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DRAFT: USAID'S KEY ACHIEVEMENTS IN RURAL ENTERPRISE DEVELOPMENT

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AID'S LEGACY IN AGRICULTURAL DEVELOPMENT

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ACRONYMS

APEP	Agricultural Productivity Enhancement Project
ARIES	Assistance to Resource Institutions for Enterprise Support project
ARS	Agricultural Research Service
BFS	Bureau for Food Security
CGIAR	Consultative Group for International Agricultural Research
CDIE	Center for Development Information and Evaluation
DAI	Development Alternatives, Inc.
DCA	Development Credit Authority
DRC	Domestic resource cost
ECHOES	Empowering Cocoa Households with Opportunities and Education Solutions
EGAT	Bureau for Economic Growth, Agriculture, and Trade
EXITOS	Export Industry Technology Support
FANTA	Food and Nutrition Technical Assistance
FDA	U.S. Food and Drug Administration
FSR	Farming systems research
FtF	Feed the Future
FY	Fiscal Year
GEMINI	Growth and Equity through Microenterprise Investments and Institutions
ICRAF	World Agroforestry Center
IDEA	Investment in Developing Export Agriculture
IITA	International Institute for Tropical Agriculture
ILO	International Labor Organization
MAPA	Market Access and Poverty Alleviation project
MSU	Michigan State University
NASFAM	National Smallholder Farmers' Association of Malawi
NGOs	Non-governmental organizations
NTAE	Non-traditional agricultural exports
PEPFAR	President's Emergency Plan for AIDS Relief
PFID	Partnership for Food Industry Development
PISCES	Program for Investment in the Small Capital Enterprise Sector
PPC	Bureau for Program and Policy Coordination
PROEXAG	Non-Traditional Agricultural Export Support (or Promotion of Export Agriculture)
RAC	Research Advisory Committee
STCP	Sustainable Tree Crop Program
USAID	U.S. Agency for International Development
USG	U.S. government
VC	Value chain

USAID'S KEY ACHIEVEMENTS IN RURAL ENTERPRISE DEVELOPMENT

EXECUTIVE SUMMARY

Information gathered from outreach to a wide sample of former and current USAID staff and contracting and cooperating partners, supplemented by a broad survey of project documents and relevant literature, suggests four key achievements of USAID in the area of rural enterprise development:

1. Rise of the private sector paradigm and its application to agriculture;
2. Embrace of agribusiness and the concepts of value chains and clusters as approaches to promote rural agricultural enterprise development, wherein food and agricultural markets are seen as anchored by the commodity buyer, processor, exporter, or retailer;
3. Commitment to public-private partnerships to address smallholder agriculture in a new integrated approach that includes global industry partners; and
4. Recognition of the importance of rural, nonfarm enterprises to rural household incomes, which in turn led to the meteoric rise of the field of microenterprise development.

USAID's adoption of a private sector paradigm for engaging in agriculture in developing countries, and the embrace of a value-chain approach to program links of rural enterprises with consumer markets has helped to improve productivity, diversify production and thus sources of rural income, generate higher farm prices for better quality production, and increase demand for labor. The net benefit of USAID's investments in rural enterprise development is improved household welfare for millions of farm and rural nonfarm enterprises around the globe.

USAID has contributed through support for education and training of developing country farmers, entrepreneurs, and scientists; technical assistance at all levels of value-chains; and mitigation of risks associated with developing new, global supply networks. Strategic alliances with private U.S. food industry partners have helped USAID's rural enterprise clients to secure access to new technologies and new markets for the latter, while helping to offset the risks faced by the former as they seek new sources of raw materials. Technical assistance provided through for-profit, not-for-profit, and academic institutions to smallholders, producer and business associations, export groups, wholesalers, and retailers has also contributed to the flourishing global food business in the last several decades.

Last, USAID's support university-based research on rural enterprises and creation of long-term relationships abroad has led to pathbreaking findings in several socioeconomic areas, such as recognition of the economic importance of rural nonfarm enterprises and understanding of the increasing commercialization of developing country agriculture and its implications for small farmers.

USAID'S KEY ACHIEVEMENTS IN RURAL ENTERPRISE DEVELOPMENT

INTRODUCTION

The U.S. Agency for International Development (USAID) celebrates its 50th anniversary in November 2011. In light of the refocus of USAID attention on food security and in recognition of the need to capture the Agency's institutional history in agricultural development, this is one of several thematic papers that summarize USAID's contributions in key aspects of agricultural development. This paper focuses on investments made by USAID in support of the development of rural enterprises and the value-chains that link rural producers to consumers.[1]

The welfare of the world's poor matters to the United States, morally, strategically, and economically (State and USAID 2010). Though urbanization is becoming a major phenomenon in developing countries, 55 percent of the world's less developed country populations and over 70 percent of its least developed country populations are still based in rural areas.[2] Agriculture provides employment for 17 percent of the workforce in Latin America and the Caribbean, 40-48 percent in various parts of Asia, and over 60 percent in sub-Saharan Africa.[3] In the 1960s the development economist John Mellor observed, "In low-income countries, peasant agriculture tends to be characterized by low levels of utilization of certain resources, low levels of productivity, and relatively high levels of efficiency in combining resources and enterprises" (Mellor 1966, 134). Yet the development literature has long recognized the catalytic contribution of agricultural productivity increases to broad economic transformation (Timmer 1988). These structural characteristics and economic tenets underpin USAID's interest, albeit one that has waxed and waned, in rural enterprise investments over the past fifty years.

USAID has long pondered the following questions. How best to contribute to structural economic transformation to lift developing countries' poorest out of poverty? How best to support increases in rural productivity to catalyze the transition to higher skilled, more productive employment in industrial and service sectors? How best should U.S. assistance provide meaningful opportunities to generate wealth for small farmers and rural enterprises around the world? How best to connect the world's rural poor to markets? And how might USAID harness the power of markets and the resources of the buyers and multinational corporations that motor them on behalf of its clients, the rural poor?

Fifty years ago Johnston and Mellor noted "the false dichotomy of agricultural vs. industrial development" (1961, 566). Haggblade (2007) credits Mellor and Lele (1973) for underscoring the inexorable link between rural farm and nonfarm enterprises. Thus rural enterprises are understood here in

[1] A list of outreach contacts with current and former USAID staff and implementing partners is included at the end of this paper. The author is grateful to all who took the time to meet with her and notes that she alone is responsible for factual errors, misinterpretations, and omissions.

[2] United Nations, Department of Economic and Social Affairs, Population Division, http://esa.un.org/unup/.

[3] International Labor Organization, *Key Indicators of the Labor Market*, 2009.

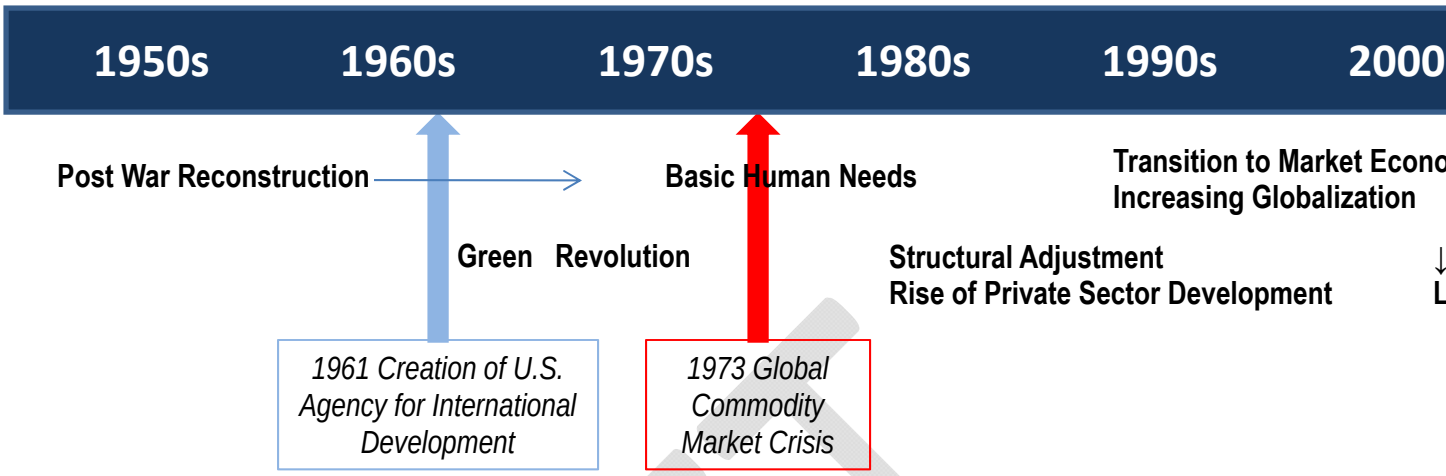
their broadest context to be economic units of production, marketing, processing, or trade, i.e., any economic entity involved along the chain of value addition that stretches from input providers to farms to consumers. Enterprises may be micro, small, medium, or large. They may be explicitly agricultural in nature or they may involve the rural nonfarm economy, supplying inputs, services, or consumer goods to rural households (Haggblade and Liedholm 1991). They may be wholly focused on the domestic market or they may be linked to regional and even global markets.

Through the provision of training and technical assistance in a wide range of arenas, USAID has helped smallholder farmers to improve their productivity and diversify their production and increase their demand for farm inputs, rural labor, consumer goods, and services; improved the efficiency of marketing channels linking rural enterprises with destination markets; and built linkages with foreign buyers of developing country food and agricultural products. These outcomes have raised smallholders' incomes and thus improved welfare for rural enterprises in partner countries.

