

World Vision

# Economic Development and World Vision

**Why, how and what we are doing**

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# Economic Development and World Vision

## Why, how and what we are doing

### Economic development: Why does World Vision care?

World Vision was founded by Rev Dr Robert Pierce in September 1950 in response to the suffering and hardship he witnessed in China and Korea after the Second World War. World Vision Australia started in 1966 and began promoting child sponsorship as a way for Australians to provide long-term help for children in need. Over time, World Vision's focus has expanded from assisting individual children to working with, and advocating for, poor and marginalised communities so they can improve their lives and the lives of their children, and take control of their future.

Summarised like this, there is no shortage of projects that World Vision could undertake. Natural and human induced disasters remain an unpredictable constant, and responding to their impact on the most vulnerable continues to be an important element of World Vision's work. Seeking to create long-term improvement in the lives of the world's poorest people provides numerous opportunities for programming in education, health, food security, and water and sanitation. All these areas have their own complex and difficult problems. Why add to the list by trying to stimulate economic development in remote rural areas or in dense and rapidly expanding cities?

The simple (and complex) answer is that responses in one or even several of these fields, while necessary, will not be sufficient to transform communities and eliminate poverty. A multi-faceted approach is needed, and at some stage this will require grappling with economic development. This is because only economic development ...

*“...makes it possible to achieve other important objectives of individuals and societies. It can spare people en masse from poverty and drudgery. Nothing else ever has. It also creates the resources to support health care, education, and the other Millennium Development Goals to which the world has committed itself.”*<sup>1</sup>

In other words, economic development is fundamental to eliminating poverty. This makes it of central importance to the work of World Vision. And not surprisingly, the concept of economic development has much in common with World Vision's goal of **transformational development**, which:

*“seeks to restore and enable wholeness of life with dignity, justice, peace, and hope for all girls, boys, women, men, households and their communities.”*<sup>2</sup>

So all that is needed is to understand what economic development is and what World Vision can do to contribute to the process. This is where things become more interesting.

### What is economic development?

The concept of economic development and how to achieve it has occupied the minds of some very bright people for more than 200 years. Despite this, there is no universally agreed definition. However, economic development is generally seen as encompassing both a sustained rise in a country's real income – economic growth – plus significant changes to the structure of the economy and society. These changes have typically included:

- economic activity moving from mainly agriculture to manufacturing and increasingly to services;
- ongoing technological change (increasingly more capital intensive and less labour-intensive methods of production in all sectors of the economy);
- demographic change (declining birth and death rates);
- over time, a more equitable distribution of income; and
- a sustained improvement in the wellbeing of the vast bulk of the population.

<sup>1</sup> Commission on Growth and Development, World Bank, 2008 p1 <https://openknowledge.worldbank.org/bitstream/handle/10986/6507/449860PUB0Box3101OFFICIAL0USE0ONLY1.pdf?sequence=1>

<sup>2</sup> World Vision International Transformational Development website

The scale of these changes means that economic development fundamentally changes people's lives. Nobel Prize winning economist Joseph Stiglitz has argued that:<sup>3</sup>

***“The changes that are associated with development provide individuals and societies with more control over their own destiny. Development enriches the lives of individuals by widening their horizons and reducing their sense of isolation. It reduces the afflictions brought on by disease and poverty, not only increasing lifespans, but improving the vitality of life.”***

Despite this, as World Vision's ultimate goal is improving the wellbeing of children, it needs to be made explicit how economic development contributes to World Vision's child wellbeing outcomes.<sup>4</sup> In practice, economic development contributes to the wellbeing of children in two broad ways. First, a country experiencing sustained economic development will be generating an increasing number of higher productivity, higher income jobs. This provides an important way for family incomes to rise via either moving from not having a job to being employed, or from lower to higher paid employment. This opens the way for increased family expenditure on goods and services essential to child development and wellbeing, including nutrition, housing, health and education. Higher family incomes also reduce the need for child labour in addition to, or instead of, education. While there is no guarantee that part of higher family incomes always goes to pro-child expenditure, there is considerable evidence that this is a very likely outcome in most cases.<sup>5</sup>

Second, at the national level, economic development translates into growing public sector revenue as the tax base widens and deepens. This provides resources for public health, education and social security that have immediate pro-child benefits, and that also contribute to further economic development, enhancing the wellbeing of future generations of children.

Still, there are two important qualifications that need to be made. First, the relationship between economic development and child wellbeing has an important similarity to the relationship between economic and transformational development: it is necessary but not sufficient. Economic development does not **guarantee** that child wellbeing outcomes will be met, and its impact is greater on some aspects of child welfare than others. But without the wealth and opportunities that economic development generates, progress towards achieving the child wellbeing outcomes will fall far short of what could and should be achieved. And this raises the second qualification: the wealth and opportunities from economic development need to be shared reasonably equally across society. The extreme inequality evident in some rapidly growing countries is not an inevitable consequence of economic development; indeed, by creating social division and unrest it has the potential to derail it. For economic growth and development to eliminate poverty, the poor must actively participate in the process, and share in the rewards.

## How does it happen?

While there is broad agreement about what economic development is, there is much less agreement about how to achieve it. William Easterly has wryly observed that: “Development economists have long known the answers on how to achieve development. The only problem is that those answers have kept changing over time.”<sup>6</sup> The reason the “answers have kept changing over time” is that economic development is the product of not only economic forces but also the interplay of the physical sciences, politics, history, anthropology, geography and more. As well, the drivers of economic development vary from place to place and over time. So, economic development is very complex. This is evident from the large number of factors identified as conceivably “causing” economic growth and/or development. One survey, for example, found that 145 different independent variables had been identified in various studies as significant determinants of economic growth.<sup>7</sup>

This complexity does not mean that nothing can or should be done. There is still considerable agreement about the importance of a relatively small number of changes that are likely to be beneficial – though always with the warning that none of them will be sufficient on

3 Stiglitz, Joseph E. *Towards a New Paradigm for Development* 9<sup>th</sup> Raul Prebisch Lecture UNCTAD (October 1998)

4 World Vision's four key child wellbeing outcomes are: children enjoy good health, children are educated for life, children love God and their neighbours, and children are cared for, protected and participating.

