Congressional Research Service
Informing the legislative debate since 1914

Economic Growth Approaches in U.S. Foreign Assistance

January 12, 2022

Congressional Research Service
https://crsreports.congress.gov
R47007

CRS REPORT
Prepared for Members and
Committees of Congress

Congressional Research Service
Informing the legislative debate since 1914

SUMMARY

R47007

January 12, 2022

Nick M. Brown
Analyst in Foreign Assistance and Foreign Policy

Economic Growth Approaches in U.S. Foreign Assistance

U.S. assistance for economic growth has declined as a share of total foreign assistance for international development over the course of the 21st century. However, several high-profile foreign aid initiatives continue to attract congressional support and interest in economic growth as an element of international development. These include the food security-focused Feed the Future initiative, the energy-focused Power Africa initiative, and the innovation-focused Development Innovation Ventures program, among others. Furthermore, the two newest foreign assistance agencies, the Millennium Challenge Corporation (MCC, created in 2003) and the U.S. International Development Finance Corporation (DFC, established in 2019) were created with a major legislative mandate to address economic growth.

USAID is the largest U.S. provider of economic growth assistance, making 81% of total obligations in 2019. The chief aim of the agency's economic growth efforts is to enhance firm-level productivity. USAID projects commonly target small-scale, often unofficial activity known as the "informal economy" and do not necessarily seek to displace traditional economic activity by fostering large, efficient, high-capacity firms. USAID also seeks, where possible, to strengthen local systems rather than assuming direct responsibility for the economy, with the expectation that such an approach will lead to more sustained development impact. To that end, these projects target "inclusive" growth: not simply enabling economic activity, but ensuring that poor and vulnerable populations, particularly women and youth, share in economic gains stemming from U.S. foreign aid. Through agricultural production, private sector development, trade, energy, and economic policy programs, the agency carries out a "market systems" approach. This approach seeks to better connect buyers and sellers along a value chain, encourage producers to adopt income-maximizing practices, and improve the "enabling environment" (the laws, social norms and behaviors, public infrastructure, and services that facilitate the functioning of market activities in developing countries). Agriculture is the primary sector for U.S. economic growth efforts, with programs under the innovation, trade, and energy sectors often oriented ultimately toward agriculture-led growth.

The MCC and DFC, the two other major U.S. economic growth agencies, have distinct models for implementation. MCC, created in 2003, seeks "poverty reduction through economic growth," which it aims to achieve through large-scale grants for energy and transportation infrastructure projects, as well as for agricultural production activities, such as land reform and irrigation infrastructure. Such grants go to countries that demonstrate a commitment to democratic governance and the capacity to manage programs effectively. MCC's program design model is founded on identifying the primary constraints to economic growth, whether traditionally considered economic growth activities or not. Programs targeting health or sanitation are thus considered economic growth promotion efforts, though their immediate objective is advancing health outcomes. The DFC, the newest foreign assistance agency of the United States, delivers loans, political risk insurance, and equity investments, among other tools, in part to achieve economic development progress in less-developed countries. A new DFC development strategy sets performance benchmarks in technology, critical infrastructure, energy, food security, and financial inclusion by 2025.

Economic growth is a multifaceted and evolving field in U.S. foreign assistance. Congress may consider several factors in evaluating programs, including the following.

- Whether certain sectors deliver better value than others—and whether projects can be shown to add value, rather than simply operating in already-improving sectors.
- Whether agencies have the requisite tools and policies in place to address the unique economic growth issues in fragile states, where agencies' activities are increasingly focused.
- New evidence that reflects a changing consensus on the effectiveness of certain approaches to microenterprise and microfinance programs.
- Whether existing activities to promote women's role in economic growth are displaced by new initiatives.
- Long-standing concern over the risk of assistance activities displacing U.S. jobs or commercial interests.

Contents

Introduction 1
Funding 4
Key Strategies and Sector Approaches by Agency 7
U.S. Agency for International Development (USAID) 7
Strategic Overview 7
Agricultural Production 9
Trade 13
Private Sector Development 17
Energy Supply and Services 20
Economic Policy Reform 22
Millennium Challenge Corporation 25
U.S. International Development Finance Corporation 27
Policy Issues 30
Cross-Program Evaluation 30
Adding Value for Beneficiaries 31
Fragile States 32
Evolving Approaches to Finance for Development 32
Micro, Small, and Medium Enterprise Orientation 34
Gender in the Economy 34
Tensions with U.S. Commercial Interests 35

Figures

Figure 1. U.S. Assistance for Economic Growth 4
Figure 2. U.S. Economic Growth Assistance by Sector, FY2015-2019 5
Figure 3. U.S. Economic Growth Assistance by Region, FY2015-2019 5
Figure 4. Model Value Chain 12
Figure 5. Growth Diagnostics Methodology 26

Contacts

Author Information 35

Introduction

Sustainable, inclusive economic growth has been a goal of U.S. foreign assistance since the Marshall Plan, the first large-scale U.S. foreign assistance program, which funded the rebuilding of Europe after the Second World War. The Foreign Assistance Act of 1961 (P.L. 87-195, as amended), the primary source of authorities for U.S. bilateral development assistance programs, sets among its principal purposes equitable growth and increased incomes for the poor in developing countries. Although contemporary foreign assistance priorities have broadened to include other objectives, such as promoting global health and countering violent extremism, policymakers in the 21st century have continued to focus on advancing U.S. foreign policy goals by fostering prosperous societies that can finance their own ongoing development needs.[1]

Consecutive administrations have highlighted the centrality of economic growth to that aim. The George W. Bush Administration called economic growth "the surest way for countries to generate the resources they need to address illiteracy, poor health, and other development challenges on their own, and thus to emerge from dependence on foreign aid."[2] The Obama Administration set economic growth as a "top priority" that was "the only sustainable way to accelerate development and eradicate poverty."[3] The Trump Administration set USAID's development mission as ending the need for foreign assistance through "self-reliance"—creating the conditions for sustainable economic growth so that countries would have the resources and capacity to address their own challenges in the future—and called economic growth "central to reducing poverty and dependency."[4] The Biden Administration has signaled its intent to revise USAID's economic growth policy, to "elevate" economic growth programs, and to satisfy economic infrastructure needs in developing countries through a new "Build Back Better-World" initiative. Additional initiatives may be forthcoming, as the Biden Administration has yet to release strategic plans and policy frameworks that often articulate new Administrations' priorities.[5]

Congress has worked with each of these recent administrations to shape economic growth programs as part of its role in designating funding, authorizing or amending aid programs, and conducting oversight of U.S. foreign assistance programs. Often, congressional attention and agency actions may focus on specific sectors within economic growth programming (notably in recent years on energy, agricultural production, and trade capacity building).

This report provides a comprehensive overview of the structure, rationale, and implementation approaches of economic growth programs in U.S. foreign assistance. In particular, this report focuses on U.S. economic growth programs administered by the U.S. Agency for International Development (USAID), the Millennium Challenge Corporation (MCC), and the U.S.

[1] USAID policy documents and statements ranging across several recent Administrations have consistently set economic growth as a core goal. See for example USAID, *Policy Framework for Bilateral Foreign Aid*, February 6, 2006, p. 1; The White House, "Remarks by the President to the Ghanaian Parliament," press release, July 11, 2009; USAID, *Policy Framework: Ending the Need for Foreign Assistance*, April 10, 2019.

[2] USAID, *Securing the Future: A Strategy for Economic Growth (Securing the Future)*, April 2008, p. 3.

[3] National Security Council, *Presidential Policy Directive 6*, U.S. Global Development Policy, September 22, 2010, p. 5.

[4] USAID, *Policy Framework: Ending the Need for Foreign Assistance*, April 10, 2019; USAID, *Economic Growth Policy*, January 2021, p. 4.

[5] State Department, *Congressional Budget Justification FY2022*, May 2021, p. 78.

International Development Finance Corporation (DFC), which are the three primary U.S. foreign assistance agencies responsible for such assistance.[6]

While many foreign assistance programs contribute to economic growth goals, this report adopts agencies' common definition of economic growth programs as those that support the functioning of markets and the governance of economic activity to make societies more prosperous. The report also covers

- recent funding trends for economic growth programming by sector and by region;
- the legislation, policies, strategies, and guidance that shape economic growth programs;
- the primary units within foreign assistance agencies that design and administer these programs;
- common characteristics of economic growth programs by sector, including agricultural development, economic policy reform, energy access, trade capacity building, private sector development, and policy reform; and
- issues for congressional consideration.

Key Terms in Economic Growth Programming

Market system: A dynamic space—incorporating resources, roles, relationships, rules, and results—in which private and public actors collaborate, coordinate, and compete for the production, distribution, and consumption of goods and services.[7]

Agricultural value chain: The set of actors and activities required to bring agricultural products from production to consumption, including processing, storage, transportation, marketing, and retail. As a product moves through an agricultural value chain, each step adds monetary value to the product.[8]

Business enabling environment: The customs, laws, regulations, international trade agreements and public infrastructure and services that either facilitate or hinder the movement of a product or service along its value chain, including at the global, regional, national, and local level.[9]

Extreme poverty: The inability to meet basic consumption needs on a sustainable basis. People who live in extreme poverty lack both income and assets and typically suffer from interrelated, chronic deprivations, including hunger and malnutrition, poor health, limited education and marginalization, discrimination, or exclusion. The current international standard defining extreme poverty by income at or below $1.90 per person per day was set by the World Bank in October 2015.[10]

[6] Other agencies, such as the Inter-American Foundation, the U.S. African Development Foundation, the Peace Corps, the Trade and Development Agency, the State Department, the Treasury Department, and the Labor Department, engage in economic growth efforts but are not addressed here because of their varying priorities. For example, the Inter-American Foundation, the U.S. African Development Foundation, and the Peace Corps focus on community-based development and enhancing mutual understanding between the United States and partner communities—differing considerably from the large-scale, systemic impact that USAID, MCC, and DFC seek. The Trade and Development Agency and the State Department focus respectively on advancing U.S. commercial interests and promoting U.S. foreign policy, rather than development outcomes.

[7] ACDI/VOCA, USAID Leveraging Economic Opportunities Project, *Brief: A Framework for Inclusive Market Systems Development*, July 18, 2014, p. 2.

[8] USAID, *U.S. Government Global Food Security Strategy FY2017-2021* (GFSS), September 2016, p. vii.

[9] USAID, *Value Chain Development Wiki 2.2: Business Enabling Environment*, https://www.marketlinks.org/good-practice-center/value-chain-wiki/business-enabling-environment, accessed January 7, 2022.

[10] *GFSS*, p. viii.

Theory of change: How a development project expects its activities will result in the project's goal, via a series of causal linkages.[11]

Livelihood: A set of activities performed to live—to meet the requirements of an individual or household on a sustainable basis, with dignity, by working either individually or as a group, using endowments (human and material) to earn income for acquiring necessities.[12]

Formal firms: Private firms that are registered with the central or local government.[13]

Informality: A measure of the share of economic activity conducted outside of such government-regulated areas. Many firms in developing countries, including microenterprises and smallholder farmers that are common targets of U.S. assistance, are not required to register with the government and are termed "informal." Other firms, such as those conducting illicit activity, may also not be registered. Formal firms may engage in informal activity, including illicit activity and use of labor without a formal employment agreement, such as paid-in-cash services.

Micro, Small, and Medium Enterprises: USAID has varying definitions but largely categorizes these by number of employees, including micro (1-10 workers), small (11-50), and medium (51-100 or 51-250).[14] USAID defines microenterprise more precisely as enterprises with 10 or fewer workers, including the entrepreneur and unpaid family members. Microenterprises are typically informal and owned and operated by poor people.[15]

Blended finance: The strategic use of development funds, such as those from government aid and philanthropic sources, to mobilize private capital for social and environment results.[16]

Sustainability: The ability of a local economy to continue to produce desired outcomes over time.[17] Agencies measure sustainability in part by the extent to which the outcomes of a project are maintained after project closure—to include continued use of new approaches, local communities maintaining equipment first supplied by a project, or sustained improvements in community incomes five to ten years after project closure.

Inclusive growth: Economic growth that benefits all segments of the population and reduces poverty significantly.[18] Inclusivity is measured to ensure that economic growth moves populations out of poverty rather than benefitting only a small segment of society. A principal focus of agencies' measures of inclusivity is the extent to which women, youth, vulnerable populations, and marginalized communities benefit.[19]

Enterprise-driven development: Alignment of development projects with private enterprises in pursuit of market-oriented approaches.[20]

Fragility: While there is no single U.S. definition, the Global Fragility Act highlights a country's exposure to conflict and atrocity risks, overall levels of violence, and vulnerability to natural and other human-caused disasters. It also notes the Organisation for Economic Cooperation and Development's fragility framework, which defines fragility as "the combination of exposure to risk and insufficient coping capacities of the state, system and/or communities to manage, absorb or mitigate those risks."[21]

Resilience: The ability of people, households, communities, countries, and systems to mitigate, adapt to, and recover from shocks and stresses in a manner that reduces chronic vulnerability and facilitates inclusive growth.[22]

---

[11] *GFSS*, p. 7.

[12] USAID, *Getting Employment to Work for Self-Reliance: A USAID Framework for Employment Programming (Employment Framework)*, November 2019, p. 47.

[13] USAID, *Employment Framework*, p. 46.

[14] U.S. Government Accountability Office (GAO), *Micro, Small, and Medium-Sized Enterprise Development*, GAO-21-269, March 2021, p. 1; State Department, "Foreign Assistance Standard Indicators IRS Category 5 Economic Growth," 2021, EG.5-3 and EG.5-12.

[15] USAID, "Automated Directives System (ADS) Chapter 219: Microenterprise Development," March 10, 2021, p. 13.

[16] USAID INVEST, *Blended Finance Starter Kit*, March 2020, p. 2.

[17] USAID, *Economic Growth Policy*, January 12, 2021, p. 11.

[18] Ibid.

[19] USAID Democracy, Human Rights, and Governance Center, *Suggested Approaches for Integrating Inclusive Development Across the Program Cycle and in Mission Operations: Additional Help for ADS (Automated Directives System) 201*, July 2018, p. 4.

[20] USAID, *Economic Growth Policy*, p. 11.

