

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 to share our views on the potential for remittances to unlock economic growth for the world's poor. Almost 40 years ago, when a Connecticut entrepreneur named Ed Bullard created TechnoServe to apply private sector solutions to poverty in the developing world, he could not have foreseen the enormous potential power of these new capital flows as a tool for fighting poverty. 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, beginning with support to rural entrepreneurs in Honduras

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 base our work out of offices in 15 countries in Africa and Latin America. Our staff, primarily host country nationals, is drawn from leading private sector firms--from 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.

In 2005, enterprises we 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 Google, Proctor & Gamble, Kraft Foods, Ernst & Young, Cargill, Nestle, Peets Coffee & Tea and Google.

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, remittance flows are a critical issue in relations between the U.S. and the developing world, particularly with nations of Latin America. Approximately 40 million Latinos live in this country. They send a significant amount of capital to Latin America—roughly \$45 billion annually. Remittances are an important source of capital. Total remittances now represent 5 times the amount of official development assistance to Latin America/Caribbean.

Remittances represent enormous potential to create economic development in poor regions of Latin America. However, this potential has not yet been realized. According to a 2006 Inter-American Development Bank study, less than 5 percent of those sending remittances have opened a savings account back home. Only about 1% of remittance flows have been used to start a business. This translates into significant lost opportunities to invest in productive economic activities. It is such businesses that offer the jobs and income that have potential to lift people out of poverty.

In El Salvador, for example, one in six Salvadorans - 1.5 million people - live abroad. They send home nearly \$3 billion annually, generating 16% of the country's gross domestic product. While remittances helped to feed families and educate children, and meet other important basic needs, overall they have not been used for business start up or growth, important catalysts for broad-based economic development. While meeting basic needs is critical—sustained private sector growth is required to drive long-term improvements in people's lives.

Profitable, competitive business opportunities provide opportunities for productive investment. However, in many of these economies, entrepreneurs have few resources to help them identify profitable business opportunities and limited support to launch and grow them. Without productive enterprises in which to invest, people will continue to spend remittances on household goods and services.

The key challenge is how to create viable, growth-oriented businesses which will unleash job creation and income. 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. We have 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.

Several factors need to be in place to enable and support entrepreneurial people to invest in productive enterprise: Capital is certainly critical...and remittances are potentially a source of such capital, provided the right investment vehicles and incentives can be put in place (and I do want to talk more about that). However, capital alone is necessary but not sufficient. Equally important are business-building skills and know-how, information, technology, and support services. Development Assistance funds have an important catalytic role to play in aiding these components -- supporting entrepreneurship development programs, creating market linkages and building trade capacity. TechnoServe's partnerships with USAID, the IDB and other funders to help strengthen entrepreneurs in Latin America is proof that competitive, profitable businesses can be created and can create jobs, income, wealth, and avenues for productive investment (from remittances and elsewhere).

In this context, it is worth noting that a great deal of poverty in Latin America remains concentrated in rural areas. Thus, it is small farmers who represent the vast majority of income generation and employment. While non-agriculture jobs and gradual rural transformation will be required, in the short to medium-term finding new ways to integrate farmers into competitive, profitable industries is essential for promoting poverty reducing economic growth, and contributing to overall peace and security.

There are a number of ways to optimize the power of remittance flows to productive investment areas where most of the poor live. These roughly fall into three areas: 1) improvement of the enabling environment for remittances to stimulate expansion of remittance-based financial products; 2) facilitation of potential business opportunities, under CAFTA and more broadly; and 3) expanded business development services to entrepreneurs to grow the pipeline of investment opportunities. I will briefly describe these three.

Improvement of the Enabling Environment for Remittances

A number of actions could be taken to make it easier for US-based immigrants to make cross-border investments. The expansion of savings and other vehicles to increase savings and investment will be critical to create local capital. Tax incentives for the creation of pooled

investment vehicles in the US could create a means for US-based citizens of other nations to invest in businesses in their home nations. There are existing examples of successful funds in Latin America based on remittance flows, which offer loan and loan guarantee products for consumption, housing and health, etc. More products need to be developed to catalyze investments for business start up and growth. More finance needs to be made available, both greater availability of cash-flow based lending, as well as lending anchored on remittance flows.

Facilitation of CAFTA-related and other business opportunities in Latin America

There are a number of exciting opportunities, some facilitated by CAFTA, which have the potential to reap benefits for Latin American businesses. By way of example, the growing ethnic products market, presents a significant opportunity for companies in Latin America. Latin immigrants in the US buy a range of food products from their home countries, including dairy, fruits and vegetables, as well as arts and crafts. In El Salvador, for example, about 80 export ready firms produce ethnic food products. TechnoServe research indicates that there are at least 100 small-scale artisanal food companies that sell exclusively to the local market, but have the potential to export. This is just one example where investments from remittances, either direct or via pools of investment capital, could be channeled to strengthen businesses, generate jobs and income.

Business development services to entrepreneurs

However, availability of investment capital and market access alone are not enough. Would-be investors—including the hardworking immigrants generating the remittances-- need productive enterprises in which to invest their capital. Without a growing pipeline of entrepreneurs, developing viable, competitive businesses in growing, sustainable markets, there is little opportunity to channel remittances away from household consumption into business investment. Development Assistance has a vital role to play in providing entrepreneurs the support to translate their good ideas into great businesses. TechnoServe experience shows that when you provide entrepreneurs access to information, technology, business support services and capital they sorely need, they are empowered to unleash the power of private enterprise, just as we do in the US.

With support of USAID and other partners, TechnoServe has run Business Plan Competitions throughout Central America to do just that. In El Salvador alone, these competitions have helped entrepreneurs create over 160 companies, generating over \$29M in revenues, and creating over 1000 jobs. The entrepreneurial spirit is alive and well in the region. What is needed is the catalyst to unleash and empower it. Development assistance channeled to these types of entrepreneurship development and trade capacity building activities has a vital role to play.

Thank you Mr. Chairman, Ranking Member, and Members of the Committee for your serious attention to the important issue of leveraging the power of remittances for economic development. Remittances have a vital role to play in stimulating investment and business creation. Well-designed results-oriented programs can 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.