5 For example, Haddad, Lawrence, Alderman, Harold, Appleton, Simon, Song, Lina and Yohannes, Yisehac “Reducing malnutrition: How far does income growth take us?” *The World Bank Economic Review* Vol. 17 No. 1 (2003); Millman, Anna, Frongillo, Edward A., de Onis, Mercedes, and Hwang, Ji-jun “Differential improvement among countries in child stunting is associated with long-term development and specific interventions” *The Journal of Nutrition* 135 (2005); Save the Children *Policy Brief: Children and Economic Growth* (2010); Miller, Riel *Education and Economic Growth: From the 19<sup>th</sup> to the 21<sup>st</sup> Century* <http://www.rielmiller.com/images/Education-and-Economic-Growth.pdf>

6 Easterly, William “Was Development Assistance a Mistake?” (2007) [http://www.nyu.edu/fas/institute/dri/Easterly/File/Was\\_Development\\_Assistance\\_a\\_Mistake.pdf](http://www.nyu.edu/fas/institute/dri/Easterly/File/Was_Development_Assistance_a_Mistake.pdf)

7 Durlauf, Steven N., Johnson, Paul A. and Temple, Jonathan R. W. “Growth Econometrics” in Aghion P. and Durlauf S. *Handbook of Economic Growth* Elsevier (2005)

their own to bring about lasting economic development. Some of these key changes are considered briefly below, and discussed in more detail in the Appendix.

### ***Economic development drivers: The usual suspects***

***Achieving sustained productivity growth.*** In the words of Nobel Prize winning economist Paul Krugman, “productivity isn't everything, but in the long run it is almost everything”. Rising output per unit of society's resources of people and physical assets allows both greater consumption now, and increased investment to fuel future productivity growth.

***Increasing savings*** to fund investment in physical and human capital, and raise the level of technology used in the economy. Savings can come from individuals, businesses and governments. Importantly, recent research has shown that people on very low incomes can and do save. These microsavings help smooth income fluctuations, and reduce the impact of economic and other shocks on the very poor.

***Entrepreneurs, and doing things differently.*** To economists, entrepreneurs are very important actors in the economic system because they combine assets (physical and human) in new ways – from modest improvements through to revolutionary new combinations – to increase their value and create wealth.

***Opening to the outside world.*** Trade is widely seen as an important way to increase the size of available markets and allow larger scale (and thus lower cost) production. Trade does not only mean international trade. It can equally mean expanding to serve new and larger markets within a country.

***Improving agriculture.*** Historically, countries that moved rapidly out of poverty nearly always raised the productivity of their agriculture. More productive agriculture frees up people to work in new expanding industries, helps reduce food insecurity and feed growing urban populations, adds to the pool of savings available for investment, generates export earnings that can pay for imported capital equipment, and supplies raw agricultural materials to industry for processing.

This list of likely drivers of economic development is pretty standard and has a long history, but it does not fully explain how economic development comes about. Substantial effort and resources have been directed to all these areas by governments, and multilateral and non-government agencies, yet widespread chronic poverty persists. Clearly the involvement of other factors is necessary to achieve a permanent economic breakthrough. Hence the list has grown to include some new(ish) contributors including the following.

### ***Economic development drivers: Some more ideas***

***The place of infrastructure.*** It is becoming clear that infrastructure is important, particularly for the poor. Economic rates of return for a range of infrastructure projects are often large.

***Institutions and incentives.*** The role of institutions and incentives has received increasing attention. Weak institutions or rules (such as poorly enforced property rights, corrupt legal systems or physical insecurity) will discourage people from saving and investing, and consequently reduce the rate of capital formation and technological change.

***The importance of context.*** Economic models emphasise the general aspects of development, but development specialists are realising that the unique characteristics of particular countries or even regions within countries are at least as important.

***The need for commitment.*** Irrespective of the scale of external assistance, the changes necessary for development must come from within the society itself – they cannot be imposed from outside.

***The contribution of women.*** Women make a significant and often disproportionate contribution to economic growth and family economic wellbeing. Investment in women is likely to yield higher social (private plus public) returns than investment in men.

***Inequality as an obstacle to growth.*** While the theory is not settled, empirical research over the past two decades indicates that reducing inequality is consistent with strong growth in income over a sustained period of time.

## What World Vision is doing:

### I. Reviewing programming priorities

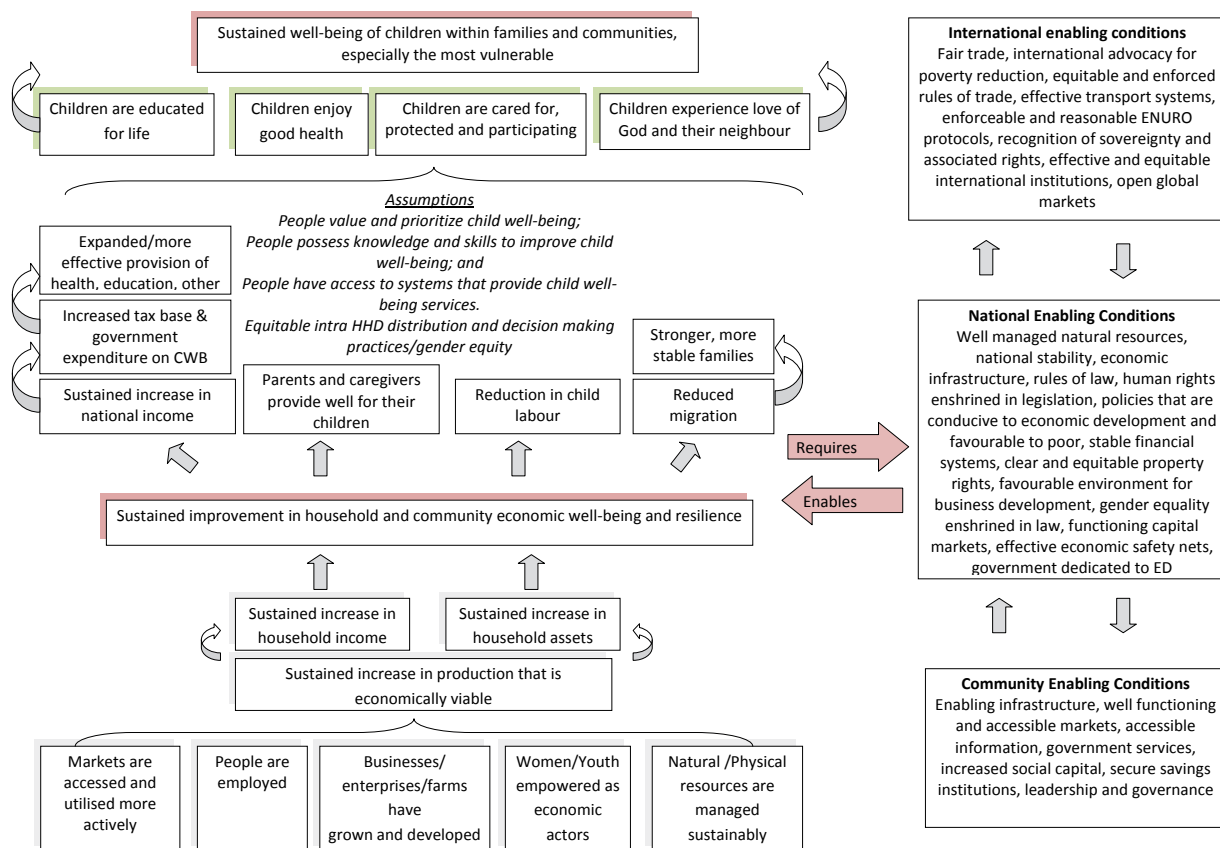
In 2011, World Vision Australia led economic development specialists in the World Vision International Partnership in conducting an intensive theory of change exercise to consider current thinking about what is needed to achieve economic development, and how World Vision's economic development programming can make the greatest contribution to our ultimate goal of improving children's lives. Mapping out a theory of change helped bridge the gap between theory and action. It forged a common view about how economic development contributes to achieving World Vision's long-term goals, specifically the child wellbeing outcomes. It made explicit the assumptions behind the change process, and made clearer the types of behaviours and actions likely to be needed to bring about the desired outcomes. And not

