

## Securing the Future: A Strategy for Economic Growth

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### Economic Growth in Context

Economic growth is essential to enable countries to reduce poverty and to generate the resources they need to address illiteracy, poor health, and other development challenges. The United States Agency for International Development (USAID) promotes economic growth in accordance with the U.S. National Security Strategy of 2006 and the goal of transformational diplomacy. Free markets and free societies are vital to achieving the development goals of the United States.

### Recent Progress and Future Prospects Are Both Encouraging

The developing world has achieved much more progress than is often recognized. Global growth since 1950 has been unparalleled in history. Average real incomes rose by at least half in all regions of the world, while the share of the world's population living in extreme poverty fell from 55 percent in 1950 to 18 percent in 2004. Life expectancy rose by 50 percent over the same period, while equally dramatic progress was made in other measures of the quality of life - from literacy and nutrition to access to water and electricity. Although Africa has historically had the slowest growth of any region, its performance has improved substantially over the past decade, lending hope for the future.

Looking forward, the global environment for growth in developing countries has improved markedly from a generation ago. In many respects, underlying conditions supporting growth - including better macroeconomic management in most countries and technological advances in communications - have never been better.

### Growth Begins with Competitive Firms

Economic growth is the sustained increase of a society's output. The key is ongoing growth in productivity - turning the same resources into ever-greater amounts of goods and services over time. All productivity growth takes place at the level of the firm - a term that includes producers in all sectors and of all sizes, from the family farm and the vegetable seller with a handcart to the largest global corporation.

### By Shaping Producers' Incentives, Economic Governance Drives Growth

A sound macroeconomic framework is the cornerstone for sustained growth. Fortunately, most developing countries now practice responsible macro policies. Microeconomics has emerged as the next frontier for economies to sustain a strong rate of growth. New data show that business regulation is much more extensive and onerous in poor countries than in rich ones. Some regulations are essential, but they should be designed to minimize costs, uncertainty, and the potential for corruption or abuse. In many poor countries, complex and costly regulations discourage firms from employing workers or investing in new technologies. As a result, they inhibit firms, especially smaller and micro businesses, from achieving high and growing productivity. There is tremendous opportunity over the next decade to improve the microeconomic dimension of economic governance, for example, by strengthening systems of property rights, competition policies, and commercial law, and by easing barriers to trade.

### Other Factors Enable Growth

While macroeconomic and microeconomic policies and institutions drive the growth process, other factors enable growth to move forward. The availability of finance, of infrastructure, and of an educated and healthy workforce, for example, can influence the rate and direction of growth. Work in these areas is very important, but its impact is much

reduced in a country with a poor macro- or microeconomic policy environment.

## **USAID will Pursue Rapid, Sustained, and Broad-Based Growth**

USAID's overarching goal in economic growth is to help partner countries achieve rapid, sustained, and broad-based growth. Rapid growth means per capita income growth of at least 2 percent per year, and preferably faster. Growth is sustained to the extent it is maintained over the long term. Broad-based growth includes all major income groups, ethnic groups and women, and significantly reduces poverty. To support this goal, USAID will endeavor to:

- Develop well-functioning markets in developing countries
- Enhance access to productive opportunities for the poor, women, and other disadvantaged groups to help ensure that they benefit from growth
- Strengthen the international framework of policies, institutions, and public goods that supports growth prospects and opportunities for poor countries
- Seek systemic and catalytic impact in light of political opportunities and constraints, reinforcing USAID objectives to promote democracy and governance

## **Core Principles for USAID Programs Pursuing Growth**

Economic growth is a complex process. Moreover, differences in country conditions and opportunities create a wide variety of potential donor interventions. To achieve the greatest results, several core principles will guide USAID's program choices. In particular:

- Programs should seek large and systemic impacts. The success of a few firms, farms, or communities is not enough. The goal is growth that affects thousands of firms and millions of people. This typically requires improvements in policies affecting all businesses within a sector or across the entire economy. USAID will seek the systemic reforms that can mobilize much larger savings and investment by others.
- Where systemic reforms are not yet underway, USAID will pursue programs that can demonstrate a catalytic impact. Limited scope or pilot projects can be valuable, but they should either demonstrate approaches that cause a far larger number of people or firms to follow suit without subsidies, or should have the clear potential to catalyze policy or institutional changes with a much wider, systemic impact.
- Close attention to the political economy of change is important for results. When change is difficult, support for reform in the public and private sectors can help to generate political will, as can efforts to bolster civil society's voice. External factors - such as requirements for joining the World Trade Organization or the European Union, or a low ranking on a widely recognized index of country policies and performance - have motivated significant changes in the past and should be used creatively to leverage further change.

## **Benefits of Sustained Growth**

The USAID strategy highlights the profound and wide-ranging benefits - to the United States and to the world - of achieving more rapid, more sustained, and more broadly based economic growth in poor countries. Burdensome and corruption-prone systems of regulation, weak property rights, trade barriers, and other microeconomic manifestations of poor governance are increasingly the binding constraints to growth. USAID is well positioned to respond. By supporting systemic and catalytic change in partner countries, USAID can help much larger numbers of people in partner countries secure a better future. In an interdependent world, a better future for the people of developing countries means a more secure future for us all.