To explore USAID's contributions, this paper provides historical context for USAID's work, suggests four key achievements to which its resources have contributed over the past fifty years, and concludes with lessons learned from those achievements. The achievements are drawn from twenty-eight interviews with former and current USAID staff, implementers, and academic key informants, as well as literature reviews. These achievements do not aspire to represent all of the projects, subsectors, countries, and regions where meaningful rural enterprise work, supported by USAID over 50 years, has taken place. Instead, the paper provides a small set of stories to illustrate the four broad achievements found to meet the judgment criteria set out by the Bureau for Food Security (see Annex 1). Readers are also advised that due to overlap among the topics covered in this series, a particular story may appear as a "market" issue, rather than a "rural enterprise development" issue, for instance.

OVERVIEW OF HISTORICAL CONTEXT

FIGURE 1: TIMELINE OF AID DEVELOPMENT THEMES



The seeds of USAID were sown well before 1961. In 1947, in the wake of World War II, when President Truman authorized the Marshall Plan to fund post-war reconstruction, the Economic Cooperation Agency was established to oversee its implementation. In his 1949 Inaugural Address President Truman outlined his "program for peace and freedom," emphasizing four major courses of action. The fourth of these was "a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdevelopment areas."[4] The so-called Point Four Program became the Technical Cooperation Agency. During the course of the Eisenhower Administration the appropriate institutional format for the delivery of food aid and technical assistance was debated, culminating in passage of the Foreign Assistance Act of 1961 under the Kennedy Administration that created the U.S. Agency for International Development.

As U.S. government priorities have evolved over the decades in response to changes in world events, the focus of U.S. foreign assistance has shifted, as depicted in Figure 1. The evolution of development themes is summarized here briefly:

- 1947-1960s, Post-War Reconstruction: The Marshall Plan aided reconstruction of Europe, Japan. Aid was extended to Turkey and Greece, as was support for economic development of key Asian allies, including Taiwan and Republic of Korea, with emphasis on "self-help" (i.e., policy reform) programs (Pillsbury 1999). U.S. government foreign assistance was delivered via a series of Congressional creations, culminating in 1961 in the creation of the U.S. Agency for International Development.[5]

- 1960s-1973, Green Revolution: In the face of mounting famines (China, Bihar India, Biafra Nigeria, Sahel), support grew for scientific research and technology innovations to raise agricultural productivity of wheat and rice cultivation, as part of what came to be known as the "Green Revolution" (see Cummings 2011). USAID's Vietnam programs, run until 1972 from

[4] President Harry S. Truman, Inaugural Address, January 20, 1949, http://www.trumanlibrary.org/whistlestop/50yr_archive/inagural20jan1949.htm.

[5] See "USAID History," http://www.usaid.gov/about_usaid/usaidhist.html.

their own Bureau with over 2000 staff at the peak, provided economic assistance in agriculture, infrastructure, and other technical areas and mixed military/civilian assistance (Nooter 1996).

- 1973-80, Basic Human Needs: With passage of the Foreign Assistance Act of 1973, i.e., the so-called "New Directions" legislation, foreign assistance focused on the basic human needs of the rural poor, and allocated USAID's budget via functional accounts, or sectors, including agriculture.

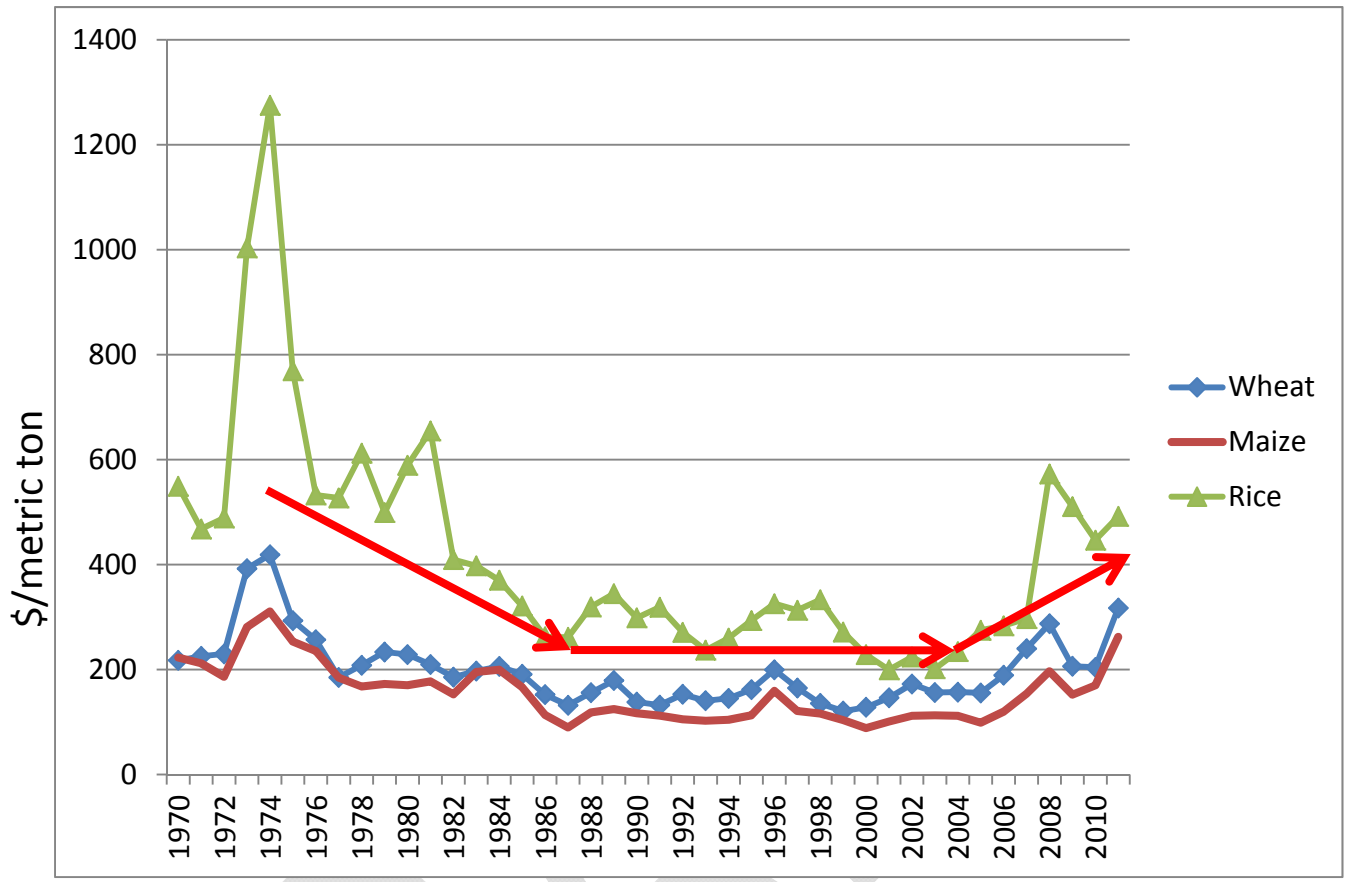
  Integrated rural development programs, combining approaches to policy, infrastructure, institutions, training, technology, and community-level service provision, became popular.[6] USAID's "broadly participatory" agricultural development strategy sought to help developing countries increase their capacity to expand and distribute food supplies and increase participation of the poor in the process and benefits of development (USAID 1978, 1). By Fiscal Year (FY) 1975, agriculture and rural development spending accounted for over 50 percent of AID's total development assistance budget (USAID 1978, 5).[7]

  The 1973-74 world commodity market crises, affecting not only the price of oil but also prices of basic food grains (see below), led to the first World Food Conference in 1974. Famines were experienced in the 1970s in Ethiopia, Bangladesh, and Cambodia.

FIGURE 2: WORLD GRAIN PRICES

[6] See, for example, Lele (1975) and Binnendijk (1988).

[7] The 1978 strategy paper notes internal debate regarding advisability of USAID investments in national agricultural research centers, education, extension, and infrastructure, deemed too costly, too expatriate intensive, and not sufficiently directed to the poor (USAID 1978, 7). It called instead for "people-oriented projects" to help low-income farmers access appropriate technologies to both grow more food and expand non-agricultural, rural employment (USAID 1978, 16-17). The strategy also called for increased hiring of agricultural professionals in five functional areas (asset distribution and access, planning and policy analysis, development and diffusion of new technology, rural infrastructure, and marketing and storage, input supply, rural industry, and credit), while "the bulk of AID's technical assistance will continue to be provided under contract and consulting arrangements, much of it by U.S. universities under Title XII of the Foreign Assistance Act" (USAID 1978, 20). The 1978 strategy also acknowledged, "Because increased small farmer production ill often depend heavily on the performance of the private sector, AID should accord increased attention to developing and supporting LDC policies and programs which improve that performance and which mobilize private sector resources for development purposes" (USAID 1978, 63).



Sources: World Bank, U.S. Department of Agriculture

Export revenue windfalls for commodity-rich exporters set the stage for structural adjustment reforms in the following decade.

- 1980s, Structural Adjustment and Private Sector Development: The IMF and World Bank[8] provided economic stabilization and structural and sectoral reform financing to deficit countries. Loans were negotiated in exchange for compliance with economic policy reform "conditionalities," including those covering agricultural price, market, trade, and institutional policies.

