from external sources. Overall, aggregate foreign direct investment (FDI) is more than triple overall remittances sent from family members and more than double official development assistance (ODA). Private philanthropy and other forms of charitable donations are also accelerating in growth and nearing the scale of government aid.

At the same time, there has been a far more dramatic increase in the scale of domestic resources in developing countries. In absolute amounts, the

¹ Development Initiatives estimates that official development assistance only made up \$149 billion of the roughly \$2 trillion entering developing economies in 2011. Source: Development Initiatives, "Investments to End Poverty," Chapter 7, pg. 126, http://devinit.org/wp-content/uploads/2013/09/Investments_to_End_Poverty_Chapter_7.pdf, accessed July 22, 2014.



A loan backed by the USAID Development Credit Authority (DCA) helped Huntington and Justine Atuhaire build an irrigation system on their farm. As a result, their crop yields skyrocketed, allowing them to hire additional workers. The DCA took 11 years to unlock its first \$2 billion in private capital and only two years for its next \$1 billion. PHOTO: USAID

total has increased from \$1.5 trillion in 2000 to more than \$7 trillion in 2011.² Developing countries not only have access to more of the world's capital—as well as additional types of capital and financing mechanisms—they also have more of their own resources to match.

This is good news. Countries are responsible for their own economic and social development, and the mobilization of domestic resources lies at the core of this mission. As a country develops, its mix of external funding sources diversifies, with short- and long-term loans and portfolio equity

matching the scale of foreign direct investment and significantly outpacing remittances and development assistance (Figure 1). The combined scale of external investment and increased domestic resources offers great promise for stimulating the inclusive and broad-based economic growth that historically has been the surest path to reducing extreme poverty.

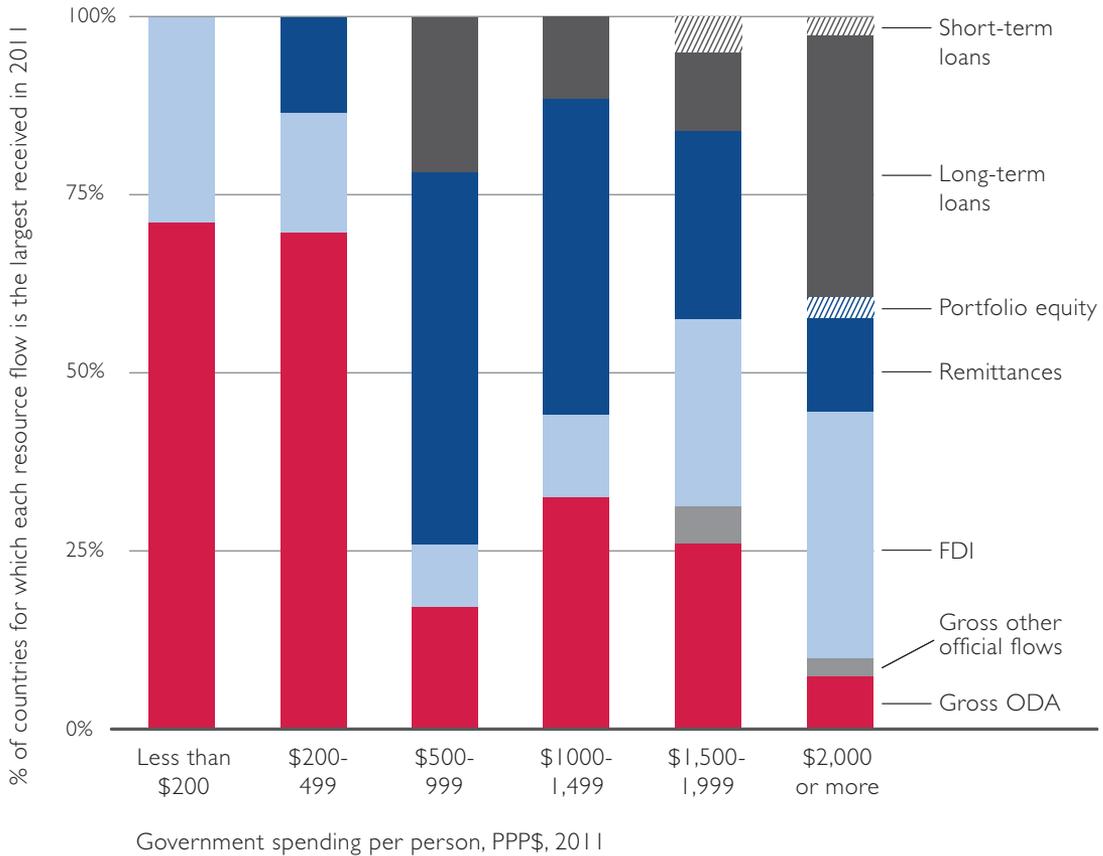
However, deeper analysis of external resource flows paints a more complicated picture. Africa remains the least-favored destination for foreign private flows and accounts for only about \$50 billion out of an overall \$1.35 trillion—a mere 3.7 percent.³ Yet in 2010, 34.5 percent of the world's