least, as is apparent from the theory of change map below, it allowed the whole process to be shown in a (reasonably) simple pictorial form.

Distilling economic research and World Vision's field experience emphasised the importance of higher labour productivity and improved access to finance to successful economic development programs. With this as the starting point, five key changes were identified to achieve the child wellbeing goals:

- greater involvement in markets;
- increasing paid employment;
- creation/expansion of businesses;
- increasing the participation of young people and women in economic activity; and
- the sustainable use of resources.

### Economic Development Theory of Change Map



CWB: child well-being

As well, outlining the main components of the local, national and international enabling environments emphasised the importance of advocacy in extending economic development programs beyond the local level, and made clearer the range of possible advocacy strategies available, depending on the particular situation.

Combining a focus on productivity and finance with the five areas where change was needed provided the starting point for defining the main economic development programming themes. Four main themes were developed, each of which is capable of contributing to increasing labour productivity and/or improving access to finance.

**1. Facilitate access to markets and business development services for micro-entrepreneurs and smallholder farmers with children.** Information asymmetry, lack of pricing power, limited business skills, value chain bottlenecks, and decentralised negotiations with wholesalers combine to put micro-entrepreneurs at a disadvantage in the marketplace. World Vision's focus is to level the playing field by helping producers overcome these disadvantages. Because of World Vision's significant presence in rural areas, this often involves working to increase the productivity, market access, and bargaining power of smallholder farmers.

**2. Facilitate access to wage and self-employment, especially for youth.** While many poor people are self-employed, this may be due to necessity rather than choice. Increasing wage employment is an important and sometimes overlooked aspect of economic development programming. Employment, either wage or self-employment, is particularly significant for young people, because of the proportion of youth in many developing countries and because the years between 15 and 24 are second in importance only to the first five years of life. Decisions made during these teenage and early adult years often have long-term impacts. World Vision's focus is to assist people in this cohort to become more productive by widening the range of economic opportunities available to them.

**3. Manage physical and natural resources sustainably.** Here World Vision helps communities use natural and physical resources in a way that prevents their rapid exhaustion and thus increases their ability to contribute to rising output and welfare over an extended period of time.

**4. Facilitate access to savings and credit, especially for mothers.** Irregular incomes, low incomes, high exposure to common risks, family emergencies, but also unexpected investment opportunities are all aspects of a poor household's economic situation. Access to pro-poor savings and credit facilities provide a way to increase

household capital, encourage saving, offset exclusion from existing financial services providers, and reduce dependence on aid agencies to provide business and agricultural inputs. Savings groups and microcredit organisations allow very poor families to better manage their finances, increase their incomes and assets, and improve their food security. World Vision's focus is to create access to savings and credit services for the poor and marginalised, especially women, on a voluntary basis.

Finally, it also became clear during the theory of change process that World Vision needed to mitigate and restore the loss of livelihoods due to disasters and crises. Natural or human induced disasters can rapidly destroy productive assets acquired over many years. The most vulnerable children and households often live in areas at higher risk of disasters and crises. Through its Humanitarian and Emergency Affairs teams, World Vision assists with diversification of household incomes and assets to help mitigate loss, and restore livelihoods after disasters occur.

## What World Vision is doing:

### 2. On the ground

The four themes discussed above form the basis of our economic development programing. This section looks at some examples of the ways they have been translated into actual work in the field.

#### Local value chain development: Improving access to profitable markets in Indonesia

Starting in 2009 and running to March 2012, local value chain development (LVCD) projects were undertaken in the Flotim and Sikka Area Development Programs (ADPs) on Flores island in the Nusa Tenggara Timur province of Indonesia. The Flotim ADP covers 36 villages, while the Sikka ADP contains 26 villages. The projects targeted very low income farmers and producers earning less than US\$1 a day. A major evaluation of the projects was carried out in March 2012.

Both the Flotim and Sikka ADPs have climates favourable for agriculture, land for cattle grazing and other animal husbandry, and large coastal areas with considerable potential for fishing and other aquatic industries. Despite this, poverty rates are high – 22 percent for Flotim and 20 percent for Sikka. Contributing to this poverty are remoteness from markets and a lack of information about market opportunities. This has resulted in most farmers being

restricted to small informal local markets dominated by a small number of intermediaries (also referred to as traders, middlemen or brokers).

The asymmetry of information between traders and producers was a particular obstacle to increasing the incomes of poor farmers. Traders in Kupang, Surabaya, or even based in India, acted to ensure that local producers did not have information about qualities, quantities, logistics and other relevant market requirements, and negotiations were fragmented to further reduce supplier power. For their part, due to their poverty, producers were reluctant to take on formal debt to invest in new

technology or increase the scale of their operations. Many producers were already locked into a cycle of informal debt to middlemen who exploited the cash needs of producers by purchasing crops months before harvest at very low prices. Lack of information about market opportunities also acted as a disincentive for producers to group together to increase their bargaining power and their ability to supply commercial quantities. With increased volumes to sell, farmers gained greater negotiating power. On the other side of the transaction, buyers benefited from lower transaction costs, helping to offset higher prices paid to farmers.

### *Local value chain development: Bringing some more value back home*

By analysing the stages of a market chain, from acquiring the inputs to selling to the final user, value chain analysis highlights where additional value can be added, and how much value is being added at each link of the value chain. It also identifies other influences on the market chain, such as government policy, access to communications, the availability of research and development, and the adequacy of infrastructure. A better understanding of the market opens up ways to increase the value added by small farmers or other producers, and to win value from further up the chain (for example, at the wholesale or retail stages).