  The Reagan Administration broadened USAID programming to understand and support the private sector in rural development. In USAID's 1982 policy paper on food and agricultural development, four elements were emphasized: 1) improvement of national economic policies to remove constraints to food and agricultural production, marketing, and consumption; 2) development of human resources and institutional capacities to generate and apply improved science and technology; 3) expansion of developing country private sectors in agricultural and rural development; and 4) integrated use of instruments, including PL 480 food aid, to contribute to the other three objectives (USAID 1982a, 2).

[8] The World Bank's first structural adjustment was approved in March 1980 to Turkey.

Real world prices for rice, wheat, and maize continued to fall steadily after the 1973 world commodity price crisis, as seen in the figure above, affecting both producers (negatively) and consumers (positively). The Uruguay Round of multilateral trade negotiations was launched in 1986 to bring agricultural trade under the discipline of the General Agreement on Tariffs and Trade. World grain prices held steady during the Uruguay Round and into the 1990s. During this period of low world commodity prices, competition for world market share grew. Congress authorized funds for "export enhancement," administered by the U.S. Department of Agriculture, later repealed under the 2008 farm bill. It also passed the so-called Bumpers Amendment, which restricts the use of foreign assistance funds from developing country export crops that compete with U.S. agricultural exports.[9]

The 1985 U.S. farm bill, known as the Food Security Act, authorized the local sale by nonprofit voluntary agencies of food aid to fund non-emergency development programs.

- 1990s, Transition to Market Economies and Increasing Economic Globalization: With the November 1989 fall of the Berlin Wall and the February 1990 release from prison of South Africa's Nelson Mandela, massive change swept the development world.

  By the end of 1991 the Soviet Union had been dissolved and 26 new USAID missions were created in the Former Soviet Union and surrounding countries, supported by Freedom Support Act and Support for East European Democracy Act funds. A similar number of overseas missions were closed to make those resources available in Central Europe and Asia.

  Superpower competition for hegemony in Africa drew to a close, and African governments increasingly embraced democracy and free market capitalism. With the election of President Mandela in 1994 and the end of apartheid, South Africa's economic re-integration into the global community made available new sources of investment capital and new market opportunities. South African companies, including agro-processing and food retail companies, embarked on

[9] USAID Policy Determination (PD) 71 (no date) required review by USAID/Washington "at the earliest possible stage" of any development project that would involve sugar, palm oil, or citrus for export. The Bumpers Amendment states,

> None of the funds appropriated by this or any other Act to carry out chapter 1 of part I of the Foreign Assistance Act of 1961 shall be available for any testing or breeding feasibility study, variety improvement or introduction, consultancy, publication, conference, or training in connection with the growth or production in a foreign country of an agricultural commodity for export which would compete with a similar commodity grown or produced in the United States: *Provided*, That this section shall not prohibit (1) activities designed to increase food security in developing countries where such activities will not have a significant impact on the export of agricultural commodities of the United States; or (2) research activities intended primarily to benefit American producers. (*Urgent Supplemental Appropriations Act*, Section 209, P.L. 99-349, July 2, 1986)

Following enactment of the Bumpers Amendment, USAID issued PD-15 (September 13, 1986), which states that "it is USAID policy to avoid supporting the production of agricultural commodities for export by developing countries when the commodities would directly compete with exports of similar U.S. agricultural commodities to third countries and have a significant impact on U.S. exporters." Bumpers Amendment reviews must be conducted to ensure that USAID's intended agricultural programs comply with this restriction.

regional investments, seeking new markets, opportunities for investment, and platforms for "off-shore" production in lower cost, neighboring countries.

During the 1990s the importance within USAID of economic analysis and programming declined significantly. The position of USAID chief economist went unfilled for many years. Budgets for economic growth programming dwindled to less than $1 million per year, including core staff *and* programs. The employment of agricultural specialists was deprioritized in the Agency.

After the creation of the World Trade Organization in 1995, countries relied increasingly on international markets to supply their food needs. At the same time, the disciplines of the Agreement on Agriculture reflected international recognition of the impact of agricultural programs in high-income countries on world commodity market prices.

In the face of mounting agricultural surpluses, new guidelines were issued regarding food aid and food security (USAID 1995). Title II was directed to countries experiencing the greatest food insecurity, its programs directed to focus on improving household nutrition and alleviating the causes of hunger, especially by increasing agricultural productivity. Food crises continued to be experienced in conflict-prone countries such as Somalia and Sudan and in North Korea.

The 1999 WTO Ministerial meeting in Seattle and the demonstrations that ensued over globalization, more generally, raised the public profile of global trade issues. USAID's Global Bureau's Economic Growth and Agricultural Development Center became the Bureau for Economic Growth, Agriculture, and Trade (EGAT) as the Agency leveraged interest in trade capacity building activities into increased funds for economic growth programs. Trade was an increasing focus of assistance, as were public-private strategic alliances to try to leverage additional resources and broaden partnerships.

- 2000-07, Decline in Importance of Agriculture as a Development Theme: As world food prices continued to fall into the early 2000s, incentives to invest in developing country agriculture dwindled substantially. Consequently, the role of agriculture in development donors' portfolios diminished, reflected in the fact that USAID's 2006 Policy Framework for Bilateral Foreign Aid barely mentions agriculture at all (USAID 2006a). USAID was not alone in having de-prioritized agriculture. The World Bank noted this decline more generally in its 2008 *World Development Report*, as the share of official development assistance allocated to agriculture fell from a high of about 18 percent in 1979 to 3.5 percent in 2004; absolute values declined as well (World Bank 2008, 41). Nevertheless, USAID continued to work in food and agriculture, although its efforts may not always have been classified as "agriculture." Instead, in the 1990s and 2000s many economic growth offices designed projects to promote the competitiveness of agricultural value chains (VCs).[10]

[10] An inventory of USAID-supported agribusiness and agriculture value-chain programs is being prepared by Weidemann Associates.

In 2003, the United States President's Emergency Plan for AIDS Relief, otherwise known as PEPFAR, was launched to help save the lives of HIV/AIDS sufferers around the globe, representing the largest commitment by any nation to combat a single disease internationally.[11]

- 2008-present, Return of Hunger and Food Security as Development Themes: A perfect storm of low commodity stockpiles, increased economic growth in large developing countries that in turn increased demand for food overall and more diversified diets, biofuel mandates that further raised grain demand, and the combination of excess liquidity and asset market speculation culminated in a skyrocketing of global commodity market prices in 2008 (Abbott, Hurt, and Tyner 2009; Baffes 2010). In 2011 failure to invest in agricultural research and rural infrastructure, it is argued, is further contributing to commodity market instability (Timmer 2011).

  The 2009 G-8 Summit in L'Aquila, Italy affirmed the return of the issue of global food security to the world stage. The U.S. government's Global Hunger and Food Security initiative launched in 2010, known as Feed the Future (FtF), concentrates food security resources on twenty focus countries, including twelve in Africa, four in Asia, and four in Latin America and the Caribbean.[12]

USAID ACHIEVEMENTS IN RURAL ENTERPRISE DEVELOPMENT

Against this backdrop of evolving political and development priorities, broad achievements by USAID in the area of rural enterprise promotion are examined. Four notable USAID achievements stand out in terms of the

1. Rise of the private sector paradigm and its application to agriculture,
2. Embrace of agribusiness and the concepts of value chains and clusters as approaches to promote rural agricultural enterprise development, wherein food and agricultural markets are seen as anchored by the commodity buyer, processor, exporter, or retailer;
3. Commitment to public-private partnerships to address smallholder agriculture in a new integrated approach that includes global industry partners; and
4. Recognition of the importance of rural, nonfarm enterprises to rural household incomes, which in turn led to the meteoric rise of the field of microenterprise development.

[11] According to http://www.pepfar.gov/about/index.htm.

[12] See the U.S. Government's Feed the Future website, www.feedthefuture.gov. See also Nathan Associates (2010) for an overview of food security issues.

1. Rise of the Private Sector Paradigm

USAID has long been at the forefront of innovations in how to think about, and therefore design programs for, the farm sectors of developing countries. Major paradigm shifts have occurred over several decades.

In the 1950s and early 1960s "peasant agriculture"[13] was considered to be full of surplus, low-productivity labor (Lewis 1954; Ranis and Fei 1961). Green Revolution scientists sought to improve that productivity with science and technology innovations (discussed in Cummings 2011), while agricultural economists applied formal, cost-route surveys to assess financial and economic returns to farm management techniques.

In the 1970s as progress in adoption of new technology slowed – especially in rainfed, more arid, parts of sub-Saharan Africa and Latin America – "the perception grew that the conventional approach to agricultural research and extension did not work well in most developing countries" (Byrnes 1989, viii). Agricultural scientists sought input from social science colleagues to identify constraints to farmer adoption of new technologies.

One of the approaches to agricultural programming supported by USAID in the 1970s and 1980s, "farming systems research" (FSR), shifted thinking from seeing farmers as resistant to new technology adoption to active participants in, if not directors of, rural agricultural and non-agricultural production systems (Staatz and Eicher 1984). Between 1978 and 1988 USAID funded nearly 80 FSR projects, 45 of which were in Africa (Norman 2002). In addition to farm management surveys, rural economy research explored household consumption, nutrition, and off-farm employment issues. FSR projects sought not only to understand the constraints faced by farm households overall, but also the dynamics of resource allocation within households, especially between male and female household members (Moock 1986). Through FSR, farmers were seen as rational, profit-seeking, risk-minimizing managers who applied complex strategies to manage their resources across agricultural and non-agricultural activities in order to sustain their livelihoods. Eventual lack of success of FSR projects was attributed to their failure to promote a truly multidisciplinary approach to fieldwork and achieve sufficiently broad consensus regarding implementation strategies among technical assistance, counterpart, and AID personnel (Byrnes 1989, xii). Nevertheless, though donor support had shifted away from FSR, a systemic and farmer-centric approach to understanding farming systems had been adopted by most national agricultural research systems by the late 1980s (Norman 2002).