[21] Global Fragility Act, Title V, Div. J of P.L. 116-94.

[22] USAID, *Policy and Program Guidance: Building Resilience to Recurrent Crisis*, December 2012, p. 5.

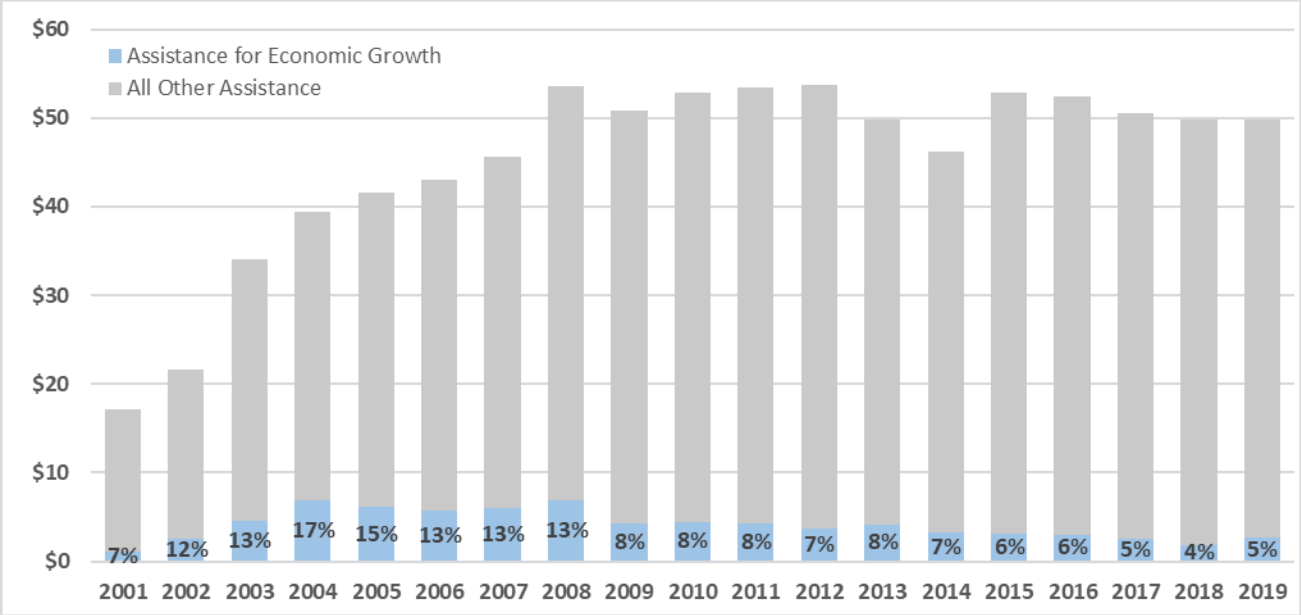
Funding

U.S. foreign assistance for economic growth fluctuates year-to-year as a result of competing sectoral priorities, congressional and administration objectives, and project openings and closures. Funding in current dollars peaked at $6.86 billion in fiscal year (FY) 2004, declining to a low of $1.87 billion in 2018. From FY2010 to FY2019, assistance for economic growth has averaged $3.28 billion annually. Funding for economic growth as a sector has fallen as a share of U.S. foreign assistance: economic growth assistance averaged 13.8% of all nonmilitary assistance between FY2002 and FY2008, declined consistently from FY2009 to FY2014 and settled at an average of 5.10% from 2015-2019 (see **Figure 1**).

As with other nonmilitary U.S. foreign assistance, USAID implements the largest share of economic growth programs, obligating more than three-quarters of all such funding from FY2015 to FY2019. MCC is a distant second, with a 14% share. Other agencies, all amounting to less than $100 million annually over the same period, include the U.S. Departments of the Treasury, State, Labor, Agriculture, and Energy, as well as the Peace Corps, U.S. Trade and Development Agency, the U.S. African Development Foundation, and the Inter-American Foundation, among others.

Figure 1. U.S. Assistance for Economic Growth

Billions USD, as share of total nonmilitary foreign assistance, by fiscal year



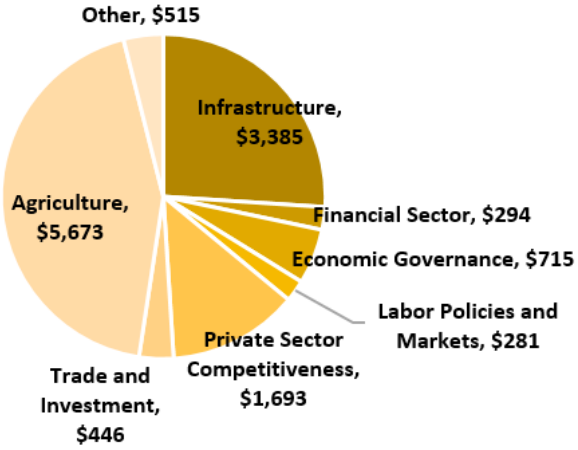
Source: explorer.usaid.gov.

Notes: Vertical axis represents obligated funding in billions of current U.S. dollars (USD). Percentages reflect share of total nonmilitary foreign assistance dedicated to economic growth, by fiscal year. Economic growth includes infrastructure, energy, non-emergency agricultural assistance, trade, and private sector development. It does not include general budget support to governments.

The State Department's Office of Foreign Assistance (the "F" Bureau) classifies economic growth programs under various sectors within its standardized program structure. This analysis tabulates and profiles data classified as economic growth under that framework over FY2015-2019, the latest data fully reported.[23]

- **Agriculture** is consistently the sector with the greatest funding (**Figure 2**), comprising 44% of economic growth assistance over the period. Agriculture funding includes both long-term market systems programs under Feed the Future, and resilience programming for fragile and disaster-prone areas under the Food for Peace Program.[24]
- **Infrastructure** was the second largest single sector, comprised primarily of energy ($2.552 billion of funding in this category) and roads ($663 million). MCC grants and USAID infrastructure projects in fragile states (Pakistan, Afghanistan, Haiti, and West Bank/Gaza) were common uses of this funding. In recent years, facilitation of energy investments and a focus on energy market regulation has been a theme, such as under the Power Africa initiative.
- **Private Sector Competitiveness** is a broad category of programs largely oriented toward support to non-agricultural firms. Such programs are typically in higher-capacity countries with more professional firms—14% of funds in this category are allocated in low-income countries. Projects

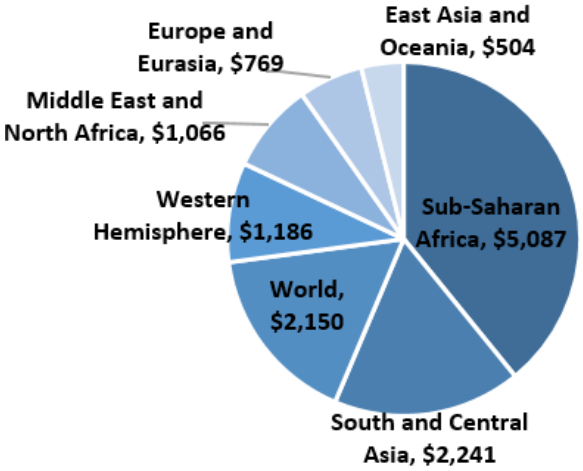
Figure 2. U.S. Economic Growth Assistance by Sector, FY2015-2019



Source: https://foreignassistance.gov/.

Note: Data reflect obligations according to U.S. government sectors.

Figure 3. U.S. Economic Growth Assistance by Region, FY2015-2019



Source: https://foreignassistance.gov/.

Note: Data reflect obligations reported by region.

[23] This analysis uses data classified under "U.S. Category: Economic Growth." While the F Bureau has historically reported environmental assistance (including aid to promote biodiversity, sustainable landscapes, and climate resilience and adaptation) under the economic growth category, ForeignAssistance.gov does not do so, nor does this report. This analysis also omits direct cash transfers to foreign governments and direct provision of agricultural commodities. Further information on environmental programs can be found in CRS Report R46493, *U.S. Funding for International Conservation and Biodiversity*, by Pervaze A. Sheikh et al.

[24] For further information on Food for Peace, see CRS Report R45879, *International Food Assistance: Food for Peace Nonemergency Programs*, by Emily M. Morgenstern.

include assistance to strengthen the business enabling environment (including financial services, business associations, and governments), and firm-level assistance to either formalize or become export-ready.

- **Economic Governance** consists largely of public sector capacity-building programs (excluding trade assistance, which is categorized separately).[25] The two largest categories of other programs in this area are domestic resource mobilization and public financial management programs (see "Domestic Resource Mobilization and Public Financial Management").
- **Trade and Investment** includes assistance to ease goods flows across borders through assistance to customs and border agencies; and broader support to governments, business associations, and firms to expand cross-border trade. As with business and services, these programs are primarily in higher-capacity middle-income countries. Certain trade programs, such as the African Trade and Investment Hubs, implement some funds under this category but are largely funded as agriculture programs.
- **Financial Sector** comprises programs to strengthen access to credit, such as through digital payments and improved access to banking. It also includes USAID's Enterprise Funds in Ukraine, Tunisia, and Egypt, which comprised over half the funding in this category over this period.
- **Labor Policies and Markets** consists primarily of Department of Labor international programs (88% of funding in this category), with over half of funding in the Western Hemisphere. These programs are not a focus of this report, as Department of Labor programs comprise a small share of total U.S. economic growth programming.

The allocation of economic growth aid by region, and among program areas within a region, varies significantly:

- **Sub-Saharan Africa** received more than twice the economic growth assistance of any other region over this period (**Figure 3**). Over half of economic growth funding in sub-Saharan Africa was for agriculture programs, and infrastructure (largely under MCC) comprised over a third.
- **South and Central Asia** is a distant and diminishing second in the wake of declining of U.S. engagement in Afghanistan in recent years. More than 40% of funding was in agriculture, with half in Afghanistan and Pakistan and 38% in Bangladesh and Nepal, both Feed the Future-focus countries. One quarter of aid to South and Central Asia went to energy programs, comprising 23% of all assistance for energy worldwide.
- **Western Hemisphere** programming consists in large part of agricultural development—comprising 46% of economic growth assistance in the region. Although Haiti was a large recipient early in this period, its funding has declined, while aid to Colombia has escalated significantly, from less than $10 million over FY2015-2017 to $142 million over FY2018-2019.
- **Middle East and North Africa** was the fourth largest recipient of economic growth aid in this period, although the single largest transaction (not included in this analysis because it is not a project) was a direct cash transfer to the

[25] USAID terms this sector "Macroeconomic Foundations for Growth."

Government of Jordan.[26] USAID funding focused on private sector competitiveness in Egypt, Lebanon, and West Bank/Gaza and Jordan, and Morocco received a large MCC compact.

- **Europe and Eurasia** programs, for which Ukraine, Kosovo, Georgia, and Moldova comprised 65% of aid over the period, consisted primarily of private sector competitiveness (47% of aid), energy (28%), trade (10%), and financial services (6%). These sectors are consistent with the Europe and Eurasia foreign aid program's long focus on moving these previously planned economies toward market-driven principles.[27]
- **East Asia and Oceania** aid focuses especially on agriculture (28% of funding, over half of which went to Burma), private sector competitiveness (25%), trade (19%), and energy (10%). Trade has become a growing focus in the region, which was the largest single recipient of trade programs in FY2019, driven in part by a multi-year effort of the United States to reduce barriers to trade among Southeast Asian countries and strengthen global value chains that run through them. Burma, Vietnam, Indonesia, and the Philippines were the largest recipients.

Key Strategies and Sector Approaches by Agency

U.S. foreign assistance agencies' authorities, goals, structure, and competencies have led each to adopt a distinct approach to planning and implementing assistance. Congress authorized differing tools and scopes for each foreign assistance unit profiled in this report, and those units' approaches to economic growth differ as a result. MCC's limiting of awards to well-governed countries allows it to entrust implementation to partner governments, leaving the agency to focus on the tools it uses to evaluate those countries and negotiate their projects. USAID's stabilization bureau, by contrast, targets regions with weak or nonexistent government institutions, necessitating more direct implementation.[28] DFC's provision of debt financing makes assistance in countries without robust financial sectors more challenging, and the agency has noted the need for added resources to expand lending in less-developed countries and fragile states.[29] USAID grants are often the preferred vehicle for assistance in such contexts, since grants require less local business capacity than loans to manage, and are less reliant on modern accounting practices.

U.S. Agency for International Development (USAID)

Strategic Overview

USAID's current economic growth policy, updated in January 2021, characterizes effective governance as the foundation of economic growth, and competitive markets that enhance firm-

[26] This report focuses on approaches to economic growth programming. Because a direct budget transfer involves no technical programming, such funding is not included in this data analysis.

[27] See, e.g., Section 2(b) of the Support for Eastern European Democracy Act of 1989, P.L. 101-179.

[28] Development in non-stabilization settings is often implemented according to entirely different principles than stabilization environments. The 2008 USAID Economic Growth Strategy, for instance, oriented itself toward stable developing countries, with a separate guide for post-conflict countries. USAID, *A Guide to Economic Growth in Post-Conflict Countries*, January 2009.

[29] Winrock International, *Feed the Future Knowledge-based Integrated Sustainable Agriculture in Nepal (KISAN) II Project Annual Workplan Year 1*, September 27, 2017, p. 6.

level productivity as its primary driver.[30] USAID economic growth projects thus often complement governance programs that seek to enhance the rule of law and institutional capacity.[31] USAID has also long emphasized that while strong government institutions are a foundation for growth, open markets are essential to enhance productivity.[32] The firm is the focus of economic growth programming, while other actors, such as the workforce and consumers, are generally a programming focus only to the extent they enhance firm-level productivity.[33] The 2021 policy set four objectives.

- Support well-functioning market systems;
- Strengthen economic governance;
- Bolster the competitiveness of American companies; and
- Enhance access to productive opportunities ... for low-income people and socially disadvantaged groups.[34]

The policy notes the fundamental importance of economic growth but also emphasizes inclusive growth. In part, USAID's focus on agriculture is a component of inclusivity concerns, given the disproportionately large share of the poor working in agriculture in developing countries.[35]

The 2021 policy adds the objective of bolstering the competitiveness of American companies, which was not a feature of past policies. It also removes an objective of strengthening international frameworks for policies and public goods. Economic analysis in program design is also a new feature, as is expanding the use of evaluations of systemic impact.[36] This focus reinforces ongoing congressional interest in enhancing aid effectiveness, as reflected in the Foreign Aid Transparency and Accountability Act of 2016 (FATAA, P.L. 114-191).