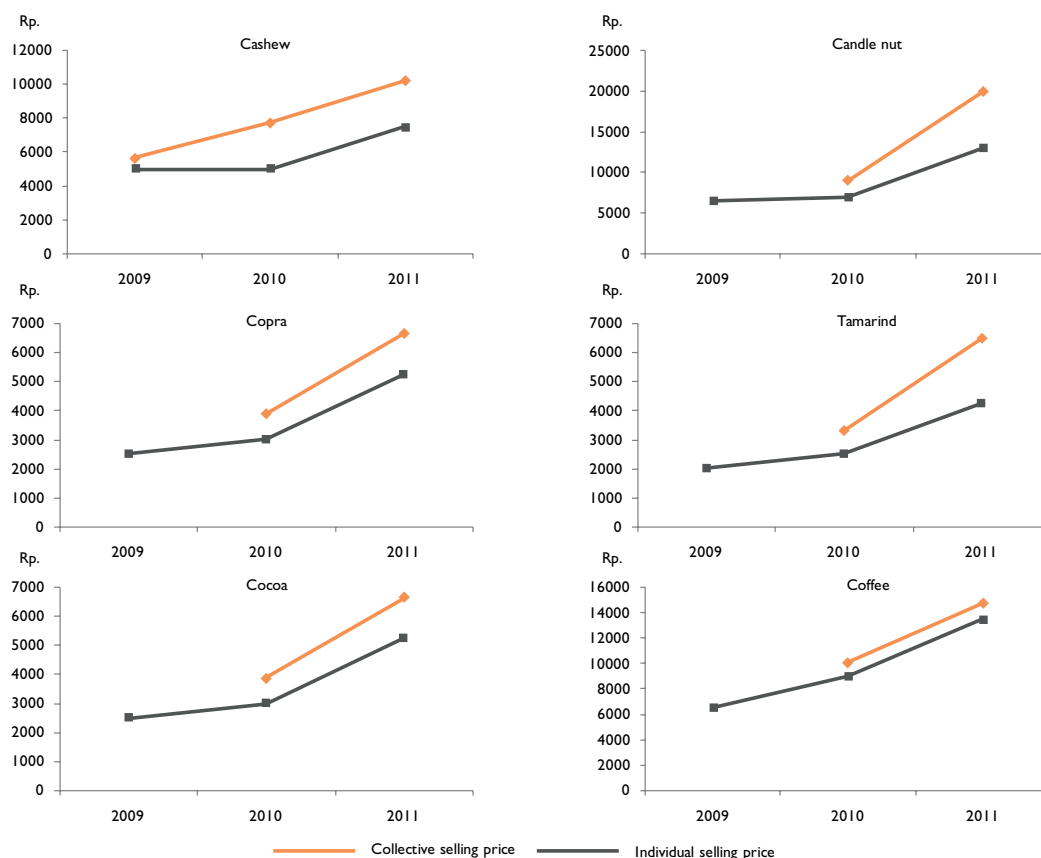
In practice, local value chain development (LVCD) programs usually have two main objectives – to increase farmer productivity and incomes through improved quality, techniques and crop choices (ie. add value), and to increase farmer bargaining power by creating marketing collectives (ie. win value). In the past, programs responding to agricultural poverty typically attempted to increase the amount of what was already being produced, and sell the increased production at the going price. Using value chain methodology opened up new possibilities but required a new approach.

Central to the success of LVCD is the Market Facilitator, a World Vision or partner organisation member based in the project area who works with poor producers to improve their market access and increase the value they obtain from the market chain. He or she provides local producers with training in essential business and commercial skills, negotiation techniques, market information gathering, product pricing, relationship building and networking with buyers and service providers.



Adding value to mangoes in World Vision's LVCD project in the Homosha-Assosa region of western Ethiopia.

Chart 1: Prices received for main crops, Flotim and Sikka ADPs, 2009-2012



Source: World Vision International Report of the Local Value Chain Development Project Evaluation in Sikka and Flotim (September 2012)

In the Sikka and Flotim ADPs, the combination of improved quality, increased output and collective selling increased the prices received and the incomes of farmers.

The collective selling price for cashew, for example, increased by 81 percent, whilst the individual selling price grew by only 50 percent. Interviews conducted with market participants provided clear evidence of the benefits of collective selling. For example one produce collector observed:

*“The difference in price between what I could offer before, and with the collective marketing project in place is around Rp. 1,000-Rp. 1,500 per kilogram for candle nut, Rp. 500 per kilogram for cashew, for cocoa it could be up to Rp. 2,000 per kilogram; for tamarind around Rp. 1,000 - Rp. 1,500 and for copra around Rp. 500 per kilogram.”*

And a Market Facilitator noted that:

*“We thought that even though our knowledge was limited we knew that the price depended on the tonnage (amount of produce). So if we are struggling on our own it’s because the price is not determined by us, but if we join the group, we collect much higher quantities of produce and the price can then be negotiated.”*

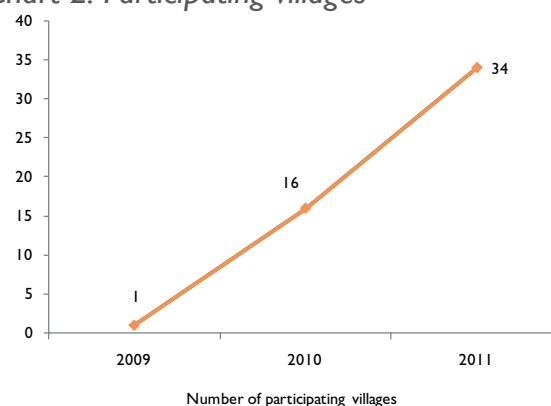
Collective selling also resulted in greater efficiencies through reduced production costs and economies of scale. For example, transportation costs for buyers were reduced as they no longer had to collect produce from individual farmers, but could collect from the Producer Group’s single selling point. Lower transportation costs meant that buyers could afford to pay higher prices for the goods they were buying, leading to increased profits for Producer Group members. This was a win-win solution for both farmers and buyers.



Weighing produce as part of collective marketing.

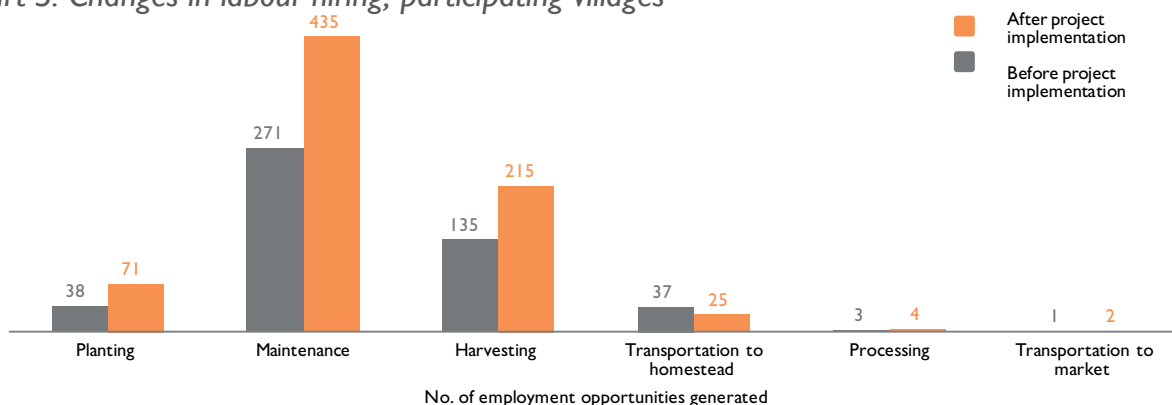
The success of the LVCD approach encouraged more producers to join the project.