² Romilly Greenhill, "Who foots the bill after 2015? Why donors still need to take some responsibility for funding the post-2015 goals," Overseas Development Institute, <http://post2015.org/2013/03/25/who-foots-the-bill-after-2015-why-donors-still-need-to-take-some-responsibility-for-funding-the-post-2015-goals/>, accessed July 22, 2014.

³ UNCTADstat, "Inward and outward foreign direct investment flows, annual, 1970-2012," <http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=88>

FIGURE I.

ODA dominates where government resources are lowest, while FDI is more important for countries with higher government resources.



Source: Development Initiatives, "Investments to End Poverty," Figure 2.10. http://devinit.org/wp-content/uploads/2013/09/Investments_to_End_Poverty_full_report.pdf, accessed July 22, 2014.

extremely poor live in sub-Saharan Africa⁴—a share expected to rise to 42 percent by 2015.⁵

External capital flowing to developing countries is heavily concentrated in 10 middle-income nations.⁶ In fact, an average of 70 percent of all

4 World Bank, "The State of the Poor: Where Are the Poor and Where Are They Poorest?" http://www.worldbank.org/content/dam/Worldbank/document/State_of_the_poor_paper_April17.pdf, accessed July 22, 2014.

5 World Bank, "Global Monitoring Report 2013: Monitoring the MDGs," <http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:23391146~pagePK:64165401~piPK:64165026~theSitePK:476883,00.html>, accessed July 22, 2014.

6 China, Russia Federation, Brazil, Turkey, India, Mexico, Indonesia, Argentina, Romania and Kazakhstan.

combined public and private finance to developing countries from 2001-2010 went to these top 10; by 2010, net capital inflows had increased by an average of almost 80 percent, compared to an increase of only 44 percent for all other developing countries.

Brazil, Russia, India and China—the BRICs—are major recipients of FDI, with receipts tripling over the past decade. Their share of overall foreign direct investment keeps rising, from 6 percent in 2000 to 20 percent in 2012, and as a group they account for almost 40 percent of the FDI into developing countries.⁷ These nations are also coming into their own as private investors. Their outgoing foreign direct investment now makes up 9 percent of worldwide flows, up from 1 percent 10 years ago. While the aid community focuses on development cooperation with the BRICs and other South/South providers, limited attention is being paid to leveraging private investment from these countries for development purposes.⁸

While a majority of the world's extremely poor now live in middle-income countries, several analyses show that this share will substantially decrease over the next 15 years due to continued economic growth and productivity that will attract ever-increasing amounts of external investment. Their need for development assistance will diminish as these nations obtain adequate domestic resources for their own development. As countries make this transition, aid will still be important for

facilitating more sophisticated financing arrangements, crowding in other resources and helping ensure that marginalized and vulnerable populations also benefit from this growth.

By contrast, official development assistance still comprises more than 70 percent of the financial flows into least-developed countries. These countries are among the least able to finance their own development. Official development assistance also plays a primary role in fragile states, which have weak governance, are in conflict or are just emerging from conflict. These are among the world's riskiest places for investment.

A majority of the extremely poor will likely live in fragile states by 2015, and as the extremely poor become increasingly concentrated in fragile states, it is likely that development assistance will as well. To successfully end extreme poverty in these difficult environments, we will need to increase the impact of this aid, as well as use it to crowd in and leverage other resources.

The United States is responding to this array of challenges. Our strategies in middle-income countries like India and Indonesia use aid for the following purposes: to support government investments in research and innovation, to strengthen the policy environment for private investment, to increase access to capital, and to ensure services for and inclusion of the poorest as economic activity and government resources continue to grow.

Since the commitment we made at the 2005 Gleneagles G-8 Summit, the portion of U.S. official development assistance to low-income countries has more than doubled, growing from 17.7 percent in 2005 to 39.6 percent in 2012. We achieved our Gleneagles commitment to double aid to sub-Saharan Africa a year ahead of schedule, increasing it from \$4.34 billion in 2004 to \$9 billion in 2009. That growth has been maintained, reaching \$12.2 billion in 2012.

