



Statement by

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Introduction

Mr. Chairman, Ranking Member and members of the Committee:

Thank you for this opportunity to testify before the Committee and offer a strong voice in support of the International Fund for Agricultural Development (IFAD) and its unique role in creating economic opportunity and hope for the world's rural poor. Unfortunately, the topic of today's hearing is as relevant today as it was almost 40 years ago, when a Connecticut entrepreneur named Ed Bullard created TechnoServe to apply private sector solutions to poverty in the developing world. Moved by the plight of people he encountered volunteering at a hospital in rural Ghana, he sold his business and created TechnoServe to give the rural poor in the developing world access to the tools they need to improve their lives. While many others have since adopted a private enterprise approach to poverty reduction, TechnoServe was one of the first to pioneer this approach in the late 1960s.

Since then, TechnoServe has evolved to focus on building thriving businesses and industries as a catalyst for poverty reducing economic growth, with a particular focus on the rural economy, where 70% of the world's poor reside. We work in 13 countries in Africa and Latin America. Our staff, primarily host country nationals, is drawn from the private sector--from leading industry and management consulting firms. Many have run successful businesses themselves—the best people to help other entrepreneurs to start or grow their businesses.

While relatively new to TechnoServe, I also bring a private sector perspective to anti-poverty efforts. Before joining TechnoServe I worked in investment banking at Morgan Stanley and management consulting at McKinsey & Company. My thinking on poverty and economic growth has also been heavily influenced by my hands-on experience as a Peace Corps Volunteer in Paraguay.

Last year enterprises TechnoServe assisted in Africa and Latin America generated \$50M in revenues, and bought local raw materials worth \$30M, benefiting 750,000 people. In this work

we are honored to have as partners such leading US firms as Proctor & Gamble, Kraft Foods, Ernst & Young, Cargill, Nestle, Peets Coffee & Tea and Google who share our commitment to making the benefits of globalization inclusive.

Our approach varies by industry and country, according to the specific economic opportunity. But the core elements of the approach are:

- **Analyze the business opportunity:** Identify a high-potential industry that can support scaleable, replicable businesses that benefit the rural poor and the point(s) along the value chain where interventions can be most effective. We do this using the same approach used in venture capital to identify the economic opportunities with the highest return on (donor) investment.
- **Identify the entrepreneur:** Find someone with business aptitude and the drive and determination necessary to succeed.
- **Develop the business:** Provide the necessary technical and business development support to help the business reach its full potential.
- **Improve the enabling environment:** Promote regulations and policies that improve the business climate.
- **Refine and scale up to expand impact:** Improve the business model based on experience and use it to launch or expand more businesses within the industry.

To complement our business- and industry-building work, we also run entrepreneurship development programs that more broadly promote a culture of entrepreneurship and give individuals the training and connections they need to successfully launch and manage their own businesses.

Mr. Chairman, with its focus squarely on rural and agricultural development, IFAD is an organization with a unique mandate and a crucially important role. Indeed it is much like TechnoServe with its mission of “helping the rural poor to overcome poverty.”

With U.S. funding for agricultural development in Africa stagnating from 2000-2004, IFAD support for agricultural development in the world’s poorest places is even more vital to the development and dissemination of sustainable improvements. Since its creation 28 years ago, IFAD continues to work with developing and transition economy governments to empower rural producers, the role of markets, non-farm income and employment, and on decentralization and governance. It is unique in that its resources are devoted solely to rural and agricultural development. Its experience is highly attuned to today’s issues of globalization and market-based development

The role that US assistance can play- -thru USAID as well as IFAD – is critical in strengthening farmers, private agricultural markets and the value chain – market-driven, pragmatic, results-oriented training, business mentorship and linkages that is resulting in real income increases for millions of the rural poor. The US remains a leader on this. USAID has significant success that is not well known, and USAID continues to scramble for funding year-

to-year to support agricultural-led economic growth. Farmers in developing countries need the kind of assistance provided by TechnoServe, IFAD, USAID, and others to take advantage of marketing opportunities, and to provide them the tools to develop thriving free markets.

While many major donors like the World Bank invest much of its efforts on getting the business environment right, or infrastructure improvements, IFAD stands out as the organization providing solutions to poverty targeting the poor where they live, in their communities, with participatory approaches and hands on practical assistance.