Supporting the 2021 policy are a set of analyses and standing policies that set several guiding principles for USAID. First, while creating modern, efficient firms may be the long-term goal of developing countries, USAID's focus on poverty reduction has prompted it to target the informal sector, which employs a large majority of the poor in developing countries.[37] Not only are most workers in developing countries employed informally, but they are often at greater risk of economic distress because they may work outside of government social safety nets.

---

[30] USAID, *Economic Growth Policy*, January 12, 2021, p. 5.

[31] Some programming classified as economic growth may focus on government capacity as well—most notably under trade facilitation and economic policy reform.

[32] USAID, *Vision for Ending Extreme Poverty*, September 2015, p. 14.

[33] A workforce development project in Jordan, for example, states, "This combined experience shows that a supply-side approach will not help reduce the issue of unemployment with any significant relevance, nor is it sustainable. Therefore, USAID/Jordan would like to take a demand-driven approach." USAID/Jordan, *Creating Economic and Employment Opportunities (CEEO) Pre-Solicitation Document*, March 15, 2017, accessible at https://sam.gov/.

[34] USAID, *Economic Growth Policy*, p. 53. The competitiveness of American companies is not explained at length in the policy, and a draft policy did not include it as an objective (USAID, *Economic Growth Policy for Comment*, December 2019, p. 3). This policy's objectives differ from the 2008 policy, which set three objectives: 1. Develop well-functioning markets in developing countries; 2. Enhance access to productive opportunities for the poor, women, and other disadvantaged groups; and 3. Strengthen the international framework of policies, institutions, and public goods. USAID, *Securing the Future: A Strategy for Economic Growth*, April 2008, p. 6.

[35] USAID, *Economic Growth Policy*, p. 42.

[36] USAID, *Economic Growth Policy*, p. 8.

[37] In low-income countries, 80% of workers are in the informal sector, as are 45% in middle-income countries. USAID, *Getting Employment to Work for Self-Reliance*, p. 27.

Second, women's economic empowerment has been a chief consideration since Congress enacted it as a priority in 1973.[38] Women make up a disproportionate share of the global poor, and some analysts estimate that eliminating gender disparities in employment could add $12 to $28 trillion to global GDP by 2025.[39] While women's economic empowerment is not a discrete sector in USAID programs, USAID mandates consideration of gender equality across its programs, such as through gender impact analyses, monitoring practices that collect data on beneficiaries by gender, and tailored programming to reach women.[40]

A major principle of USAID programming has also been to foster the capacity of local businesses, in part by both seeking their input in planning and channeling funds through them. USAID argues that such practices build local capacity to sustain good business practices after aid ends.[41] Also to encourage sustainability, USAID seeks to support overall reform to a market, rather than substituting for that market by supplying products directly.[42] For instance, USAID may fund a local seed supplier to design trainings that market improved seed varieties in a new market, instead of delivering the training themselves.[43] USAID considers this approach to promote sustainability by establishing new local service providers that may permanently support behavior change.

Agricultural Production

USAID's agricultural production activities are guided by the principles laid out in the Feed the Future Initiative's Global Food Security Strategy, which was released as directed by the Global Food Security Act of 2016 (P.L. 114-195).[44] That strategy, which builds on decades of work in agricultural development prior to the initiative's launch, emphasizes the importance of "agricultural-led economic growth," arguing that growth in the agricultural sector can be more effective than growth in other sectors in achieving poverty reduction.[45] USAID's Bureau for Resilience and Food Security leads the technical design of projects in this sector and guides development and implementation of the Global Food Security Strategy.

[38] §102 of P.L. 93-189.

[39] DFC, *DFC's Roadmap for Impact: DFC's Inaugural Development Strategy, January 2020-December 2025 (Roadmap)*, October 15, 2020, p. 19.

[40] See, e.g., USAID, *USAID Policy Framework: Ending the Need for Foreign Assistance*, April 10, 2019, p. 19; USAID, *Automated Directives System (ADS) Chapter 205: Integrating Gender Equality and Female Empowerment in USAID's Program Cycle*,

[41] USAID, *Local Systems: A Framework for Supporting Sustained Development*, April 2014, p. 4. For instance, USAID/Nepal's agricultural development efforts seek to support the national government's Agricultural Development Strategy. USAID, *Request for Proposal (RFP) No. SOL-367-17-000001*: *Feed the Future Knowledge-Based Integrated Sustainable Agriculture in Nepal (KISAN II) Project (KISAN II RFP)*, November 10, 2016, p. 4.

[42] USAID, *Securing the Future*, pp. 6-7. For an example on an agriculture project, see USAID, *Sources Sought Notice RFI-72038819-BAGA USAID's Feed the Future Bangladesh Agricultural Growth Activity Statement of Objectives*, May 6, 2019, p. 4.

[43] In Nepal, for example, USAID aims to "facilitate coordination" rather than directly funding infrastructure projects. USAID, *KISAN II RFP*, p. 19.

[44] For more information on the Feed the Future Initiative, see CRS Report R44216, *The Obama Administration's Feed the Future Initiative*, by Marian L. Lawson, Randy Schnepf, and Nicolas Cook.

[45] USAID, U.S. Government Global Food Security Strategy FY2017-2021 Executive Summary, p. 1.

Why does USAID invest in agricultural production programs?

Given the popular description of wealthy nations as "industrialized," it may be surprising that the majority of U.S. assistance for economic growth is directed at the agricultural sector. Indeed, the U.S. experience with economic growth over the course of the 19th and 20th centuries was associated with a steadily urbanizing populace. In many of the developing countries USAID targets, a large proportion of the workforce, and particularly the poor, is concentrated in the agricultural sector. USAID's poverty reduction mission has led it to focus on the agricultural sector, which employs 64.6% of those living in extreme poverty and 51.5% of the moderate poor.[46] Research cited across USAID's agriculture programs indicates that investments in agriculture can result in productivity improvements that facilitate economic growth in sectors beyond agriculture, as well as shifting agricultural activity toward higher-return activities.[47] Productivity improvements in that sector may both improve livelihoods and allow parts of the workforce to move into higher-value sectors, including manufacturing. According to the U.S. Government Global Food Security Strategy, growing productivity in the agriculture sector may facilitate economic surpluses that allow resources to spill over into new sectors.[48]

The Market Systems Approach

USAID agriculture development programs have since 2014 adopted an approach known as "market systems," which aims to improve competitiveness in the market, enhance the resilience of the market, and ensure economic gains are inclusively shared.[49] Market systems emerged from and include a "value chain" focus that has been central to agricultural production assistance since 2006.[50] This market systems approach targets the underlying constraints in a system, rather than the symptoms of failure. If USAID identifies significant post-harvest losses in a market system, for instance, the market systems approach would discourage direct intervention to change post-harvest handling practices. Rather, USAID would seek to diagnose the primary cause of the losses and empower local actors to address the problem.[51]

Broadly, USAID's process for implementing such market systems interventions may be categorized as follows:

- **Value chain upgrading:** The value chain framework, one component of the market systems approach, seeks to chart how value accumulates from producers (farmers, in the agriculture context) to intermediaries to an end market. In Mozambique, for instance, Feed the Future is working with wholesalers to develop models for rewarding high-performing small-holder farmers with higher prices, in order to incentivize improved techniques.[52] While not all individual projects employ this framework to structure interventions, the value chain approach often organizes a USAID mission's overall agricultural programming.

[46] World Bank, "Who Are the Poor in the Developing World?," Policy Research Working Paper 7844, October 2016, p.13; USAID, "Mission, Vision, and Values," https://www.usaid.gov/who-we-are/mission-vision-values, accessed January 7, 2022.

[47] See, e.g., USAID, *KISAN II RFP*, p. 7.

[48] U.S. Government, *U.S. Government Global Food Security Strategy 2017-2021*, September 2016, p. 12.

[49] ACDI/VOCA, *Framework for Market Systems*, p. 1; USAID, *Local Systems: A Framework for Supporting Sustained Development*, May 1, 2014.

[50] Some USAID projects in 2014 reoriented mid-course to adopt a market systems approach. See, e.g., Sarah Wall, *Bangladesh USAID Agricultural Value Chains (AVC) Project Final Report*, March 30, 2019, p. 9.

[51] USAID, *Global Food Security Strategy Technical Guidance: Increased Sustainable Agricultural Productivity*, August 30, 2017, p. 4.

[52] Feed the Future Inova, *Feed the Future Mozambique Agricultural Innovations Activity (FTF Inova) Annual Report (October 2019 - September 2020)*, October 2020, p. 31.

- **Improving farmer practices:** Interventions may include working with farmers to build confidence in adopting improved seed varieties or adjust their on-farm practices, or to fund research into high-yield or drought-resistant crops. In Kenya, for example, a USAID project has facilitated expanded use of hermetic storage bags to reduce post-harvest losses.[53] Feed the Future also funds an extensive research agenda led by U.S. universities, including Feed the Future innovation labs that identify context-appropriate agricultural practices and promising crop varieties, among other research angles.[54]
- **Enabling environment reforms:** USAID projects may support access to credit for farmers or assist the government in improving warehousing infrastructure for post-harvest handling. In Ethiopia, for instance, USAID is seeking to reduce government control of input supplies and to reform the land rental market, having identified both as key constraints for farmers.[55] USAID often organizes its efforts to align with international standards, particularly in coordinating with the national government and other donors (see "Trade" for further information on global standards).

Agricultural market development often involves challenges that are more fundamental than value chain issues and policy reforms. Risk aversion and lack of social trust are often barriers to a well-functioning, self-improving market.[56] Subsistence farmers live at the edge of financial distress or outright hunger and are especially risk averse. Economic actors who do not trust each other could be resistant to new farming techniques. In especially volatile environments, like areas recovering from conflict, a market systems approach may not be feasible at all, and the implementer may focus on restoring belief in the viability of a market, rather than coaxing the few existing elements of a market to function better.

Value Chain Analysis

While certain interventions, such as regulatory reform or access to finance, may benefit producers across the entire agricultural sector, many USAID projects hone in on a select few value chains that analysis indicates will yield a high return on investment. A value chain project begins with analysis and work planning to identify those returns, usually involving the following steps:

[53] Fintrac, Inc., *Kenya Agricultural Value Chain Enterprises (KAVES) project: Final Report, 2013-2018*, February 2018, p. 2.

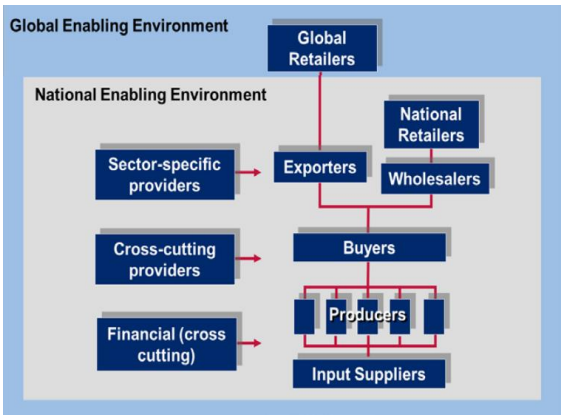
[54] Feed the Future Innovation Labs, https://www.feedthefuture.gov/feed-the-future-innovation-labs/, accessed January 7, 2022.

[55] USAID Ethiopia, *Country Development Cooperation Strategy (CDCS) July 2019-July 2024*, November 2019, p. 22; Feed the Future, *Ethiopia Country Plan 2019-2023*, April 2019, p. 21.

[56] Feed the Future Knowledge-Driven Agricultural Development Project, *Synthesis of Evaluations Related to the Feed the Future Learning Agenda*, March 2016, p. v.

1. **Screen sectors for potential project activities**. This often involves identifying the growth potential of a sector, or the potential impact of a project on poverty. For instance, if a large producer dominates a particular value chain with highly competitive pricing, a project to make smallholders competitive in that chain may be a losing proposition, while a project that helps shift those farmers to another value chain may have more growth potential. USAID principles for identifying promising products for project activities include producer competitiveness, the potential productive impact of USAID interventions, and the existence of potential value chain "leaders" who are willing to try new approaches. Other screening factors may include gender impact, nutritional efficacy, and sustainable natural resource use.[57]
2. **Map the value chains**. This involves identifying and classifying each actor engaged in bringing a product from concept to an end market. Farmers are typically situated at the beginning of the value chain. Aggregators, millers, and wholesalers are in the middle, with consumers identified in the end markets. Characterizing the relationships between these actors is a key component of mapping (see **Figure 4**).[58]
3. **Assess end markets to identify consumer preferences**. While a value chain map identifies the conduits by which a product flows from the farm to the consumer, USAID may seek a deeper understanding of those consumers to align farmer practices with consumer preferences.[59] This may include research on how the product is packaged or willingness of consumers to try a new product variety.[60]
4. **Design a competitiveness strategy** to inform potential project interventions that match and resolve key market constraints.[61]

Figure 4. Model Value Chain



Source: Marketlinks, 1.4.2. Value Chain Analysis–Overview, https://www.marketlinks.org/good-practice-center/value-chain-wiki/value-chain-analysis.

[57] For more information, see https://www.marketlinks.org/good-practice-center/value-chain-wiki/value-chain-selection.

[58] Marketlinks, "1.4.2. Value Chain Analysis—Overview," https://www.marketlinks.org/good-practice-center/value-chain-wiki/value-chain-analysis, accessed January 7, 2022. In some cases, value chain mapping is completed as a preliminary step to issuing an implementation contract for value chain upgrading. See, e.g., USAID's Feed the Future project in Mozambique. USAID, *Request for Proposal (RFP) No. SOL-656-16-000010—Feed the Future Mozambique Value Chain (FTF VC)—Revision 01*, October 18, 2016, pp. 7-8. In other cases, it is the first activity of an awarded project. See, e.g., USAID/Bangladesh, *Request for Proposals: USAID's Agricultural Value Chains (AVC) Program in Bangladesh, SOL-388-12-000007*, May 1, 2012, pp. 20-21. USAID's KISAN II Project represents a hybrid approach, in which rice, maize, lentils, and vegetables were mandated for targeting, but one to two additional commodities could be chosen by the contractor.