This appreciation for the rational, sophisticated, risk-averse, and profit-motivated behavior of developing country farmers was well-suited to the shift in the 1980s to a more private sector-oriented approach to agricultural development. The private sector perspective on agricultural enterprises was incorporated so systematically by USAID that in many economic growth programs, rather than work with Ministries of Agriculture and other public sector organizations, it became acceptable for USAID projects to work solely with private firms and private sector associations by the 1990s.

[13] The phrase is from Collinson (1972). See also Eicher and Baker (1982) and Hayami (1984).

In the 1980s USAID recognized that a business perspective mattered, even in agriculture. Farmers came to be seen as "clients" whose problems needed to be solved, rather than as passive recipients of donor-driven technical assistance. The choice of technical assistance activities was market-driven, not individual or government agency or community-driven. This private sector approach to investing in rural agricultural enterprises and the markets that connect them is a distinct approach associated with USAID, though one that some other donors began to emulate by the 1990s.

The shift to a private sector paradigm for engaging in the agricultural sector was not without controversy. A concern from that era, now being addressed by Feed the Future, has been that in its rush to embrace the private sector paradigm, support for public sector investments in agricultural research, technology, education, and infrastructure – the key inputs to economic growth and structural transformation – had fallen off substantially.

Even at the time some within the Agency, still focused on USAID's charge to focus assistance on the poorest of the poor,[14] first resisted alliances with for-profit companies. Nevertheless, this controversy gave way over time to the realization that the poorest of the poor – often lacking productive assets of their own – needed jobs and that supporting the growth of for-profit firms was one source for these jobs. Building confidence over time, the rise of the private sector paradigm in USAID paved the way for several decades of business-oriented engagement with agricultural enterprises, described below.

2. Embrace of Agribusiness and Value Chain Projects

A variety of terms has been used to describe very similar concepts:

> Chains composed of companies (or individuals) that interact to supply goods and services are variously referred to as productive chains, value chains, *filières*,[15] marketing chains, supply chains, or distribution chains. These concepts vary mainly in their focus on specific products or target markets, in the activity that is emphasized, and in the way in which they have been applied. … 'Clusters' represent collections of firms and institutions that perform many of the functions… described in both the value chain and supply chain literature. … The literature on clusters stresses the benefits of enterprise agglomeration and geographic proximity… Generally the 'chain' concept, whether value or supply, places less emphasis on the enabling environment, while 'cluster' analysis often neglects the necessary linkages to specific target markets that exist outside the cluster. (Webber and Labaste 2010, 9-10)

Many claim to have "invented" value-chain approaches. Originally applied to industrial or "supply chain analysis," the "subsector approach" was adapted from business schools and applied to development analysis, including in agricultural sectors. Also in the 1980s World Bank economists applied sector/subsector analysis to understand in detail the various points of entry of public policy into food and agricultural sectors. Sector analysis allowed for the identification of the myriad taxes, subsidies, and non-price interventions by policymakers that affected the incentives faced by farmers and post-farmgate

[14] As introduced by the Foreign Assistance Act of 1973.

[15] For application of the French concept of *analyse de filières* in various agrifood cases, see Griffon (1990).

actors. Such detailed insight into sectors led to the estimate of nominal and effective protection coefficients that allowed analysts to identify candidates for reform as part of agricultural sector adjustment programs. Integration of the subsector approach into USAID programs was promoted by the Growth and Equity through Microenterprise Investments and Institutions (GEMINI) project (1989 to 1995).[16]

USAID funds supported subsector analysis and value-chain approaches to agricultural development even before they were called this. Approaches to policy analysis with application to agriculture were developed in the 1970s that examined the financial and economic profitability not just of farm-level activities, but of agricultural activities carried through marketing, processing, and trade. For example, in the late 1970s, USAID supported one of the early applications of domestic resource cost (DRC)[17] analysis to agriculture in West Africa, examining rice sector objectives, constraints, and policies and the microeconomics of paddy production, collection, and milling, and rice trade and distribution in Ivory Coast, Liberia, Sierra Leone, and Mali (Pearson, Stryker, and Humphreys 1981).[18] DRC analysis of agricultural chains was subsequently applied in USAID agricultural policy analysis programs in the 1980s in Morocco, Tunisia, West Africa, and elsewhere to identify agricultural subsectors that made the most efficient use of land, labor, and capital and thus deserved further development support.[19] For many years, USAID had "forgotten" these investments in economic analytic capacity to evaluate the competitiveness of food and agricultural activities. Revived more recently by USAID/Azerbaijan (Stryker 2009), USAID training efforts are underway to rebuild that capacity within the Agency and apply it to the analysis of new agricultural programs under Feed the Future.

In the 1970s and 1980s governments and producer groups commonly talked disparagingly of market middlemen as those who exploit farmers. With acceptance of the value-chain methodology, the role of market intermediaries has been validated. Viewing farmers linked to markets, as depicted in the simple VC diagram below, facilitates communication with host country governments and producer groups about the productive roles played by those middlemen.

[16] See, for instance, the introduction to subsector analysis by Boomgard et al. (1991) and the field manual developed for GEMINI by Haggblade and Gamser (1991).

[17] DRC analysis – the estimation of comparative advantage indicators that measure the efficiency with which foreign exchange is generated by export or import-substitution activities – was pioneered by Balassa, Corden, and others. The DRC is a restatement of an economic profitability measure, where profit per unit produced is the difference between gross value of production and the total value of all tradable inputs and non-tradable domestic factors used in production, where values are expressed net of taxes, subsidies, and other economic distortions. The DRC is the ratio of the value of non-tradable domestic factors to the economic value-added (production value minus value of tradable inputs) generated by the activity. A DRC that is greater than one suggests that the value of domestic resources used to generate or save one unit of foreign exchange was greater than the economic value-added generated, i.e., the activity did not make an efficient use of domestic resources, whereas a DRC that is less than one suggests the opposite. See Bruno (1972), Monke and Pearson (1989), and Tsakok (1990) for discussions.

[18] Pearson et al. also credit earlier work by Stanford University's Food Research Institute on the political economy of rice in Asia for development of this approach, citing Timmer (1975).

[19] See also Salinger (2011) regarding USAID achievements in the area of global and regional trade, which explores this contribution more fully.

FIGURE 3: SIMPLIFIED VALUE CHAIN DIAGRAM

Agricultural policy projects in the 1980s looked at "sectors" and "subsectors" to understand the nexus of production, price, storage, transport, processing, trade, wholesale/retail, and consumption policies that affected incentives to producers and consumers of food and agricultural products.[20] This integrated view of economic activities along the production or supply chain and the policies that shaped incentives along the way reinforced the importance of understanding, as well, strategies of private actors – producers, marketing agents, traders, consumers – in reaction to government policy.

As USAID moved into more private sector-oriented assistance, the emphasis in these agribusiness projects was no longer solely on basic staple crops. As one observer noted, "The success of the green revolution in many Asian and Latin American countries alleviated many acute food shortages, and farmers began looking for more profitable alternatives to traditional crops" (Kumar 1995, 3). Agricultural development experts also recognized that development of markets was crucial if farm-level interventions were to succeed.[21] Moreover, rising per capita incomes around the globe increased demand for more diversified diets, and thus higher value and more processed food products. Also, markets were developing among high-income consumers in industrial countries for fair trade, organic, and/or "terroir-based" food products, resulting in additional market opportunities for farmers who could produce to exacting quality standards.

Around the globe USAID agribusiness projects took advantage of and further contributed to these global market opportunities. AID-financed projects strengthened producer associations, supported agro-entrepreneurs, facilitated market development and linkages to downstream buyers and consumers, and – in more limited cases – helped to privatize state agricultural input and service organizations. In a USAID/CDIE evaluation of seven bilateral agribusiness programs,[22] significant, positive rates of return were noted for four of the seven cases examined (Kumar 1995).[23] Successes were achieved particularly

[20] Much of this work was conducted by economic analysts in the World Bank in preparation for sectoral adjustment lending. Some of this, as in Morocco, was funded by USAID (Salinger 2011). See as well the series of findings produced by the World Bank's Political Economy of Agricultural Pricing Policy series, led by Krueger, Schiff, and Valdes (1991).

[21] For a full discussion of USAID achievements in the area of market development, see Paulson (2011).

[22] The seven cases included: 1) Bangladesh Fertilizer Distribution Improvement 1 & 2 (1978-1994), 2) Cameroon Fertilizer Subsector Reform (1987-1994), 3) Ecuador Nontraditional Agricultural Exports 1 & 2 (1984-1994), 4) a series of small farmer, agribusiness, cooperative, and agricultural development projects in Guatemala from 1977-1994, 5) a series of agriculture and enterprise development projects in Sri Lanka (1987-1995), 6) a series of integrated rural development, agricultural technology, and agro production and marketing projects in Thailand (1988-1991), and 7) a series of agribusiness, PL480 Title II monetization, and nontraditional agricultural export promotion projects in Uganda (1984-1996).

