

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

Tuesday, October 16, 2007 "Takeaway Points"

**Plenary**

**Plenary Session: The world commodity boom, and can we inoculate for Dutch Disease?**

**Speaker(s): Profs R. M. Auty, Lancaster; A.C. Harberger, UCLA**

**Main Takeaway points:**

- Dr. Harberger highlighted the macroeconomic effects of Dutch Disease, namely that a large influx of foreign exchange usually results in an increase on the real exchange rate and inflationary pressures. The recommended approach is to keep that revenue abroad and only repatriate it home as needed.
- Dr. Auty emphasized that its not a Resource Curse but a Rents Curse - whereby rents distort government incentives and a country's economic path. This theory of rent cycling suggests 1) that economic reform requires a political strategy to resist sabotage by rent recipients and 2) the geopolitical is vital and contrived rent can replicate features of resource rent so improving policy is critical.

**Plenary Session: Guide to Economic Growth in Post-Conflict Countries**

**Speaker(s): Steve Hadley, USAID; Jay Smith; Steve Lewarne, TSG**

**Main Takeaway points:**

- Jay Smith presented a summary of EGAT's recent work to develop an economic growth strategy for post-conflict countries, and Steve Lewarne presented the experience of implementing an economic growth strategy in Kosovo.
- According to Jay, the first step is to expand physical security. Capital is a coward! The second step is to provide jobs. Third step: undertake policy reforms, and liberalize as fast as you can. Finally, build institutional capacity...start right away, and continue building it over time.
- Steve advocated for studying the Marshall Plan experience to understand our current experience in Iraq and other post-conflict settings. Pres. Truman admitted to mistakes made early in the Plan, and adjusted accordingly. He argued that critical mistakes were made in Iraq because we did not employ the knowledge we have fast enough: secure the monetary system, focus on transitional currency, identify and take full advantage of available human capital. Focus on economics, and early!

**Plenary Session: Design/management of USAID infrastructure projects in post-conflict environments**

**Speaker(s): Juan Belt, USAID**

**Main Takeaway points:**

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- USAID infrastructure programs are often costly when they don't need to be, and in spite of its importance, sustainability is often neglected.
- In post-conflict countries, infrastructure must be restored rapidly, but sectors require different levels of commitment. Of the various sectors, power is the most important. In a survey, Iraqi citizens said that lack of power bothered them more than violence.
- They began in Guatemala with privatization of power. Through legal and regulatory reforms, technical assistance, and increased access to modern energy services in rural areas, they saw results including: \$2 million in private investment into the power sector; a dramatic increase in access to electricity (37% to more than 90% today); and over \$180 million in private investment in renewable energy.

**Plenary Session: Infrastructure and Sustainability – Use of Operating Contracts in Post Conflict Situations**

**Speaker(s): Bob Ichord, USAID; Allen Eisendrath, USAID**

**Main Takeaway points:**

*Eisendrath points:*

- Infrastructure challenges include physical and commercial declines, such as informal privatization, the affect sustainability, and a focus on rebuilding physical infrastructure which is not properly managed or operated due to rampant corruption, weak governance, and bad management.
- USAID conducted a review of 11 donor projects and the use of Operating Contracts. The basic conclusion is that Operating Contracts effective first steps toward commercializing a deeply-troubled utility. They work well in post-conflict areas, but must be tailored to specific political and economic conditions.
- USAID is currently supporting the development of operating contracts in Uganda, Montenegro & Georgia, Afghanistan, Yerevan, and India

*Ichord points:*

- When discussing infrastructure, one should take a broader view that includes institutional, regulatory, social and political aspects -- not just bricks and mortar. This is where USAID's competitive advantage lies. Additionally, USAID has been most effective when its approach links regional or global energy security goals to the Mission's strategic objectives.
- Political support and competence of individuals are key conditions for success of management and operating contracts.
- When considering policy and regulatory issues in post-conflict situations, one should remember 3 rules:
  1. There is no such thing as a free lunch – Everyone must pay.
  2. Must develop local capacity – Not everything can be solved by donor financing

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3. Pay now or pay for it later.