[59] Marketlinks, "3.2.2. Conducting an End Market Analysis," https://www.marketlinks.org/good-practice-center/value-chain-wiki/end-market-analysis, accessed January 7, 2022.

[60] USAID, Value Chain Development wiki 1.3.1. End Markets, https://www.marketlinks.org/good-practice-center/value-chain-wiki/end-markets-overview, accessed January 7, 2022.

[61] Marketlinks, "3.3. Competitiveness Strategy," https://www.marketlinks.org/good-practice-center/value-chain-wiki/

Trade

USAID's trade and investment programming is linked with the wider U.S. foreign policy agenda, in particular the trade policy priorities led by the Office of the U.S. Trade Representative. In the context of foreign assistance, the focus of U.S. trade policy is to help countries use trade as a tool to promote economic growth, including through trade liberalization, or reduction of trade barriers.

Historically, trade liberalization efforts focused on targeted reductions in effective tariff rates, but the diminishing importance of tariffs as a barrier to cross-border trade—due, in part, to significant reductions in global tariff rates in recent decades—has directed growing attention toward nontariff barriers.[62] In 2017, the World Trade Organization (WTO) Trade Facilitation Agreement (TFA), which focuses on nontariff issues, entered into force, providing, in part, an organizing framework for USAID's ongoing work on trade.[63] The TFA highlights major barriers to trade such as regulatory constraints, inadequate capacity to engage in trade, and logistical or administrative challenges of reaching prospective consumers. It charts an approach to mitigating those barriers. USAID programs to support countries' implementation of the TFA focus on reducing such barriers, reworking domestic taxation policies, and fostering regional economic integration.[64]

Several acts of Congress shape USAID's trade and investment activities. The Foreign Assistance Act of 1961 states the policy of the United States as encouraging efforts to increase international trade flows.[65] Similarly, the African Growth and Opportunity Act (AGOA) states congressional support for reducing tariff and nontariff barriers, regional integration efforts, and reciprocal and mutually beneficial trade agreements. AGOA directs the executive branch to provide technical assistance to foreign governments to help liberalize trade and promote exports, among other initiatives.[66] More recently, Congress' 2015 granting of Trade Promotion Authority (TPA) to the executive branch requires U.S. agencies to build developing countries' capacity to comply with their international trade commitments.[67] The 2015 TPA legislation has provided an organizing framework for much of USAID's assistance for cross-border trade.[68] USAID's Bureau for Development, Democracy, and Innovation provides technical advice on trade programs through its Office of Trade and Regulatory Reform.[69] This often manifests as USAID support for

---

competitiveness-strategy, accessed January 7, 2022; Marketlinks, "3.4. Design and Implementation," https://www.marketlinks.org/good-practice-center/value-chain-wiki/design-and-implementation, accessed January 7, 2022.

[62] Molly Hagebock, *From Aid To Trade*, p. xv; World Bank Policy Research Working Paper, Trading on Time (Djankov, Freund, and Pham 2008).

[63] See CRS Report R44777, *WTO Trade Facilitation Agreement*, by Rachel F. Fefer and Vivian C. Jones.

[64] USAID, *TCB Policy*, p. 1.

[65] §601 of the Foreign Assistance Act of 1961, as amended (P.L. 87-195).

[66] §103 and §122 of the African Growth and Opportunity Act, Title 1 of the Trade and Development Act of 2000, P.L. 106-200.

[67] The Bipartisan Congressional Trade Priorities and Accountability Act of 2015, Title I of P.L. 114-26, authorized executive branch trade negotiations (through July 1, 2021) and established U.S. trade negotiating and liberalization objectives. Section 102(c) of the act sets priorities of the trade assistance programs described in this report. For more on TPA, see CRS In Focus IF10038, *Trade Promotion Authority (TPA)*, by Ian F. Fergusson.

[68] USAID, *Policy for Trade Capacity Building (TCB Policy)*, September 2016, p. 10.

[69] USAID, *ADS Chapter 225: Program Principles for Trade and Investment Activities and the "Impact on U.S. Jobs" and "Worker's Rights"*, Partial Revision Date January 19, 2021, p. 4.

countries' use of U.S. concessional tariff programs for developing countries, such as AGOA and the Generalized System of Preferences, or U.S. support to regional economic integration.[70]

Why does USAID invest in trade programs?

USAID views trade as a key element of economic development. The agency assesses trade-led growth to have been a critical contributor to a global reduction in extreme poverty from 35% to 15% percent of the world population over the period 1990 to 2010.[71] Furthermore, recent analyses suggest that the diversity and complexity of a country's trade network predicts its future growth more reliably than many other indicators.[72] Research indicates that improved trade may also positively affect other sectors. For example, improved cross-border flows of cereals have been identified as a potential solution to food insecurity—only 5% of cereal imports into African countries come from other African countries.[73] Studies also suggest that trade capacity building programs result in clear development impact. A 2010 evaluation concluded that a $1 increase in trade capacity building assistance was associated with a $42 increase in trade, including in least developed or conflict settings.[74] The World Bank and the WTO also assert that trade capacity building is a critical factor in poverty reduction.[75]

Trade Capacity Building

Trade capacity building programs are intended to enhance a country's ability to partake in international commerce. Programs seek to improve the investment climate, increase awareness and utilization of U.S. trade preference programs, broker linkages between buyers and sellers, help firms comply with international standards for their products, and streamline regulatory processes at borders. Typically, USAID trade capacity building efforts are one component of a broader economic growth program. USAID asserts that this integration amplifies impact by focusing on ongoing work while allowing trade gains to spill over to other sectors.[76] For instance, 66% of the export value of firms targeted by the West Africa Trade and Investment Hub project was in Feed the Future-supported value chains.[77]

Trade capacity building includes a broad set of assistance activities to governments, firms, and supporting entities like financial intermediaries. Much of the trade capacity building portfolio targets assistance within countries, supporting small and medium enterprises (SMEs), government agencies, and regional organizations to expand trade opportunities.

- **Support to ministries and regional organizations:** Consistent with support in other sectors to professionalize government agencies' oversight of the economy, trade programs support an array of ministries in both regulating and enabling trade activity. USAID provides technical assistance to both export and investment promotion agencies to connect buyers with sellers and investors with

[70] See CRS In Focus IF10149, *African Growth and Opportunity Act (AGOA)*, by Brock R. Williams and CRS Report RL33663, *Generalized System of Preferences (GSP): Overview and Issues for Congress*, by Vivian C. Jones and Liana Wong.

[71] USAID, *TCB Policy*, p. 10.

[72] Several economists asserted that trade complexity predicts future growth better than indicators for governance effectiveness, human capacity, and business competitiveness. See Ricardo Hausmann, Cesar Hidalgo, and Sebastian Bustos, et al., *The Atlas of Economic Complexity: Mapping Paths to Prosperity*, 2nd ed. (MIT Press, 2013), pp. 35-49.

[73] World Bank Group, "Africa Can Feed Itself, Earn Billions, and Avoid Food Crises by Unblocking Regional Food Trade," press release, October 24, 2012.

[74] USAID, *Policy for Trade Capacity Building (TCB Policy)*, September 2016, p. 9.

[75] Ibid., pp. 10-11.

[76] Ibid., p. 37.

[77] Multiple authors. "Final Report." Prepared for the West Africa Trade and Investment Hub by Abt Associates, Bethesda, MD, January 25, 2018. Revised and submitted February 23, 2018, p. 150.

potential investees.[78] USAID also seeks to enhance regional economic integration such as regulatory harmonization of former Soviet states with the European Union through trade agreement and economic integration commitments, and capacity-building for regional economic communities like the East African Community (EAC) and the Association of Southeast Asian Nations (ASEAN).[79]

- **Firm-level capacity building:** Many trade projects work with businesses to achieve sufficient scale, efficiency, and professional aptitude to reach export markets. This often entails supporting local business advisors who can train local firms directly in improved business practices, often oriented toward addressing technical barriers to trade such as quality certification. Because the majority of trade support is directed at the agricultural sector (USAID has estimated that 78% of value chains supported by trade programs were in agriculture),[80] sanitary and phytosanitary (SPS) compliance is the most common type of support.[81] Adherence to the Global Good Agricultural Practices (Global G.A.P.) standard, which is billed as the most widely accepted standard for the agricultural sector, is a common objective among USAID projects.[82] These types of projects are often classified as Private Sector Competitiveness or Agriculture rather than Trade and Investment.
- **Buyer-seller linkages**: USAID seeks to improve interactions among value chain actors by directly brokering deals, strengthening business associations such as grain councils and farmer cooperatives, and funding research on entry into new markets.[83] Increasingly, this support includes linking producers with investors to expand production. USAID may also work with local organizations to provide trade finance—working capital to assist firms, particularly SMEs, in moving goods across the border.[84]

[78] In Ukraine, for instance, USAID has worked with the government to establish an export promotion office to support marketing campaigns, trade fairs, exporter and buyer missions, and market research. USAID/Ukraine also supports the transition of the investment promotion office from donor support toward a self-sustaining state ministry. USAID/Ukraine, *Request for Proposals: Competitive Economy Program SOL-121-17-000007*, March 13, 2017, p. 17; USAID, *Ukraine 2018 Annual Report*, February 27, 2019, p. 6.

[79] Such economic integration efforts are underpinned by congressional directives such as Title I, Section 122 of P.L. 106-200 for African economic integration; and Section 303-304 of P.L. 115-409 for ASEAN integration. For example, USAID's East Africa Trade and Investment Hub worked with recipient governments to design AGOA utilization strategies, which assessed sectors eligible for concessional tariffs and laid out action agendas for partner governments to promote exports to the United States for such products as textiles and coffee. DAI Global, LLC, *USAID East Africa Trade and Investment Hub Final Report*, July 24, 2019.

[80] Molly Hagebock, *From Aid To Trade*, p. xvi.

[81] For more information on SPS issues, see CRS Report R43450, *Sanitary and Phytosanitary (SPS) and Related Non-Tariff Barriers to Agricultural Trade*, by Renée Johnson.

[82] See, e.g., USAID, *KISAN II RFP*, p. 19. USAID also recently published a manual for Uzbek farmers on how to seek Global G.A.P. certification, for instance. USAID, *USAID Publishes a Comprehensive Global G.A.P. Manual for Uzbekistan's Farmers*, May 4, 2020. For more information on Global G.A.P., see https://www.globalgap.org/uk_en/.

[83] In East Africa, USAID worked with the East African Grain Council to host business-to-business forums across the region, in order to broker cross-border business deals. DAI Global, LLC, *USAID East Africa Trade and Investment Hub Final Report*, July 24, 2019, pp. 28-32.

[84] DAI Global, LLC, *USAID East Africa Trade and Investment Hub Final Report*, July 24, 2019, pp. 34-37.

Trade Facilitation

In addition to building trade capacity among firms and government ministries, USAID provides trade facilitation assistance, which focuses specifically on improving the efficiency of bureaucratic processes to move goods across borders. As noted above, the goals of the WTO TFA helps guide USAID work on these issues and USAID advocates for a four-stage "sequenced approach" for developing countries to implement the 37 commitments under the TFA.[85] Below are illustrative examples of U.S. trade facilitation support under each of these categories:

- **Political will and implementation of fundamental principles:** This set of commitments focuses largely on establishing more open information access and engagement on customs procedures—including by supporting development of public-private councils to advise on procedural developments. Assistance may focus on trade ministries, but business associations are also often a primary recipient of support through such councils.[86]
- **Procedural simplification:** While USAID seldom funds "brick and mortar" infrastructure such as new customs houses or transportation hubs, the agency may assist in planning such projects. USAID may also support establishment of electronic portals to submit documents in advance of arrival, facilitating preclearance or review prior to arrival—often a key constraint to goods clearance in countries that require paper documentation.
- **Compliance management:** A significant proportion of USAID support under this component is assisting developing countries to move toward a risk-based model for identifying potential customs challenges. This includes providing rulings on import clearance in advance of arrival at the border, enhancing the administrative appeal or review process, and reforming penalties to reduce capricious rulings. Across the clearance process, USAID encourages an approach that modulates customs scrutiny to areas of elevated risk, including public health issues like pest and disease risk and toxic environmental risks, rather than universal monitoring.[87]
- **Interagency cooperation and coordination:** In most developing country settings, USAID supports efforts to improve coordination among the various regulatory and enforcement agencies involved in monitoring, processing paperwork, and clearing goods at the border. A critical interlinkage is between customs agencies, which process cross-border paperwork, and food safety agencies, which monitor and test for compliance with SPS regulations. USAID may work with such agencies to establish workflows and checklists for clearance of goods to pass customs. A common initiative is to establish a "single window" for all customs documents, rather than requiring firms to submit paperwork to several agencies.[88]

---

[85] Robert Holler, Erin Endean, Paul J. Fekete, and Virginia Brown, *A Comprehensive Approach to Trade Facilitation and Capacity Building—Connecting Developing Countries to Supply Chains,* Business Environments for Agile Markets Project, June 2015.

[86] USAID, *TCB Policy*, p. 26.

[87] Robert Holler, Erin Endean, Paul J. Fekete, and Virginia Brown, *A Comprehensive Approach to Trade Facilitation and Capacity Building—Connecting Developing Countries to Supply Chains,* Business Environments for Agile Markets Project, June 2015, pp. 35-41.

