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Securing the Future

A Strategy for Economic Growth
October 15, 2007



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The starting point: transformation!

Economic growth is the only way for poor countries to eliminate extreme poverty and to generate the resources to address all other development problems.



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Why we did this:

- Budget is a small residual
- Many missions have little/no EG program
- No common concept of economic growth or clear articulation
- Experienced EG professionals are retiring
- Field programs can be more effective
- The MCC challenge



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How we did this:

- Redesigned training program
- Administrator Natsios approval (October, 2005)
- *The Process of Growth ...* (December, 2005)
- PPC process followed Spring-Summer, 2006
- Core group/Agency group
- 13 issue papers/5 Agency meetings
- Adapted to New Assistance Framework



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The first task was to dispel myths:

- Much has been accomplished:
 - Growth since 1950 unprecedented
 - Average real incomes up by 50% or more
 - Life expectancy up 50%
- The environment going forward has never been better

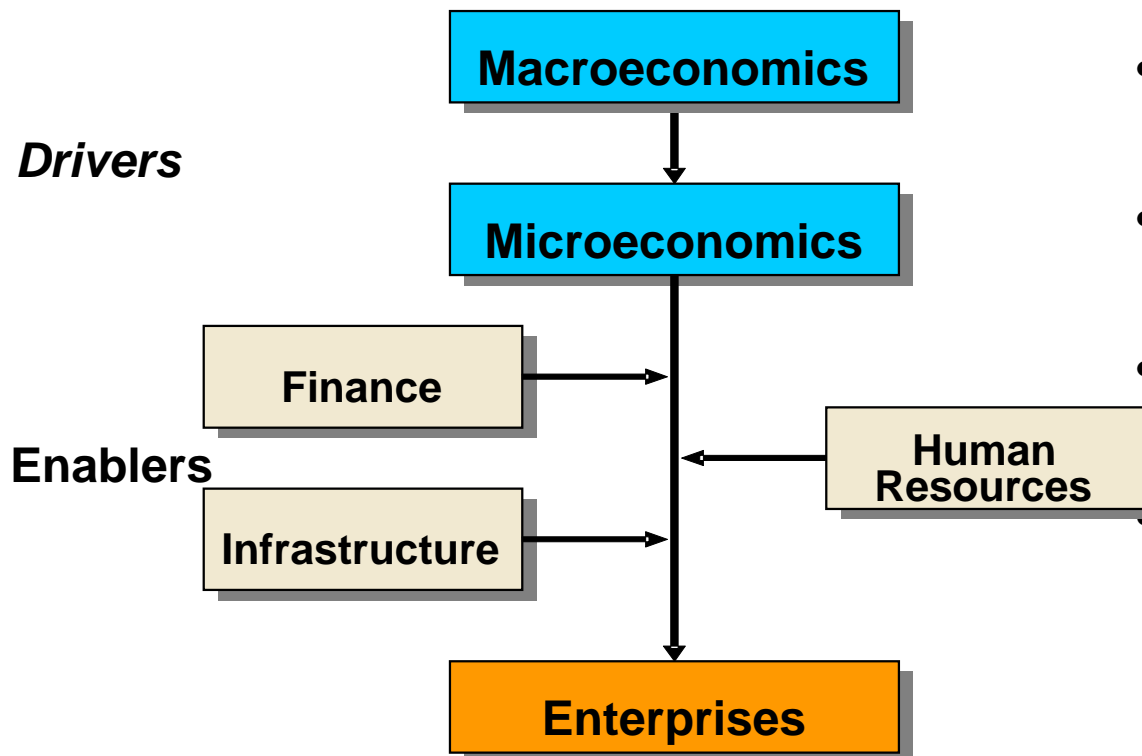


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The second was to explain why it matters to the U.S.:

- Hope and employment in fragile and post-conflict states
- Alternatives to drug production, human trafficking, illegal migration
- Capacity to reduce spread of infectious disease
- Assurance of stable resource supply
- Largest market for U.S. goods and services
- Partners in a stable and prosperous world

A strategic approach begins with clear concepts:



- Growth = productivity increase
 - Productivity increases at the enterprise
 - Macro- and micro-economic incentives “drive” firms’ behavior
 - Other factors “enable” growth to proceed but can’t create it
 - Single improvements in technology create a one-time only effect
- Growth requires a never-ending stream of productivity increases



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And resolves old debates:

- Growth is good for the poor
- Geography, culture, etc. are not destiny



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It recognizes that politics are crucial and one size does not fit all:

- 85% of reforms in rapidly reforming countries happen soon after a change of government
- Patience, opportunism, ability to ally with local actors, and flexible response



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It points out that all factors are important:

- Macroeconomics *
- Microeconomics *
- Infrastructure
- Financial Sector
- Human Resources

But the “drivers” * are fundamental
Microeconomics are the new frontier
Systemic change matters most



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We should do what we are best at:

- Private sector orientation
- In-country staff
- Ability to mobilize long-term teams
- Capacity to respond rapidly and flexibly
- Grant funds



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We will support rapid, sustained and broad-based growth:

- Goal: *at least 2%* per capita per year
- Continuing improvements over time
- All major groups and the poor



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We'll do this three ways:

- Develop well-functioning markets (primary)
- Ensure access to opportunity
- Strengthen international policies, institutions and public goods



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And observe three principles:

- Seek large and systemic impact
- Elsewhere, catalytic impact is essential
- Political economy is critical
 - Be there
 - Leverage external events
 - Respond rapidly and flexibly to opportunities



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Approaches will differ by country category:

- Developing and transforming countries
 - Some macro but, increasingly, micro “drivers”
 - Infrastructure, financial sector, education
 - Lower priority to direct investments
- Rebuilding countries
 - Macro a high priority
 - Start long-term capacity building
 - Short-term employment and safety nets
 - Microeconomics, infrastructure, financial sector: start simply
- Sustaining partnership countries
 - Largely limited to trade and investment
- Restrictive countries: NA



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Implications I:

- Effective EG programs are NOT:
 - Resource transfers
 - A deal at a time
 - Patches of green
 - Technology transfer unless transforming and/or coupled with policy and institutional change
- Programmatic emphasis:
 - Increased “systemic” work across the board
 - An increased “micro-economic” focus
 - Make sure “productivity” projects have a policy/institutional component
 - Set the bar high for “pilot” projects
 - Draw clear distinction between poverty alleviation and growth



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Implications II:

- AID's business model:
 - The traditional field presence model is correct – but in danger
 - Skilled staff on the ground are as important as program funding
 - (The staff/program budget ratio does not work for EG programs)
 - Flexibility of staffing, funds and contracting instruments is key to take advantage of reform opportunities
- Budget allocations:
 - Small EG budgets can still produce large impacts fund if counterparts are willing
 - A reallocation of small amounts of EG funds could produce large results



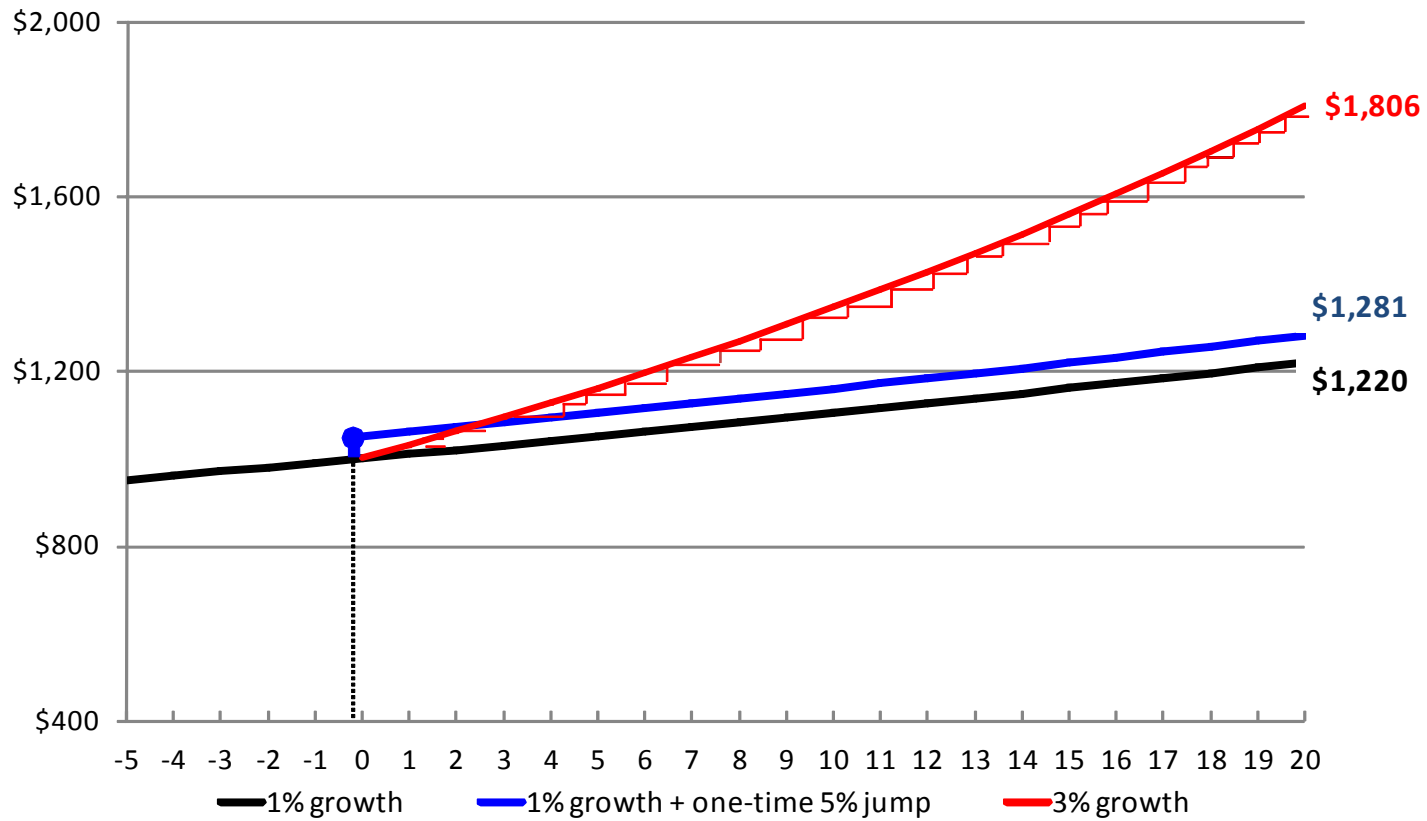
Implications III:

- Staffing:
 - Strategy should inform rebuilding of technical cadre
 - Quality is at least as important as quantity
 - Mid-level hiring will be essential to retain effectiveness
 - Greatest, but not sole, need is in the field
 - A career track and incentives matter
- Foreign policy effectiveness:
 - Executive Branch must assert the case for EG
 - Someone (USAID or MCC) must do the systemic work
 - Current political opportunity may be as important as past performance in deciding where best to invest



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A Tale of Three Growth Paths: growth accelerates to 3%



October 5, 2007

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19