



## Intermediate Results

**In the absence of a proper impact evaluation, intermediate results indicators for USAID's economic growth programs can provide valuable and often compelling evidence about development effectiveness.**

The central purpose of USAID's commitment to economic growth (EG) programs is to help developing countries around the world achieve rapid, sustained, and broad-based growth, which is essential for reducing and eventually ending extreme poverty as well as dependence on foreign aid. Ideally, one would like to have rigorous evidence on the impact of each EG intervention. In practice, this type of evidence is not often available because of resource and time constraints or the nature of the program activities. Still, each program generates information about results that are intermediate links between the project activities and the achievement of intended impacts.

This briefing note examines a selection of intermediate results for some important EG programs around the world. The examples are selected to show that well-designed EG programs yield large benefits for economic and human development. This is not meant to suggest that EG programs are always effective. The outcomes for any particular program depend on the extent of host-country ownership and commitment and local political dynamics, as well as the suitability of the program design and the quality of the technical support. As with any form of development assistance, some EG interventions produce disappointing results while others have transformative effects benefiting large numbers of people. The aim here is simply to demonstrate how important these programs can be.

### RESULTS ON THE ROAD TO IMPACT

Most of the available information on the effectiveness of EG programs comes from reports on intermediate results (IRs), as defined in the performance monitoring plan for each project. For some projects, USAID also conducts qualitative performance evaluations. But rigorous impact evaluations are rare. One reason is that they are costly and challenging, requiring time, resources, and specialized skills (see Briefing Note 8 on Economic Impact). For EG programs, in particular, the economic and social impacts can be difficult to gauge because the effects often operate indirectly and the benefits may be widely diffused through market responses to new policies, new techniques, new marketing channels, or business environment reforms. Indeed, an ideal EG program would introduce innovations or reforms that spawn widespread market responses to leverage the benefits far beyond observable effects on the immediate participants.

When there is a close relationship between the IRs and the expected impacts, then the IR indicators themselves provide meaningful evidence of progress toward the program objectives. In other cases, the link between IRs and objectives may be too weak to infer much about project effectiveness without additional information on changes in behaviors or conditions. For example, a financial sector project might use the host country's Getting Credit score in the World Bank's Doing Business rankings as an IR relating to the objective of improved

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This briefing note is part of a series produced for the EGAT Bureau at USAID as a contribution to the recurrent debate on development priorities. Each note in the Programming for Growth series examines a topic relating to the value and effectiveness of USAID's economic growth programs. All the titles in the series are listed on the last page of this note.

access to credit for local businesses and households. But the Doing Business indicator is a narrowly defined indicator, and other factors may be more important in constraining access to credit. In cases like this, an improvement in the IR indicator may not indicate significant progress in achieving the objective.

There are also cases where the value of certain project outputs may (arguably) be self evident, even without any measure of the corresponding intermediate results, outcomes, or impacts. EG programs often include components in this category. Notable examples include USAID's involvement in creating Investor Roadmaps in many countries to assist investors in dealing with bureaucratic requirements (while also casting a harsh light on regulatory constraints to private sector development); providing dozens of young black South Africans with graduate training in economics after the end of Apartheid, to overcome a severe skills gap for officials dealing with economic policy and governance; and developing policy models that have helped central banks improve macroeconomic stability, as in Indonesia.

## A RESULTS SAMPLER

Many of USAID's economic growth programs have produced impressive intermediate results that are indicative of strong and sustainable development effects. This section presents a sample of cases to demonstrate this point, covering a variety of technical areas: private sector development, business environment reform, financial sector development, fiscal reform, and trade facilitation.

Each project cited below involved multiple components covering dozens of activities that generated many different outputs and outcomes. The presentation here covers only a handful of illustrative results, which do not convey the full range of benefits from this set of projects, let alone the entire portfolio of EG interventions. Other papers in the Programming for Growth series, however, offer more than two dozen additional examples of effective EG programs in the context of evaluating impact (Note 8), tracking long-term benefits (Note 10), promoting food security (Note 6), and facilitating postconflict recovery (Note 7).

## Private Sector Development

Many of USAID's private sector development programs provide technical assistance to help groups of small and medium-sized enterprises (SMEs) improve productivity, product quality, and competitiveness, and establish links to new markets. As enterprises become more productive and competitive, they generate more income for the entrepreneurs, who in turn create more jobs, increase wages, and reinvest in further growth. USAID's interventions also help local enterprises engage in more effective private-public dialogue with the government, which often leads to reforms that reduce barriers to doing business, further improving business and job opportunities.