[88] Ibid., pp. 41-45. A trade project supporting the Association of Southeast Asian Nations (ASEAN), for instance,

Support for U.S. Trade Opportunities

U.S. trade initiatives with a foreign assistance focus can be contentious, given concerns among some observers that increased U.S. trade with developing countries may lead to greater import competition for U.S. producers or offshoring of U.S. jobs to foreign countries (see "Tensions with U.S. Commercial Interests"). In response to these concerns, Congress has established certain statutory limitations on trade-related foreign assistance (see text box below). In addition, U.S. trade and development programs seek to increase opportunities for U.S. economic engagement in foreign markets including through advocacy for U.S. investors and businesses in developing countries. The Trump Administration made such advocacy a more explicit focus of its foreign assistance activities, including, for example, through its Prosper Africa initiative, which advocates alignment with U.S. regulatory and legal patterns under the banner of establishing a level playing field for U.S. businesses.[89]

Legislative Requirements for U.S. Industries and Jobs

Since 1993, appropriations measures have prohibited foreign assistance for activities that would directly compete with U.S. industries or lead to the relocations of U.S. jobs outside the United States, a requirement USAID has formalized in its internal policy.[90] Since 1986, Congress has barred assistance to overseas agricultural commodity production if it would compete directly with U.S. exports.[91] USAID has established strictly prohibited categories of programming, and it has laid out a procedure for analyzing whether an activity would directly compete with U.S. producers. In Kosovo, for example, the New Opportunities for Agriculture project conducted an assessment of ten potential export crops. Six products were determined to pose no issue as they are not produced in the United States, and the remaining four would not threaten U.S. producers' market share.[92] U.S. producer groups have challenged agricultural assistance to Morocco as direct competition with them (for instance, USAID has supported upgrading the Moroccan value chain for berries, which both the United States and Morocco export to Europe).[93]

Private Sector Development

USAID private sector development programs share many characteristics, and often overlap, with USAID agricultural production projects. Many adopt a market systems approach, analyze value chains and end markets, and design interventions to address inefficiencies among producers, along the value chain, and in the enabling environment. Much of USAID's private sector activity operates under Section 252 of the Foreign Assistance Act of 1961, added in 2004 to mandate

---

supported ASEAN member states to bring national single windows online for each country and to establish an ASEAN Single Window that allows electronic exchange of customs documents among ASEAN member states. Nathan Associates Inc., *US-ASEAN Connectivity through Trade*, Final Report, January 2019, pp. 4-9.

[89] As one example, see DAI Global, LLC, *USAID East Africa Trade and Investment Hub Final Report*, July 24, 2019, p. 12. For further information on Prosper Africa, see CRS In Focus IF11384, *The Trump Administration's Prosper Africa Initiative*, by Nicolas Cook and Brock R. Williams.

[90] USAID E3, Automated Directive System Chapter 225: Program Principles for Trade and Investment Activities and the "Impact on U.S. Jobs" and "Workers' Rights," revised August 8, 2019, pp. 4-12. For background on reshoring provisions in annual appropriations measures, see USAID, *Brief History on Legislation Governing Trade- and Investment-Related Activities and "Impact on Jobs in the United States" and "Workers' Rights" Provisions: An Additional Help for ADS Chapter 225*, revised August 8, 2019, p. 3 and footnote p. 4.

[91] Christopher F.D. Ryder, *Legal and Policy Considerations for USAID Trade and Investment Activities*, USAID, October 22, 2008, p. 3.

[92] Tetra Tech ARD, *Kosovo New Opportunities for Agriculture Program: Fiscal Year 2011 - Annual Report*, October 2011, p. 23.

[93] Development and Training Services, Inc., *Morocco Agriculture Competitiveness Assessment Report*, July 24, 2012, p. 5.

USAID to target microenterprises (P.L. 108-484) but expanded in 2019 to micro, small, and medium enterprises (P.L. 115-428). A key difference is that private sector development programs often extend into the formal sector, including medium-sized businesses. Such programs are more frequently found in middle-income countries that are moving beyond subsistence, formalizing enterprises and employment relationships, and expanding both government and entrepreneur capacity. Less-developed countries also often have vibrant clusters of high-growth, high-capacity activity, such as entrepreneurial hubs in Nairobi, Kenya, and in several parts of Nigeria.

Support to Firms

USAID private sector development programs adopt broadly similar approaches as agricultural production programs, but their implementation scope differs slightly. While USAID agriculture programs often directly fund research by U.S. universities for application in developing countries, the wide-ranging scope of private sector development programs, which may address anything from information technology to tourism to furniture production, typically means that such research targets cross-sectoral factors: business plan development competitions, workforce training efforts, and credit access for entrepreneurs.[94]

In general, assistance to firms often follows a "portfolio approach," which aims to reduce the risk of a project's failure by diversifying the types of firms USAID supports. For value chain projects, this often entails selecting products that are not dependent on each other, so that USAID retains flexibility to shift investments should an unexpected disruption occur in one value chain. In post-conflict settings, USAID may establish grant funds to stabilize and sustain businesses across many sectors, prioritizing generation of local incomes even at the risk of crowding out private investment. Similarly, in supporting innovators, USAID may seek a balanced portfolio of technologies, with differentiated solutions to a single development problem.[95]

Enabling Environment Reforms

USAID's dedicated private sector development programs overseas almost invariably include a regulatory and administrative reform program. These projects often take a wider view of regulation than trade or agricultural production projects, and they have a set of tools calibrated to that wider approach. Typical interventions include

- **Assessing regulatory reform.** USAID seeks to enable government agencies to assess the economic impact of regulatory actions in order to shape the business regulatory environment. Regulatory impact analyses (RIAs) are one tool. These analyses weigh the costs of a new or existing regulation against the benefits, and may recommend management of social harms rather than eradication of them. This type of approach may be novel in some contexts, where historically legal enforcement has presumed a goal of universal compliance, rather than managing to the expected cost of enforcement.[96]

[94] For an overview of research in these areas, see SSG Advisors, LLC (dba Resonance), *Theories of Change: High-Growth Small and Medium Enterprise Development*, May 2019.

[95] Dan Charette, *A Portfolio Approach to Value Chain Development Programs*, microREPORT #169, Accelerated Microenterprise Advancement Project (AMAP) Knowledge and Practice II, June 2011.

[96] USAID has assisted Vietnamese bureaucrats, for example, to apply tools incorporating not only harm mitigation from a new regulation, but also the costs of regulatory compliance in an open, free market, in their assessment of regulatory approaches. DAI, *Vietnam Competitiveness Initiative—Phase II Completion Report*, June 2013, pp. 15-17.

- **Enhancing public-private dialogue.** Many USAID private sector development programs seek to facilitate engagement between policy-makers and business associations. Projects often work to strengthen the capacity of business associations, ensuring they represent the entire business community (rather than just the politically connected), and subsequently facilitate dialogue between associations and relevant government agencies, aimed at creating a business climate conducive to economic activity.[97]
- **Business Advisory Support Providers.** To improve the environment for entrepreneurs and SMEs, USAID projects often work with the support environment for entrepreneurs—namely, identifying and facilitating partnerships between business advisory support providers, such as accounting firms and management consultants.[98]

Access to Finance

In recent years, USAID programming has increasingly shifted from microcredit toward new financial inclusion technologies such as digital payments and mobile money. USAID analyses assert that such electronic money platforms can reduce the often-high costs of transacting business in cash. USAID supports the U.N.-based Better than Cash Alliance, which seeks to coordinate efforts across donors and businesses to expand digital payment infrastructure in developing countries.[99] USAID has supported technical development of digital payment platforms, such as in the Philippines.[100] Cryptocurrencies have also been identified as a potentially promising tool to overcome low levels of trust in developing societies, though USAID work remains primarily research-oriented to date.

USAID projects also seek to unlock new sources of capital for investments in underserved sectors. For instance, in Kenya, USAID is working to enable pension funds' investment in domestic energy and infrastructure projects.[101] USAID has also worked to harness the flow of remittances from developed countries toward development impact—a significantly greater source of overseas capital than official assistance. USAID has also stepped up its efforts in recent years in "blended finance," a model for joint investments with non-governmental partners to connect potential sources of capital to investment opportunities in sectors with high potential development impact.[102]

Innovation

Innovation cuts across every programmatic sector—Feed the Future, for instance, supports Innovation Labs that research improved crop varieties, and private sector development projects often include support to business incubators. USAID also issues open calls for potentially path-

[97] In Georgia, for instance, USAID supported a reform tracking system to evaluate the inclusivity and transparency of stakeholder consultations. Deloitte Consulting, LLP, *Governing for Growth in Georgia Final Report*, October 31, 2019, p. 20.

[98] The Kenya Investment Mechanism, for example, is intended to maintain a network of business advisory service providers that can support a pipeline of transactions to advance the project's goal of upgrading target value chains. USAID/Kenya & East Africa (KEA), *Kenya Investment Mechanism (KIM) Activity SOL-615-17-000006*, May 23, 2017, pp. 111-112.

[99] USAID, "Partnering for Impact: USAID and the Private Sector," January 2017, p. 28.

[100] USAID, "E-PESO," March 24, 2021, https://www.usaid.gov/philippines/partnership-growth-pfg/e-peso-activity.

[101] USAID, "Kenya Investment Mechanism Fact Sheet," November 2021.

[102] See, e.g., USAID CATALYZE, https://www.usaid.gov/catalyze, accessed January 7, 2022.

breaking innovations, typically to create and nurture a portfolio of innovators. Two major USAID-wide innovation initiatives cut across several sectors: Grand Challenges for Development and Development Innovation Ventures (DIV). Grand Challenges focus on a targeted problem such as water access for agricultural use or expanding off-grid energy access, whereas DIV seeks innovations to solve major development challenges across sectors. Several field programs, such as the Feed the Future-funded Kenya Innovation Engine and the Cambodia Development Innovation program, have similar characteristics. Such programs typically involve a grant fund alongside a long-term working relationship that includes capacity-building assistance such as facilitating market linkages, expert advice on product viability, and market research.

Innovation funds typically support three tiers of innovators. *Proof of concept,* the first tier, provides seed funding such as to pilot their innovation or develop a business plan. *Testing and positioning to scale,* the second tier, includes assistance to expand innovation implementation and conduct rigorous tests to collect data on effectiveness. One well-publicized example of this is DIV's testing of a speed limit warning sticker in commuter buses to reduce traffic accidents.[103] Finally, *transition to scale* provides funding to distribute proven innovations at large scale in developing countries.[104]

Private Sector Engagement

A cross-cutting theme more often than a dedicated project, USAID often prioritizes leveraging private sector partners, either through broad cooperation or direct facilitation of investment. USAID launched a comprehensive policy on private sector engagement in 2019, seeking to enable greater cooperation with private businesses in target environments.[105] USAID has expanded its range of tools and initiatives to engage with the private sector in recent years, ranging from grants co-funded with the private sector to transaction advisors and investment pipelines.[106] USAID has also experimented with "payment for results" models, in which private sector partners are compensated based on outcomes rather than outputs—increasing household incomes, for instance, rather than holding a training.[107]

Energy Supply and Services

Energy access is a critical factor shaping the "enabling environment" in a partner country, and is thus a consideration of USAID to enhance firm-level productivity. Consistent with USAID's long-standing perspective that open markets sustain economic growth better than state-directed economies, USAID has sought to foster open energy markets in developing countries, many of which have a history of state-administered electrical production and distribution. For instance, the

[103] David Evans and Charles Kenny, "What US Government Initiative Do All Three 2019 Economics Nobel Winners Like? (Hint: It's at USAID.)," Center for Global Development, November 1, 2019.

[104] See, e.g., USAID, "Development Innovation Ventures," https://www.usaid.gov/div, accessed January 7, 2022; Feed the Future Kenya Innovation Engine, *Contract Completion Report*, December 2017, p. 3.

[105] USAID, Private Sector Engagement Policy, April 1, 2019. This policy is discussed in greater detail in CRS Report R45779, *Transformation at the U.S. Agency for International Development (USAID)*, coordinated by Marian L. Lawson

[106] The Global Development Alliance (GDA) initiative is a window for USAID to share costs with a private sector partner under a joint grant activity. The USAID INVEST project maintains a consortium of business advisory and transaction advisors that seek to resolve constraints to firms' growth with market assessments, fund structuring, and developing investment pipelines. USAID, "INVEST," https://www.usaid.gov/invest, accessed January 7, 2022.

[107] Palladium, *Pay-for-Results in Development: A Primer for Practitioners*, November 16, 2017, p. 12.

strategy for Power Africa, one of the flagship U.S. energy assistance initiatives, asserts that state energy sector subsidies can be unsustainable and limit private sector involvement.[108]

USAID has not issued an agency-wide energy strategy or policy, but USAID's Center for Environment, Energy, and Infrastructure in the Bureau for Development, Democracy, and Innovation maintains a toolkit to assess energy markets and facilitate deals and reforms, particularly for renewable energy.[109] While Congress has not enacted a comprehensive energy access bill, region-specific energy assistance bills have passed, such as the Electrify Africa Act of 2015 (P.L. 114-121) and the European Energy Security and Diversification Act of 2020 (Div. P, Title XX of P.L. 116-94). In some countries, USAID employs advisors to support market-based national and regional energy projects and transactions, as well as to advance energy sector reforms and capacity building.[110] USAID support to the energy sector prioritizes three major categories.[111]

- **Energy Production and Distribution:** This includes both large-scale natural gas, solar, and wind power generation facilities that feed into national power grids, and off-grid technologies, such as microgrids and home solar systems. In some countries, USAID works with utilities to enhance both power generation, such as by upgrading underutilized power plants, and power distribution, such as by improving power billing and pricing systems and promoting a role for private power producers.[112] Off-grid investments seek to give energy access to remote communities that are unlikely to be connected to larger power grids in the near term. Power Africa's Beyond the Grid initiative, for example, has run competitions to identify micro-grid innovations that are financially sustainable, market-based, renewable, and productivity-enhancing for remote communities.[113]
- **Grid expansion and integration:** USAID also seeks to enhance grid access by assisting ministries and utilities in planning, regulatory reform, and capacity building. Under Power Africa, USAID advisors support ministries to structure project financing, build capability to run effective procurements, strengthen project management skills within utilities, and foster effective collaboration and decision-making.[114] In Ukraine, USAID works to integrate the national grid into the European energy market by, for instance, helping to model how Ukraine's power system would function if separated from the Russian power system.[115]

---

[108] For further on the structure of Power Africa, see CRS Report R43593, *Powering Africa: Challenges of and U.S. Aid for Electrification in Africa*, by Nicolas Cook et al.; and Power Africa, *The Roadmap: A Guide to Reaching 30,000 Megawatts and 60 Million Connections* (hereinafter *Roadmap*), January 21, 2016, pp. 67-68.