[23] "Because of the complexity of agribusiness programs, disagreements about their direct and indirect effects, and uncertainties about their final impact, calculations of the internal rate of return were viewed as tentative, even speculative. Bangladesh, Cameroon, Ecuador, and Guatemala showed returns of 19 percent or more, suggesting that

with regard to improved access to production technology and forging of market linkages with foreign importers. Most importantly, agribusiness projects

> …had significant positive effects on employment and incomes… the highest jump in employment occurred on farms producing raw materials for [agribusiness] firms. The crops promoted by USAID programs were generally more labor-intensive than traditional crops produced by small farmers, and diversification created additional demand for farm labor – not only generating employment for landless labor, but exerting an upward pressure on wages as well (Kumar 1995, vii).

Agribusiness projects also sought to improve the business environment in which their local private partners operated. For example, one of the most significant accomplishments of the Morocco Agribusiness Promotion Project (1992 to 1998) was the lifting of the transport monopoly of the state-owned truck transport company to allow European trucks to compete in Morocco, thereby significantly lowering export costs for horticulture and manufactured goods exports.

Holistic approaches to agricultural VCs or clusters or competitiveness projects were in evidence from the early beginnings of USAID's support for non-traditional agricultural export (NTAE) promotion activities. AID has been a major player in winter season produce and high-value crop development. One of the earliest examples of USAID *regional* agribusiness programs was a series of projects in Central America. USAID's Central America office, then based in Guatemala, supported the Non-Traditional Agricultural Export Support (PROEXAG) and Export Industry Technology Support (EXITOS) projects, operating from Belize to Panama and providing technical assistance and marketing support to promote exports of 20 non-traditional crops.[24] A post-project impact assessment conducted fifteen years after project close-down by the lead implementer, Chemonics International, concluded that long after conclusion of the project assistance, exports continued from the region to the United States for a number of key products. Involvement in these activities has contributed to better market opportunities for small producers, export opportunities for Guatemalan businesses, and employment opportunities for skilled and unskilled labor in rural areas (Michaels et al. 2010, 38). In addition to economic benefits for the Central American economies, substantial value was also created for American food import, distribution, and retail companies. Moreover, despite substantial challenges,[25] the value of exports has continued to climb since

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economic outcomes justified USAID investments. Sri Lanka and Uganda did not show positive returns. For lack of data, the internal rate of return was not computed for Thailand." (Kumar 1995, ix).

[24] Activities initially included a variety of flowers, fruits, and vegetables, introducing new crops and new, commercially viable varietals of existing crops. "High attribution crops," i.e., those which received significant support at the level of product development, production technology, and marketing support were raspberries, asparagus, blackberries, colored calla lilies, and sweet onions. See Michaels et al. (2010).

[25] In 1996, just after EXITOS ended, an outbreak of *cyclospora*-related illness in the United States was eventually traced back to the consumption of Guatemalan raspberries. When the U.S. Food and Drug Administration (FDA) and Centers for Disease Control investigated, the Guatemalan Berry Commission was slow to respond (Calvin et al. 2003). An FDA ban on all raspberry imports from Guatemala was only lifted three years later after a stringent quality assurance and inspection program was put in place by the Commission in Guatemala. Though raspberry exports from Guatemala have never recovered from that period, blackberry export values have soared since their nadir following the food safety scares. Blackberry export values of $6.2 million were recorded by Bank of Guatemala in 2009, compared with $1.9 million in 1999 (Michaels et al. 2010, 18). John Lamb (personal communication) notes, however, that without a full repertory of berry offerings, Guatemala remains disadvantaged

the projects' closure, suggesting that exporters have gained substantial export savvy that is transferrable to other products.

Lessons learned in Central America and the Caribbean were carried to various places around the world. USAID agribusiness projects have provided technical assistance, introducing new crops, new varieties of existing crops, and higher quality specialty variants of known crops. They aided local producers and processors with agronomic advice, pest control, packaging and processing support, and compliance with international food quality and safety standards.[26] And these projects have connected smallholder producers with market agents locally, regionally, and globally. In some ways, USAID's entry into high-value NTAE activities was prompted by the existence of organic and fair trade markets in Europe (and later in North America). In other ways, success with the early NTAE projects spawned an explosion of organic, fair trade, sustainable, even "relationship-based"[27] specialty crops trade that continues to this day.

USAID Agribusiness Projects and Domestic Food Crops in Uganda

USAID's agribusiness and value chain projects have not limited themselves to high-value, export-oriented agriculture. For example, USAID's Agricultural Productivity Enhancement Project (APEP) in Uganda (implemented by Chemonics International from 2003 to 2008, following the 9½-year IDEA project, also implemented by Chemonics) applied the full range of agribusiness services to two categories of crops. Category 1 (export crops) included coffee, vanilla, banana, and greenhouse flowers, while Category 2 (domestic market crops) included cotton, oilseeds (sesame and sunflower), and grains (upland rice, maize, and barley).

The example of APEP's Uganda work in the sunflower value chain is instructive. One of the largest companies in Uganda is Mukwano Industries Ltd., an integrated company that produces consumer products such as edible oils, soaps, and detergents, and manages a diversified portfolio of real estate and supply logistics activities. Farmers in Northern Uganda traditionally grew sunflower, but yields and oil content of the local, open-pollinated varieties grown were low and their hard seeds made commercial crushing more expensive. Instead, significant quantities of Malaysian palm oil were imported by Mukwano to supply its agro-processing needs for domestic consumption.

APEP advisors knew of higher-yield, higher oil content, hybrid sunflower varieties successfully grown in southern Africa, and approached Mukwano about an alliance to promote their adoption in Northern Uganda. At first, the company was skeptical, based on earlier unsuccessful attempts to work with smallholders. Eventually APEP provided modest grant support to A.K. Oils & Fats, a Mukwano Industries subsidiary, to develop a smallholder outreach and seed multiplication program to cost-share the sunflower outgrower program investments over the first year. Within three years, a fully functional, smallholder sunflower production system was up and running, supporting over 30,000 smallholder growers. By 2007 A.K. Oils and Fats estimated that its purchase of sunflower seed provided an estimated $3 million in income to 31,000 farmers (Chemonics 2008, 44). These very poor, very small farming communities were just emerging from conflict, making the availability of new market opportunities all the more meaningful.

Sources: Chemonics (2008); also Mark Wood, Jim Dunn, personal communications.

Since 1998, USAID has supported several hundred agriculture development projects focused on value chains for livestock,[28] staple foods, high-value horticulture, and specialty coffee.[29] A significant number

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in the North American market today, where buyers would prefer to be able to source blueberries, blackberries, raspberries, and strawberries from the same vendor.

[26] The latter is explored in Salinger (2011).

[27] "Relationship-based" specialty trade involves personal relationships between producers and buyers that may involve the representation of sellers' identities in specialty food markets abroad. Bruce Brower, for instance, shared a story from Bolivia, where he was chief of party of the Market Access and Poverty Alleviation (MAPA) project. After receiving training in harvest and post-harvest handling of her specialty coffee beans, one Bolivian woman coffee grower, Yolanda Condori, saw her income rise by a factor of five after winning sixth place in a Cup of Excellence coffee competition in Bolivia. When a Norwegian coffee company representative by chance met this purveyor whose coffee was so highly appreciated back home, they hugged as if long-lost sisters and thereafter branded Yolanda's harvest, featuring "Yolanda Coffee" in the specialty shop in Norway. For a fuller description of MAPA's work on specialty coffee in Bolivia, see Chemonics (2005, 45-52).

of the beneficiaries have been women. Additional reported benefits include increases in yields, area, farm income, and off-farm employment. A variety of contracting mechanisms has been employed to deliver value-chain services to agricultural enterprises around the globe, including for-profit contracts, not-for-profit cooperative agreements and grants, and partnerships.

USAID agribusiness projects have served to buy down some of the risks faced by established, successful agrifood companies in exploring new commodities, new sources of supply, and new growers. When asked why such projects provide grant support to some of the largest and most successful private companies, agribusiness project directors interviewed for this paper respond that "without the AA project, company BB would never be buying CC in the country of DD today." Typically, the private firms are not convinced that USAID's project clients – small, impoverished farmers – can supply the quantities and qualities required by buyers. Moreover, they had no experience reaching out directly to tens of thousands of smallholder suppliers. And they are not prepared to take this risk alone.

USAID has contributed to "buying down" such risks through the reduction of transaction costs, achieved by facilitating international buyers' access to new sources of supply and new growers. One approach to doing so has been support for the development of producer cooperative organizations. These help farmers both access inputs through bulk purchases and aggregate supply for sale to agribusiness buyers at lower costs than if farmers had acted individually. Examples include the successful work on producer-owned trading companies in Mozambique run by National Cooperative Business Association and the Cooperative League of the United States of America, and the dairy cooperatives established by Land O'Lakes around the world. Another example is USAID support for ACDI/VOCA's work with smallholders in Malawi, launched in 1995, led to the creation of the National Smallholder Farmers' Association of Malawi (NASFAM) in 1997. Now operating independent of USAID support, NASFAM, the largest independent, smallholder-owned membership organization in Malawi today, provides business and marketing support, as well as community social programs, to its membership of more than 100,000 farm families.

