



USAID
FROM THE AMERICAN PEOPLE



Economic Growth Policy

Cover Photo: Veronica Nalari Lengirnas -
a business owner in northern Kenya - and
an employee inventory her market stall
products. BOBBY NEPTUNE FOR USAID



USAID/Vietnam Mission Director Michael Greene's factory visit in Ho Chi Minh City.
USAID/VIETNAM

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John Barsa

A Message from USAID Acting Deputy Administrator John Barsa

I am pleased to share with you the new Policy on Economic Growth of the U.S. Agency for International Development (USAID). This Policy draws on the latest thinking and evidence in the field of economic development and provides a common frame of reference for our staff and programs around the world.

Economic growth is critical for governments, civil society, communities and the private sector in our partner countries to plan, finance, and implement solutions to solve their own development challenges. In line with the U.S. National Security Strategy, USAID can play a catalytic role in promoting economic growth led by the private sector; to help emerging markets become future trading and security partners. Our vision is that enterprise-driven development is an effective path to sustainable economic growth, which stands in contrast to state-led, non-transparent approaches.

The Policy highlights the importance of creating more inclusive, sustainable, and resilient economies that can resist sudden global economic shocks. Economic resilience starts with diversification and the creation of new job opportunities in new sectors. Amid the ongoing challenges associated with the pandemic of COVID-19, and its economic fallout, the importance of this task is clearer than ever. Governments and the private sector need to ensure that development is inclusive by investing in digital infrastructure and bringing more people online, which will give them access to platforms that ease communication and business during this and future pandemics. Ministries of finance and parliaments must secure sustainability by managing their public debt more effectively, especially because fiscal responses to pandemics are critical for avoiding their worst economic impacts.

To be successful, our efforts must prioritize the perspectives and knowledge of local, new, and underutilized partners. USAID's New Partnerships Initiatives strengthens and

diversifies our local and international relationships with the private sector, civil society, faith-based organizations, and government institutions. Other U.S. Government partners, including the U.S. International Development Finance Corporation, also will be critical for the success of this Policy.

But we face many challenges in accomplishing the goals of this Policy. Foremost among them is that women continue to confront social and legal barriers to their participation in economic opportunities. When we empower women economically, they re-invest in their families and communities, which produces a multiplier effect that spurs economic growth and contributes to global peace and stability. Launched by the White House in 2019, the Women's Global Development and Prosperity (W-GDP) Initiative directly ties women's economic empowerment to our national security. USAID is supporting the three guiding Pillars of W-GDP—Women Prospering in the Workforce, Women Succeeding as Entrepreneurs, and Enabled in the Economy—to enhance opportunities for women to participate meaningfully in the global economy and advance shared prosperity and national security.

Moreover, the number of young people in the world's poorest countries will increase 62 percent by 2050, which requires the creation of good, formal-sector jobs that offer social insurance and generate tax revenue. We only can achieve this vision through economic growth that is enterprise-driven and focused on productivity.

USAID is committed to supporting communities on their Journeys to Self-Reliance. Our approach to Financing Self-Reliance sharpens our focus on that goal, by putting governments and the private sector in our partner countries in a position to fund solutions to their own challenges in a sustainable way. By supporting innovative approaches that harness the combined resources of public, private, and community actors, we can help fuel growth, catalyze improvements across sectors, and accelerate countries' progress toward a life beyond aid.

A core message of this Policy is that a growing economy alone is not enough to achieve self-reliance. Getting there requires understanding who is contributing to, and benefiting from, growth, from the complex, multinational firm to the young, female entrepreneur who is running an informal business in a remote village. It also requires paying attention to local political and economic dynamics and the development of markets, and helping equip local enterprises with the knowledge and technologies to adapt to, and manage, future global disruptions.

Another core message is that our programs at USAID to boost economic growth overseas can, and must, show benefits for Americans companies and consumers. Ultimately, we all win when our partner countries become self-reliant. Investments to promote fair and reciprocal two-way trade, transparent public procurement, the adoption of U.S. standards, and governments' compliance with their international obligations are mutually rewarding. Growing economies with more prosperous citizens increase demand for American goods and services, and a level playing field for international businesses offers new investment opportunities for U.S. companies overseas.

We stand ready to work with committed partners to seek market-based solutions that promote enterprise-driven development. Success depends not just on economic capacity, but on the commitment of governments, civil society, and the private sector in our partner countries to create an enabling environment that unlocks private enterprise as the force that drives self-reliance.

Investments to promote fair and reciprocal two-way trade, transparent public procurement, the adoption of U.S. standards, and governments' compliance with their international obligations are mutually rewarding.

In the last two decades, the world has experienced unprecedented development gains and reductions in poverty. Countries that once received foreign assistance have developed the capacity and commitment to finance and address their own challenges. Some have become donors in their own right, and are now helping other countries find their own paths to self-reliance.

While we celebrate these achievements, we know that our work is not done. We recognize that progress has been uneven across regions and countries, within communities, and even within families. A capacity to bounce back from crisis is critical for sustaining these gains and building on the advances and innovations that came with the progress of the last 20 years.

While the journey will look different in the countries in which we work, a common thread is the spirit of people everywhere to be self-reliant. We invite our partners and other donors to join us in promoting economic growth as an indispensable step along the way.



Acknowledgements

The new USAID Economic Growth Policy is a result of a rigorous consultative process over an eighteen month period with significant contributions from across USAID and our external partner community; including implementing partners, other USG agencies, and the private sector. The Policy was made possible by the leadership of the Bureau for Development, Democracy and Innovation Assistant Administrator Michelle Bekkering and Deputy Assistant Administrator Kimberly Rosen. It is the product of commentary from more than 100 USAID colleagues across 16 Bureaus and Independent Offices, and 27 Missions. The Policy was written by a Steering Committee led by Robyn Broughton and William Butterfield, with other drafters from multiple Bureaus

including: Anastasia de Santos, Sakari Deichsel, Eric Hyman, Paul Oliver, Lisa Ortiz, Elijah Patel, and Joseph Spanjers from the Bureau for Development, Democracy and Innovation; David Cowles from the Bureau for Europe and Eurasia; Doug Pulse and Caroline Smith from the Bureau for Latin America and the Caribbean; and Peter Richards and Susan Wilder from the Bureau for Policy Planning and Learning. The framing of the paper was influenced by former USAID Chief Economist, Louise Fox. The communication of the Policy was led by Mahbub Sarwar and Margot Kitonis. Thanks to everyone who made this possible!



The USAID Small and Medium Size Enterprise Activity (SMEA) is helping Pakistani SMEs become more competitive by reforming policies and creating stronger financial and operational frameworks.
USAID/PAKISTAN

Executive Summary

This Economic Growth Policy of the U.S. Agency for International Development (USAID) elevates the importance of economic growth as central to reducing poverty and dependency. Inclusive, sustained, resilient, private sector-led economic growth delivers the increased incomes and domestic resources that make developing countries self-reliant and fosters demand for more transparent and accountable governance.

An Approach to Increase Our Impact

Building on findings and recommendations of the USAID's [2008 Strategy for Economic Growth](#) ("Securing the Future"), this Policy strives to advance the way the Agency approaches economic growth programming and overall decision-making at the strategic level. While the analytical needs and shared approaches the Policy presents are intended solely to guide programs under

the economic-growth technical sector, the principles it offers apply widely to increasing measurable impact across USAID's programming.

In brief, this Policy:

- Advances the approach of investing in enterprise-driven development to improve the effectiveness of USAID's economic-growth programming and further the Journey to Self-Reliance in our partner

Economic growth in developing countries and emerging markets benefits the United States economically and politically, as growing incomes abroad buy more U.S. goods and services and lead to more peaceful and stable societies.

countries. “Enterprise-driven development” means that the private sector appropriately takes the lead in providing market-based solutions to development and humanitarian challenges. As a consequence, USAID’s assistance should improve the market and governance systems that allow the private sector to gain access to and use knowledge and financial resources to solve development challenges and take advantage of opportunities on their own.

- **Asserts the importance of economic analysis and systems-based approaches in the design, management, and evaluation of economic growth programs.** Economic analysis is important for USAID to identify and solve specific constraints that inhibit growth and provide practical solutions to improve the functioning of economic systems. Programs uninformed by economic analysis can distort markets unintentionally and increase dependency.
- **Elevates the requirement for USAID’s interventions to produce measurable impact with a clear exit strategy so that we do not continue to repeat the same programs in the same sectors.** When our programs focus on solving systemic issues, or help our partners realize new opportunities more effectively, we can accelerate the growth process—and even small differences in rates of growth are compounded and magnified over time. USAID’s interventions should work in partnership with host country governments

to bolster economic growth in accountable and transparent ways that reduce opportunities for corruption and graft at state and private levels.

- **Emphasizes that USAID’s work produces shared benefits for developing economies and the U.S. economy.** Economic growth in developing countries and emerging markets benefits the United States economically and politically, as growing incomes abroad increases purchases of U.S. goods and services, creates better investment opportunities for U.S. firms, and leads to more peaceful and stable societies.

Core Ideas for Economic Growth Programming

The core ideas advanced in this Policy will increase the technical coherence and impact of USAID’s economic-growth programming. Above all, these ideas affirm the primacy of private enterprises and sound governance for growth; draw attention to the complexity of economic systems and the constraints to growth; and illustrate the strong links between growth, poverty, and inequality.

Firm-level productivity drives economic growth. Commercial enterprises—including firms and farms of all sizes in all sectors, formal and informal, for-profit and non-profit—drive the development process through investment and innovation. Enterprises do best in an environment where incentives encourage the continued private and public investment needed for them to transform labor and capital into human capital and technology—the core components of productivity growth by enterprises.

Sound economic governance enables economic growth. Sound economic governance—policies and the commitment and capacity to implement them—provides the public goods, incentives, and competition that enable the needed investments for productivity to grow. Increased productivity creates better jobs and higher wages for households, which, in turn, generates demand for more firm-level production, which also can lead to better economic governance. Foreign investment also

boosts domestic productivity through knowledge-sharing while boosting demand.