[109] USAID, "Energy: Training and Field Support Toolkits," https://www.usaid.gov/energy/toolkits, accessed January 7, 2022.

[110] See in particular the Power Africa initiative: Power Africa, *Roadmap*, p. 24.

[111] These three categories align with those laid out in the Power Africa initiative's *Roadmap*, but USAID support in other regions broadly aligns with these categories.

[112] See for example the Power Africa initiative, which has brought at least 134 power generation deals to financial close for an expected generation capacity of more than 12,000 MW. USAID, *Power Africa Generation Projects as of June 30, 2021*, https://www.usaid.gov/documents/1860/power-africa-financially-closed-transactions, accessed January 7, 2022. In Pakistan, USAID has both directly funded power projects and channeled private investment to electrical utilities, in order to expand electricity access. USAID/Pakistan, "Energy Fact Sheet," 2020.

[113] Power Africa, *Beyond the Grid Overview*, January 2019, p. 16.

[114] Power Africa, *Roadmap*, pp. 50-53.

[115] Tetra Tech ES, Inc, *Energy Security Project Annual Progress Report*, October 2020, p. ii.

- **Energy market promotion and regulation**: Restrictive legal structures or low-capacity utilities and regulators may not only impede the development of new energy technologies and markets, but also constrain private efforts to modernize the energy sector. USAID supports legal and regulatory reform at the national level and efforts to expand regional trade in electricity by working with regional power pools. USAID also supports regulatory reforms and institutional capacity building, both at a broad national or sectoral level, and as part of its transaction facilitation work—such as by supporting targeted reforms necessary to bring individual energy projects to a successful conclusion.[116] Power Africa placed advisors within the Southern Africa Development Community, for instance, to provide input on regional integration and energy tariff policies.[117]

These three categories align with USAID's approach in other economic growth sectors; one area addresses support to energy producers themselves, the second centers on the distribution of that product to end users, and the third addresses the enabling environment shaping the market. Also as in other sectors, USAID prefers facilitation to the direct supply of services, as by investing significant resources in a model "first-of-its-kind" energy transaction in a country, premised on the notion that such a "proof of concept" will lead to organic uptake of similar subsequent transactions. USAID energy strategies have asserted that the agency's limited resources would not allow direct support to many large energy transactions in a partner country, and that such independent uptake is critical to achieve a large-scale impact.[118] USAID also works with other U.S. trade, investment, and development agencies—including MCC and DFC, but also USTR and the Department of Commerce, among others—to facilitate similar transactions in multiple countries.[119]

Economic Policy Reform

As described previously, many sectoral programs include activities to support growth-oriented policy reform in developing countries. Agricultural projects often involve standardizing warehousing policies or sanitary frameworks. Energy programs often assist the government to reform laws regulating public utilities to enable market-oriented activity, and trade projects regularly entail reform to customs procedures that ease trade constraints at the border.

Why does USAID focus on economic policy?

Development economics has increasingly come to a consensus that effective governance may be the single greatest factor determining a country's long-run economic growth potential, including through reliable, predictable regulation of the private sector under the rule of law.[1] Consistent with its country-led local systems approach, USAID works with partner countries to advance the economic policy aims those countries have set out for themselves. USAID programs support such country strategies specifically to foster the conditions—market-led development sustained by the rule of law—that align with both its economic growth strategy and with broader stated U.S. foreign policy aims, underpinned by a domestic political consensus about how prosperity is created that dates to the Cold War era.[1]

[116] In Ethiopia, USAID supported the drafting of a new geothermal law to regulate the energy sector and facilitated the construction of a new geothermal plant. Power Africa, *Roadmap*, pp. 12, 19.

[117] Power Africa, *Roadmap*, p. 69.

[118] Power Africa, *Roadmap*, p. 10.

[119] See, for instance, the power sector handbook series available from the Power Africa Resource Library (https://www.usaid.gov/powerafrica/newsroom/resource-library).

Several USAID economic reform efforts do not fit squarely in these categories, as they extend beyond a single economic sector. These include "growth diagnostic" analyses to identify major constraints to growth and inform USAID's own programming as well as partner countries'. USAID has also been a prominent voice in promoting renewed attention to and methodologies for effective tax administration, known as domestic resource mobilization, and implements projects in several countries to enhance such efforts.[120]

Data and Analytical Services

USAID leverages many diagnostic tools to assist governments in planning their own development strategies. Enabling environment assessments, regulatory impact assessments, cost-benefit analyses, and political economy analyses all drive USAID programming strategies and support partner governments' policy reform efforts. USAID monitoring and evaluation also aims to identify successful intervention approaches for expansion or replication in other contexts.

USAID has especially focused in recent years on the use of the inclusive growth diagnostics approach. Rather than the sector-specific assessments conducted above, inclusive growth diagnostics seek to evaluate a country's economy holistically and identify discrete constraints to growth, then work with partner governments as well as counterpart assistance agencies like MCC, the State Department, and DFC to target those growth constraints. The inclusive growth diagnostic is central to MCC's compact development process, and USAID integrated it into the Partnership for Growth initiative under the Obama Administration. USAID continues to conduct inclusive growth diagnostics, having completed them in 23 countries and regions since 2011. USAID is also collaborating with the World Bank to pilot a new jobs diagnostic tool meant to address both sector-specific labor challenges and those stemming from economy-wide pressures—including the macroeconomic environment, human capacity, and the regulatory framework for employment.[121]

Domestic Resource Mobilization and Public Financial Management

Improved tax administration is one of the newest prominent planks of USAID's economic policy reform efforts. Framed as "Domestic Resource Mobilization," these programs assist country governments to better apply human, natural, and financial resources within their own borders toward development objectives. USAID has made such efforts central to its "Journey to Self-Reliance" roadmaps, endorsing the view that governments that can finance their own initiatives will no longer rely on assistance from international donors.[122] Key to this concept is improving partner countries' "tax efficiency ratio"—the amount of tax collected compared to how much revenue would be collected under universal tax compliance. The donor community has endorsed this view, in 2015 launching the Addis Tax Initiative—a partnership to enhance domestic resource mobilization efforts in developing countries.[123]

USAID works with countries to reform their revenue management systems in a variety of ways. These include

[120] USAID, "Domestic Resource Mobilization," https://www.usaid.gov/what-we-do/economic-growth-and-trade/domestic-resource-mobilization, updated September 10, 2019.

[121] Mary C. Hallward-Driemeier, *Jobs Group: Jobs Diagnostic Guidance - Why, What and How*, World Bank Group, January 1, 2015.

[122] USAID, *Self-Reliance Metrics FY 2021 Methodology Guide*, August 2020, p. 25.

[123] USAID, *Domestic Resource Mobilization: Financing Country-Led Development*, August 4, 2015, p. 5.

- **Reducing the cost of compliance:** USAID works with ministries to ease regulatory burdens to register businesses by reducing fees, simplifying forms, or shortening registration turnaround times. Often these efforts seek to reform bureaucratic inefficiencies originally created as opportunities for bribery or protection of well-connected incumbent firms. USAID may also support ministries to refocus collection efforts toward taxes that developing countries have proven capacity to administer, such as value-added taxes.[124]
- **Broadening the base:** Many developing country tax administrations fail to extend their efforts to every portion of the economy. Some businesses may fail to obtain a business license, so they are unable to file taxes without a tax identification number. Historical exemptions may have been established for certain sectors as well, and the informal sector often is exempt from certain types of taxes.[125]
- **Tax systems modernization:** USAID has assisted multiple countries to procure and institutionalize the use of new software within government ministries, for data management and to interface with the public through e-registration, e-filing, and e-payment systems.[126] Digitization of records has also eased other tasks, such as automating certain aspects of tax auditing by ministries.[127] Low-tech solutions have also been deployed, such as creation of a call center for taxpayer assistance in El Salvador.[128] Such efforts often overlap with trade programs when supporting customs processing reforms.
- **Public financial management systems reform:** Beyond improvements to policy and technologies, USAID partners have often led efforts to restructure tax administrations themselves. In Afghanistan, for instance, USAID helped establish tax and customs administrations from the ground up and subsequently worked to professionalize the workforce. These efforts often focus on improved capacity to collect, audit, and adjudicate tax payments, and to effectively enforce against non-compliance.[129] In Ukraine, USAID provided design support to "Pro-Zorro," a new open platform for government procurements.[130]

USAID implements a variety of other strategies to assist ministries in expanding their tax base and enhancing their administration of government revenue. For instance, USAID seeks to enable greater budget transparency and citizen accountability in many of its fiscal reform programs. Such efforts are typically designated governance programs, rather than economic growth, though USAID considers them to contribute to economic growth potential.

---

[124] USAID, *Charting a path toward self-reliance: Case Studies of Domestic Resource Mobilization (DRM) Reform*, November 21, 2018, p. 2.

[125] In the Philippines, for example, USAID assisted in designing a tax reform package that eliminated exemptions for value-added tax across a large range of goods. USAID, *Domestic Resource Mobilization: Case Study of Philippines, 1996-2016*, June 2018, p. 3.

[126] USAID, *Charting a path toward self-reliance: Case Studies of Domestic Resource Mobilization (DRM) Reform*, November 21, 2018, p. 2.

[127] See, e.g., USAID, *Domestic Resource Mobilization: Case Study of Philippines, 1996-2016*, June 2018, p. 3.

[128] USAID/ El Salvador Monitoring, Evaluation and Learning Initiative, *Ex-Post Performance Evaluation of USAID's Fiscal Policy Development Activities Evaluation Report*, December 22, 2017, p. ii.

[129] Terry Murdoch, Ron Mcmorran, Anton Kamenov, and Johan van der Walt, *Tax Administration Reform: A Primer*, November 2012, p. 1.

[130] Susan K. Fritz, "Helping Ukrainians Attain the Prosperity They Deserve," *USAID Impact Blog*, March 2, 2018.

Millennium Challenge Corporation

MCC's primary legislative mandate is to provide assistance "that promotes economic growth and the elimination of extreme poverty and strengthens good governance, economic freedom, and investments in people," making economic growth its chief goal.[131] Of the seven sectors MCC lists as its thematic areas, three—energy, agriculture, and roads and transportation infrastructure—fall into the U.S. government definition of economic growth programming.[132]

MCC's efforts to promote economic growth begin with its selection process for the large-scale grants, known as compacts, that are its primary implementation model.[133] The compact selection process seeks to utilize a set of objective indicators to identify countries governed well enough to expect high prospects for growth, given the right conditions. Those indicators are meant to assess three factors: a free and open market-based economy, effective governance under the rule of law, and a society that invests robustly in its people. MCC's limitation to well-governed countries allows it to partner with recipients in ways many USAID missions cannot. The agency gives compact implementation responsibility to partner governments and negotiates policy conditions into its compacts. At the same time, the agency cannot service certain development needs—its requirement of stable governance conditions precludes humanitarian assistance and prohibits aid to fragile states, where many of the most impoverished people in the world live.

After selection, MCC compact countries conduct "growth diagnostic" to identify the chief constraints to economic growth. The diagnostic model stipulates that countries' growth prospects are limited by inadequate private investment and entrepreneurship, resulting either from firms' inability to achieve adequate incomes, or their lack of access to low-cost finance to expand production.[134] Each of these causes has multiple underlying causes as well (**Figure 5**), which the analysis seeks to rank as primary constraints.

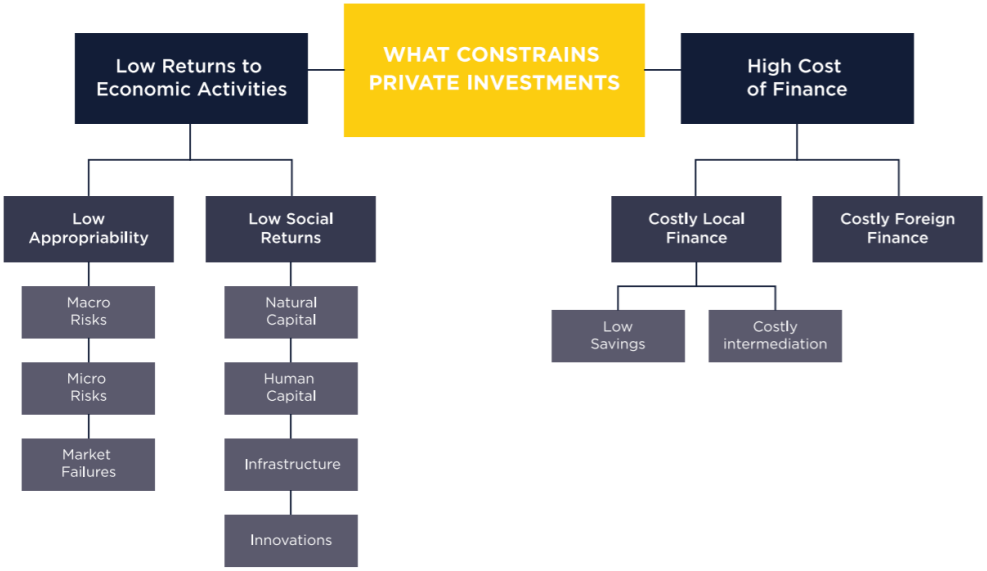
[131] §602 of the Millennium Challenge Act of 2003, Division D, Title VI, P.L. 108-199.

[132] The other sectors are education; health; land and property rights; and water, sanitation, and irrigation. See https://www.mcc.gov/sectors. For a list of foreign assistance categories, see https://www.state.gov/foreign-assistance-resource-library/.

[133] For further information on MCC's selection and implementation model, see CRS Report RL32427, *Millennium Challenge Corporation: Overview and Issues*, by Nick M. Brown.

[134] These analyses follow a methodology established in a 2005 article by three Harvard economists. Ricardo Hausmann, Dani Rodrik, and Andres Velasco, "Growth Diagnostics," 2005.

Figure 5. Growth Diagnostics Methodology



Source: Millennium Challenge Kosovo Office, *Kosovo Constraints Analysis,* December 2017, p. 21.

Note: Adapted from Ricardo Hausmann, Dani Rodrik, and Andres Velasco, "Growth Diagnostics," 2005, p. 27.