Chart 2: Participating villages



Source: World Vision International *Report of the Local Value Chain Development Project Evaluation in Sikka and Flotim* (September 2012)

Chart 3: Changes in labour hiring, participating villages



Source: World Vision International *Improving Lives; Collective Selling and Improving Market Knowledge and Product Quality for Local Producers in Indonesia* (January 2013)

The programs also contributed to the priority of improving access to wage employment, with a net increase of 267 paid jobs in activities related to the LVCD programs.

There remain challenges to LVCD programs. In particular, success of the LVCD approach is influenced considerably by finding suitable local Market Facilitators. But so far the local value chain methodology is proving to be an encouraging new approach to generating sustained growth in the incomes of poor rural producers. Currently there are 25 World Vision LVCD projects at different stages of implementation in 38 ADPs.

## Get a job: Helping young people find employment in Embo, South Africa

Expanding employment is often one component of a larger program. But in the case of the Embo Business and Employment Hub it was a central objective. Embo is in the South African province of KwaZulu Natal, some 45km northwest of the city of Durban. Embo has evolved from a low density settlement under the leadership of traditional authorities, into a peri-urban settlement of mixed high and low-density areas with a population of approximately 10,000 people. The physical landscape is characterised by high sandstone

ridgelines and deeply incised valleys, and forms part of the tourist attraction known as “the valley of a thousand hills”. This topography poses serious challenges to the development of agriculture. Adding to the challenge of stimulating economic development, the area has very limited infrastructure with few tarred roads; there is reticulated water to some houses but most rely on standpipes; electrification is inadequate and there is no medical clinic. Embo has six primary schools, and the only high school has a very low matriculation pass rate. Consequently, few students are able to enter university.

Embo is situated adjacent to the town of Hillcrest and close to the industrial areas of Hammarsdale and Cato Ridge. Despite being situated next to three rapidly growing commercial and industrial areas (collectively known as the Upper Highway), the most significant challenge facing Embo is access to economic opportunities. The Embo economy is therefore characterised by widespread unemployment and poverty. In 2008, more than 80 percent of households were described as “poor” (earning less than R1,500 a month), and unemployment stood at approximately 50 percent. Other social problems included a very high crime rate, and high rates of substance abuse, teenage pregnancy, teen suicide and HIV and AIDS (estimated at 60 percent).

World Vision South Africa has been working in Embo for approximately 10 years. In 2008, World Vision South Africa re-evaluated its approach to economic development programming. After an assessment of Embo’s actual or potential comparative advantages, it was agreed that while the Embo community was in a position to gain employment and contracts with Upper Highway businesses, Embo was rarely considered by these businesses as a source of workers or suppliers. This situation gave rise to the Embo Business and Employment Hub initiative to facilitate negotiations between employers and jobseekers, and between companies and potential sub-contractors or input providers.

Over time, the Embo Business and Employment Hub developed partnerships with local businesses and organisations including the Ithala Development Finance Corporation, the Durban Chamber of Commerce and Industry, the Small Enterprise Development Agency, and Tool and Die Manufacturing to increase awareness of training and job opportunities, and to provide financial and business education. Recently the Hub held an employment fair, providing the opportunity for more than 1,000 current and recent school leavers to apply for jobs, post-school education or training.



Applying directly to tertiary institutions at the Embo Careers Fair, January 2013

Among the institutions and employers that attended the fair were Durban University of Technology, Durban Central Technical College, Success Training Institute, UNISA, Standard Bank, Expanded Public Works Programme, Ethekwini Skills Development Unit, Universal College Outcomes, Creative Arts College and Berea Technikon.

## Sustainable resource use: Trees, food and carbon credits in Niger

Farmer Managed Natural Regeneration (FMNR) is a resource management system World Vision has actively promoted to improve, in both a sustained and sustainable way, the livelihoods of poor farmers. Unlike other greening initiatives, FMNR uses existing natural resources. Farmers identify residual stems and stumps of trees which are still alive in their fields, and manage them – through pruning and coppicing – to promote regrowth into trees. It is a low-cost and low-input technique which farmers can carry out independently with their own tools.

FMNR was pioneered in Niger in the early 1980s. One of the driest and poorest countries in the world, Niger has now regenerated over five million hectares, making it the only African country to be experiencing net afforestation.<sup>8,9</sup> The extent of this expansion highlights another strength of FMNR – its ability to spread spontaneously through farmer-to-farmer interaction.

Land regenerated by FMNR techniques opens up a range of development opportunities. Depending on the context, greater afforestation improves soil fertility

8 Rands B. & Rinaudo T. (1990) *Farmer-Managed Natural Regeneration in Niger*. The NRMS Newsletter, Washington DC, Summer, pp.5-6

9 Reij C., Tappan G., Smale M. (2010) “Re-Greening the Sahel: Farmer-led innovation in Burkina Faso and Niger”, in *Millions Fed. Proven successes in agricultural development*, Chapter 7, IFPRI. <http://www.ifpri.org/publication/millions-fed>

and moisture retention, thus improving agricultural productivity. Tree pruning and coppicing allows sustainable firewood production for home use and sale. Forested areas can provide fodder and protection for grazing animals and open up new commercial activities such as honey production. And although in an early stage, FMNR afforestation can generate carbon credits, providing the community with a revenue stream available for investment in assets to further increase income.

FMNR also assists in the mitigation of climate change through carbon sequestration and in adaptation through the regeneration of nutrient-depleted soils and reduced erosion. Increased investment in this proven approach to regenerating degraded landscapes – as opposed to planting new seedlings, which is rarely successful – has the potential to help vulnerable communities better protect themselves from the impacts of climate change across the Sahel and beyond. One FMNR project in Senegal has reduced the vulnerability of participating communities to climate risks by increasing the productivity of FMNR farms, particularly in relation to millet, the staple consumption crop in the local food system. Communities are thus better protected from the food shortages they might otherwise experience.<sup>10</sup> In 2008, over half of the households surveyed experienced seven or more months of food insecurity; in 2011, no surveyed families faced such lengthy food shortages.