IFAD is an important player in three areas:

- Supporting policy dialogue on private sector development;
- Supporting local private sector development in rural areas; and
- Partnering with the private sector to leverage investment and know how in rural areas

Within this overall context, IFAD has a critical, differentiated role to play vs. other donors in market-led, poverty-reducing economic growth. A recent example is IFAD support to a TechnoServe project (with complementary funding from USAID and the Swiss government): the African Cashew Development Program. This is a 3-year regional program in E. Africa. It aims to:

- Increase farmer incomes and productivity
- Create jobs by establishing rural value added cashew processing factories as sustainable providers of markets, employment and production assistance
- Enable existing processors to be more competitive
- Increase regional industry competitiveness to a stronger, harmonized policy environment
- Support sustainable industry promotion organizations functioning at national and regional levels; and
- Improve regional relationships and synergies among cashew industry stakeholders, leading to sustained growth, competitiveness and profitability in the sector beyond that achievable at national levels

IFAD's role is threefold: as a funder for a subset of specific activities (around farmer productivity and policy improvement), as a convener of public and private regional stakeholders; and as a disseminator of best practice around innovation in integrating small-scale farmers into sustainable, competitive value chains.

As a funder, it provides \$1.4M of the \$6.3M program costs to support activities in Kenya, Tanzania and Mozambique for 2005-2007. This is in addition to the \$120,000 IFAD provided to fund TechnoServe's pilot activities.

As a convener, it has the power to bring the full range of important actors—from rural farmers to NGOs business people to government to for to problem solve around regional industry cooperation.

As a disseminator of knowledge sharing and best practice, it can play a unique role by documenting lessons learned from projects like the African Cashew Development Program and helping governments, practitioners and donors to identify high potential sectors, and the scaleable, replicable, cost-effective solutions to maximize impact. They have the power to help change the conversation, and to shape donor thinking about new ways of doing business. Ways that will sustain and grow impact on poverty reducing growth.

Our IFAD-supported cashew program is proof this can happen. It has already resulted in 14 rural-based cashew processors in Mozambique, purchasing raw cashew nuts from 110,000 farmers, earning \$5.1M in export earnings, and employing over 3,000 workers. We are replicating that success regionally. Already, one factory has established in rural Kenya, and industry efficiency improvements have been achieved in existing factories in Kenya and Tanzania and an entrepreneur has established the first ‘Mozambican-model’ factory in Benin. Our partnership extends to improving the business environment. A policy reform effort in Tanzania, contributed to the creation of over 1,500 jobs and \$ 5.5M in export earnings from processed cashew kernels. And for the first time the Government of Kenya is about to start debate on creation of a national cashew policy.

A common critique of development activities that they have a finite lifespan, after which the impact achieved during the project can disappear with donor funding. IFAD’s approach, which we share, builds sustainability into the industry support from the start. Already, Mozambican processing factories have formed an association which has now taken over the majority of TechnoServe functions (e.g. financing, procurement, shipping and logistics, government lobbying etc).

TechnoServe believes private enterprise is the linchpin of efforts to promote economic growth in the developing world. Indeed it is the only thing that can. Entrepreneurial people, given the knowledge and tools to improve their lives, will improve productivity, promote innovation, and create the jobs and incomes to improve living standards and escape poverty. TechnoServe has worked with thousands of entrepreneurs in the developing world to build thriving businesses and industries, creating economic growth that benefits not only individual households, but entire communities and countries.

With poverty in the developing world heavily concentrated in rural areas, smallholder farmers represent the vast majority of income and employment. While non-agriculture jobs and gradual rural transformation will be required, finding new ways to integrate farmers into growing supply chains is necessary for promoting poverty reducing economic growth. TechnoServe analysis identified a potential \$9 billion annual opportunity for African smallholders to supply urban markets. For farmers to link into those markets, people with business aptitude need the knowledge and tools to create and grow businesses.

IFAD is a strong supporter of this approach, and like TechnoServe, provides these smallholders solutions to the challenges they face in effectively participating in local supply

chains. Smallholders face numerous impediments in market access, limited ability to implement new techniques, lack of access to capital, information and support, limited leverage negotiation abilities, and poor income stability leading to risk aversion. Public-Private partnerships have an important role to play to overcome these obstacles. They are an effective means of promoting effective business models. The business model plays a catalytic role in growth, not just in potential industries like urban markets, but in all aspects of production, standardization and trade.