MCC compacts are implemented under a grant agreement that funds a "Millennium Challenge Account," a fund administered by a partner country operating unit. The project management structure varies according to the partner country's preferences, the country context, MCC's input, and the characteristics of the project itself. Compact activities related to economic growth include

- **Roads and transportation infrastructure:** Roughly 30% of MCC's investments since the agency's creation have been in roads and infrastructure. Prior to MCC's inception, USAID-implemented transportation infrastructure projects were often criticized for being popular but unsustainable. They were described as having straightforward benefits due to the tangible footprint and active use by local populations, but often at risk of deterioration in countries lacking the capacity to maintain them.[135] MCC's program cycle seeks to address these concerns by focusing on well-governed countries. The compact development process identifies potentially high-impact projects, and a set of "conditions precedent" seeks to ensure project management and maintenance units are established to administer the infrastructure after its construction. As such, the construction of the infrastructure itself is only one component of most MCC compacts.[136]
- **Energy:** MCC provides direct funding for power transmission and generation projects, often to attract additional capital from private investors. This may include refurbishment of existing power plants or upgrading of transmission lines

[135] See, e.g., U.S. Government Accountability Office, *Foreign Assistance: Actions Needed to Help Ensure Quality and Sustainability of USAID Road in Indonesia*, GAO-12-728, July 19, 2012; USAID Office of Inspector General, *Audit of USAID/West Bank and Gaza Construction Programs*, Audit Report No. 8-294-16-001-P, February 22, 2016, pp. 6-7.

[136] MCC, *Roads and Transportation Infrastructure*, https://www.mcc.gov/sectors/sector/transportation-infrastructure, accessed January 7, 2022. In recent years, MCC has invested additional time prior to compact launch to identify specific transportation constraints and design high expected return investments to alleviate them. Shreena Patel, *Principles into Practice: Lessons from MCC's Investments in Roads*, March 20, 2018.

to increase capacity. Generally, such projects include a policy reform plank to create an open and competitive market with well-managed utilities, in addition to "conditions precedent" in the grant agreement.[137] In high-capacity countries that can independently attract private funds for new energy investments, MCC compacts may focus largely on enabling market-oriented investments through operational reform of utilities or ministries. In Ghana, the Power Compact seeks to improve efficiency not only of large utility companies, but also on a smaller scale by establishing new energy efficiency standards for appliances, and facilitating planning to install new energy-efficient LED streetlights.[138] MCC conditions precedent often require establishment of legal frameworks for market-oriented administration of the power sector, such as enabling concessions to private operators.

- **Agriculture:** MCC agricultural projects include a wide range of activities, often overlapping with energy and transportation. Some transportation investments link agricultural production areas to markets. MCC may also invest in improved warehousing facilities and better irrigation for farmers, as well as agricultural finance tools to help farmers invest in new equipment and training to enable use of such infrastructure.[139] Policy reform projects in this sector often seek to reform land tenure policies and administration to secure farming rights for smallholder farmers, who compose a large share of the world's poor.[140] MCC also partners with USAID through Feed the Future to develop infrastructure that USAID can build capacity to use sustainably.[141]

Beyond these three sectors, MCC compacts often address broad economic growth issues as well. In Morocco, for instance, MCC sought to stoke entrepreneurship in order to reduce high unemployment levels. Such projects focused on business ecosystems may seek to strengthen "soft" infrastructure, such as business support providers, or physical infrastructure such as physical office space.

U.S. International Development Finance Corporation

The U.S. International Development Finance Corporation (DFC), the U.S. government's development finance arm, began operations in 2019 as a successor to the Overseas Private Investment Corporation (OPIC). Global development is one of the DFC's primary aims, alongside supporting U.S. foreign policy and attaining returns for U.S. taxpayers.[142] The agency offers a variety of assistance types, including loans, loan guarantees, support to investment funds, technical assistance, and political risk insurance, among others.[143] The DFC was created in part as

[137] See, e.g., MCC, "STAR Report: Malawi Compact," April 2020.

[138] See, e.g., MCC, "Ghana Power Compact," https://www.mcc.gov/where-we-work/program/ghana-power-compact.

[139] In Morocco, MCC funded new equipment and landing sites for fisheries, as well as new olive and almond trees for farms, alongside new technical assistance for more sustainable practices. MCC, "Closed Compact Report Morocco," October 17, 2015.

[140] In Mongolia, for instance, the MCC compact funded the design of a new model for grazing rights to distribute grazing under a leasing system for pastures. MCC, *Mongolia Closed Compact Report*, October 2015.

[141] MCC, "Agriculture," https://www.mcc.gov/sectors/sector/agriculture, accessed January 7, 2022.

[142] DFC, "Developing DFC's New Development Performance Measurement System," July 2020, p. 2. DFC was authorized with the passage of the Better Utilizing Investments Leading to Development (BUILD) Act of 2018, Div. F, P.L. 115-254.

[143] For further information on the DFC's operations and activities, see CRS In Focus IF11436, *U.S. International*

a result of a growing consensus that steering private investment toward developing countries is a critical component of advancing economic growth in developing countries.[144] Congress structured the agency with several provisions to encourage focus on development impact (BUILD Act, Div. F, P.L. 115-254).

To quantify the expected development value of a proposed DFC-supported activity, the DFC has developed an impact quotient tool that projects development impact in a single score from metrics across three "pillars:" economic growth, inclusion, and innovation.[145] Metrics within these pillars align with many of the goals of USAID and MCC programs, such as increasing local incomes, creating jobs inclusively, diversifying a country's economic production base, and prioritizing investments in SMEs.[146]

In October 2020, the agency released its first global development strategy, the *Roadmap for Impact* (the *Roadmap*).[147] The *Roadmap* addresses seven cross-cutting themes for its investments:

- Innovation across the development finance life cycle;
- Women's economic empowerment;
- Financial systems strengthening;
- Sustainable job creation;
- Protecting workers;
- Bolstering manufacturing and global supply chains; and
- Empowering U.S. and local businesses.[148]

In addition to these cross-cutting themes, the *Roadmap* targets six sectors, four of which align with economic growth aims: financial inclusion and strengthening financial systems, technology and infrastructure, energy, and agriculture and food security.[149]

DFC's focus is, to a degree, dependent upon the applications it receives—unlike USAID and MCC, which actively engage in their projects' design and launch. The *Roadmap* lays out priorities for DFC project support and aims to guide both how the agency markets its tools and services, and how it will make project approval decisions.[150] The strategy is currently being revised to incorporate priorities of the Biden Administration. DFC's selection of qualifying projects, then, is the chief approach it uses to promote economic growth priorities:

- **Technology and critical infrastructure:** DFC prioritizes expanding internet access to the four billion people currently unable to access it. Support ranges from financing large-scale deep-sea cable projects to funding low-cost mobile devices in poor, remote areas. DFC is supporting installation of a new Trans-

Development Finance Corporation (DFC).

[144] United Nations, *Addis Ababa Action Agenda of the Third International Conference on Financing for Development*, July 27, 2015, p. 17.

[145] For a full description of these pillars, see DFC, "Developing DFC's New Development Performance Measurement System," July 2020, pp. 5-8.

[146] DFC, *Developing DFC's New Development Performance Measurement System*, June 2020.

[147] DFC, "DFC Announces New Global Development Strategy to Catalyze $75 Billion by 2025," press release, October 15, 2020.

[148] DFC, *Roadmap*, pp. 17-24.

[149] Ibid. The other two sectors are water, sanitation, and hygiene; and health

[150] DFC project selection is also guided by the statutory considerations Congress mandated in the BUILD Act.

Pacific fiber optic cable from the United States to Indonesia and Singapore through a loan, for example.[151] The focus of DFC's financing and other investment support are often similar to MCC compact projects—such as port upgrading to enable trade in goods, airport upgrading to ease tourists' entry, and urban transport like light rail. DFC is also active in the housing sector, including mortgage finance and land development.[152]

- **Energy:** DFC projects also prioritize the 770 million people living without power in 2019.[153] DFC-supported investments in the energy sector align with many of the priorities laid out in USAID programs, including energy supply and distribution. While USAID seeks to facilitate transactions leading to expanded access rather than financing projects directly, DFC may provide financing directly, through loans, loan guarantees, or equity investments. DFC also seeks to seed development of new energy technologies, such as new off-grid products, solar and wind technologies, hydrogen fuel, electric vehicles, and potentially small-scale nuclear technology.[154] In Eastern Europe, Congress has authorized DFC to fund projects that improve energy transmission or storage, including "smart grid" and distributed generation models.[155]
- **Financial inclusion**: DFC programs also target the 980 million people in the world without bank accounts—many of whom are women and vulnerable populations. DFC works through both direct lending, loan guarantees, and investment funds to support micro, small, and medium enterprises that may lack collateral or credit history to obtain a loan. DFC, inheriting the approach of the USAID Development Credit Authority, supports these firms in large part through loan portfolio guarantees, which are targeted at expanding capital for small firms.[156] Furthermore, the agency works with financial institutions to design financial technology that supports remote populations, such as online banking, mobile payments, blockchain-based systems, and digital identity platforms. Such financial access may help firms transition from the informal to the formal sector.[157]
- **Agriculture**: DFC investments in agriculture are smaller-scale than its energy and other infrastructure investments, including an Agricultural Finance Unit to support Feed the Future activities.[158] At the producer level, DFC investments often orient toward enabling investments in improved inputs or equipment, largely through access to credit. Among intermediaries in the value chain,

[151] DFC, "Public Information Summary: Trans Pacific Networks," https://www.dfc.gov/sites/default/files/media/documents/9000093543.pdf.

[152] DFC, *Roadmap*, pp. 26-29.

[153] International Energy Agency, *SDG7: Data and Projections*, October 2020.

[154] DFC, *Roadmap*, pp. 31-34. In Vietnam, for instance, DFC recently announced its potential support to a new liquid natural gas terminal alongside a new power plant. DFC, "DFC Announces New Initiatives to Support Prosperity in the Indo-Pacific," press release, October 29, 2020. DFC has also announced revisions to its environmental policies to facilitate nuclear energy activities. DFC, "DFC Modernizes Nuclear Energy Policy," press release, July 23, 2020.

[155] European Energy Security and Diversification Act of 2019, Division P, Title XX of P.L. 116-94.

[156] USAID Office of Inspector General, *Audit of USAID's Development Credit Authority,* Audit Report No. 9-000-06-009-P, September 25, 2006.

[157] DFC, *Roadmap*, pp. 36-37.

[158] DFC, *Coordination Report*, July 31, 2019, p. 16.

investments often aim to reduce post-harvest losses, such as refrigeration equipment to strengthen "cold chain" linkages, or to enable new markets access, such as investing in new platforms for commodities exchange.[159]

Policy Issues

Congress has taken particular interest in certain aspects of economic growth programming in recent years, and aspects of congressional focus may have particular bearing on economic growth programming. This section profiles those issues and recent congressional action on them. Congress has passed several measures and signaled support for initiatives to promote women's economic empowerment ("Gender in the Economy"), made adjustments to both financial inclusion ("Evolving Approaches to Finance for Development") and microenterprise development programs ("Micro, Small, and Medium Enterprise Orientation"), and sought to avoid negative impact on U.S. jobs and exports from economic growth programs ("Tensions with U.S. Commercial Interests"). Cross-cutting issues that have attracted congressional attention may raise novel issues in the economic growth sector. Recent congressional efforts to expand evaluation and impact measurement may prove especially challenging in economic growth activities ("Cross-Program Evaluation"), where some investments may have been accomplished by the private sector in the absence of aid ("Adding Value for Beneficiaries"). Congress's interest in fragile states, both as a unique constraint to development and a risk to U.S. national security, also bears upon economic growth programming in particular, as implementation best practices may not be feasible in weakly governed contexts ("Fragile States").

Cross-Program Evaluation

Congress passed the Foreign Aid Transparency and Accountability Act of 2016 (FATAA, P.L. 114-191) to improve impact measurement among agencies. Partly in response to measures such as FATAA, agencies have developed worldwide impact indicators such as the number of project-attributable jobs created and the total income generated by a project, in order to assess agency progress. Because U.S. economic growth assistance programs are often calibrated to the implementation environment, comparative analyses of effectiveness may be difficult to make. For example, job creation targets vary widely from project to project, and Congress may find it challenging to assess whether funds were spent effectively based only on the unit cost per job created. One USAID evaluation, for instance, assessed an "efficient use of funds" to be $11,918 per job,[160] while another project in Tunisia reported creating new jobs at a cost of $954 each.[161]

Country income levels or target sectors could affect such costs-for-impact targets significantly. DFC, for instance, has set a target of supporting the creation of 100,000 new jobs in developing countries by 2025, though such jobs could be easier to create in countries with strong financial sectors where investments are easy to find.[162] Agencies could be incentivized to select sectors particularly primed for growth, leading to artificially elevated figures for jobs supported, created, or preserved. Agencies may launch activities in pursuit of strong metrics at the expense of more valuable efforts in order to meet the indicators and demonstrate immediate results. Alternatively, a

[159] A cold chain is a supply chain through which transportation and storage facilities regulate temperature of the product between producer and end market.

[160] USAID, *Accelerating Entrepreneurs: Insights from USAID's Support of Intermediaries*, March 8, 2018, p. 5.

[161] Chemonics International, *Championing Economic Growth Best Practices in Asia and the Middle East: Asia and Middle East Economic Growth Best Practices Project*, September 30, 2017, p. 13.

[162] DFC, *Roadmap*, p. 6.

"proof of concept" project may register only a small number of jobs supported, but could result in an outsized impact that is not strictly captured in performance indicators. Similarly, while agencies set a policy of targeting the poorest populations and the most difficult constraints to growth, targeting those areas may also depress an agency's performance or increase the costs of a development investment.

As Members of Congress evaluate not only agencies' compliance with FATAA but also the findings emerging from that data collection and research, they may seek standardized benchmarks for performance of foreign assistance programs, subject to the considerable variety of implementation contexts. MCC, for instance, assesses impact using a single economic rate of return, and the DFC's impact quotient aggregates multiple indicators into a single score. Congress may evaluate the feasibility of similar standardized metrics for USAID, while considering the elevated diversity of its project portfolio. Members may also take careful note of the context in which development impact targets are achieved, whether set by agencies or by Congress, and take account of possible negative incentives created in such worldwide indicator targets.