Major benefits of this sort can be achieved even under difficult political conditions. One recent example was USAID's Pakistan Initiative for Strategic Development and Competitiveness (PISDAC), which provided technical support between 2004 and 2008 to businesses and farmers in several strategic sectors. In the dairy sector alone, the intermediate results showed that USAID support benefited more than 30,000 farmers and led to the creation of more than 7,000 jobs in collection and processing. Box 1 provides some details on how this was done. PISDAC also fostered public-private dialogue

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### BOX 1

## Increasing Productivity and Incomes for Dairy Farmers in Pakistan

The PISDAC project worked with dairy sector representatives to establish a strategic plan for the industry and create the Pakistan Dairy Development (known as Dairy Pakistan, or DP) to carry out the plan. With USAID support, DP helped to establish 300 model farms using new techniques that increased productivity by an average of 50 percent.

DP also helped milk processors install more than 1,000 cooling tanks for collecting and storing fresh milk. According to DP surveys, the investments increased the supply of chilled milk in Pakistan by 500,000 liters per day, and quality improvements led to better prices for the farmers (USAID 2008a).

that helped to align government programs for workforce development with producer needs for dairy and five other industries. In addition, the dialogue facilitated the elimination of barriers to investment, including approval in 2007 and 2008 of 19 reforms that reduced costs and improved efficiency in the target sectors.

An example from Africa is USAID's Ghana Agricultural Inputs Markets Development Project (GAIMS). From 2002 to 2004, the project assisted smallholder farmers by expanding access to markets for improved seeds, fertilizers, and other inputs. The project trained 420 agro-input dealers and 60 public sector agricultural extension agents to provide advice along with access to modern inputs. An independent survey estimated that 260,000 farmers benefited from the program and that by 2004 outputs of maize, rice, and cowpeas increased by 176 percent, 155 percent, and 69 percent for those crops, respectively. Improved access to markets for inputs may sound dull, but estimates of the results indicate that the impact on welfare for small farmers was enormous (USAID 2004).

### ***Business Environment Reforms***

Interventions to improve the business environment can produce enormous economic and social benefits, even though the effects operate indirectly. For example, reforms that reduce the cost and time needed to register a business make it easier for entrepreneurs to start a new business or legalize an informal operation. Formalization can be a key to unlocking opportunities for growth and job creation, particularly for micro, small, and medium-sized enterprises (MSMEs) that constitute a primary source of livelihood for many poor families. Legal registration is generally required for a small business or farm enterprise to access financial services or business development programs and to sell products to formal-sector businesses that require proper tax receipts on their purchases. In addition, registration allows businesses to provide employees and their families with the security of social insurance schemes. Programs that make it easier for businesses to formalize can also expand the number of taxpayers and expand the tax base, augmenting fiscal resources for providing public goods and services such as school and hospitals.

Despite the benefits of registration, the vast majority of MSMEs in most developing countries remain informal, which severely limits their growth potential. In many cases this reflects a lack of information about the procedures and benefits of formalization. But it also indicates that many entrepreneurs perceive the costs to outweigh the benefits.

USAID programs have helped host governments in a number of countries alter the balance of incentives by streamlining the business registration process. Two cases that produced remarkably strong intermediate results are from Albania and Georgia. As a direct result of USAID's work on the MCC-funded country threshold program for Albania, 93,000 businesses registered in the wake of sweeping reforms to the registration process; in Georgia, the Business Climate Reform project led to 150,000 new business registrations in less than four years. In both cases, the reforms supported by USAID included drafting new legislation and regulations, establishing one-stop registration centers, introducing information and communications technology with specialized software applications, and training staff. In the case of Albania, the program also included a media campaign to raise public awareness and create demand for the streamlined service (Box 2).

Many other regulatory reforms can also result in dramatic and sustainable benefits. For example, reforms to remove regulatory barriers to competition often translate into lower prices and greater choice for businesses and consumers, along with improvements in the quality of products and services in the deregulated market. This is especially important in sectors such as information and communications technology (ICT), which provide services to businesses and households throughout the economy.

In the Philippines, USAID's Economic Modernization through Efficient Reforms and Governance Enhancement (EMERGE) program provided technical assistance as one of dozens of project interventions that was instrumental in helping the National Telecommunication Commission (NTC) strengthen competition in the telecommunications sector. Support for NTC included analytical work on the issue and assistance in crafting a circular in 2005 that allowed Internet service providers, for the first time, to offer voice over Internet protocol (VoIP) services—a fancy name for Internet phone calls—in direct competition with major telecommunications companies, which had tightly controlled the market.

As new VoIP providers prepared to enter the market, just the prospect of greater competition caused communication costs to plunge. Within one week after the circular was issued, the average cost of fixed-line international calls fell by 80 percent (from \$0.40 to \$0.08 per minute). Data from the Philippine Long Distance Telephone Company showed the decline in its net revenue per minute on international calls (net of amounts

payable to foreign carriers) between 2005 and 2008 saved customers US\$85.6 million. Similar cost reductions were reported by other companies in the Philippines (USAID 2006b).