A growing tax base from increased private financial flows also increases demand and expands the resources available for governments to improve the quality and quantity of public goods and basic social services. Such public-sector investments create additional incentives and competition at the firm level to invest in human capital and technology, which drives more productivity and growth.

All of these relationships illustrate the core idea that economies are systems with interdependent variables, and that systems-based approaches and economic analysis are essential for identifying the constraints to economic growth. While improvements in one factor can contribute to improvements in others, constraints in one area of the system also can have a negative affect on other economic sectors, which adds to the challenge of diagnosing problems and identifying solutions. For example, while enterprises undoubtedly benefit from improved economic governance, the short-run relationship between economic growth and broad measures of institutional quality is weak. Because different dimensions of economic performance and governance at the country level are correlated with each other, it is difficult to determine which cause growth, which are a result of growth, and which are symptoms of low growth.

Growth, poverty, and inequality are strongly linked. Economic growth is largely responsible for massive reductions in extreme poverty at the global level. Although global poverty started to fall very rapidly around 1990, the prospects for sustaining this pace of reduction are uncertain for several reasons, including the rising concentration of poverty in fragile states; the possibility that growth in global trade will slow; the changing technological and skill requirements for the workforce; the need to adapt to the effects of climate variation; and the need for increased resilience in the face of economic shocks that affect the entire global economy, such as debt crises and pandemics.

More-inclusive economies with less income inequality are associated with greater political and social stability and more-sustainable and resilient economic growth.

While income inequality within developing countries did not increase on average with recent growth and reductions in poverty, inequitable growth reduces longer-run potential for economic growth. Fragile states often descend into conflict when citizens perceive economic outcomes as inequitable, and conflict nearly always reverses growth. Even in less-fragile settings, increased inequality can erode social cohesion and lead to political capture by small, yet economically powerful, interests, which result in less-competitive markets and slower growth.

Constraints to growth in each country are unique, but USAID can accelerate growth and development by addressing four major categories of growth constraints in our programming: (1) poorly functioning markets (market failures); (2) ineffective and unaccountable governance; (3) the lack of inclusion; and (4) environmental unsustainability. The Agency should design programs to support the adoption of specific, practical solutions to these problems.

Market failures generally stem from weak links in value-chains, a lack of coordination, poor information, high transaction costs, and/or environmental degradation. Understanding market structures and systems through diagnostics or other analysis can help us identify and design interventions that help correct these constraints and identify opportunities for investment.

Ineffective and unaccountable governance reflects a country's lack of public-sector capacity or commitment to facilitate growth and respond to citizens' demands. Political-economy analysis and a focus on the technical and/or institutional failures that prevent the delivery of basic public services can help us identify and design interventions that help alleviate these constraints.

A lack of inclusion can slow growth by preventing a large share of the population from gaining access to productive opportunities. Reducing barriers to labor-force participation by women, persons with disabilities, and other marginalized ethnic or social groups in the economy would give many more people the opportunity to fulfill their potential, and would also significantly boost economic growth.



Harvest time at the Sady Donbasu Orchards in Poltavka Village, Donetsk Oblast.

VLADYSLAV SODEL

The environment and natural resources are the foundation of a country's capital base, and require protection. Policies and practices that undermine the sustainability of the environment and natural resources threaten the health of the workforce, the resilience of the economy, and prospects for growth.

These constraints affect not only growth rates, but also their volatility, which are just as critical for long-run development. The ability of communities and families in developing countries to respond to global and regional economic shocks is central to resilience.

Six Central Principles to Guide USAID's Economic-Growth Programs

To enhance the efficiency and effectiveness of our economic-growth programs, USAID should follow six central principles. Our programs should do the following:

Focus on enabling our partners to become self-financing:

- Support the development of markets that are commercially viable and competitive, so private-sector partners no longer require subsidies;
- Improve the enabling environment for private investment and undertake interventions that grow financial resources for the domestic economy; and
- Build the capacity of public-sector partners to mobilize and invest domestic tax resources and civil-society partners to rely on revenue and fees, so countries move toward the goal of no longer requiring development assistance.

Prioritize inclusion, sustainability, and resilience:

- Ensure our programs have clear benefits for poor and marginalized groups in each society to improve the inclusiveness of growth and lead to more equitable outcomes; and

- Ensure environmental sustainability and improve policies related to natural resources and resilience.

Be systemic or catalytic;

- Demand systemic impact from programs so they benefit many firms and result in more competitive and dynamic markets; where systemic impact is not possible, catalytic impact through scalable demonstration projects is essential.

Be cost-effective:

- Provide evidence of cost-effectiveness through cost-benefit analysis, for example, or pay-for-results approaches so we can ensure value from U.S. taxpayer resources; and
- Offer evidence of, and drive, *additionality*, such that our programs create incentives that lead other actors to support the growth process positively and reduce dependence on external aid.

Be adaptive:

- Encourage or staff and partners to experiment, sometimes fail (but fail quickly), shift course, and document lessons learned.

Benefit, or Show the Strong Potential to Benefit, the U.S. Economy and the American People:

- Promote and advance U.S. interests and U.S. standards, supporting economically beneficial relationships with our partner countries that open markets for U.S. goods and services;
- Increase fair and reciprocal two-way trade that supports U.S. and economic and foreign policy; and
- Collaborate with other U.S. Government Departments and Agencies to strengthen the capacity of governments to comply with their international obligations and magnify our impact.

Partnerships, Learning, and Evidence Will Propel the Successful Implementation of This Policy

To help developing countries achieve inclusive, sustained, and resilient growth, USAID will strengthen and diversify our partnerships with international and local public, private, educational, faith-based, and civil-society organizations and focus our economic growth-sector work to support enterprise-driven development. This Policy draws from, and links to, other Agency initiatives, including our Private-Sector Engagement Policy, Feed the Future, the New Partnerships Initiative, Financing Self-Reliance, the Digital Strategy, and our policies of other technical areas such as health, education, environment, and citizen-responsive governance. Collaboration with colleagues in these and other U.S. Government development initiatives will be critical for the successful implementation of this Policy.

Implementation should include a strong focus on Collaborating, Learning, and Adapting so USAID can maintain and increase our role in technical leadership and best-practice programming. We will measure the success of this Policy by the increased number of programs supported by economic analysis in the design phase, as well as the increased number of program evaluations that consider cost-effectiveness and systemic impact.

This Agency’s comparative advantage in addressing constraints to economic growth must stem from a philosophy of evidence-based development. Our inclusive, transparent, and accountable assistance, along with our partnerships, are the foundation of our impact and demonstrate that our approach is more effective than others at helping partner country governments, civil society, and the private sector in our partner countries achieve their own development goals while reducing dependency. With increased commitment and resources for economic-growth programming, USAID will be better-poised to meet U.S. foreign-policy objectives by growing incomes and, ultimately, eliminating the need for foreign assistance.

Acronyms and Abbreviations

CLA	Collaborating, Learning, and Adapting
CO2	Carbon Dioxide
COVID-19	Coronavirus Disease 2019
CRS	Common Reporting Standard
DAC	Development Assistance Committee
DCA	Development Credit Authority
DDI	USAID's Bureau for Development, Democracy, and Innovation
DFC	U.S. International Development Finance Corporation
DRM	Domestic resource mobilization
FDI	Foreign direct investment
GDP	Gross Domestic Product
GVC	Global value-chain
ILO	International Labour Organization
IMF	International Monetary Fund
LGBTI	Lesbian, gay, bisexual, transgender, intersex
MCC	Millennium Challenge Corporation
NPI	New Partnerships Initiative
NPV	Net present value
NSPM-16	National Security Presidential Memorandum-16
OECD	Organisation for Economic Co-operation and Development
OU	Operating Unit
PSE	Private-Sector Engagement
SMEs	Small and medium-sized enterprises
USAID	United States Agency for International Development
WDI	World Development Indicators
W-GDP	Women's Global Development and Prosperity



I. Economic Growth Supports USAID’s Strategic Goals

More sustainable, inclusive, and resilient economic growth—especially growth in the income of individuals—through enterprise-driven development is central to USAID’s strategy of eliminating poverty, building self-reliance, and reducing dependence on foreign assistance (Box 1 on page 11).

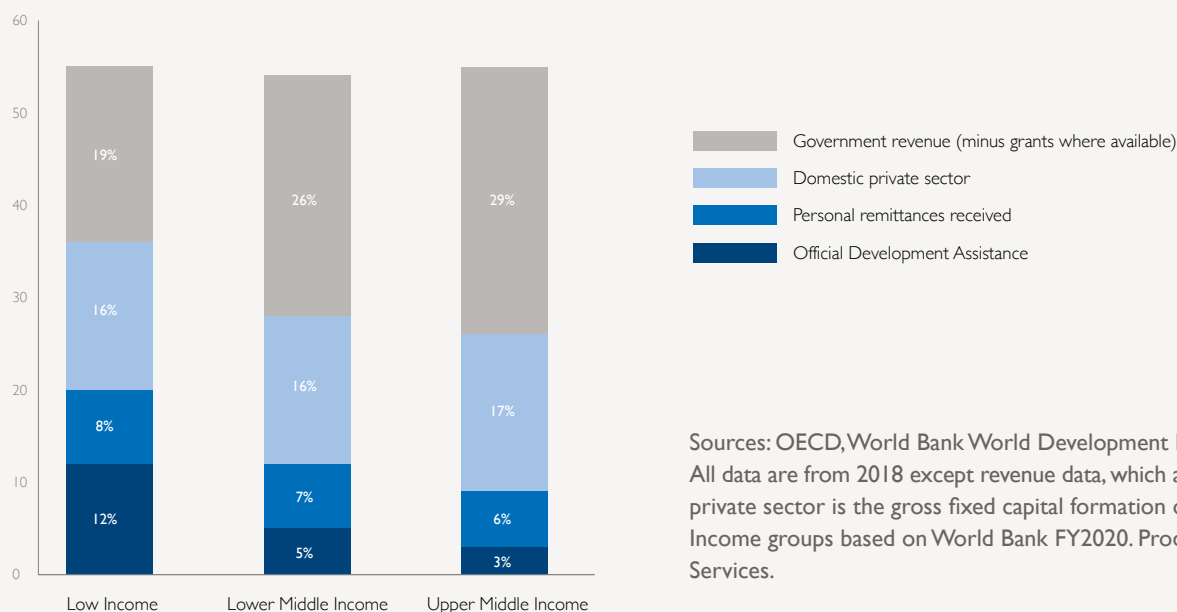
USAID believes that [the ultimate purpose of our assistance is ending the need for it to exist](#).¹ As a country’s per-capita income rises, its financial and taxation systems grow and mature, which enables private and domestic resources to replace foreign assistance (Figure 1 on page 11).² Economic growth is therefore necessary to advance communities in developing countries on their Journeys to Self-Reliance.