## Expanding financial services for the poor and marginalised: I. Small loans from clean water in Sri Lanka

Despite being fundamental to life, the World Water Council estimates that 780 million people still live without safe drinking water. Many more – around 2.5 billion people including nearly one billion children – do not have access to proper sanitation. The human cost of inadequate water and sanitation is clear from the fact that 1.5 million children die from preventable water-related diseases each year.<sup>11</sup> The importance of the problem has been acknowledged by its inclusion in the Millennium Development Goals Target 7C which calls for the proportion of people without access to basic sanitation to be halved by 2015.

<sup>10</sup> Due to high levels of rainfall variability in the Sahel, and the link between the extent and duration of the lean period and the previous year's yields, improvements in food security over the life of the project cannot be wholly attributed to the practise of FMNR. However, research conducted by the Senegal Institute for Agricultural Research (ISRA) in 2010 compared crop yields in FMNR and non-FMNR plots where soil and seasonal conditions were the same, and found that FMNR led to a dramatic increase in the staple crop millet.

<sup>11</sup> <http://www.visionfund.org/162/media/news/article/clean-water-by-2015/?returnurl=/media/news/>

## Some impacts of FMNR in Niger

**Reforestation:** Over 20 years, five million hectares have been reforested, averaging 40 trees/hectare (ie. 200 million trees).

("Turning back the desert: How farmers have transformed Niger's landscapes and livelihoods" in *Roots of resilience: Growing the Wealth of the Poor*. World Resources Institute Washington, D.C 2008)

**Increased incomes:** Households earn an estimated \$200/year through practising FMNR. Additional income for Maradi region: \$17-\$23 million per year.

(Haglund E. et.al. *Assessing the Impacts of FMNR in the Sahel: A Case Study of Maradi Region, Niger* (unpublished, 2009)

**Increased food security:** An additional 500,000 tonnes of grain/year are being produced, meeting the requirements of 2.5 million people.

(Reij C., Tappan G., and Smale M. "Re-Greening the Sahel Farmer-led innovation in Burkina Faso and Niger" in IFPRI *Millions Fed. Proven Successes in Agricultural Development* 2009. <http://www.ifpri.org/publication/millions-fed>.)



Typical Niger farm scene in the early 1980s.



By 2007, Nigerien farmers were leaving up to 150 trees per hectare.

For these reasons, VisionFund International (see text box on page 12) has worked closely with its global humanitarian and relief charity partner World Vision to provide microfinance to support community-based water projects. A multi-partner project run by World Vision in Sri Lanka provides a good example of the role microfinance can play.<sup>12</sup> In 2010, following 26 years of conflict, the Sri Lankan Rural Integrated Water Sanitation and Hygiene Project was established by World Vision, together with the Canadian Institute for Development Assistance and AusAID, in conjunction with the Sri Lankan Government. The project's aim was to support local government to improve water supply and sanitation by increasing its capacity to sustainably meet the water, sanitation, hygiene and solid waste management needs of communities. A major achievement of the project has been to provide water supply and sanitation facilities to more than 23,000 people, including 7,500 school children, spread over a number of estates, schools and rural villages in the Nuwara Eliya District, one of the most impoverished districts in the country.

Once the project was up and running, VisionFund began providing loans to selected project beneficiaries. Access to microfinance enabled them to increase their incomes by starting enterprises that supported the project. These included establishing shops to sell spare parts for household water systems or promote better hygiene by selling items such as soap and shampoo. More than 400 families have received loans to start their own business enterprises and other income generating activities.

## Expanding financial services for the poor and marginalised: 2. Microsavings, the not so poor relation

For many people, microfinance is microcredit – small loans often used to buy assets that will earn income. But microfinance is more than this, and as experience with microcredit increases, it has become clear that it is not always what poor people want. The first priority of many very poor and marginalised people is to have access to a safe and low cost place for their savings. This is important for a variety of reasons.

- Many poor people, understandably, are risk averse and hence unwilling to take out a loan from a microfinance institution in an uncertain economic environment.

- People on low and variable incomes are often more interested in protecting their cash flow and their productive assets than borrowing to run a business. Their priority is to smooth their incomes and have some reserves against unexpected events rather than accumulate debt.
- Accessing safe savings facilities can be expensive. For example, one study cites the case of women in the Maputo markets of Mozambique paying up to 10 percent of the closing balance of their savings each month to have their savings collected and deposited. That people are prepared to pay so much highlights the importance of having secure savings to meet regular payments, protect against shocks, and avoid the very high cost of emergency borrowing.

Reinforcing its commitment to expand savings options for the poor, in 2010 World Vision received a US\$3 million grant from the Bill & Melinda Gates Foundation to provide more than 250,000 poor farmers and other people on very low incomes in Ethiopia with access to savings accounts.<sup>13</sup> In conjunction with WISDOM, World Vision's affiliated microfinance institution in Ethiopia, the Access to Rural Savings in Ethiopia project utilises mobile savings officers to collect funds, electronically record transactions and issue receipts. This approach provides a safe and cost effective way for farmers to save for next season's seed and other inputs, and for people on low incomes to smooth out fluctuations in their incomes and build a cushion against unexpected adverse events. Experience from this trial in Ethiopia will be used to design savings projects capable of being extended to other parts of Ethiopia and beyond.

## Conclusion: Not sufficient, but very necessary

Achieving lasting economic development is essential to the permanent reduction of poverty, and is closely aligned with World Vision's concept of transformational development and the goal of achieving better, more fulfilled lives for the poorest children on the planet. This has some important consequences for World Vision. If economic development is necessary for transformational development, World Vision has an obligation to be active in attempting to achieve economic development wherever it works. But transformational development is a very ambitious goal. It is dependent on achieving both economic growth and economic development. In the six decades since World

<sup>12</sup> <http://microfinanceafrica.net/microfinance-around-the-world/sri-lankan-water-project-pools-resources-and-unites-communities/>

<sup>13</sup> <http://www.worldvision.org/content.nsf/about/20100114-savings-grant>

### *VisionFund: A snapshot*

VisionFund is the microfinance arm of World Vision, supplying a range of financial services to families living in poverty. VisionFund provides microcredit, savings and micro-insurance in 36 countries.

At the beginning of February 2013:

- VisionFund's loan portfolio stood at US\$437.7 million.
- VisionFund had loans outstanding with more than 820,000 borrowers, for an average loan size of US\$715.
- Some 68 percent of borrowers from VisionFund were women.
- Microfinance services from VisionFund affected the lives of an estimated 2.7 million children.

Loans from VisionFund are used for a range of purposes including farm inputs, capital equipment and inventories for businesses, as well as social expenses including medicine, education and food.