USAID's Development Credit Authority (DCA) has also contributed to financial sector risk minimization for selected agriculture and agribusiness projects. Between 1999 and 2010 USAID's DCA has leveraged more than $2.3 billion in private credit at a cost of $82 million to USAID; twenty-two percent of the credit mobilized has been allocated to agriculture. Through partial credit guarantees on local banks' loans or bonds to underserved sectors such as agribusiness, enterprises gain access to credit. Recalling DCA's impact on agribusiness in Senegal, USAID notes, "Loan guarantees are sustainable because they allow commercial banks to become comfortable with new sectors. After fully utilizing the guarantee agreement with USAID, the Head of Assets at Ecobank told USAID, 'The guarantee permitted us to go into a new sector considered high risk by commercial banks. Thanks to USAID we will be able to work with some of these new clients now even without the guarantee.' " (USAID no date)

Agriculture value-chain projects introduced market-led quality premia, paid at farmgate, that in turn encouraged farmers to grow, harvest, and process crops to meet the specifications of commodity buyers

[28] Salinger (2011) includes a summary of USAID's avian influenza work since 2005 in poultry value chains.

[29] An inventory is currently being prepared for USAID by Weidemann Associates.

or retail food chains.[30] In Bolivia's eastern Valles and Altiplano regions, for example, farmers had long harvested coffee beans. However, poorly grown, harvested, and processed beans did not successfully traverse the Andes, degrading in quality due to a combination of altitude, humidity, and temperature changes. USAID's MAPA project (Market Access and Poverty Alleviation) worked with smallholder families to improve quality and with private buyers who established coffee bean sorting and purchasing points near production. In the process project efforts helped to raise the price of Bolivian coffee from 10 cents to over $6.00 per pound.[31] Farmers who dared to break with the often politically strong, local existing cooperatives and engage with USAID projects learned skills and gained market linkages that served them well after the USAID project support was completed. Such a focus on quality has been incorporated in many of USAID's agribusiness and value-chain projects around the globe.

The value-chain approach eventually became popularized by the Harvard Business School guru Michael Porter (1990) and his colleagues' application to developing country contexts (Fairbanks and Lindsay 1997). Porter emphasized clusters in his now-famous diamond diagram depicting the linkages among firm strategy/structure/rivalry, factor conditions, demand conditions, and related and supporting industries. Fairbanks and Lindsay showed how this approach could be applied in developing countries to successfully stimulate private sector growth. On this foundation, a generation of competitiveness projects was launched within USAID (Mitchell Group 2003a, 2003b).

Some of USAID's agricultural value-chain activities today working with small and medium enterprises are financed through the local sale (so-called "monetization") of Title II non-emergency food aid. Between the 1950s and the mid 1990s food aid accounted for anywhere from 16 to 64 percent of total foreign assistance and provided from 1 to 10 percent of total cereal supply (McClelland 1998).[32] The 1985 farm bill, known as the Food Security Act, first authorized the sale of surplus commodities by nonprofit voluntary agencies to carry out assistance programs.[33] USAID's 1995 policy directive on food and and food security stipulated that Title II food aid programs should focus on improving household nutrition and increasing agricultural productivity (USAID 1995, Bonnard et al. 2002). By 2003 two-thirds of total Title II non-emergency programs were monetized (Tschirley and Howard 2003).

[30] For a discussion of USAID assistance in the area of food safety regulations, see Salinger (2011).

[31] Chemonics (2005, 45-52) notes that project farmers, some of whom were selling their coffee for as little as $0.10 per pound at the beginning of the project, were selling coffee several years later for an average price of $5-7 per pound, with some of the highest quality lots selling for over $10 per pound. It is not clear from the project narrative whether these prices are effective at farm, buying station, or FOB. However, the report makes clear that annual incomes for winning farmers rose several-fold. More importantly, the fact that the MAPA project helped to put Bolivian specialty coffee on the map – previously it was sold at such a quality discount on the world market that some of it was bought for use in the U.S. prison system – brought all Bolivian coffee prices up, even for non-winning farmers whose beans helped to fill up export containers.

[32] The six countries examined included: Honduras (1955-97), where food aid represented 16 percent of total USG assistance and 10 percent of cereal supply; the Sahel region (1960-97), 32 and 10 percent, respectively; Ghana (1956-97), 47 and 7 percent, respectively; Indonesia (1954-96), 47 and 1 percent, respectively; Bangladesh (1972-97), 59 and 6 percent, respectively; and Ethiopia (1956-97), 64 and 8 percent of total U.S. economic assistance and total cereal supply, respectively.

[33] See P.L. 99-198, Title XI, Sec. 1109, "Use of Surplus Commodities in International Programs."

While some of the agricultural value chain activities supported through Title II monetization may be carried out independently of value chain activities supported in USAID's EGAT Bureau, there has been cross-fertilization between Food for Peace and EGAT programs. For example, ACDI/VOCA's early work on coffee cooperatives in Rwanda began as a monetization activity; experiences gained there have been replicated in numerous other agribusiness programs overseen by this non-profit organization.

Although some would say that the "low-hanging fruit" of easy-to-fill, winter season markets have by now been picked and there is stiffer competition today in global food markets, USAID's commitment to working with the private sector and along value chains remains strong in its programs around the globe.

3. Commitment to Public-Private Strategic Alliances

By the late 1990s, at the nadir of USAID's funding for economic growth and agriculture programs, creative USAID personnel, championed by then-Deputy Assistant Administrator for Economic Growth and Agricultural Development Emmy Simmons, began seeding a number of initiatives to develop strategic alliances with private sector partners. Such public-private partnerships furthered USAID's goal of working in and with the private sector, and offered the possibility of leveraging badly needed new sources of funding for AID's agricultural development work. USAID has often been able to leverage additional private sector funding at several times the value of USAID resources invested.

One such initiative was an innovative project called the Partnership for Food Industry Development (PFID). Three PFID awards were eventually granted by USAID: 1) PFID-Fruits and Vegetables (PFID-F&V), undertaken with Michigan State University, 2) PFID-Meat, Seafood, and Poultry, with Louisiana State University, and 3) PFID-Natural Products, led by Rutgers University. The PFID programs have worked directly to link international private sector partners with local farmers, business professionals, and non-governmental organizations (NGOs).

PFID-F&V, which ran from 2001 to 2010, was established as a Leader (core grant) with Associates (field programs) Award.[34] It provides numerous examples of impact. The PFID-F&V model, as it came to be known, "targeted improvements in smallholder competitiveness through enhanced market information, farm-based upgrades, increased numbers of producer-buyer linkages, and capacity building on grades and standards for improved food safety and quality throughout the value chain" (Clay 2010, ii). For example, MSU helped to connect Walmart with local producers in Central America and did similarly for the company Melissa's Produce in India. It has established food safety competency frameworks and training programs with private companies participating in the Global Food Safety Initiative and GlobalGAP. Demand for these food safety related training services continues now, even after PFID's conclusion.[35]

[34] Associate awards under PFID-F&V included a set of public-private partnerships in Ghana with Royal Ahold (a Dutch food retailer), a collaboration with Technoserve and several other NGOs in Nicaragua, a short sanitary and phytosanitary related project with AGEXPRONT in Guatemala, farmer outreach with the South African food retailer Pick 'n' Pay in the Eastern Cape, a food retailer network among suppliers in Southern Africa, and an activity in India that focused on the compliance with food quality, trade, and safety standards in the export mango market.

[35] Helping farmers understand and comply with market requirements for food quality and safety is addressed more fully in Salinger (2011).

Through PFID-F&V, USAID funds helped to generate, systematize, and disseminate information on horticulture markets (Clay 2010). They also supported investigations by numerous MSU experts on the role of private market standards and implications for small farmer access to markets and on the "supermarketization" of food value chains around the world. In a special volume of *World Development* dedicated to research findings on the impact of agrifood industry transformation on small farmers in developing countries, Reardon et al. (2009) examine the impacts of transformation of export markets, processing sectors, and wholesale and retail sectors on small farmers. Small farmers with access to non-land assets such as irrigation, farmers associations, farm equipment, and paved roads are more likely to succeed at supplying buyers than are small farmers without such resources.

A cooperative effort between the global cocoa industry and USAID provides another example of innovative public-private strategic alliances. In the 1990s while serving in Jamaica and Haiti, former USAID officer Dr. Christopher M. Brown recognized that improving tree crops production in these countries would be an effective strategy not only to raise rural livelihoods but also to strengthen environmental stewardship of fragile lands. He sought the advice of international cocoa industry experts. At the same time, Mars Inc., a privately held, global food company, was concerned about the fragility of global cocoa supplies and reached out to USAID to explore possible avenues of collaboration.[36] Since the collapse of the Brazilian cacao industry, seventy percent of cocoa was sourced from West Africa, especially Côte d'Ivoire and Ghana. The fragility of the technical, economic, and social welfare of its cocoa farmers was of huge concern to Mars – but they needed USAID. When Brown returned to Washington, John Lunde, a senior executive with Mars, was there. A highly unusual strategic alliance ensued, built on the organizations' mutual interests – USAID's in improving its support to smallholder cocoa farmers around the world and Mars' in accessing USAID's intellectual capital to build a more sustainable foundation for its business (Brown 2000, Lunde 2005).

USAID's alliance was eventually extended to the broader global cocoa confection industry through the inclusion of the World Cocoa Foundation and its membership. A unique characteristic of USAID's alliance with the world cocoa industry is its integration of contributions from along the cocoa supply chain, not just from one brand-label cocoa confection firm, but from many companies who are otherwise competitors in the marketplace.[37] These companies contribute their views and resources both through the World Cocoa Foundation, which is dedicated to promotion of a sustainable cocoa economy, as well as individually. This alliance therefore allows USAID to leverage two sets of resources, both core funds from the Foundation as well as individual corporate resources from members. The chocolate industry is

[36] Mars foresaw serious challenges to the sustainability of production of its raw material, cacao. Production in Brazil – once the world's second-largest exporter of cocoa – had fallen precipitously in the late 1980s and early 1990s due to an infestation of witches'-broom fungus (Yoon 1998). As a preliminary to its eventual work with USAID, in the late 1990s Mars supported the contribution of a study by two CGIAR members, the International Institute for Tropical Agriculture (IITA) and the World Agroforestry Center (ICRAF), to a Smithsonian conference in Panama in 1998 that linked cocoa cultivation with the broader tropical rainforest canopy, demonstrating the significant economic and environmental returns to cocoa cultivation.

