

**USAID ECONOMIC GROWTH OFFICERS CONFERENCE
OCTOBER 15-19, 2007
WASHINGTON, D.C.**

Session Title: The USAID Economic Growth Strategy

Date and Time: Monday, October 15, 2007 1:30 p.m. – 2:30 p.m.

Type of Session: Plenary

Speaker(s): Steve Hadley, Jim Fox, Mike Croswell

Moderator: Steve Hadley

Overview of Session:

Securing the Future – A Strategy for Economic Growth

USAID is working to finalize its Strategy for Economic Growth, which will enable the agency to better focus its priorities and advocate for its work through increased communication. The strategy acknowledges that the EG budget is small and many missions lack capacity, however it is agreed upon that economic growth is the driving engine for poverty reduction. The Strategy emphasizes that macro and micro incentives drive firms behavior while other factors enable the level of growth thereupon.

The focus will be on 3 areas – 1) Developing well functioning markets– everything from macro to micro 2) Ensuring access to opportunities and making growth broad-based and 3) Strengthening international policies, institutions and public goods.

Speaker's Remarks:

Steve Hadley:

Why develop an Economic Growth Strategy?

- Economic growth is necessary for poverty reduction and development.
- The EG budget is a small residual after everything else gets funded
- Many missions have little/no EG program – many missions have no EG officer at all, 60% of all funding is going to ANE region, 80% of financial sector work is going to 4-5 countries
- No common concept of economic growth or clear articulation within EGAT – EGAT officers works in many subject areas and tend to be “siloesd” in their own technical area. USAID has been criticized for being uncreative and we want to respond to that.
- Experienced EG professionals are retiring- down to 24 Ph. D. economists and ag officers are down. Level of economic literacy is down. People don't know what they don't know – difficult to explain to people if they don't know why economic growth even matters.



Steve Hadley addresses workshop attendees. Photo by Paul Goodman.

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- Field programs can be more effective – need to fully understand what good impact really looks like.

This has been a long process with numerous stakeholders from the agency included, originating with Natsios's desire to have an economic growth strategy and Professor Harberger's article. Jim Fox put together 13 issues papers and 6 agency meetings were held to think about what to write for a strategy.

The F Process delayed the continuation of the strategy development and several months ago EGAT decided to pick it back up.

First let's dispel some myths:

- 1) There is pessimism about economic growth results and USAID activities– but actually much has been accomplished.
- 2) The international environment is better than ever because there is more understanding about microeconomic factors, better data, global trade is growing as is investment. There are international standards that can be targets for countries to aim for. International flow of information is better – best practices can be easily shared.

However, USAID faces the idea that those countries who could improve already are and are now left with those countries who haven't – and are the hardest to deal with.

Why should the US care about economic growth in the developing world?

- Employment in fragile and post conflict states improve stability
- EG provides alternatives to drug production, trafficking and illegal migration
- EG provides capacity to reduce spread of infectious disease
- EG assures a stable resource supply
- Largest markets for US goods and services – developing countries are huge market for US goods

The strategic approach begins with a clear concepts diagram

- Productivity increases at the enterprise level – can be micro or mega.
- Macro or micro economic incentives drive firms' behavior. Other factors (financial system, infrastructure and human resources) enable growth to proceed but can't create it. *Incentives are the main drivers, other things affect the level of growth..*
- Resolves old debates:
 - Growth is necessary for poverty reduction.
 - Geography, culture, etc are not destiny. Despite potential issues, there are examples of countries that have overcome all different historical or geographic issues
- Politics are crucial and one size does not fit all:
 - 85% of reforms in rapidly reforming countries happen soon after a change in government.
 - Economic reform requires patience, opportunism, and the ability to ally with local actors and provide a flexible response.
- All factors are important including: macro and micro environments & infrastructure, financial sector, human capital etc.
- USAID has comparative advantages over other donors:
 - A more private sector orientation.
 - A large in-country staff and presence.
 - Ability to mobilize long term teams.
 - Capacity to respond rapidly and flexibly.
 - Grant funds – making governments more willing to accept technical assistance.

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- USAID has been seen as being the most effective of donors in developing trade capacity building.
- Six out of 10 top reformers on Doing Business get significant funds from USAID, Egypt, Croatia, Bulgaria etc.
- Our goal is rapid, sustained and broad based growth of at least 2% per capita per year with continuing improvements over time:
 - 1) Develop well functioning markets– everything from macro to micro.
 - 2) Ensure access to opportunities.
 - 3) Strengthening international policies, institutions and public goods.

The strategy has three key principles:

- Seek large and systemic impact – more policy work, increase the focus on microeconomic reforms, make sure productivity projects have a policy component.
- If you can't get systemic impact we should get catalytic impact.
- Political economy is critical:
 - Be there, ie be part of opportunities
 - Leverage external events, ie trade deals
 - Respond rapidly and flexibility to opportunities

Effective economics programs are not resource transfers, a deal at a time, patches of green (having impact on one province that have no impact elsewhere), or just technology transfers unless its transforming or coupled with policy changes

USAID's business model & staffing:

- The traditional field model is correct
- Skilled staff on the ground are as important as program funding
- The staff program budget ratio doesn't work for EG programs
- Flexibility of staffing, funds and contracting instruments is key to take advantage of reform opportunities
- Strategy should inform rebuilding of technical cadre
- Quality is at least as important as quantity
- Mid level hiring will be essential to retain effectiveness
- A career track and incentives matter

Budget allocations:

- Small EG budgets can still produce large impacts fund if counterparts are willing
- A reallocation of small amounts of EG funds from larger programs could produce large results

Foreign policy effectiveness:

- Executive Branch must assert the case for Economic Growth
- Someone (whether USAID or MCC) must do the systemic work
- Current political opportunity may be as important as past performance in deciding where best to invest

Key Points Discussed During Question & Answer Segment:

Question: When we develop implementing instruments, wonders if people will develop projects based on program elements. Have a large program that runs across several program elements. People are telling

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his mission that they should only do one or two elements. He fears they will see projects designed to address operational plans when he thinks it was supposed to be made as a reporting process.

Answer: Program hierarchy is one issue – do the elements permit you to do what you want but more explicitly this type of directive seems unreasonable. He will report the problem back.

Question: What about lobby Congress? He points to inadequacies of EG appropriations stating most of those earmarks are well intended generally but seems no one has made the case for economic growth and microeconomic work. What's the next step? Is USAID going to start a dialogue on the Hill to push appropriations to put EG funding on the same footing with other causes in earmarks? (A lot audience smiling.)

Answer: We haven't thought that far ahead. The first step is to get USAID talking in a consistent voice with itself. There is a desire by HHF to create a more assertive technical leadership role for USAID. Things like this economic strategy and the post conflict guide are going to be seized upon as entry points to do that. That could be done well or badly – hopefully not badly. Not sure he can say more about that except to agree at this point.