7 Given \$263 billion in FDI inflows to the BRICs in 2012 and \$702 billion in FDI inflows to all developing countries in the same year, that works out to a percentage of 37.4 percent, or roughly 40 percent. This data was collected from the following UN Conference on Trade and Development (UNCTAD) documents: "Global Investment Trends Monitor," UNCTAD, http://unctad.org/en/PublicationsLibrary/webdiaeia2013d6_en.pdf, accessed July 21, 2014; UNCTADstat, "Inward and outward foreign direct investment flows, annual, 1970-2012," <http://unctadstat.unctad.org/TableViewer/tableView.aspx?ReportId=88>, accessed July 21, 2014.

8 A notable exception is China, whose state-owned enterprises often play a key role in their development cooperation.

But this sells the story short. We are acutely aware that, for every dollar of official U.S. aid spent in 2010, developing countries received \$3 in remittances from migrants living in the United States, \$5 in U.S. private capital flows and \$1 in U.S. private philanthropy.⁹ As developmental progress has brought us breathtakingly close to ending fundamental human indignities such as extreme poverty, hunger and preventable child deaths, success will depend upon our ability, and the ability of developing countries, to mobilize and optimize this full mix of resources—especially private investment. Therefore, the United States has increasingly focused on using aid to catalyze and leverage resources from the private sector and local governments while strengthening local systems.

A new type of partnership

USAID has been a leader in forging partnerships with the private sector for development impact. Over the past 12 years, the Agency has created over 1,500 public-private partnerships through its Global Development Alliance model, engaging more than 3,500 partners and leveraging more than \$20 billion in public and private funds. But the scale of impact needed to achieve our post-2015 ambitions, and the opportunity offered by the explosive increase in private investment, has provided an impetus for newer, larger partnership platforms.

The New Alliance for Food Security and Nutrition is a good example. The New Alliance was launched at the 2012 G-8 Summit at Camp David with a goal of bringing 50 million people out of poverty over 10 years. It matches the political leadership and policy reforms of African

governments with the financial assistance and technical expertise of major donors to encourage private investment that benefits smallholder farmers. The New Alliance currently includes 10 African governments and a collective commitment by African and international companies to \$8 billion in agricultural investments, with \$1.1 billion invested to date. These investments already have created nearly 37,000 jobs and together with the Grow Africa partnership have reached more than 3 million smallholder farmers.

This partnership demonstrates that public and private investments are best viewed as complements rather than substitutes. Development cooperation through the New Alliance is enabling countries to follow through on commitments to policy reforms and institutional strengthening and improve their ability to attract private investment. However, different modes of private financing have different purposes, and it's important to keep in mind that types and amounts of capital available for development, while growing, are not fungible. For example, we wouldn't expect public external investment to finance the sort of investments normally undertaken by the private sector.

Power Africa, launched by President Obama in 2013 to bring energy to 20 million people, brings this into sharp relief. The initiative takes a transactional approach to identifying why particular transactions might derail and to piecing together solutions that draw upon different modes of U.S. Government financing, including USAID grants and technical assistance, Overseas Private Investment Corporation and Development Credit Authority loans and loan guarantees, and Export-Import Bank financing. This approach is achieving early success in unlocking private investment at scale, as private sector partners have agreed to over \$14 billion in commitments so far.

⁹ The Hudson Institute, "The Index of Global Philanthropy and Remittances: 2012," Table 1, pg. 8, <http://www.hudson.org/content/researchattachments/attachment/1015/2012indexofglobalphilanthropyandremittances.pdf>, accessed July 28, 2014.

Recognition of these modes' comparative advantages and opportunities is leading to innovations, new sets of tools and new financing approaches. Impact investing, for example, is growing dramatically—the Monitor Group estimates that it could mobilize \$500 billion annually within 10 years—and generally targets regions and sectors not addressed by traditional foreign direct investment. USAID's Development Credit Authority, which uses partial risk guarantees to mobilize local financing in developing countries, took 11 years to open its first \$2 billion in private capital and only two years for the next \$1 billion. From cash-on-delivery approaches to nascent equity and mezzanine financing by public sector agencies, a growing array of mechanisms have become available.