[37] The membership of the World Cocoa Foundation comprises about 85 percent of the global cocoa and chocolate market and includes firms such as ADM, Cargill, Ghirardelli, Hershey, Lindt, Mars Inc., Nestlé, and Valrhona, but also processors and traders in the industry whose names are far less familiar. For a complete list of members, see http://www.worldcocoafoundation.org/who-we-are/members.html.

unique in its ability to coordinate among such a diverse membership base and contribute collectively to USAID. The alliance has worked in several areas:

- A global partnering program paired up individual confection companies with specific agricultural projects around the globe has provided localized technical assistance.

- Another dimension of the partnership with Mars has evolved in the area of biotechnology research, involving the Agricultural Research Service (ARS) of the U.S. Department of Agriculture, the U.S. State Department, and USAID, with contributions from Mars. Recognizing that more investment in cocoa research was needed in order to address disease resistance in Latin America's cocoa tree stock, as well as to strengthen the productivity and profitability of cocoa cultivation relative to that of coca, Mars has helped to support research by USDA/ARS' Subtropical Research Station in Miami on cocoa in order to develop new generations of disease resistant trees (Becker 1999). Genomic research is advancing quite rapidly and involves many African scientists as well – many of whom have been trained in the United States, a legacy of USAID's earlier commitment to training programs.

- In 2000 USAID's Africa Bureau forged a network with, on the one hand, Mars, the World Cocoa Foundation, and other confection companies, and on the other hand, local governments, researchers, civil society groups, and NGOs in Africa, to establish the Sustainable Tree Crop Program (STCP) in collaboration with IITA, ICRAF, other donors, African researchers, NGOs, and governments, from Liberia to Cameroon.[38] USAID and the World Cocoa Foundation are the primary supporters of STCP.

- Allegations of child slavery on West African cocoa farms surfaced in the early 2000s. Thanks to the STCP, the global chocolate industry, with local partners and USAID, conducted surveys to identify the prevalence of the problem. Forced child labor was found to be far less common than originally alleged. Some labor abuses were uncovered, but the quick reactions within the alliance helped to refute popular misconceptions and design strategies to address valid concerns.

- In 2007 USAID and the World Cocoa Foundation launched ECHOES, Empowering Cocoa Households with Opportunities and Education Solutions. This public-private alliance contributes to improved formal and informal education processes to benefit youth in Ghana and Côte d'Ivoire. Training in functional literacy, livelihoods, farming skills, life skills; awareness of child labor, farm safety, HIV/AIDS, and malaria; and teacher and administrator training provide benefits for over 160,000 youth. The initial two-year program (2007-09) has been extended through 2011 with total contributions of $5.6 million in cash and $2 million in kind.[39]

In recognition of its commitment to cocoa sustainability and to cocoa smallholder farmers around the globe, Mars was awarded the U.S. State Department's Award for Corporate Excellence by Secretary

[38] See www.treecrops.org.

[39] For October 1, 2009 press release, see http://www.worldcocoafoundation.org/who-we-are/documents/10.2009-ECHOESIIRelease.pdf.

Clinton in December 2010.[40] The unsung heroes of these public-private strategic alliances are USAID's own visionaries who recognized the value of such alliances to design meaningful rural agricultural enterprise development programs with private sector partners.

4. Recognition of Rural Nonfarm Enterprises

Old paradigms are sometimes hard to recall. Fifty years ago the common wisdom about rural economic activity in developing countries was that it was comprised primarily of farming activities with "surplus labor" available at a very low reservation wage to migrate to work in urban areas.

That paradigm began to shift in the 1960s and early 1970s. Landmark studies conducted by the ILO's World Employment Project in Colombia, Kenya, the Philippines, and elsewhere drew significant donor attention. The term "informal sector," referring to male and female, urban wage-earners and self-employed persons, was first coined by an International Labor Organization (ILO) employment assessment team in Kenya in 1972 (Bangasser 2000). "Some who were not officially [ ] 'working' at all were in fact economically busy. This came to be called 'informal employment,' in other words economic activity which was outside the framework of the official plan." (Bangasser 2000, 4)

USAID, too, was becoming interested in labor and employment, particularly in the rural sector (Hull 1989).[41] AID's Office of Rural and Institutional Development in the Bureau for Science and Technology funded the African Rural Employment Project in 1970-71. It was carried out by Michigan State University (MSU), under the direction of Professors Carl Eicher and Carl Liedholm of the Agricultural Economics and Economics departments, respectively. The then-chair of the external Research Advisory Committees (RAC) that reviewed USAID-funded research in those days, Professor Earl O. Heady of Iowa State University, advised that this seminal project be carried out in one country. Sierra Leone was selected, and MSU established a team with Njala University College, led by Dr. Dunstan Spencer. Together, they carried out a rural census, from which a stratified sample was drawn. Small-scale industries identified included food processing, textiles and apparel manufacturing, wood carving, carpentry, metalsmithing, and repair services. Detailed cost-route surveys were administered every week for a full year to collect quantitative information on production and costs from these rural, nonfarm industries – what are now called microenterprises.

The MSU/Njala teams' fieldwork led to the paradigm-shifting insight that many of these small, rural, nonfarm enterprises were extremely productive (Chuta and Liedholm 1979). "No one ever realized there were so many rural, nonfarm enterprises out there in the rural areas, people thought that they were all urban. And another thing people didn't realize was how many women were involved in them," Dr. Liedholm recalls. Moreover, Chuta and Liedholm's "state of the art" review highlighted the importance of

[40] See http://www.state.gov/e/eeb/ace/.

[41] Its first economist specializing in developing country employment problems, Dr. John R. Eriksson, was recruited from Williams College's Center for Development Economics into the Program and Policy Coordination (PPC) Bureau in 1970 (Eriksson 1995). Eriksson argued early in his career that development programming should recognize the problem of employment as central to its mission, a theme to which he returned throughout his career – in PPC, as deputy director in Sri Lanka, mission director in Thailand, and as head of the Center for Development Information and Evaluation, the post from which he retired in 1995. Dr. Eriksson remains active in the field of development evaluation, working for the World Bank's Independent Evaluation Group.

nonfarm activities as an important source of *primary* employment in rural areas, as well as secondary or off-season employment. "In Sierra Leone, 86 percent of total manufacturing sector employment and 95 percent of manufacturing establishments were located in rural areas" (Chuta and Liedholm 1979, 8).[42]

Two subsequent AID-funded, MSU-led activities – the Off-Farm Employment Project (1977-82) and the Small Enterprise Approaches to Employment cooperative agreement (1982-84) – extended the Sierra Leone project via similar studies in other countries (Bangladesh, Egypt, Jamaica, Haiti, Honduras, and Thailand).[43] This multi-country research confirmed the presence of a vibrant, profitable, rural nonfarm sector, its role in generating labor-intensive employment, its efficient use of scarce capital, and the need for a neutral enabling environment to enhance demand for rural enterprise products. MSU's work became a standard reference in a newly emerging field of inquiry, microenterprise development (Liedholm 1986; Liedholm and Mead 1987). Research jointly implemented by MSU and Harvard University was subsequently supported by USAID to explore employment and enterprise policy analysis (1984-89).

Whereas budget support for USAID economic growth programming lagged in the 1990s, significant Congressional earmarks have existed for microenterprise developed since the late 1980s. Foreign assistance funding for FY1988 included the first-ever earmark for microenterprises in developing countries (Hull 1989). USAID was directed to allocate $50 million from its existing budgets in FY88 and $75 million in FY89 for financial and enterprise development assistance for microenterprises. Today, the Foreign Assistance Act of 1961, as amended through 2002, targets 50 percent to benefit the very poor. Microenterprise funds may be distributed via local and U.S. private and voluntary organizations, credit unions and cooperative organizations, or other local organizations.

USAID's early support forty years ago for Michigan State's work leading to the recognition of the significance of rural, nonfarm enterprises launched myriad avenues of inquiry and development programming in its wake.[44] The rich fabric of microenterprise programs that followed, launched by the PISCES (Program for Investment in the Small Capital Enterprise Sector), ARIES (Assistance to Resource Institutions for Enterprise Support), and GEMINI projects, has provided myriad opportunities for development assistance to microenterprises. Some USAID missions, such as USAID/Zambia, embraced increased incomes of rural, non-farm enterprises as a strategic objective.

Since then, USAID has supported a series of micro-credit, -finance, and -enterprise development programs. The microenterprise development team in USAID's Office of Poverty Reduction has developed a value chain practice, which represents an important dimension of USAID value-chain

[42] In his afterword to Dunham (2009), Hefner credits the rural socialist Ben White for the phrase "occupational multiplicity" to describe engagement in both agricultural and non-agricultural employment (Hefner 2009).

[43] Another component of the Small Enterprise Approaches to Employment work was the PISCES program (Program for Investment in the Small Capital Enterprise Sector), implementation of which was led by ACCION International. PISCES was a six-year program focused on small and microenterprises of the urban poor.