**Breakouts**

**Breakout Session: Rebuilding revenue and expenditure control in post-conflict countries**

**Speaker(s): Mark Gallagher, DAI; Agim Krasniqi, Budget Director, Kosovo MFE**

**Main Takeaway points:**

- Mark Gallagher presented a matrix of how to sequence revenue and expenditure control in post-conflict countries. The first and most important thing to consider: diversity! Understanding the country context is critical.
- Others? Control on receipts, control on expenditures, and a focus on indirect taxes are the first areas for focus in post-conflict areas. Keep an eye on fiscal policy issues, and improving tax administration along the longer-term.
- Kosovo's experience has been instructive: pension reform in particular was done well – in part because the decision was made to invest pension monies overseas, rather in the fledgling Kosovar financial markets.
- IT modernization can be a stealth way of improving revenue collection—there is rarely much political pushback, but the returns can be impressive. In Bosnia, the tax administration recovered \$162 for every single USAID program dollar.
- Water flows up in Nova Scotia—but that is the only place.

**Breakout Session: Agriculture in post conflict environments**

**Speaker(s): John Mellor, Abt**

**Main Takeaway points:**

- To build up government's credibility in a post-conflict environment, it is critical that government services being provided in agriculture (or other areas, for that matter) be seen as being delivered by government and not by foreign donors
- Agricultural growth services are critical to perception of good government by rural constituency
- Rapid agricultural growth drives employment during critical post conflict period (and at other times) through its multiplier impact on the rural non-farm segment
- Food aid must be oriented initially to relief but then very quickly move to rural public works

**Breakout Session: Improving the business climate in Post-Conflict countries**

**Speaker(s): Rob Krech, IFC**

**Main Takeaway points:**

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- A few key reasons to engage in investment reform in post-conflict countries include a) the great need for reform and the potential for change in such an environment; b) the need to shift from a war economy to a peace economy; and the fact that long term employment depends on getting the formal private sector up and running quickly
- IFC/FIAS will not work in every post conflict country. There are some preconditions including basic safety and security, a clear government counterpart, progress in humanitarian relief provision, a private sector able to conduct its activities, and broad donor engagement.
- Diagnostic work is key and IFC has a tripartite approach to assessing whether a country is ready for IFC assistance. This includes a) Technical diagnostic, b) Assessment of opportunities, and c) Review of political willingness to engage in reforms

**Breakout Session: Economic Restructuring and Capacity Building in Post-Conflict Countries**

**Speaker(s): Douglas Todd, BearingPoint; Hajdar Korbi, Macroeconomic Department, Kosovo MFE; *Afghanistan Experience?***

**Main Takeaway points:**

- Deposit and payments systems can become operational relatively quickly, but it takes longer to develop regulatory systems and credit/lending operations. Foreign banks can be quite helpful, given that they are supervised from their home country and have higher capital levels. Key long-term goal is to gain the public's confidence, and to develop risk management capacities.
- Kosovo's pension plan is working well. It is universally applied; has a fixed contribution that is low enough to keep firms competitive (5% employee; 5% employer); has transparent investment requirements allowing considerable investment overseas; has understandable payment formulas that are indexed by wage growth. A key is to focus on viable objectives: social safety net and poverty alleviation; savings. Programs that attempt to use pension funds to develop capital markets in post-conflict environments do not work well.
- It is a challenge as to how foreign administration of government operations in post-conflict environments can be transferred to full host country management. How much of the strong institutional and policy structure is sustainable under full independence? This relates partly to programs to train local staff, but of course also to political will in the new independent country that, of course, may still have many of the problems that led originally to the conflict.

**Breakout Session: Employment generation and community development in post conflict recovery, Liberia and Colombia**

**Speaker(s): Heather McHugh, DAI; Paul Davis, USAID**

**Main Takeaway points:**

- Heather McHugh of DAI described the experience of the Liberia Community Infrastructure Project, which uses an integrated employment generation approach to address Liberia's post-conflict needs. The LCIP approach seeks to employ as many people as possible, as quickly as

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possible, with less concern for whether these jobs are sustainable in the long-term, and more focus on infusing money into the local economy, and reintegrating ex-combatants.

- Paul Davis of USAID presented an “alternative” of alternative development strategies. Drawing on his experience in Colombia, he advocated for a **focus on the local/regional polity as the unit of intervention rather than the individual farm unit**. This approach would do more to strengthen the social contract between farmers growing illicit crops and the state (local/regional/national)—and lead to a better provision of public services, and greater farmer interest in shifting to a licit crop.