IFAD's experience and ours suggests that a private enterprise approach is a powerful solution to poverty reduction. Yet despite a growing acknowledgement of the importance of entrepreneurship in reducing poverty and catalyzing growth, there are vast areas of the developing world where it is not yet unleashed. We both believe efforts to support entrepreneurs to create long-term growth, require a holistic approach around three key areas:

- Entrepreneurship and business development
- Enabling Environment
- Capital access

I will briefly share observations on these three areas and propose specific recommendations. These reflect not only TechnoServe experience, but IFAD's own evolution in thinking. It is this powerful approach that positions IFAD, with continued support, to play an increasingly important role in scaleable enterprise solutions to poverty.

Entrepreneurship and business development

Entrepreneurship and economic growth are inextricably linked. They must be encouraged from the bottom up (or from sideways in)– and that public sector support – at the industry level and down to the level of the individual entrepreneur, producer, enterprise, is critical to building a thriving private sector. There is no magic bullet. Interventions must be focused, prioritized and fundamentally market driven, with investments made in sectors with the highest growth potential. This kind of approach looks to sources of comparative and competitive advantage, and at value chains for opportunities to bring value-added activities closer to the farm or factory gate, and identifies business models that can capitalize on such opportunities. In the nascent stages of industry development, some subsidy may be essential, drawing on appropriate expertise and building capacity where needed at the level of the individual sector or firm. We have seen how interventions at this level can be powerful catalysts -- in refining a business model, building market linkages, and in providing demonstrable successes for other entrepreneurs to emulate.

At the industry level, there are opportunities to work with industry associations which can play a vital role in driving industry development, as forums for agreement on standards, for the dissemination of best practices, for risk-pooling, and collective advocacy for policy improvements. And public sector actors have a role to play in fostering their development.

Enabling Environment

Critical to both firm-level and industry interventions is the ability of public sector actors – both government and international -- to leverage best practices internationally, to effect knowledge transfer and capacity building, to stimulate innovation, to enhance access to capital (which I will address more later), and to work to address specific enabling environment constraints. While there is widespread agreement that “getting the business environment right” is important, decades later we know it is not that easy. Nor is it sufficient. Unleashing entrepreneurship requires getting in place those policies to support development of a competitive, profitable value chain (e.g., those specific regulations hampering a particular export; the particular levies that are destroying incentives, those particular bureaucratic constraints to establishing and growing businesses).

Capital Access

Capital is the lifeblood of commerce; all businesses and their value chains require adequate finance and responsive financial services if they are to flourish. Much has been achieved to develop, replicate and scale microfinance, a critically important tool for micro-enterprise development and poverty alleviation. A similar investment in developing scaleable solutions is sorely needed for small and medium-sized enterprises (SMEs), the key catalyst for economic growth. As in developed economies, small and medium-sized firms provide profitable, growth-oriented models that can achieve scale and be replicated, and lead growth in jobs and incomes. For maximum poverty reducing impacts, based on economic growth, the poor must be linked to profitable businesses that can innovate and expand, based on their connections to domestic and international market opportunities.

High potential small and medium-scale businesses especially those in the agriculture sector, are largely too small or unproven to access commercial loans, and too large for microcredit loans. Where commercial financing is theoretically available, few banks are willing to finance them, and in some cases, bank staff lack the skills to assess non-asset based lending. Venture funds or angel investors are rare, if not non-existent. Some nascent initiatives are underway by TechnoServe and others to address SME finance paired with business advisory services. As Lael Brainard and Vinca LaFleur of the Brookings Institution noted (The Private Sector in the Fight Against Global Poverty, 2006) SMEs in developing countries are a starved segment with unique potential, and over the next few years should see a great emphasis on their role as engines of growth and employment.

Thank you Mr. Chairman, Ranking Member and Members of the Committee for your serious attention to supporting high quality, performance-driven assistance programs that will provide hardworking entrepreneurial people in the developing world the tools they need to generate long-term solutions to poverty and to create better lives for themselves and their children.