[44] See, for instance, Dunham's work on village metalsmithing industries in Indonesia (2009). Dr. Dunham's initial dissertation field work was carried out in 1977-78, clearly influenced by the emerging findings regarding rural, nonfarm employment elsewhere. Liedholm and Mead (1986) is included in her bibliography. Dr. Dunham challenges the notion of "growth with equity" in rural Indonesia, and suggests instead that the "growth of larger, more stable, and better-capitalized rural enterprises would seem to imply some degree of stratification and the emergence of a class of rural entrepreneurs" (Dunham 2009, 287).

activity overall. It focuses in particular on connecting small and medium enterprises to markets in the quest to generate wealth for the poor. The share of agriculture-focused work undertaken by the microenterprise development team has risen substantially, particularly since 2008 and the 2010 launch of the Feed the Future initiative. Through its physical and virtual communities of practice,[45] the team has greatly expanded the use of value-chain approaches to microenterprise development in rural (and urban) areas.

CONCLUSIONS: LESSONS LEARNED

These four examples of USAID's cutting edge work to support rural enterprises – 1) adopting a private sector paradigm for understanding and developing programs for developing country farmers around the world; 2) employing a value-chain approach to that programming that sees farms, input providers, market intermediaries, and final buyers or consumers as linked in order to provide market-driven technical assistance to all; 3) leveraging U.S. and multinational private sector resources in strategic alliances to address smallholder farm needs; and 4) supporting the original research on rural, nonfarm enterprises that spawned an entire division of development assistance programming, namely, microenterprise development – have their roots in some of the early farm enterprise, farming systems, and rural employment research of the 1970s. Each has fueled accelerated levels of activity and spawned new ways of thinking about and contributing to the welfare of rural households that continue to this day.

What is the lasting legacy of these achievements? USAID has been a leader in the advance of private sector approaches to agricultural development and the development of strategies to help farmers diversify their portfolios, move into high-value, non-traditional crops, and access quality premia in the marketplace when delivering products that meet the market's requirements. And the willingness of USAID's Office of Rural Development in the 1970s to invest in socioeconomic research to expand the knowledge frontier of rural, nonfarm enterprise activity around the globe and its Bureau for Economic Growth, Agriculture, and Trade in the 2000s to invest in direct collaboration with private agrifood companies have been catalysts for enormously successful, transformative, and still ongoing work in areas such as microenterprise development and commercialization of developing country agriculture.

As USAID moves forward with its Feed the Future initiative, it is important to remember the lessons learned over the last five decades by pioneers in the field of rural enterprise development:

- Rural sectors in developing countries around the globe are filled with dynamic, rational, profit-seeking entrepreneurs who allocate their land, labor, and capital resources to maximize their returns within and outside of agriculture to ensure the best livelihoods for them and their families.

- When afforded new market opportunities to supply markets beyond their villages or beyond their borders, these farm and nonfarm producers are eager to respond to new incentives. These initiatives may produce more staple foods for domestic consumption or they may produce foods,

[45] See the Microenterprise Learning, Information, and Knowledge Sharing website, www.microlinks.org, and its wealth of events and resources on enterprise development and value chain resources.

beverages, and non-food agricultural products for export, the increased incomes from which allow them to buy more food and other consumption goods.

- Even the best-intentioned “fair trade” food companies, let alone the less socially minded commercial agrifood companies, are better able to access new sources of farm supply when seed funds from USAID are made available for enough time to establish new networks. These funds help to cover the cost of farmer outreach, product identification, supplier aggregation, training in grades and standards, and other services, which without USAID support represents sufficiently high risk to discourage the company from attempting such broad-based supplier outreach.

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ANNEX 1: OUTLINE OF ACHIEVEMENT CANDIDATES

Achievement Candidates	Importance or Proven Impact	Catalytic	Systemic	Transformative	Sustainable	Scale/ Replicability	Time & Duration	*FINAL THOUGHTS*
Rise of the private sector paradigm Over the past 50 years the paradigm for thinking about rural producers has evolved from thinking of "peasants" to seeing farmers as private sector actors.	The shift in paradigm has completely changed the way development assistance to agriculture has been programmed over the last thirty years. USAID's embrace of business as part of agricultural development is a unique characteristic and has transformed the partners with whom one works, from sole reliance on Ministries of Agriculture or local NGOs to include private firms and private sector associations.	Shift in thinking of farmers not as "beneficiaries" but rather as "clients." Understanding constraints to technology adoption *from the perspective of the farmers themselves* was part of a paradigmatic shift that understood farmers as profit-seeking, somewhat risk-taking, commercial actors, which led to VC/ competitiveness projects of last 10 years.	The shift in paradigm also has expanded the approach to food security. From a preoccupation with food self-sufficiency, the paradigm of farmer as private sector actor allows for food security activities to also focus on increasing rural agricultural incomes, which in turn allows rural producers to afford to buy more food (and other consumption goods and services).	Emphasis of USAID's agricultural portfolio expanded to consider not only programs focused on staple grains, but to include promotion of high-value cash/ export crops.	Whether specific enterprises or associations supported by AID still exist or not, the skills of entrepreneurship, risk-taking, market analysis, compliance with foreign standards, etc. are not lost as those trained/supported move on to other companies and associations, even other sectors.	In period 78-88, USAID supported 76 projects with farming systems research (FSR) orientation; today, most NARCs have an FS dimension in their research programs. According to Mitchell Group (2003) assessment of cluster based approaches and ongoing inventory of agricultural value chain projects, there are (were) hundreds of cluster initiatives in action around the world.	FSR started in the late 60s, shift to private sector focus began in the 80s, promotion of non-traditional agricultural export value chains grew in the late 1980s and 1990s, and continues even now as cluster or value-chain promotion activities.	WB, GTZ, DFID, etc all "do" VC work now; USAID is still unique in bypassing MOA & other local govt partners and working directly in the private sector. Ironic that this seismic shift was accomplished over the past 30 years and now, in FtF, USAID is going back to a paradigm where govt institutions must be strengthened anew in order to improve basic grain production. This is a pivotal moment in USAID's work on rural agricultural enterprises.
Embrace of agribusiness and value chain projects	Insufficient to work at the level of individual farmers or even farming systems. Rather it is now understood that farmers are part of a much broader "thread" of economic activity from input supply to farm production, through collection, processing, trade, and wholesale/retail to consumers in domestic, regional, and global markets	Has spawned many new lines of research and technical assistance		Now accepted that the processor, supermarket, or exporter is the anchor in the value chain. All services to farmers must be driven by what the market is prepared to buy rather than what producers are prepared to grow. Rise of nuanced pricing strategies with *premia* that reward farmers for quality.	Following the market's lead through the value chain – and teaching local suppliers and market agents how to understand and respond to that lead – is the only way to ensure sustainability after donor funds have departed.	USAID, as well as WB, GTZ, DFID all work in this space now	Innovative work on food processing and retail begun by USAID in late 1990s through the Partnership for Food Industry Development.	This field is still evolving. Yet there is also a countervailing pressure to return to development assistance for basic staple grain production. While not unimportant, many interviewed expressed concern that under FtF the Agency seems to have forgotten the importance of cash crop agriculture as a key term in the food security equation.

Achievement Candidates	Importance or Proven Impact	Catalytic	Systemic	Transformative	Sustainable	Scale/ Replicability	Time & Duration	*FINAL THOUGHTS*
Commitment to public-private strategic alliances	Examples include the Partnership for Food Industry Development, Sustainable Tree Crop Program, and other global cocoa collaboration. Mars Co. recognized by US State Department in December 2010 for its significant contributions to Ghanaian smallholders.	These early strategic alliances paved the way for greater collaboration between USAID and private firms, although some say that Global Development Alliances have been more about corporate social responsibility projects than meaningful strategic partnerships.		The strategic alliance with Mars was the first time that USAID's EGAT Bureau had worked directly with a private corporation, which transformed the way in which private partners were viewed.	The sustainability of the cocoa alliance has been proven in over 12 years of collaboration as the networks and relationships built have allowed stakeholders to tackle new, cross-cutting challenges, building on the strength of the alliance, and move into new areas of collaboration, such as youth education.	STCP applications now exist in multiple countries across Africa and Latin America, with offshoots in Asia as well.	Early relationship building in late 1990s continues now, despite retirement of several key players from both USAID and Mars.	Though both PFID and the global cocoa industry collaborations with USAID represent true strategic alliances of mutual benefit, the World Cocoa Foundation represents a unique collaboration among many players (and competitors) within the chocolate industry, from various points in the global value chain. This represents a potent cross-cutting asset for USAID to work in many dimensions of cocoa, from biotechnology to sustainable ecological systems to rural livelihoods to education to child labor to farm safety to other issues that may arise.
Recognition of rural, nonfarm employment	From the vision of a few individuals in the Office of Rural Development in the 1970s to today, what began as a single country exploration of rural, nonfarm enterprises has launched an entire industry of service delivery to micro- and small enterprises.	The microenterprise initiative began as a way of delivering development assistance benefits more directly to the poor, undoubtedly stimulated by the New Directions legislation of 1973.		At inception, no one believed that so many rural, nonfarm enterprises existed. And certainly no one understood in 1970 how crucial this livelihood option was to women in developing countries.	The field of microenterprise development, including microfinance, has caught the fancy of key players on Capitol Hill, ensuring significant earmarks of funding to sustain a plethora of ME related activities.		1970s to present, and still going strong	The common criticism of microenterprise support is that "it doesn't eliminate poverty," but "merely" supports consumption for the very poor.