Adding Value for Beneficiaries

Agencies generally seek to ensure their activities are additional to the private sector (a concept known as "additionality"), meaning they avoid activities that the private sector would likely provide in donors' absence. Such "crowding-out" of private activity is considered harmful because establishing a vibrant private sector is considered a key priority of U.S. economic growth programs. This may mean agencies appear to be more prone to failure than strictly private investments: in the words of one USAID evaluation, if a firm's business plan were assured of success, "the commercial sector would handle it and foreign aid programs would be unnecessary." DFC, for example, requires investors to certify that private sector financiers have declined to provide adequate support for their project.[163] This approach helps to ensure that projects add value for beneficiaries, but also increases the propensity of projects to fail when compared with private sector investments, since the private sector may refuse to engage in those activities due to high perceived risk.[164]

In recent years, this has also led agencies not to directly provide goods and services, but to prove demand for such products so that the private sector will provide them. Demonstration plots (in which a farmer uses a new seed variety on only a small portion of land) are often small-scale, and they may require considerably more resources to execute than to distribute those same seeds widely. However, seed distribution without proof of those seeds' superiority in a local market may cause local farmers not to use them, for fear consumers may dislike the new product or concern about other unexpected factors reducing sales. Running a business plan training may require fewer resources than fostering a dynamic market of local training providers, but foreign assistance experts often prefer the latter because the development gains, even if smaller in the short term, could be more permanent ("sustainable," in development experts' terms). Agencies' mandate not to directly intervene for risk of crowding out private actors may limit the immediate apparent impact of project interventions but secure more reliable gains over the long term, as they lead to improvements to the system as a whole, not just individual beneficiaries.[165] Such "local systems" thinking, which takes into consideration broader ripple effects of an implementation

[163] DFC, *Eligibility Checklist*, https://www.dfc.gov/what-we-offer-eligibility/eligibility-checklist, accessed January 7, 2022.

[164] Development & Training Services, Inc., *Evaluation of West Africa Trade-Related Projects*, May 8, 2012, p. 18.

[165] Agencies often refer to this concept as "additionality," the principle that U.S. assistance should be additional to private sector activity, rather than substitute for it.

approach, has been a major theme of new aid strategies, but it may be difficult to easily measure through traditional monitoring and evaluation.

Congress may consider scrutinizing how agencies measure project impact by taking account of an intervention's additionality. The MCC, for instance, scores its compacts strictly on the direct economic returns of its investments but does not appear to calculate indirect benefits, such as enabling environment reforms that spill over into other value chains or the consequences of the conditions MCC places on providing funds. While development economists highlight the benefits to economic growth of reliable governance, USAID governance programs are seldom evaluated on their economic growth impacts. While USAID agriculture projects increasingly focus on strengthening local systems rather than directly intervening in a market, measuring the economic gains from fostering a new training provider market could require novel economic analysis techniques. Such an analysis may facilitate congressional consideration of the relative efficacy of governance activities compared to economic growth investments.

Fragile States

Congress has given particular attention to the challenge of fragile states in recent years, such as through passage of the Global Fragility Act of 2019 (Title V, Div. J of P.L. 116-94). USAID has set its attention to these environments under the umbrella of promoting "resilience," or the ability of societies to cope with external shocks and avert development backsliding.[166] USAID's 2021 economic growth policy identifies fragile states as a particular challenge for economic growth but does not provide an implementation methodology tailored to the concerns of fragile states, unlike previous iterations of the policy.[167] Resilience programming differs in important respects from the approaches laid out in the new economic growth policy, which seek to foster open markets in relatively stable countries. The policy does highlight the particular importance of building social capital in fragile states to foster the proper conditions for an open market.[168]

Congress may evaluate whether USAID is effectively tailoring its economic growth programming to the unique considerations of fragile states, and whether adequate investments have been made in producing implementation methodologies designed for these contexts. Congress may also consider whether economic growth is a proper focus at all in these contexts, or whether resources should be directed at the more foundational work of enabling stable, reliable, effective governance and social capital, rather than economic production.

Evolving Approaches to Finance for Development

USAID has a long history of seeking to leverage credit programs to transform poor societies. Microfinance gained significant favor among policymakers in the early 2000s, with Congress describing it as a low-cost tool to both dramatically expand incomes and reduce reliance on foreign aid (Microenterprise for Self-Reliance and International Anti-Corruption Act of 2000, §102, Title I of P.L. 106-309). In 2006, Muhammad Yunus, an early pioneer in microfinance, was awarded the Nobel Peace Prize for his work to fight poverty by giving credit access to the

[166] USAID, *Building Resilience to Recurrent Crisis: USAID Policy and Program Guidance*, December 2012, p. 5.

[167] The 2007 Economic Growth Policy included a companion guidebook on economic growth programming in fragile states.

[168] USAID, *Economic Growth Policy*, p. 47.

unbanked.[169] The World Bank assessed microcredit to have led 5% of borrowers of his Grameen Bank out of poverty each year.[170]

Even as microfinance grew in popularity, however, new analytical approaches threw its effectiveness into question. In 2003, the U.S. Government Accountability Office (GAO) determined that USAID's microfinance programs helped with some of the consequences of poverty but seldom moved beneficiaries above the poverty line.[171] Scientific analyses beginning in 2009 determined that microcredit programs in India and in the Philippines did not affect poverty indicators.[172] Reports of suicides by overindebted microfinance customers led one Indian state to shut down microfinance activities altogether in 2010.[173]

A recent survey by the World Bank summarizes a new view among many development experts on microfinance: it has not succeeded in bringing millions out of poverty, but it has a consistent, modestly positive impact on incomes. Other factors, such as an onerous regulatory environment, may be a greater constraint to growth.[174] Moreover, many of the microenterprises U.S. assistance supports do not seek to grow: they are often doing business while seeking jobs and thus are primarily concerned with subsistence, not expansion.[175] A recent USAID report to Congress suggested that access to credit is most beneficial for growth-oriented firms, not the extreme poor whose financial needs are often savings, rather than credit.[176]

Congress has played a central role in promoting U.S. support to microenterprises, including through annual appropriations and periodic revisions to the Foreign Assistance Act of 1961 to encourage development finance efforts. Members of Congress may monitor both the growing body of research on financial inclusion and the expanding range of tools under consideration to achieve sustainable financial access, such as facilitating credit access through mobile money or leveraging remittances toward sustainable investments. Given that the research on effectiveness of development finance approaches is evolving considerably, Congress may track this emerging research to ensure legislation incorporates new findings. Congress may also commission analyses that evaluate some of the guiding principles of economic growth programs. For instance, the new economic growth policy sets the firm, rather than the household or the workforce, at the center of USAID's approach—an approach that may implicitly reduce emphasis on the household impacts of economic improvement.[177] Congress may assess whether to evaluate program impact on household-side indicators in addition to enterprise promotion.

---

[169] The Nobel Prize, *The Nobel Peace Prize 2006: Grameen Bank*, https://www.nobelprize.org/prizes/peace/2006/grameen/facts/, accessed January 7, 2022.

[170] David Roodman, "Microcredit doesn't end poverty, despite all the hype," *Washington Post*, March 10, 2012.

[171] U.S. Government Accountability Office, *Microenterprise Development: USAID's Program Has Met Some Goals; Annual Reporting has Limitations*, GAO-04-171, November 2003.

[172] World Bank Group Independent Evaluation Group, *Financial Inclusion: A Foothold on the Ladder toward Prosperity? An Evaluation of World Bank Group Support for Financial Inclusion for Low-Income Households and Microenterprises (Financial Inclusion Evaluation)*, 2016, p. 11.

[173] David Roodman, "Microcredit doesn't end poverty, despite all the hype," *Washington Post*, March 10, 2012.

[174] World Bank, *Financial Inclusion Evaluation*, p. 12.

[175] M. Shahe Emran, A.K.M. Mahbub Morshed, and Joseph E. Stiglitz, "Microfinance and Missing Markets," *Social Science Research Network Electronic Journal*, March 2007, p. 29.

[176] USAID, "Report to Congress: Microenterprise and Pathways out of Poverty," August 2018.

[177] §252 of the Foreign Assistance Act of 1961, as amended, P.L. 87-195.

Micro, Small, and Medium Enterprise Orientation

Congress has long emphasized the role of microenterprises in development. USAID's traditional focus, moreover, has been in the informal sector, given its large role in low-income economies. However, such entities comprise a small share of the economy in certain regions, and a 2018 USAID report suggested such microenterprises, often focused on subsistence rather than expanding production, may not be the optimal programming target to help countries prosper. Accordingly, Congress amended the Foreign Assistance Act of 1961 in 2018 to include small and medium enterprises as well as microenterprises (P.L. 115-428). In middle-income countries such as Ukraine and Vietnam, where formalization is ongoing, or in resource-rich countries with large extractive sectors, large employers may comprise a significant share of the workforce. In such countries, Congress may consider whether development impact is maximized by supporting micro, small, and medium firms, or by changing the behavior of and the policies regulating large firms, who may set wages and workplace conditions for value chains across developing countries. Such labor policy projects are usually led by the Department of Labor, which may lead USAID missions with a lack of perspective on such formal labor market issues.

Furthermore, USAID's traditional focus on small and medium firms may divert attention from sources of economic distress among consumers. Recent USAID analyses have noted that constraints to growth may be driven by lack of consumers, as high rates of poverty limit viability of end markets, and consumer spending is commonly cited as one of the major factors driving growth among developed countries.[178] Congress may evaluate whether foreign assistance agencies are facilitating countries' transition to fully developed consumer economies.

Gender in the Economy

Women's economic empowerment has long been a consideration of U.S. foreign assistance programming for economic growth, often due to guidance given by Congress. Agencies have highlighted research that identifies a relationship between women's economic empowerment and economic prosperity generally.[179] Traditionally, Congress has identified it as a "cross-cutting issue" that agencies required partners to address through their sectoral programming. Section 113 of the Foreign Assistance Act of 1961, as amended, mandates "particular attention" to activities that would advance women's economic prosperity, rather than dedicated programming. The Women's Entrepreneurship and Economic Empowerment Act of 2018 (WEEE Act, P.L. 115-428) mandates gender analyses and considerations to be integrated across USAID's program development processes. By contrast, standalone projects focused on women's economic empowerment have recently launched in several areas—such as the Women in the Economy project in Afghanistan. The DFC launched the 2X Women's Initiative to specifically target women-owned and women–led enterprises, and the Women's Global Development and Prosperity Presidential Initiative (W-GDP) has sought to specifically advance women's economic empowerment across agencies. In the past such targeting has been a component of existing initiatives—USAID programming policy requires gender considerations to be integrated throughout all programs, as in the WEEE Act, rather than a separate program area.[180]

---

[178] USAID, *Economic Growth Policy*, p. 14. For an analysis of the importance of consumer spending in developing countries' growth, see, e.g., Mitra Toossi, "Consumer spending: an engine for U.S. job growth," *Monthly Labor Review*, November 2002, pp. 12-22.

[179] USAID, *Economic Growth Policy*, p. 48.

[180] USAID, *ADS Chapter 205: Integrating Gender Equality and Female Empowerment in USAID's Program Cycle*, January 22, 2021.

Congress may evaluate whether such dedicated gender programs may duplicate efforts ongoing within existing projects, as well as whether the establishment of such dedicated projects could reduce pressure to prioritize women's issues among other programs within a country. For instance, Congress in FY2021 designated $200 million for a W-GDP Fund, and $265 million for "micro, small, and medium-sized enterprises that benefit the poor, especially women." Congress may monitor the extent to which W-GDP programming displaces targeting of women under the micro, small, and medium enterprises funding, through which a GAO report had already noted that USAID was not separately tracking female beneficiaries.[181] Additionally, Congress may monitor whether deployment of USAID's gender expertise to W-GDP reduces resources for existing cross-cutting efforts and the rigor of gender analyses.

Tensions with U.S. Commercial Interests

While development advocates have long emphasized the benefits of foreign aid for the U.S. economy, many observers also highlight potential tensions between U.S. foreign assistance activities and domestic economic priorities. In response to these concerns, multiple legislative restrictions prohibit programs that may harm U.S. businesses or U.S. jobs (see text box "Legislative Requirements for U.S. Industries and Jobs" in "Trade"). USAID and DFC each make efforts to illustrate benefits of programming to the U.S. economy and the American people,[182] and MCC highlights that compact funding is open to U.S. contractors.[183] However, tensions between foreign assistance goals and U.S. economic interests may persist. U.S. efforts to promote integration of regional trading blocs could provoke concerns if such blocs adopt standards misaligned with U.S. business practices. For instance, U.S. policy in Eastern Europe is to encourage integration of former Soviet states into the European Union (EU). However, the United States has long disputed an EU prohibition on certain antimicrobial rinses of poultry, which has effectively resulted in a ban on U.S. poultry products.[184] U.S. agencies promoting harmonization with EU standards, then, could ultimately facilitate prohibiting U.S. poultry exports in the region if precautions are not taken. Similarly, EU-funded aid projects may seek codification of such standards counter to U.S. commercial interests, creating challenges for USAID efforts at coordinating with EU donors. Congress may wish to review the approaches agencies adopt to ensure foreign assistance efforts do not conflict with U.S. commercial interests, particularly as the private sector comprises a growing share of overseas direct investment.

Author Information

Nick M. Brown
Analyst in Foreign Assistance and Foreign Policy

[181] §7060(e), Div. G, of P.L. 116-94. GAO, *Micro, Small, and Medium Enterprise Development: USAID Needs to Develop a Targeting Process and Improve the Reliability of Its Monitoring*, GAO-21-269, March 2021.

[182] USAID, *Shared Interest: How USAID Enhances U.S. Economic Growth*, May 15, 2018;

[183] MCC, "Do Business With MCC Partner Countries," https://www.mcc.gov/work-with-us/mcc-partner-countries, accessed January 7, 2022.

[184] For further information on this dispute, see CRS Report R40199, *U.S.-EU Poultry Dispute on the Use of Pathogen Reduction Treatments (PRTs)*, by Renée Johnson.

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.