A loan from VisionFund Indonesia allowed Nia, a seamstress in Cilincing, North Jakarta, to purchase two sewing machines to expand her business. Nia's venture expanded further on the back of this investment, and after completing a business training class run by World Vision, Nia took out a second loan of US\$400 to set up a food business. <http://visionfund.org/2084/media-centre/news-stories/>



Cambodian farmer Reun Rim with assets acquired via loans from VisionFund Cambodia.

### *Village Savings and Loan Associations*

World Vision uses the Village Savings and Loan Associations model developed by Care International in Niger in 1991. Worldwide, some 4.6 million people save in these savings groups. Village Savings and Loan Association savings groups:

- focus on savings not credit;
- are voluntary and self-managed groups of 10-25 members;
- operate for a fixed cycle of up to one year;
- are independent of other community-based organisations or microfinance institutions;
- make small, short-term loans from the accumulated group savings; and
- share out accumulated interest and charges to members at the end of the saving cycle.

As well as providing financial services to people unable or unwilling to access microfinance institutions or banks, savings groups can also be a vehicle for other activities including education and business development training.

Around the world, approximately 500,000 people save in these types of World Vision savings groups.



War 2, no single organisation, alone or working with others, has been able to generate sustained economic growth in the world's poorest countries. This presents a major challenge for World Vision: how to combine the lessons from centuries of thinking about economic development with decades of experience in the field to determine the best use of its talent, financial and physical resources. And how should World Vision both think globally about economic development while acting locally through its Area Development Programs to increase the chances of having a lasting impact on the economic welfare of the communities it serves?

World Vision has tackled this challenge by using a theory of change approach to integrate wider thinking about economic development with its field experience in order to sharpen the focus of its economic development programming, and improve its understanding of the importance of the wider economic and social environment. Perhaps more than any other area of World Vision's work, the progress of economic development programs can be slow and unpredictable, reflecting the complexity of the problem. But while the underlying drivers of pro-poor growth and development need to come from within a society, international development initiatives are capable of making a meaningful contribution to real and lasting improvements in the livelihoods and lives of communities, families and children. Of course, there are no universal roadmaps to pro-poor growth and development but, as the case studies in this report show, carefully considered and targeted interventions can make a measurable difference to the lives of some of the world's poorest people. This is why it is vital that international development actors, both government and non-government, have the space and the resources to learn about the context in which they operate and explore innovative approaches to find what works. It is not easy, but it can transform lives, so it is worth doing.

# Appendix:

## What do we need for economic development?

### An overview of some of the changes likely to be important in permanently lifting people out of poverty.

**Achieving sustained productivity growth** – that is, using society's resources of people and productive assets in ways that produce more output per unit of input on an ongoing basis. The fact that strong and sustained productivity growth has occurred simultaneously with economic development (and wider social transformation) is no coincidence. Productivity growth both provides the material resources to allow transformation, while directly fuelling it. For example, faster productivity growth in manufacturing compared to agriculture encourages people to move from rural to urban areas where manufacturing is concentrated and incomes are higher. Achieving sustained growth in productivity will almost certainly require investment in physical and human capital by the private sector and governments, and "investment in physical and human capital, or in new technologies and ways of doing things, is the basic activity that makes a country prosperous".<sup>14</sup> Today's rich countries have experienced long run productivity growth, and the countries currently moving out of poverty, particularly the newly industrialising countries and more recently parts of Asia, have experienced productivity surges.

**Increasing savings to fund investment in physical and human capital, and raise the level of technology used in the economy.** Savings can come from individuals, businesses and governments. They can come from overseas in the form of direct investment, loans or aid. Most likely some combination of all these savings types will be needed. An important development in the savings-investment story is that people on very low incomes can and do save. A 2006 study found that there were 1.3 billion low to average balance deposit accounts in developing and transition economies compared to 190 million loan accounts.<sup>15</sup> Accumulation of microsavings by the very poor allows consumption to be smoothed, provides a buffer against economic shocks, and reduces the necessity to sell income

generating assets in times of extreme hardship. The cost of providing millions of small savings accounts is high, but technologies including mobile phones are helping to lower transaction costs.<sup>16</sup>

**Entrepreneurs, and doing things differently.** When used by economists, the term "entrepreneur" points to a critical element in the long run process of economic development. To an economist, entrepreneurs are highly valued agents in the economic system because they combine assets in new ways which increase their value and create wealth. These new combinations of assets, or new ways of doing things, can be modest in scope and still create wealth. But revolutionary new combinations of resources that have led to the introduction of changes, such as steam-powered locomotives, the factory system, mass production, the internal combustion engine, transistors, miniaturisation and computerisation have been major contributors to countries moving onto the path of economic development.

**Opening to the outside world.** This is sometimes a controversial issue, but there is a broad consensus that trade is an important way to increase the size of available markets and allow larger scale (and thus lower cost) production. Trade does not only mean international trade. It can equally mean expanding to serve new and larger markets within a country. Trade encourages opening up to opportunities (and ideas) beyond those in the immediate environment, something that is at the heart of development as transformation.

**Improving agriculture.** There is a strong case that a sustained increase in agricultural output and productivity is a prerequisite for sustained economic growth and development.

*"Historically, the answer to the question about the role of agriculture in economic development is clear. No country has been able to sustain a rapid transition out of poverty without raising productivity in its agricultural sector ... A dynamic agricultural*

<sup>14</sup> Robinson, James A. *Equity, Institutions and the Development Process* [http://www.nopecjournal.org/NOPEC\\_2006\\_a02.pdf](http://www.nopecjournal.org/NOPEC_2006_a02.pdf) p.17

<sup>15</sup> CGAP "Savings for Poor People: Good for Clients, Good for Business?" <http://www.cgap.org/p/site/c/template.rc/1.26.2209/>

<sup>16</sup> "A better mattress: Microfinance focuses on lending. Now the industry is turning to deposits." *The Economist* (March 11 2010)

*sector raises labour productivity in the rural economy, pulls up wages, and gradually eliminates the worst dimensions of absolute poverty.”<sup>17</sup>*

Various explanations of how agriculture contributes to economic growth have been put forward. One well established view emphasises agriculture’s role in supplying resources. In this view, a more productive agricultural sector frees up people to work in new expanding industries, helps feed the growing urban population, contributes to savings available for investment in more productive economic activities, generates export earnings that can pay for imported capital equipment, and supplies raw agricultural materials to industry for processing. Rising incomes in agriculture increase demand for domestically produced goods and services. Rising farm incomes also encourage labour substitution, with hired labour replacing family labour. This has positive long-term growth benefits, particularly if it results in children attending school for longer. More productive agriculture also has various indirect benefits, ranging from greater food security and reduced environmental degradation, to reducing family dislocation due to family members leaving rural areas for extended periods in search of work.<sup>18</sup>

**The place of infrastructure.** Interest in the contribution of infrastructure investment in economic development has increased in recent years. The evidence is growing that infrastructure is important, particularly for the poor.<sup>19</sup> When economic rates of return are calculated for various types of infrastructure projects, they are often substantial.