These intermediate results show decisively that USAID's support for telecommunications reform reduced communications costs and improved access to international markets for businesses throughout the country. Consumers were also big winners, as the opening of VoIP services not only reduced household expenses, but also had important social value by helping people stay in touch with family or friends living overseas, including the millions of Philippine overseas foreign workers.

## BOX 2

### Streamlining Business Registration

**In Albania,** USAID administered the MCC's Threshold Country Program, which included concerted support to reduce the time and cost required to start a business. Other USAID projects provided complementary support for business environment reforms.

These interventions led to enactment of a National Registration Center law in 2007, which replaced an archaic and fragmented process of registration through judicial review by district courts with separate steps for registration with the tax authority, social and health insurance authorities, and municipalities. USAID also supported the review, revision, or amendment of 29 related laws.

The results:

- Time to register a business fell from 47 days to 1 day.
- 93,000 registration applications were processed, including 18,000 registrations of new businesses within the first year.
- A survey showed that the percentage of businesses paying a bribe to register fell from 19 percent to zero. (USAID 2008b)

In Georgia, the Business Climate Reform Project helped the government unify business and tax registration, including the use of a single registration number. The reforms also abolished requirements for document notarization, official seals, and minimum capital. As a result:

- Time required to start a business declined from 21 days in 2005 to 3 days in 2008.
- The cost to register a business fell from 13.7 percent of income per capita to 4.0 percent.
- Between October 2005 and May 2009, nearly 150,000 new businesses were registered, an increase of 67 percent in less than four years. (USAID 2009)

## Financial Sector Reforms

Financial sector reforms are big news these days in the United States, in the context of preventing future crises. But financial sector reforms have long been big news in developing countries, where underdeveloped and inefficient financial systems are a serious constraint on investment and business expansion, especially for MSMEs. Households also benefit greatly when financial sector development provides efficient payments services, access to credit for major purchases, and remunerative instruments for saving, including pension schemes. Even poor households benefit from access to low-cost transactions services, micro-credits, and facilities for saving to build assets and help cope with economic uncertainty. Moreover, many developing countries—including Indonesia, Mexico, Nigeria, and Mozambique, to name just a few—have faced extremely costly financial crises due to poor regulatory and supervisory systems.

USAID has helped many partner countries with financial system development. One outstanding example is USAID's AMIR (Achievement of Market-Friendly Initiatives and Results) project in Jordan. Among a wide variety of other activities, AMIR provided critical support to the Jordan Securities Commission, the Amman Stock Exchange (ASE), and the Securities Depository Center to build efficient, transparent capital markets between 1999 and 2003. USAID's role included technical assistance for introducing a new securities law and regulations meeting global standards, along with investments in modern IT networks to replace an archaic system that used white-boards on the trading floor to record transactions. The AMIR project also established a training program to introduce the skills and management procedures needed to operate a modern capital market.

These innovations and investments resulted in an 87 percent increase in trading volume by 2003 and an increase in the market value of traded securities to over 100 percent of GDP—a very high figure for a middle-income country. More important, the reforms allowed companies listed on ASE to raise more than \$6 billion in long-term financing for business expansion and job creation. Nearly half the funds came from non-Jordanian sources, representing a net inflow of financial resources to the kingdom. In addition, USAID estimates that over 1 million Jordanians have benefited as savers and investors. Hence, both sides of the exchange have contributed to rising economic and social welfare.

At the other end of the spectrum of financial market interventions, two USAID programs in Colombia (MIDAS and ADAM)

supported ambitious regulatory reforms in the financial sector, which led to an extraordinary expansion of banking services throughout the country. Between 2006 and 2009, the new regulations doubled the number of bank locations, to more 10,000, bringing financial services to every municipality in the country, where previously 362 urban areas lacked any such service.

USAID also provided technical support and training to a variety of financial institutions to expand the availability of microfinance, including microinsurance and savings services, benefitting hundreds of thousands of clients. A survey conducted by USAID found that more than two-thirds of the small loans helped recipients expand their businesses, and

nearly half of the loans led to job creation. One senior banker cited USAID's assistance as being "vital to the most important financial transformation in Colombia in the last 30 years" (AECOM 2009).

### **Fiscal Reforms**

USAID's economic growth programs have also produced impressive benefits in the area of fiscal reform, through improvements in tax systems, budget programming, public expenditure management, financial controls, and procurement procedures.

These reforms either expand the resources available for public services—including health care, education, public safety and security, the judiciary, safety nets, and infrastructure development—or they improve efficiency in managing the funds for these services. Tax reforms also benefit the private sector by broadening the tax base so that tax rates can be reduced; by minimizing tax-driven distortions that draw resources away from their most efficient use; and by improving integrity in tax administration.