The benefits of economic growth are numerous and widely documented (Box 2 on page 13), and the poor are better off in economies that are growing.

Differences in median income account for almost all of the differences in poverty rates across countries.¹⁰ Across countries and over time, the incomes of the poorest 40 percent increase at about the same rate as overall average incomes—which highlights the importance of economy-wide growth (Figure 2 on page 12).¹¹ No country with a median income above \$5,000 has an extreme poverty rateⁱ that exceeds 2.5 percent.¹² No country (but one) has pushed the percentage of the population with a daily income of less than \$5.50 below ten percent without increasing annual median income above \$3,535.¹³

i. Defined as \$1.90 per day in Purchasing Power Parity adjusted dollars.

Figure 1: Sources of finance by income group (percentage of GDP)



Sources: OECD, World Bank World Development Indicators, IMF WoRLD. All data are from 2018 except revenue data, which are from 2017. Domestic private sector is the gross fixed capital formation of the private sector. Income groups based on World Bank FY2020. Produced by USAID Data Services.

Box 1: Defining Sustainability, Inclusiveness, Resilience

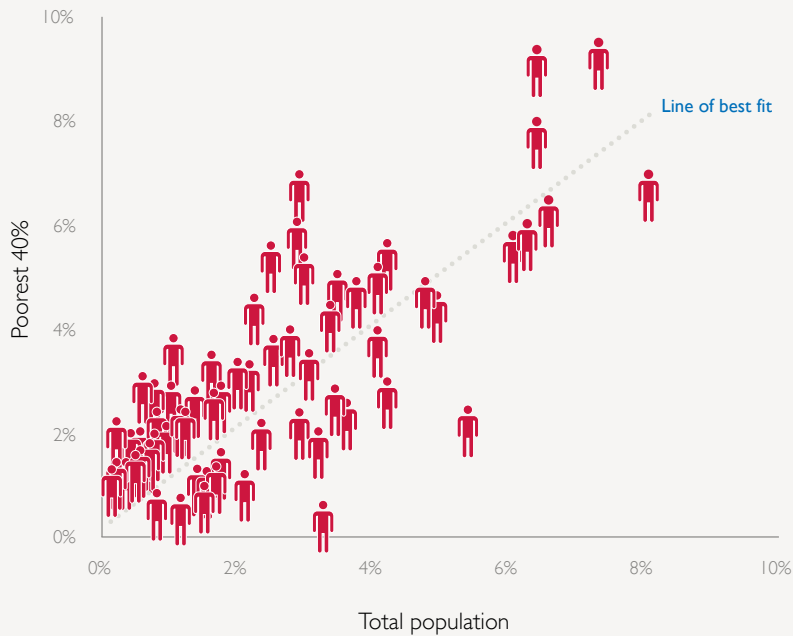
“Sustainability” refers to the ability of a local economy to produce desired outcomes over time. USAID-funded projects contribute to sustainability when they strengthen an economy’s ability to produce valued results, and to be both resilient and adaptive in the face of changing circumstances.

For the purposes of this Policy, “inclusive growth” refers to economic growth that benefits all segments of the population and reduces poverty significantly. Inclusive growth works best when it focuses on increasing access to productive opportunities for women and historically disadvantaged groups while ensuring that markets are competitive.

“Resilience” is the ability of people, households, communities, countries, and systems to mitigate, adapt to, and recover from shocks and stresses in a manner that reduces chronic vulnerability and facilitates inclusive growth.

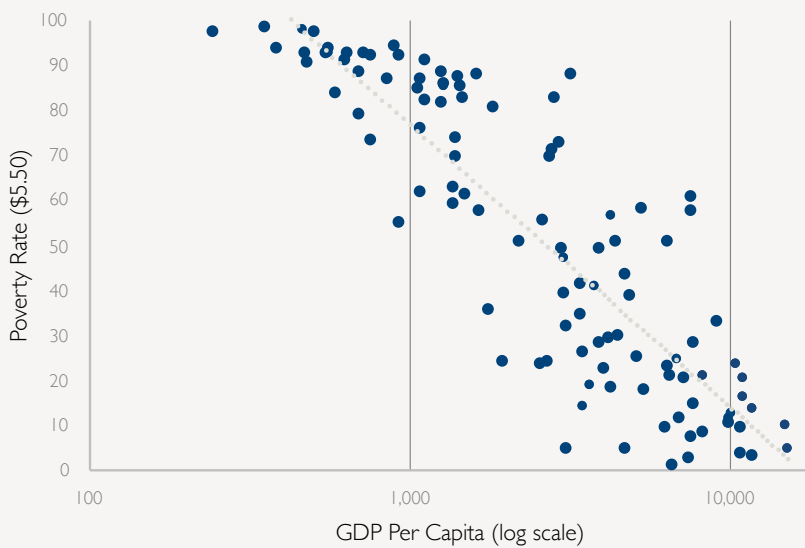
“Enterprise-driven development” means aligning with private enterprises as co-creators of market-oriented solutions, with shared risk and shared reward. Conceptually, enterprise-driven development includes market-based, private-sector partnerships and Private-Sector Engagement, in which the private sector appropriately takes the lead in providing solutions to development and humanitarian challenges.

Figure 2: Economic growth increases the incomes of the poorest 40% at about the same rate as the total population



Source: Poverty and Equity database, The World Bank, using mean consumption or income per capita, at 2011 PPP \$ per day. Growth is annualized across 3-6 years, depending on gap between surveys. View excludes negative values, but they are included in the trendline. Produced by USAID Data Services.

Figure 3: As growth increases incomes, poverty declines



Source: World Development Indicators Variables are GDP per capita (constant 2010 USD) and \$5.50 poverty headcount. Income is logged in the graph. Data is 2010–2018.



A young boy enthusiastically receives a new orthosis at the Mama Yemo General Hospital in the Democratic Republic of the Congo. ROSALIE COLFS/HANDICAP INTERNATIONAL

Box 2: The Benefits of Accelerated, Sustained Economic Growth

The growth acceleration in the Republic of India that began in 1993 increased per-capita income by an additional \$3,364,ⁱⁱ which halved the official poverty rate from 45 percent of the population in 1994 to 22 percent in 2012.³ The growth acceleration that began in 1989 in the Socialist Republic of Vietnam increased per-capita income by \$6,914,ⁱⁱⁱ while the national poverty rate dropped to under ten percent for the first time in 2016 from over 20 percent in 2010.⁴ A more recent growth acceleration in the Federal Democratic Republic of Ethiopia that began in 2007 reduced extreme poverty by 20 percent over 2011–2016.⁵

Growth accelerations, and even economic growth that proceeds at a slower pace, are generally very effective at improving human welfare.

Increased educational attainment, life expectancy, nutrition and basic medical care, access to information, leisure, and personal security are just some of the development indicators that are very strongly correlated with GDP per capita.^{6,7} Evidence increasingly shows that higher per-capita incomes, made possible by economic growth, improve personal happiness and life satisfaction significantly.^{8,9}

-
- ii. Dollar figures in NPV terms from the start of the growth acceleration period (Lant Pritchett, “Alleviating Global Poverty,” CGD Working Paper 479, 2018).
 - iii. Defined as \$1.90 per day in Purchasing Power Parity adjusted dollars.

This means that the **driver of reducing extreme poverty reduction is inclusive economic growth** (Figure 3 on page 12), supported by a foundation of effective governance and accountable institutions.¹⁴

Growth accelerations—extended periods when a country’s Gross Domestic Product (GDP) grows rapidly in real terms^{iv}—produce substantial development gains and much-lower poverty levels. Economic reform is positively related to sustained growth accelerations, and USAID can influence economic reform through our technical expertise and presence in the countries where we work.

The defining features and guiding principles of this Economic-Growth Policy support USAID’s strategic goals and will enhance the impact of our programs. In brief, this Policy:

- **Advances our approach to enterprise-driven development to improve the effectiveness of USAID’s economic-growth programming and increase self-reliance in our partner countries.** Economic growth based on enterprise-level productivity offers a better alternative to state-led and less-transparent approaches to development. By creating a shared understanding of this enterprise-driven model of economic growth, this Policy will increase the technical coherence of our approach.
- **Asserts the importance of economic analysis and systems-based approaches in the design, management, and evaluation of our economic growth programs.** Enterprise-driven development takes place within a system of institutional structures and incentives. When this system delivers steadily rising economic growth, it has the greatest impact on the lives of the poor. Yet almost all the economic indicators that offer insight into this system are interdependent, which makes the causes of economic growth difficult to determine.^v Better analysis and understanding of economic systems will contribute to

the more effective and evidence-based design, implementation, and evaluation of programs. This Policy seeks to improve the recognition among staff that we must design interventions to correct well-defined constraints, or they will risk contributing to market distortions, perpetuating weak and corrupt institutions, and foster dependency.