The way forward

Better data will lead to better development. Unlocking the full potential of an increasingly sophisticated development financing landscape requires better visibility and data quality across the entire range of flows, both public and private. Quality data both provide a basis for innovation and increase our understanding about the effectiveness of mixing certain types of flows—and too many gaps in the data still exist.

Despite advances in statistics through efforts such as the International Aid Transparency Initiative, no organized collection of the activity of development finance institutions exists. Currently, measurements for philanthropic flows at the country level contrast heavily with those at the global level. Take, for example, data presenting 2003–2012 U.S.-based foundation giving to Ghana as 0.6 percent of official development assistance¹⁰ while the Hudson Institute estimates

\$60 billion globally for a single year (2011). In addition, the commonly referenced dramatic growth of remittances has been recently called into question, with some experts chalking it up to an accounting change.¹¹

To unleash the resources necessary to achieve our aspirations, data on financial resources and flows from all sectors and actors must be part of the post-2015 data revolution.

Strong domestic financial strategies and capabilities will pay dividends.

Developing countries are eager to build their capacity for maximizing available financing options. According to the OECD, some projects have resulted in \$170 in revenue for every \$1 spent by donors to strengthen tax systems. Countries need assistance in providing their finance ministries with the capacity to independently develop financing strategies, and these strategies must optimize both the mix of financing resources and the ability to transition to increasingly sophisticated mechanisms as development occurs.

It is time we pay as much attention to a country's financial development strategies as we do to its sector- or project-specific strategies.

Partnerships must evolve, innovate and measure. Examples like the New Alliance and Power Africa highlight the promise of large-scale partnership platforms in helping us achieve outcomes at a significant scale. We will benefit from the continued development of partnership models that engage companies where commercial interests overlap with development needs, create policy environments that support growing private

Developing Countries' Perspective," pg. 55, http://www.oecd.org/dac/aid-architecture/The%20New%20Development%20Finance%20Landscape_19%20June%202014.pdf, accessed July 22, 2014.

11 Michael A. Clemens and David McKenzie, "Why Don't Remittances Appear to Affect Growth," GCDEV White Paper, http://www.cgdev.org/sites/default/files/why-dont-remittances-affect-growth_0.pdf, accessed July 21, 2014.

10 OECD working draft, "The New Development Finance Landscape:

investment, identify market-based solutions that improve access and alleviate long-term poverty, and strengthen partner governments' ability to increase private investment and economic activity.

The growing size and importance of non-Development Assistance Committee donors, both for public and private investment, begs for their inclusion in such partnerships. At the same time, we must hold ourselves to rigorous standards and measures of outcomes and cost-effectiveness. How do we know when the transaction costs of creating a collective effort, like the New Alliance, are worth it? How will we measure the effect of a program like Power Africa on the extreme poverty in partner countries?

Innovative financing frameworks for fragile states deserve special attention.

The anticipated concentration of the extremely poor in fragile states poses a significant challenge to the providers of external public investment. Aid in these countries must become more nimble, integrated and balanced in its risk-taking.

We need a better understanding of how to best deploy highly concessional finance—which is what fragile states need, since they have the least ability to self-finance or access capital—to position countries on the path toward other sources of capital. Better integration of humanitarian and development resources, which USAID has pursued through its resilience agenda, is a promising start. We also must seek new forms of partnership that stimulate private investment in these environments

A USAID Development Credit Authority loan helped catalyze private investment for a new ferry in Kalangala, Uganda. Ssegguja Gerald runs a hardware shop in Kalangala and can now rely on the ferry for regular supply shipments to his shop. USAID has been a leader in private sector partnerships for development impact. PHOTO: BOBBY NEPTUNE

and facilitate market-based solutions that impact the extremely poor.

These financing evolutions are not enough to achieve our ambitious post-2015 agenda. Trade, technology, control of illicit flows leaving countries, investments in research and innovation, and coherence among different policy tools all will play an important role in our success. At the same time, maximizing the expanding palette of financing choices and activities is critical to unlocking the scale of resources necessary to achieve our aspirations—financing an end for the first time in history to the indignities of extreme poverty, hunger, and child and maternal deaths. That would be truly revolutionary.

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“...The United States will join with our allies to eradicate such extreme poverty in the next two decades by connecting more people to the global economy; by empowering women; by giving our young and brightest minds new opportunities to serve, and helping communities to feed, and power, and educate themselves; by saving the world’s children from preventable deaths; and by realizing the promise of an AIDS free generation, which is within our reach.”

PRESIDENT BARACK OBAMA, 2013 STATE OF THE UNION ADDRESS