In most cases, the ultimate economic benefits from mobilizing revenue or improving fiscal management are difficult to measure, especially as outcomes are often affected by many factors other than the measures supported by USAID. Nonetheless, well-documented intermediate results can tell a clear story about the effectiveness of the intervention.

One example is USAID's assistance on tax reform in El Salvador. USAID has been involved with tax reform in El Salvador since 1991. Early initiatives supported the introduction of the value-added tax (VAT), a new law on the income tax, and reforms to reduce import duties. Since 2001, USAID has focused on

improving tax administration in order to boost revenues relative to the country's gross domestic product (GDP)—without raising tax rates. Between 2001 and 2004, the Tax Administration Project (TAP) helped the government to computerize tax systems. These IT solutions reduced the average time required to process an income tax return from 4 hours to just 40 minutes.

As a follow-on to TAP, beginning in 2005, the Tax Policy and Administration Reform (TPAR) project has provided assistance to improve taxpayer services, automate the audit selection process, combat tax evasion, and crack down on corrupt practices by tax officials. The result: after being stuck at 11 percent of GDP

for years, tax revenues climbed to over 14 percent of GDP between 2002 and 2007, primarily because of improved compliance and reduced evasion. One measure alone—the use of automated calls to delinquent or nonfiling taxpayers—brought in 10,000 tax returns within months and saved the tax authorities \$2.5 million per year in operating costs (USAID 2009b).

The jump in revenue from 11 percent to 14 percent of GDP may not sound large, but it meant a gain of more than one-fourth of domestic resources for the budget, without higher tax rates. This

impressive revenue gain, of course, is an intermediate result; the ultimate economic benefit depends on how well the government uses the money—another focus area for many EG programs—relative to how the money could have been used by the private sector.

### **Trade Facilitation**

Trade facilitation is another major focus of USAID's economic growth program. When partner countries lower trade barriers, they create enormous potential benefits for businesses and households alike. These include improved access to overseas markets and imported technologies for firms; access to a wider range of competitively priced goods and services for consumers; increased competition in local markets to improve efficiency and accelerate structural transformation; and a more attractive business environment to stimulate investment.

As in the other technical areas discussed above, USAID has not been active in conducting impact studies for trade facilitation programs, but reports on intermediate results often provide

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a convincing picture of large and important benefits. One example is USAID's long-term support for trade capacity building and trade facilitation in Egypt, through a series of projects dating back to the 1990s—Development Economics Policy Reform Analysis (DEPRA), from 1999 to 2000; Assistance for Trade Reform (ATR), from 2002 to 2006; and the trade component of the Technical Assistance for Policy Reform II (TAPR II) project, from 2005 to 2010. Through analytical work, training, advisory support, and other forms of assistance, these projects were instrumental in facilitating a transformation in Egypt's trade policies.

Among other results, the average tariff rate fell from 30 percent to 7 percent, and the time required for imports to clear port and customs procedures fell by nearly half, from 23 to 13 days. Perhaps the most notable result—though without a numerical indicator—is that the government's General Organization for Export and Import Controls (GOEIC) altered its mission statement. Instead of “control to restrict trade” the new mission is “control to facilitate trade” (USAID 2006c; USAID 2008d).

## CONCLUSION

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This note has used IRs from a sample of USAID projects to show that successful EG programs can and do deliver large and sustainable economic and social benefits. Generally speaking, EG programs aim to help partner countries pursue reforms and innovations to expand opportunities for private sector development, which is the primary engine for economic growth, job creation, income generation, and poverty reduction. As there is no simple formula for determining the critical constraints to growth or identifying the most effective use of donor support to foster economic transformation, it is natural to ask whether EG programs truly deliver broad-based benefits to the disad-

vantaged people in partner countries. Ideally one would answer this question through rigorous evaluation studies. For most projects, however, the best evidence on development effectiveness is in the form of intermediate results (IRs) indicators. The IRs have the great advantage that they can be measured, and they convey valuable information on the extent to which intermediate steps are achieved in pursuit of the overall program objectives.

How representative is the evidence discussed here? What can one say about the effectiveness of EG interventions in general? These questions cannot be answered without better data at the project level and more systematic knowledge management at the Agency level. Two points, however, are clear. First, the IR evidence cited in this note gives only a limited view of the benefits of EG interventions. Even for this small sample of projects, USAID implemented many highly effective activities beyond the examples given here. Other briefing notes in this series provide dozens of additional examples.

Second, some of USAID's EG projects—and projects in other program areas as well—do yield disappointing results. This is sometimes caused by unforeseeable factors such as political turmoil; sometimes by deficiencies in the project design or host-country commitment; and sometimes by problems with the implementing agents (USAID 2007). USAID has to strive continually to minimize these problems by strengthening the evaluation process, deepening the required technical skills, and improving knowledge management for institutional learning to feed back into project identification and design. In doing so, the Agency will also enhance its own accountability for the use of foreign aid resources.

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