- **Elevates the requirement for USAID’s interventions to produce measurable impact with a clear exit strategy so that we do not continue to repeat the same programs in the same sectors.** When our programs focus on solving systemic issues, or help partners realize new opportunities more effectively, we can accelerate the growth process—and even small differences in rates of growth are compounded and magnified over time. Increased economic impact will strengthen our local partnerships and enable USAID to phase out our assistance.
- **Outlines guiding principles for greater, quantifiable impact.** Adherence to these principles will ensure that our programs improve local economic and governance systems that affect many enterprises—not just a few. **USAID’s programs also should enable our partners to raise and rely on their own sources of financing.** Apart from demonstrating cost-effectiveness and additionality, our programs should promote the inclusion of the poorest and most-marginalized members of society and foster environmental sustainability. Finally, to broaden our impact and deepen innovation, our economic growth work should exhibit greater openness to experimentation and risk-taking, matched with a commitment to document and disseminate learning and experiences.

iv. Growth accelerations are defined as periods in which real GDP growth is greater than 3.5 percent per year and the increase in the rate of growth is 2 percentage points or greater over the previous trend, sustained for a period of at least eight years. See Ricardo Hausmann, Lant Pritchett, and Dani Rodrik, “Growth Accelerations,” *Journal of Economic Growth* (2005). <https://www.nber.org/papers/w10566>.

v. For example, the constraints to growth could be on the supply side (such as a lack of human capital or technology for local firms), on the demand side (such as high rates of poverty that limit the purchasing power of households), or both.



A woman who works for Yaajeende — a 5 year USAID Food Security Initiative in Senegal — prepares fortified flour for cooking. MORGANA WINGARD FOR USAID

2. Economic Growth in Developing Countries Is in Our Shared Interest

USAID’s economic growth programming is in the [shared interest](#)¹⁵ of developing countries and the United States. The enterprise-driven development approach envisioned in this Policy will act as a catalyst for growth that also enhances security and stability, creating the conditions for better and more resilient markets and trade.

Investments in global economic growth and development are vital to national-security interests. USAID promotes economic growth in developing countries in accordance with the [2017 National Security Strategy of the United States](#):

We can play a catalytic role in promoting private-sector-led economic growth, helping aspiring partners become future trading and security partners.... We encourage those who want to join our community of like-minded democratic states and improve the

condition of their peoples. By modernizing U.S. instruments of diplomacy and development, we will catalyze conditions to help them achieve that goal. These aspiring partners include states that are fragile, recovering from conflict, and seeking a path forward to sustainable security and economic growth. Stable, prosperous, and friendly states enhance American security and boost U.S. economic opportunities.

—United States, *National Security Strategy*, 4, 37–38.

Developing countries that fail to grow can pose serious problems for the United States and the rest of the world. For example, growth is critical for stable democracies, because slow growth is associated with citizen unrest. Slow growth also is strongly related to an increase in violent conflict and civil war.¹⁶ Under such circumstances, programs in many developing countries will continue to receive large amounts of U.S. foreign and security assistance.

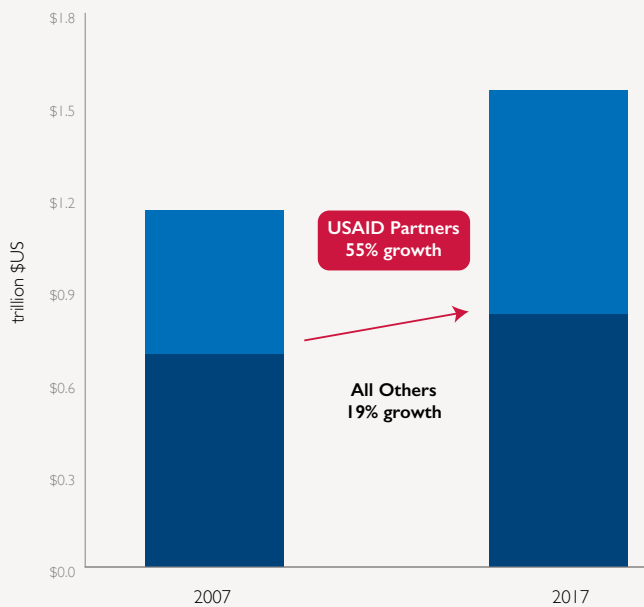
Developing countries that fail to grow can pose serious problems for the United States and the rest of the world.

By supporting economic growth in developing countries, USAID also helps to create better, stronger, and more resilient markets for U.S. exports. As developing countries get richer, they buy more U.S. goods and services. Over 2007–2017, almost two-thirds of the growth in exports of U.S. goods occurred in countries whose governments have been major USAID partners, which has supported millions of American jobs (Figure 4).¹⁷

USAID-funded programs also help U.S. companies by building reliable and sustainable supply-chains for commodities imported from developing countries. As these countries develop, they become more attractive

for private U.S. investors and improve their integration with global supply-chains that include major U.S. companies. For example, with USAID assistance, small-scale producers of coffee and cacao in developing countries across Africa, Asia, and Latin America have increased the quantity, quality, and marketing of their crops, in addition to raising their productivity by growing disease-resistant varieties. U.S. processors, wholesalers, and retailers of speciality coffee and chocolate have benefited greatly from USAID’s support to growers in these developing countries.

Figure 4: US exports to USAID partners increased faster than exports to other countries



Source: Harvard Atlas of Economic Complexity, International Trade Data and USAID Data Services, Foreign Aid Database. USAID partners based on FY18 funding. Produced by USAID Data Services.

3. Trends and Challenges That Define Growth Opportunities

The constraints to economic growth are interrelated and complex. They include recent external wars or internal conflicts, vulnerability to climate shocks, high illiteracy rates, organized crime and corruption, and the prevalence of acute and chronic diseases.

These challenges tend to be deeply rooted in local geographical and historical circumstances, natural-resource endowments, and climate cycles—which, in turn, influence politics, culture, local norms, and institutions.

Many countries have overcome extreme challenges to develop, grow their economies, and graduate from low-income levels and foreign assistance. Evidence shows that growth-driven pathways out of poverty are associated with markets that function well and with effective and inclusive economic governance (Box 3 on page 18).¹⁸

Across the global landscape, development assistance will need to respond to megatrends and cross-sectoral challenges, which range from the uncertainty of future economic growth to the emerging issues presented by trade disruption, fragile states, a changing climate, and pandemics. These trends and challenges are going to define opportunities for economic growth over the coming decade.

Following Unprecedented Gains from Economic Growth, the World Confronts an Uncertain Future

Beginning in the early 2000s, the income gap between rich and poor countries narrowed, and global inequality fell for the first time since the Industrial Revolution.^{21, vii} Concurrently, global poverty rates have fallen sharply over the last several decades.^{viii} USAID’s work to reduce

poverty and hunger and increase economic growth contributed to these achievements,²² and our future work must continue to reflect what we learn from the most recent experiences in countries that have registered higher growth.

However, sustaining recent gains related to income-convergence and reductions in poverty will be challenging. In many countries, improved growth rates are a recent development. Some of these higher growth rates probably are not sustainable, because many sources of growth face diminishing returns.²³ In 2009 (the financial crisis) and again in 2020 (the COVID-19 pandemic), global shocks resulted in growth slowdowns that pushed millions back into extreme poverty. An added worry is that the external debt of developing countries climbed rapidly through the 2010s, which threatened further the staying power of recent gains and the ability of economies and communities to weather the economic downturn caused by the of pandemic COVID-19.²⁴ It is not simply the rate of economic growth that matters for long-term development, but also the volatility of growth rates. We must support resilience to ensure unpredictable global shocks and poor domestic policy decisions do not erode gains quickly.

When the global economy turns down in response to a shock, so do commodity prices, which makes developing countries that are dependent on exports of natural resources even more vulnerable. During global economic downturns, international trade undergoes a

vii. Among the 43 countries classified by the World Bank as “low income” in 1990, 65 percent have grown faster than the high-income average since 1990. The same is true for 82 percent of the 62 middle-income countries circa 1990.

viii. The number of people in extreme poverty (defined as living on less than \$1.90 per day) fell from nearly 1.9 billion in 1990 (about 36 percent of the global population) to 650 million (about 8.6 percent) in 2018; see Max Roser and Esteban Ortiz-Ospina, “Global Extreme Poverty,” Our World in Data, last modified in 2019, <https://ourworldindata.org/extreme-poverty>.



USAID implements the DREAMS program, ensuring that adolescent girls and young women are Determined, Resilient, Empowered, AIDS-Free, Mentored, and Safe.
U.S. EMBASSY GABORONE

Box 3: Growth-Driven Development in the Republic of Botswana

Areas that are similar geographically and culturally but made different political and institutional choices have experienced vastly different development journeys. One of the most striking recent examples is Botswana, which now receives very little Official Development Assistance and is expected to graduate from all forms of foreign assistance by 2030.¹⁹

At independence in 1966, Botswana had a GDP per capita of just over \$80. Rather than instituting authoritarian and divisive rule like many of its neighbors, Botswana chose to manage its natural-resource wealth with greater transparency and accountability.^{20,vi} The Governments of Botswana, Africa's oldest continuous democracy, have championed ethnic harmony and inclusivity, fought corruption, and supported enterprise-driven economic

growth. In 2018, Botswana had a GDP per capita of close to \$8,000, 100 times the figure at independence and about 2.5 times the regional average in Southern Africa of just over \$3,000 *per capita*.

vi. For each year and country, the Center for Systemic Peace issues a widely used "Polity Score," which ranges from -10 to +10: -10 to -6 correspond to autocracies, -5 to 5 correspond to anocracies, and 6 to 10 to democracies. Botswana, with a Polity IV score of 8, is classified as a "full democracy." The Polity data series is widely used in political science research. For each year and country, a "Polity Score" is determined which ranges from -10 to +10, with -10 to -6 corresponding to autocracies, -5 to 5 corresponding to anocracies, and 6 to 10 to democracies (Center for Systemic Peace, Wikipedia, "Polity Data Series," accessed in March 2020).

relatively sharper decline, and takes longer to recover. Increasingly, countries that rely on low-wage, labor-intensive goods trade are vulnerable to increased risks to supply-chains in the wake of COVID-19. These examples highlight the importance of economic diversification, which USAID supports through private-sector engagement and advancing policies that promote investment in high-potential sectors.