*“In recent years these methods have suggested economic returns on investment projects averaging 30–40 percent for telecommunications, more than 40 percent for electricity generation, and more than 200 percent for roads (although when the outliers are excluded, the average is about 80 percent for roads). Returns tend to be higher in low-income than in middle-income countries.”<sup>20</sup>*

Economic returns on individual projects calculated from cost-benefit analysis also suggest significant benefits are available from investments in water, sanitation, transport and other basic infrastructure.

**Institutions and incentives.** Increasing attention has been given to the role of institutions and incentives as essential components of economic development. Harvard economist Dani Rodrik has observed that Western economic development can be seen as a process of unleashing capitalism in the 19th century and pacifying it with institutions in the 20th.<sup>21</sup>

“The nineteenth century had discovered capitalism. The twentieth learned how to tame it and render it more productive by supplying the institutional ingredients of a self-sustaining market economy: central banking, stabilizing fiscal policy, antitrust and regulation, social insurance, political democracy. It was during the twentieth century that these elements of the mixed economy took roots in today’s advanced industrial countries. The simple idea that markets and the state are complements – recognized in practice if not always in principle – enabled the unprecedented prosperity the United States, Western Europe, and parts of East Asia experienced during the second half of the century.”

If markets are to play their role in promoting investment in physical and human capital they require a range of both market and non-market institutions. Institutions set out the way things are done (the rules of the game). Weak institutions or rules (such as poorly enforced property rights, corrupt legal systems or physical insecurity) will discourage people from saving and investing, and consequently reduce the rate of capital formation and technological change.<sup>22</sup>

**The importance of context.** History has shown that development is possible but not inevitable. While a group of diverse countries has achieved remarkable transformation, others remain trapped in extreme poverty. Economic models emphasise the general aspects of development, but there is growing support among development specialists that the unique aspects of particular countries or even regions within countries are at least as important. As Dani Rodrik has noted, “Learning and imitation from abroad are important elements of a successful development strategy. But imported blueprints need to be filtered through local experience and deliberation.”<sup>23</sup>

17 Timmer, C. Peter **A World Without Agriculture: The Structural Transformation in Historical Perspective** AEI Press (2009) pp.3–4. Available at <http://www.aei.org/docLib/9780844742793.pdf>

18 For example, see Springer, Randy “The Economic Roles of Agriculture: The Secular and Non-secular Economic Roles of Agriculture, their Measurement and Valuation” FAO Roles of Agriculture Expert Meeting 19–21 March 2001.

19 Eustace, Antonio “A Selected Survey of Recent Economic Literature on Emerging Infrastructure Policy Issues in Developing Countries” The World Bank (August 2004)

20 Eustace, Antonio “A Selected Survey of Recent Economic Literature on Emerging Infrastructure Policy Issues in Developing Countries” The World Bank (August 2004) p.4

21 Rodrik, Dani *Development Strategies for the Next Century* p.1

22 Acemoglu, D. “Epilogue: Mechanics and Causes of Economic Growth” in Acemoglu, D (ed) **Introduction to Modern Economic Growth** [http://press.princeton.edu/chapters/s6\\_8764.pdf](http://press.princeton.edu/chapters/s6_8764.pdf) pp 861–862

23 Rodrik, Dani *Development Strategies for the Next Century* p.4

**The importance of commitment.** At the end of the day, changes necessary for development must come from within the society itself – they cannot be imposed from outside. As Joseph Stiglitz has observed:

*“Key ingredients in a successful development strategy are ownership and participation. We have seen again and again that ownership is essential for successful transformation: policies that are imposed from outside may be grudgingly accepted on a superficial basis, but will rarely be implemented as intended. But to achieve the desired ownership and transformation, the process that leads to that strategy must be participatory. Development cannot be just a matter of negotiations between a donor and the Government. Development must reach deeper.”<sup>24</sup>*

**The contribution of women.** There is a growing literature on the economic and social costs of inhibiting the involvement of women in economic activity, and the significant and often disproportionate contribution women make to economic growth and family economic wellbeing.<sup>25</sup> Investment in women is likely to yield higher social (private plus public) returns than investment in men.<sup>26</sup> While private returns from investment in education and health may be similar for women and men, social returns are likely to be much higher from investment in women due to the positive spinoffs from lower fertility and the higher productivity of future generations from better nutrition and more education.

**Inequality as an obstacle to growth.** While the theory is not settled, empirical research over the past two decades does support the idea that reducing inequality is consistent with strong growth in income over a sustained period of time. What is less clear is the mechanism through which inequality can affect growth. In the absence of an agreed growth model, a diverse range of explanations have been suggested, but several main themes emerge.<sup>27</sup> One theme relates inequality, particularly income inequality, to lower labour and capital productivity due to lower investment in human and physical capital. A second theme emphasises the impact of inequality on the ability of some countries to maintain periods of strong growth, in part because the poor are hit hardest by economic shocks. And a third stream highlights the potential for inequality to adversely influence the broader social and economic environment needed to encourage growth and development, for example by causing social conflict or poor government policies.

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<sup>24</sup> Stiglitz, Joseph E. *Towards a New Paradigm for Development* 9<sup>th</sup> Raul Prebisch Lecture UNCTAD (October 1998)

<sup>25</sup> For example, see USAID *Women in the Economy: A Review of Recent Literature* [http://pdf.usaid.gov/pdf\\_docs/PNADJ328.pdf](http://pdf.usaid.gov/pdf_docs/PNADJ328.pdf) For a study of policy responses to some of the economic aspects of gender, see Were, Maureen and Kiringai, Jane *Gender Mainstreaming in Macroeconomic Policies and poverty Reduction Strategy in Kenya* [http://www.sarpn.org.za/documents/d0000832/P939-KIPPRA\\_Gender\\_Mainstreaming.pdf](http://www.sarpn.org.za/documents/d0000832/P939-KIPPRA_Gender_Mainstreaming.pdf)

<sup>26</sup> De Ruyter van Stevenink, M.A. and De Groot, A.W. *Gender and Economic Development: The Work of Diane Elson, Summary and Comments* Ministry of Foreign Affairs, The Netherlands (1998) pp 1-2

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<sup>27</sup> Marrero, Gustav A. and Rodriguez, Juan G. *Inequality of Opportunity and Growth* ECINE Working Paper 154 (2010) <http://www.ecineq.org/milano/WP/ECINEQ2010-154.pdf> pp.7-8