The pandemic of COVID-19 also highlights several critical priorities for increasing firm and family-level economic resilience. One is the importance of investing in digital infrastructure and active support for the private sector to facilitate the adoption of electronic marketing, sales, and payment platforms together with steps to strengthen the supply-chains, infrastructure, and logistics necessary for the movement of goods. Another is the important role of cash transfers, particularly in times of economic distress, to preventing families from falling into extreme poverty. Increasing financial inclusion through access to commercial bank accounts and mobile financial platforms is necessary for these fiscal responses to be effective.

Extreme poverty has fallen around the world, but in Sub-Saharan Africa the number of extremely poor people could still rise between 2015 and 2030 as population growth outpaces economic growth.²⁵ Defining “extreme poverty” as subsisting on \$1.90 per day is also a very low bar. Even in 2015, 46 percent of people worldwide—3.4 billion people—lived on less than \$5.50 per day and struggled to meet basic needs.²⁶

Eliminating extreme poverty and alleviating “higher-bar” poverty (such as faces people who have an income below \$5.50 per day) will be impossible in developing countries with weak economies. For that reason, economic growth must be central to USAID’s development strategy, not only to meet our development objectives, but also to end the need for foreign assistance.

State Fragility Creates Unique Challenges for Economic Growth

Weak, corrupt, violent, and ineffective states suppress economic growth.²⁷ For example, the Arab Spring that began in 2010 exposed the fragility of many states across the Middle East, which produced conflict and a large negative shock to economies in the region. The Bolivarian Republic of Venezuela experienced a massive reversal of growth later in the 2010s, as kleptocratic government institutions collapsed. The experiences of the Rohingya in Burma and women in Northern Nigeria in the 2010s and the Rohingya in Burma today starkly illustrate how intercommunal and religious and/or ethnic conflicts can be particularly oppressive for minorities and women.

Sixty to eighty percent of the world’s poor will be concentrated in fragile states^{ix} by 2030.^{x,28} Fragile countries experience chronic vulnerability to crises that range from violent conflicts to recurrent humanitarian emergencies. The United States is already the largest or second-largest donor in 16 of the 20 most fragile states. Nearly 50 percent of all U.S. assistance went to programs in fragile states in 2018, up from just under 40 percent in 2014 (Figure 5 on page 20), and this share is likely to grow.²⁹ Given this trend, we must reconsider the best ways of addressing the demanding and rapidly evolving challenges to growth in these fragile contexts.

Commercial enterprises in fragile countries lack the basic ingredients for growth. Stable and capable states extend markets by protecting property rights, enforcing contracts, reducing internal and external trade barriers, delivering security, investing in infrastructure, and supplying education and health resources to citizens, among other priorities. The market failure in many fragile areas could reflect simply that intra-country trade

ix. *Fragility* is defined by the Organisation for Economic Co-operation and Development (OECD) over several dimensions: economic (examples include macroeconomic weakness, inequality, high youth unemployment), environmental (exposure to natural disasters, pollution, and epidemics), political (exclusion and official corruption), security (crime and violence), and societal (ethnic and cultural cleavages). See OECD, “States of Fragility 2018” (Paris: OECD Publishing, 2018).

x. After falling sharply between 2005 and 2011, the rate of extreme poverty in fragile states rose to 35.9 percent in 2015 from a low of 34.4 percent in 2011, despite good overall rates of economic growth in many of these countries (World Bank, “Piecing Together the Poverty Puzzle.” 2018).

barely functions and formal-sector firms are few and far between. In addition, national statistics do not capture geographic and social inequities well across regions.

Finally, a clear instance of how the challenges to economic growth are interrelated (and extend beyond purely economic concerns) is that fragile states are also more at risk from the effects of climate variability, natural disasters, and pandemics. Fragile states often lack institutions for managing and coping with disease outbreaks and climate risks effectively and cannot build resilience to mitigate the effects of these shocks.

These overlapping challenges mean that fragile states still largely depend on foreign assistance, because private capital flows are minimal (Figure 6 on page 21). This is especially true in fragile states without valuable natural resources such as minerals, timber, and oil.³⁰ Moving these countries toward self-reliance by helping to replace foreign assistance with private capital and domestic resources will be a critical development challenge going forward.

The Slowdown of International Trade as a Source of Economic Growth

Growth accelerations are correlated with periods of increased investment and trade.³⁵ The global value of goods traded throughout the world increased over 200 percent between 2000 and 2018.³¹ For developing countries, the total value of exports was 4.3 times higher in 2018 than in 2000. Their share of global exports of goods and services rose from 29.7 percent in 2000 to 44 percent in 2018.³² The expansion of integrated global value-chains (GVCs) drove much of this growth, as intermediate (unfinished) goods accounted for about half of global trade in goods in 2017.³³

When developing-country enterprises participate in GVCs, they can increase their access to foreign capital, technologies, and expertise. Processing and trading companies and primary producers can enter higher-value markets through GVCs. Access to these resources and markets offers the potential to increase enterprise-level productivity and individual incomes.³⁴ These potential

Figure 5: US Government Funding to Fragile States, 2014-2018 (billion \$US)

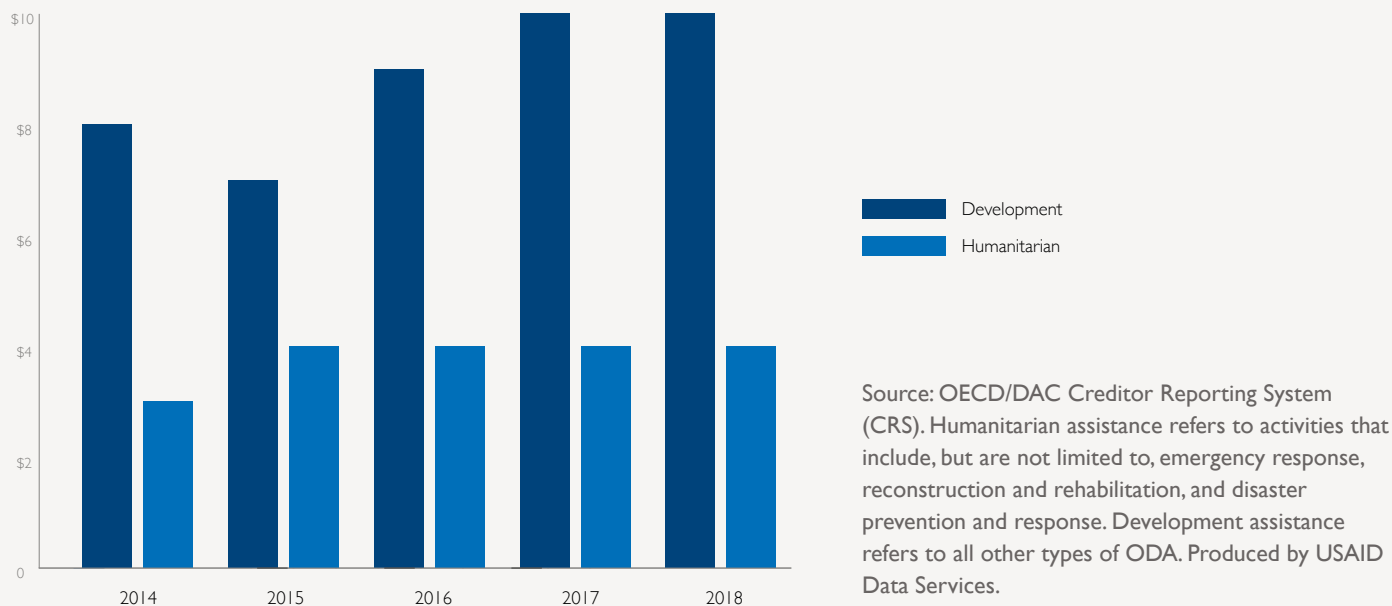
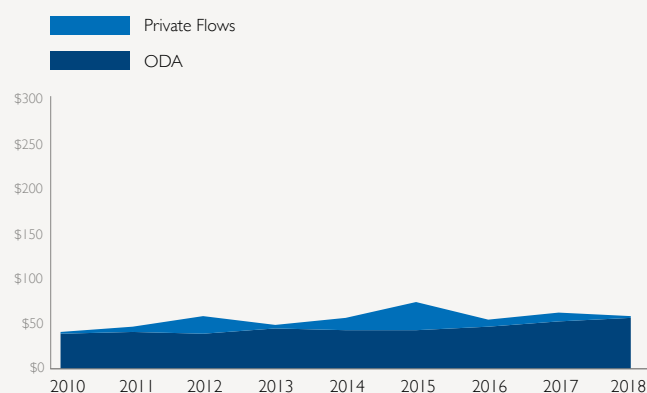
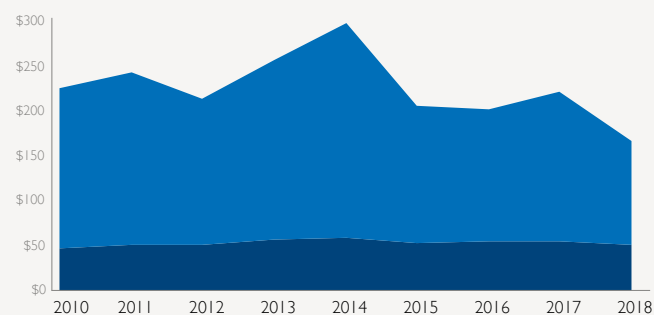


Figure 6: Official development assistance and private flows to fragile states, billion current \$US (n = 31)



Official development assistance and private flows to other low and middle income countries, billion current \$US (n = 90)



Source: OECD CRS. Official development assistance and private flows include all donors. The “fragile states” group includes the 31 countries that scored above a 90 on the Fragile States Index and “other” includes 90 countries. Produced by USAID Data Services.

gains are far from guaranteed, however. They depend heavily on the nature of the relationships between foreign and domestic firms.

Particularly in developing countries, the growth of GVCs has also boosted domestic competition (by requiring industries to take advantage of economies of scale), efficiency (for example, by importing new management techniques), and resilience (by diversifying economies into new areas). These changes created new opportunities for growth through access to new markets.

However, several factors could slow the expansion of GVCs, including diminishing returns of outsourcing, political backlash related to unfair trade practices, and heightened risks of supply-chain disruptions such as those experienced during the COVID-19 pandemic. The share of developing economies in worldwide exports of goods plateaued at just above 44 percent over 2012–2018.³⁶ New technologies such as automation and three-dimensional printing, while ultimately beneficial to global trade, could reduce manufacturing opportunities for some developing countries. Educational institutions have trouble keeping pace with the quickly changing demands to train workers in the skills required for participation in GVCs.

While trade through GVCs will continue to be important, trade in services has been expanding faster.³⁷ For example, tourism was the sector that experienced the strongest growth in developing nations in the 2010s, and growth in this sector rapidly delivers new jobs and business for small and medium-sized enterprises (SMEs).³⁸

Despite the potential for foreign investment in infrastructure, financial, and legal services, among others, widespread protections and the lack of shared standards in the service sectors of many developing countries restrict market access. The share of world services traded by developing economies grew by more than ten percent over 2005–2017, but least-developed countries accounted for just 0.3 percent of worldwide exports of services and 0.9 percent of global imports of services in 2017.³⁹

Digital technologies enhance the trade in services. Information is flowing across borders at an exponentially increasing rate, even as growth in the trade of goods has slowed.⁴⁰ Digital innovations such as cloud computing, social media, sourcing applications, online retail, Internet job-matching, and [mobile payment platforms](#) have expanded market access for small businesses. Robust growth in e-commerce has made the [adoption of online applications that facilitate trade](#)⁴¹ an essential and effective method for integrating SMEs into GVCs, but only when effective trade-facilitation processes at borders are in place.⁴²

Yet persistent digital divides, such as a lack of access to the Internet for women-owned SMEs and few online sales, marketing, and payment platforms for SMEs in developing countries, limit the potential gains from a fast-growing digital economy. Less than half of the population in developing countries was actively using the Internet in 2019⁴³ (versus about 86 percent in advanced economies). For example, while some in the developed world were able to adapt their work quickly at the start of the 2020 COVID-19 pandemic by conducting business over digital platforms, most of the developing world does not yet have the digital and physical infrastructure and regulatory environment to take advantage of these technologies, which resulted in lost income and jobs and increased poverty.

Likewise, under certain conditions, firms that offer digital services built on network effects, large flows of data, and economies of scale can use these same drivers to undermine competition, innovation, and consumer protection.⁴⁴ To further the expansion of digital trade that benefits SMEs, governments must commit to a policy of [enabling and expanding digital ecosystems](#) that are open, inclusive, interoperable, and secure. In the context of digital trade, governments also need to avoid non-transparent, counterproductive restrictions on flows of data, because such restrictions can have the

Persistent digital divides, such as a lack of access to the Internet for women-owned SMEs, limit the potential gains from a fast-growing digital economy

effects of impairing trade, making local digital ecosystems less secure, and harming the economic prospects for SMEs.^{xi}

Free-trade agreements continue to be critical for enhancing the level and depth of trade between countries. Problems related to intellectual-property rights, source origin, international standards, working conditions, and the environment are central to strengthening trade agreements, yet governments and the private sector in developing countries can struggle to resolve them and meet standards that facilitate global trade. [Efforts to build capacity in trade](#)⁴⁵ will need to keep up with the changing needs for reform.^{xii} Foreign direct investment (FDI) also and strengthened investment climates are mutually reinforcing conditions to expand inclusion in GVCs.

Barriers Limit Participation by Women in Economic Growth

Women face multiple barriers to equal economic opportunities compared to men, including lower workforce-participation rates, greater constraints to entrepreneurship, and less economic freedom. Some of the greatest return on our foreign-assistance investments come from efforts to empower women in the economy. Investing in women's economic empowerment builds communities that are resilient and self-reliant, which contributes to a more-peaceful world. The 2017 *National Security Strategy* effectively ties women's

xi. Studies show that countries would increase productivity on average by about 4.5 percent if they removed their restrictive data policies, whereas the benefits of reducing data restrictions on trade in services would on average be about a 5 percent productivity gain (World Bank, *World Development Report 2020: Trading for Development in the Age of Global Value Chains*, Washington, D.C.: World Bank, 2020).

xii. For many goods traded in GVCs, a day's delay is equal to imposing a tariff in excess of 1 percent. (World Bank, *World Development Report 2020*, Washington, D.C.: World Bank, 2020).

economic empowerment with U.S national-security: “societies that empower women to participate fully in civic and economic life are more prosperous and peaceful.”

If the growth of womens’ labor-force participation continues at current rates, it will take 257 years for women and men to become equal economic actors.⁴⁶ Countries with greater balance of men and women in the workplace and workforce have greater growth, innovation, and stability.^{47,48} The same goes for firms: those with a stronger ratio of women in leadership, management, and the workforce outperform those with fewer women.⁴⁹ These investments combined with improved collaboration⁵⁰ among governments, the private sector, and civil society can accelerate the pace of change exponentially and increase women’s economic power globally.

Women-owned small and medium-sized enterprises globally face a oughly \$287 billion credit gap.⁵¹ Women-owned businesses do not have equal access to the capital needed to stabilize or expand, in part because of discrimination in accessing credit by sex or marital status.⁵² Solving this problem requires not only long-term, systemic reforms, but also short-term financial mechanisms that can address immediate needs. Women’s economic empowerment depends directly on the resources they can command—access and agency.⁵³ Although women comprise a large share of the agricultural labor force in developing countries, only a small fraction have formal legal rights to own or use land.⁵⁴ Women also have less access to digital services, which is increasingly essential for training, employment, and financial services.⁵⁵ In 2018, more than 1.7 billion women in low- and middle-income countries did not own mobile phones and were 26-percent less likely to use mobile Internet than men.⁵⁶

Finally, an enabling environment that increases women’s economic empowerment by reducing barriers and enhancing protections in policies, laws, regulations, and practices (public and private) to facilitate women’s participation in the economy is necessary. Eliminating the social and legal barriers that keep women from participating productively in the marketplace would result in substantial and sustainable economic gains.^{57,58}

We have an increasingly better understanding of how problems such as social and cultural norms, workplace discrimination, gender-based violence, unpaid care responsibilities, and poor policies impede women’s participation in the workforce, entrepreneurship, and economic independence. Many countries bar women from certain jobs, lack laws on sexual harassment in the workplace, and allow husbands legally to forbid their wives to work. This leads to large numbers of women who are restricted from having the same choice of jobs as men.⁴⁸ To increase women’s participation in the global labor force and advancement in the workplace, access to high-quality education, training⁶⁰, and support must improve so they can be secure and thrive in well-paying jobs in their local economies.

Each of these constraints to women’s empowerment requires policy reform and its implementation. Yet women are often marginalized or excluded altogether from political decision-making and policy-formulation, with the result that challenges faced by women and other minority groups go unaddressed.

Poor Management of the Environment and Natural Resources Hinder Sustainable Economic Growth

The sustainability of economic growth will depend on developing countries’ abilities to (1) transition to clean, lower cost forms of energy from all sources; (2) improve land-tenure policies,⁶¹ clarify rights for the use of natural-resources, and create incentives for responsible management; (3) reduce deforestation and the degradation of forests, particularly in tropical zones,⁶² and promote the natural restoration of forests and landscapes; (4) protect biodiversity⁶³ and reduce poaching, trafficking in wildlife, and other wildlife crime, while creating opportunities for ecotourism and other conservation enterprises; (5) reduce pollution; and, (6) increase resilience to natural disasters, from pandemics to extreme weather events and other climate-related shocks.

Major industries such as farming, fishing, forestry, and tourism depend on the environment, and specifically on the availability and quality of natural resources. In many countries, these environmentally dependent industries play an outsized role in the overall economy. For example, nature-based tourism is among the top sources of foreign exchange. A healthy environment—including healthy forests and wildlife populations and clean land and water—is essential for these economies, and for broader food security and public health. In many of the countries in which USAID works, the effective and accountable management of natural resources has the potential to transform and catalyze economic growth, by serving as own-source revenue and a driver of development. Unfortunately, the failure to address systemic corruption, leakage, and mismanagement of the extractives sector (e.g. oil, gas, minerals, forestry, and fishery) keeps countries under the “resource curse”: wealthy in resources and poor in the ability to use them effectively for their own development. In addition, unaccountable management of these resources has the potential to play into the hands of authoritarian states or criminal enterprises.

Communities often use natural resources at unsustainable rates, often through illegal and destructive methods. Poor and unsustainable management of these resources has its roots in market failures, limited access to improved technologies, insecure land and resource rights, weak capacity, insufficient political will, corruption, and ineffective governance structures and policies. These failures can spark costly social conflicts or jeopardize human health and safety by encouraging destructive actions—such as the uncontrolled burning of vegetation or the illegal expansion of farming or ranching—which often disproportionately affect indigenous people and local communities.

The economic impact of poor environment management is not limited to rural areas. Much of the estimated eight million tons of ocean plastics pollution comes from mismanaged solid waste in rapidly urbanizing coastal cities. The rising tide of this pollution affects tourism industries, disrupts marine ecosystems, and threatens food security for people who depend on subsistence fishing.⁶⁴

Many developing countries are also highly vulnerable to climate shocks and stresses—they face higher risks of

The effective and accountable management of natural resources has the potential to transform and catalyze economic growth.

strong cyclones and floods, longer and more severe droughts, or a combination of these threats. By 2050, more than 140 million people might have to relocate within countries in Sub-Saharan Africa, South Asia, and Latin America because of decreasing crop productivity, water shortages, and coastal flooding.⁶⁵ Massive, unplanned internal migration will increase economic disruptions and place greater pressure on already-scarce land and resources, which could lead to conflicts with local populations in the destination areas. These climate stressors already disproportionately affect the poorest and most vulnerable, and will make reducing poverty and hunger significantly more difficult.⁶⁶

Economic-growth strategies and policies must find ways to reduce, mitigate, and compensate for the impacts of environmental degradation and risk. Addressing climate and other environmental risks through the adoption of strong environmental safeguards, in particular when tied to finance and market access, is a powerful tool to spur innovation and the adoption of sustainable practices. For example, green growth strategies in agriculture, energy, construction, and waste-management can reduce inefficiency and increase employment while significantly cutting emissions and other environmental harm.⁶⁷ In addition, where practical, economic planning should include natural-resource accounting.

USAID is reducing barriers to adolescent girls' education and empowering them through new skills and leadership opportunities.
THOMAS CRISTOFOLLETTI FOR USAID



4. Accelerating Growth Through Enterprise-Driven Development

Enterprises drive economic growth.^{xiii} The large differences in *per-capita* income across countries mostly reflect economy-wide differences in productivity—defined as the value of output divided by the cost of production.⁶⁷ Productivity can vary widely at the firm level, but this firm-level productivity translates into aggregate productivity. **Enterprise-level productivity is therefore central to economic growth.**^{xiv}

xiii. Enterprises include firms and farms of all sizes in all sectors, formal and informal, for-profit and nonprofit.

xiv. According to former USAID Chief Economist Arnold Harberger, “It is absolutely crucial to recognize that all economic growth takes place at the level of the productive enterprise—otherwise it is impossible to have a clear understanding of the growth process” (Arnold Harberger, “On the Process of Growth and Economic Policy in Developing Countries,” *PPC Issue Paper* 13, 2005).

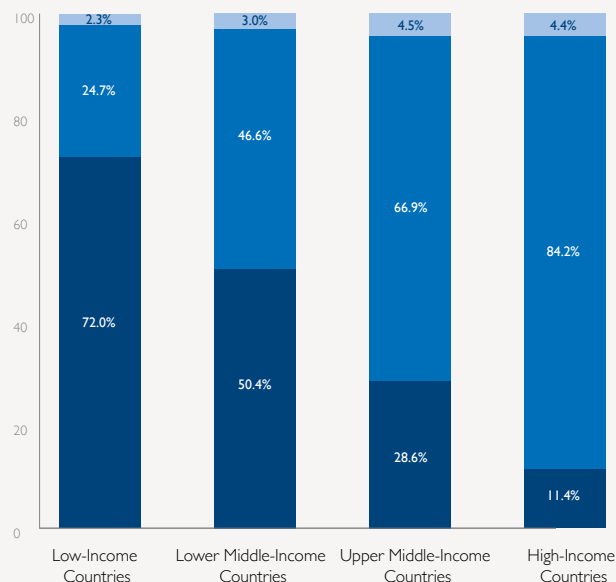
Commercial enterprises increase their productivity by investing in the factors of production: natural resources, capital, and labor. These investments lead to higher levels of human capital^{xv} and improved access to, and use of, production technology.^{xvi} Human capital and technology are the key components of firm-level productivity and economic growth.

Productivity growth can occur within sectors of an economy, or shifts to higher-value sectors can drive it. Structural transformation occurs as an economy reduces its dependence on primary production in rural areas (agriculture, forestry, and fisheries) and shifts to manufacturing and the delivery of services, increasingly in urban areas. During structural transformation, enterprises shift from being mostly informal to increasingly formal. Legally registered businesses are significantly more productive and pay higher wages and taxes.⁶⁸ An employment transformation also occurs as the structure of the economy changes—individuals transition from self-employment or household employment into formal wage jobs that offer steadier employment, higher wages, and better access to public services (Figure 7).⁶⁹

To increase productivity and achieve structural and employment transformation in an economy, enterprises must be motivated to invest in productivity improvements. The foremost motivator is the ability to make a return on investment after accounting for risk. Competition is necessary to encourage investments and limit protections for larger, incumbent enterprises, which makes it easier for newer, smaller firms to enter the market and forces less-productive firms to exit. Increased competition also will lead to more efficient markets, which allow enterprises to gain access to inputs at lower prices, finance their costs through banks and capital markets, and connect with buyers.

Figure 7: Employment transformation takes place as countries develop.

Composition by income group (%), 2018



Source: World Bank, World Development Indicators (ILO Estimates). To generate the ‘Own-Account and Family’ indicator, we subtract employers from the self-employed value. Produced by USAID Data Services

xv. *Human capital* refers to the knowledge, skills, attitudes, resources, and health that enable people to contribute productively to the economy.

xvi. *Physical capital* is a form of technology. In today’s economy, mobile technology, online marketing and sales, enhanced software, automation, management strategies, and Internet-based digital applications are the key drivers of productivity, and hence economic growth. As much as 80 percent of the productivity gap between developed and emerging economies can be explained by a lag in the technology-led transformation of structural sectors of the economy, such as manufacturing, retailing, and construction—the “fourth industrial revolution” described by Victor Mulas (“How Can Countries Take Advantage of the Fourth Industrial Revolution?” World Bank blog, October 13, 2016, <http://blogs.worldbank.org/psd/how-can-countries-take-advantage-fourth-industrial-revolution>).

When peace, competition, and tolerable enabling conditions prevail, enterprises are increasingly incentivized to access financing to keep investing in the human capital and technology acquisition that increase their productivity.

Entrepreneurship intensifies competition among existing enterprises by introducing new ways to produce goods and services, or by developing new goods and services to bring to market. Entrepreneurs are responsible for the innovations we see around us by combining labor and capital in increasingly effective and efficient ways. Entrepreneurs exist in all societies, but they require support from the public sector to thrive.

Economic governance is the framework of policies, laws, and regulations and how formal and informal institutions implement them to produce the enabling conditions for entrepreneurship and continued investment by enterprises. These policies include the maintenance of macroeconomic stability, the protection of property rights and human rights, and the provision of public goods,^{xvii} all of which can reduce production and transactions costs, interest rates, and barriers to investment. When peace, competition, and tolerable enabling conditions prevail, enterprises are increasingly incentivized to seek financing to keep investing in the human capital and technology that

increase their productivity. Increasing productivity translates into better jobs and higher wages for workers,⁷⁰ which results in increased incomes for households.

Higher incomes generate household demand for further production and improvements in economic governance. Income growth creates a broadening tax base,⁷¹ which the public sector can mobilize to improve the quality and quantity of public goods—thereby feeding back into the incentives for enterprises to invest. Improvements in market opportunities and enabling conditions can stimulate external investments that bring foreign capital and know-how; in turn, these inflows of capital and know-how can strengthen markets and economic governance through increased demand for production, greater competition, larger market scale, as well as more demand and incentives for reform.

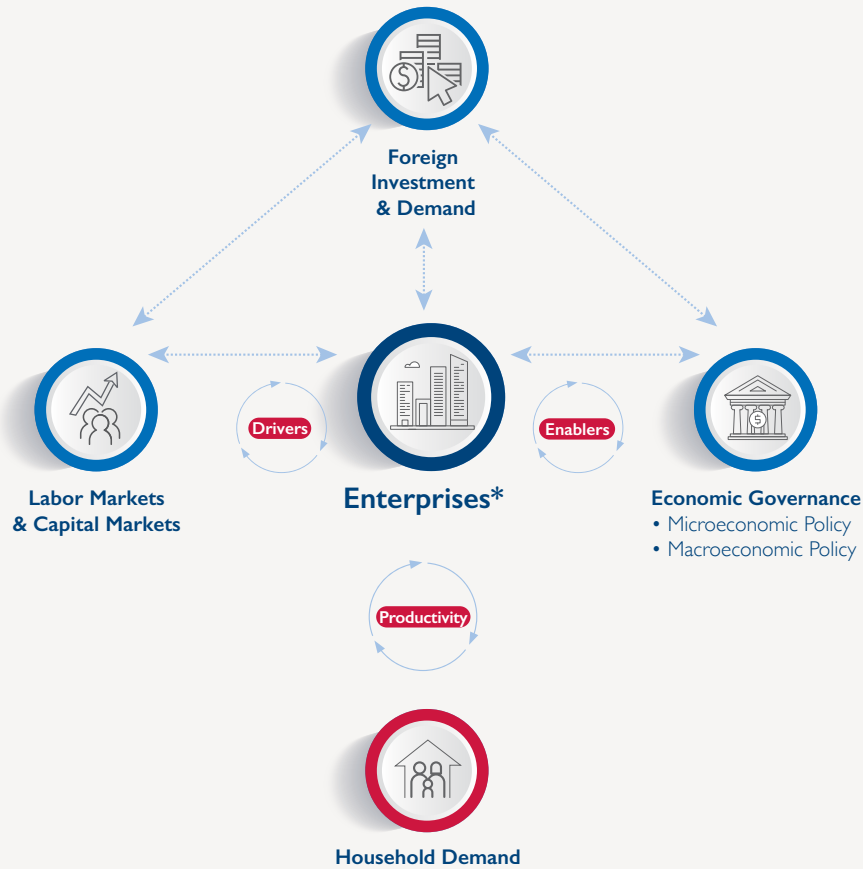
Given these interdependent relationships between the variables that influence enterprises in the economic system (Figure 8 on page 28), a virtuous cycle of interaction can increase incomes, reduce poverty, improve economic growth, and create self-reliance. Yet a vicious cycle also could result, in which constraints in one area slow or reduce the incentives for enterprises to invest, with repercussions for other sectors of the economy.^{xviii}

Because economic growth is a complex system, it is very difficult to determine relationships between variables. Understanding what is a cause and what is an effect of growth and which indicators are merely symptoms of underdevelopment requires a deeper analysis of local economic systems. Box 4 on Page 29 describes some of the interactions that influence the conditions for *growth* and that could feature in an

xvii. Examples of public goods include security, infrastructure, education and health resources, rule of law through an effective judicial system that facilitates business and social trust, environmental protection, and the protection of human rights and individual liberty, all of which are principal factors that enable economic growth.

xviii. For example, because of market failures, local firms might have insufficient information about opportunities and lack the trust to coordinate investments to meet an international demand in a GVC. Alleviating those constraints might have yielded spillover benefits beyond that particular sector by generating investment and household demand, linking the economy to international firms, increasing government revenue, and creating pressure for complementary government investment and reform.

Figure 8: Economic Growth Is a System with Enterprises at the Center



*Includes firms and farms of all sizes in all sectors, formal and informal, for-profit and non-profit.

analysis of a local economic system. For example, while high-quality, citizen-responsive governance and institutions are associated with higher levels of income *per capita*, they are not well-correlated with short- to medium-term economic growth.^{76,77} Global indices that rank country performance and combine various measures of policy and institutional quality can be informative, but it is important to remember that a country’s low ranking on a specific indicator (such as the quality of business

regulations) does not necessarily mean that the indicator is a relevant constraint, or a cause of slow growth. Additional analysis is needed to identify which specific constraints to growth are most-binding and design appropriate interventions to alleviate them.



In November 2017, the USAID Somalis Harmonizing Inter-and-Intra Communal Relationships Program brought together the women in this photo, and 2,280 people total (1,200 women) from conflicting clans to learn, decide and plan the future of their district. MOHAMED ABDULLAH ADAN, PACT

Box 4: Policies, Democracy, and Growth

Policy choices and their implementation determine the conditions that enable economic growth in a country.^{xix} Improvements in policy through best-practice reforms eventually lead to improvements in growth rates across countries.⁷² For example, necessary, but insufficient, conditions for growth generally include good macroeconomic management (such as control of extreme inflation), the liberalization of trade, and the limitation of black markets, among other policies. Some countries have sound policies on paper, but local institutions and practices, shaped by the quality of governance, determine the effectiveness of these policies. Similar laws and policies can result in different outcomes, depending on the manner and political context in which they are implemented.

While economic principles apply widely, applying them well requires an understanding of local economic circumstances and local organizational capacity. Arguably the most-effective route to policy reform is to build the capacity of civil society, institutions of higher learning, private-sector associations, and domestic policy-research organizations to become self-financing and act as effective advocates for locally led change, based on data and evidence.

The relationship between growth and democracy is complex. Even so, recent research has shown that democracy can contribute to growth by “increasing investment, encouraging economic reforms, improving the provision of schooling and health care, and reducing social unrest.”⁷³ Democracy also promotes inclusiveness, which supports peace and reduces social conflicts that undermine economic growth.⁷⁴ Evidence also points to the increasing enfranchisement of women as a fundamental cause of democratic peace.⁷⁵

xix. *Macroeconomic* policies address monetary and fiscal-management issues (taxing and spending). Their goal is to reduce business risks and uncertainty by maintaining stable prices, supporting trade and investment, providing physical infrastructure, and helping to meet shared social goals through effective and transparent budgeting. *Microeconomic* policies address economic efficiency through commercial laws and regulations. Their goal is to maintain an enabling environment to invest, while helping to achieve shared social goals. Together, macroeconomic and microeconomic policies and institutions create incentives for sustainable and inclusive economic growth by increasing confidence among producers, investors, and consumers, and by ensuring competition.



5. Understanding Constraints to Inclusive, Sustainable, and Resilient Growth

Economic analysis will give USAID’s staff a better understanding of how local economic systems function, and of the most-critical constraints to enterprise-driven development and economic growth. Economic analysis also can help USAID ensure that our assistance does not have the unintended effect of distorting markets and increasing the dependency of partner governments and communities.^{xx}

Tools and Types of Economic Analysis

To better identify market inefficiencies, we must first understand the market structure in specific sectors and the relationship to broader *market systems*,⁷⁸ which determine how inputs and intermediate and final goods and services link to the larger economy. When we analyze local market systems, we can gain a better sense of how our interventions might modify the incentives

and behavior of enterprises and other market players. USAID has *Self-Reliance Roadmaps*,⁷⁹ Country Economic Reviews, *growth diagnostic tools*,⁸⁰ tools for spatial analysis, and other approaches to help our staff understand economic conditions and constraints.

*Political economy analysis*⁸¹ can help USAID identify why current policies persist; the prospective winners and losers from reform; and the best avenues to bring about change that improve economic governance, inclusion,

xx. See, for example, William Easterly, *The Elusive Quest for Growth: Economists’ Adventures and Misadventures in the Tropics* (Cambridge: MIT Press, 2001) and *The White Man’s Burden: Why the West’s Efforts to Aid the Rest Have Done So Much Ill and So Little Good* (New York: Penguin Press, 2006), and Angus Deaton, *The Great Escape: Health, Wealth, and the Origins of Inequality* (Princeton: Princeton University Press, 2013).

and sustainability. *Institutional analysis* is important for understanding the framework of incentives faced by government bureaucracies and how that framework leads to policy implementation failures.^{xxi} *Systems-based approaches* also are important in understanding constraints in the capacity of government; for example, small breakdowns in delivering basic social services can eventually affect an entire sector, or the broader economy. Although building political will is challenging, identifying opportunities and champions within existing systems offers the potential for positive change.

To bring about societal change, USAID should **focus on strengthening local institutions and networks** through analysis that considers the contributions of multiple and interconnected actors. Local ownership enhances enterprise-driven development, strengthened by the inclusion of more people and groups, local government officials, civil society, faith-based organizations, and educational organizations. USAID offers a number of **screening and management tools for climate-risk** to improve the effectiveness and sustainability of development interventions and meet statutory requirements for environmental analysis.

The Four Major Categories of Constraints to Enterprise-Driven Growth

Enterprises depend on efficient markets to gain access to the human capital and technology they require to become more productive, and sound economic governance enhances their incentives to invest in their operations. For that reason, two main categories of constraints to enterprise-driven development are **poorly functioning markets** and **ineffective governance**. Since the sustainability and resilience of growth declines when markets are not inclusive and do not protect the environment, **a lack of inclusion** and **environmental degradation** are the other two main categories of constraints.

Poorly functioning markets result in market failures, which prevent enterprises from investing. Enterprises might refrain from investing for a number of reasons: they might lack information, coordination between firms or with the public sector to make complementary investments might not exist, or existing firms might exercise disproportional market power. Additionally, as the number of tasks required for production increases, if one part of a supply-chain is missing or weak, then investments fail or do not take place.⁸² In some cases, local markets might be too small to stimulate demand and incentivize investment. In other cases, the actions of private firms impair other companies by limiting competition and/or imposing costs on society by harming the environment.

Ineffective governance is apparent when private investors forego opportunities because the policy and regulatory environment is too unpredictable, or because policies have distorted markets. Signs of ineffective governance include inadequate public investment in infrastructure and human capital; the failure to deliver basic social services; or a political environment marked by a lack of rule of law and accountability, systemic corruption, and rent-seeking. Poor governance and institutions result in significantly more volatile patterns of growth, such as boom-bust cycles in which previous short-run gains evaporate and poverty rises.⁸⁵

While economic growth explains many development outcomes, *building governmental capacity* to implement sound policy is of primary importance for self-reliance.⁸⁶ A government must first carry out its basic functions (like building main roads, collecting customs revenue, taxing larger enterprises, and maintaining security) and then progress to implementing effectively a set of increasingly complex policies that require a multiplying number of administrative tasks (such as enhancing logistics performance, building a more broad-based and transparent tax system, and implementing a modern framework in commercial law). As the number of administrative tasks required to carry out governmental functions grow, the potential for

xxi. For example, in many countries where USAID works, pervasive corruption stifles economic growth. The root cause of corruption is not that countries are unfortunate enough to have the “wrong people” or “bad people” in power. Rather, the root cause is that institutions are creating incentives that enable bad behavior, and thus political checks and balances and bureaucratic systems require reform.

failures and omissions multiplies, which can prevent a state from effectively implementing policy.

That said, *lack of political commitment* is often the binding constraint to reforming governance and strengthening the rule of law. Institutions in most settings in which USAID works limit access and reduce competition to protect incumbent firms and benefit politically important constituencies.⁸⁷ Politically connected firms and interest groups often block critical, pro-growth reforms, as the potential beneficiaries of reform often come from poorer segments of society and face difficulty in organizing.

A lack of inclusion reduces the rate and benefits of economic growth. Markets naturally generate some inequality by rewarding entrepreneurs, innovators, and professionals who are most effective at increasing productivity. Even so, an increase in income-inequality as measured by the Gini Index did not accompany most of the recent growth in developing countries.⁸⁸ Yet past certain thresholds, inequality starts to become structural,

rather than market-based, which reduces economic growth rates.^{89,90} The International Monetary Fund (IMF) concludes that “increased inequality can erode social cohesion, lead to political polarization, and ultimately lower economic growth.”⁹¹ For example, inequality between regions and ethnic groups feeds grievances and could spark instability and violence, which lowers economic growth. Although economic growth is strongly associated with reductions in poverty on average, the distribution of income that results from economic growth matters, because poverty is less-responsive to growth in more unequal countries.^{92,93,94}

Sustainable, broad-based, and inclusive economic growth in developing countries depends on sound management of the local environment, natural resources, and climate risks. Growth that is not climate-smart and risk-informed will reduce sustainability and resilience. USAID has engaged with a range of public and private partners to promote sustainable, enterprise-driven development (Box 5).

Box 5: USAID’s Partnerships to Protect the Environment

Since 2016, USAID’s programs in sustainable landscapes leveraged more than \$500 million in private investments and worked with major corporations to reduce deforestation and the degradation of forests. USAID helped establish the Tropical Forest Alliance, a public-private partnership with major transnational companies to reduce tropical deforestation associated with the sourcing of commodities such as palm oil, soy, beef, paper, and pulp.

USAID’s Green Invest Asia has collaborated with companies and financial institutions to raise \$600 million in capital for sustainable investments and natural-resource safeguards in Asia. For example, the activity conducted a carbon assessment of Royal Lestari Utama, a joint-venture natural-rubber plantation in the Republic of Indonesia, which helped unlock \$23.75 million in funding and will continue to raise capital from other investors. USAID’s Green Invest Asia also funded the design of a pilot assessment of the carbon footprint across Rabo Foundation’s investment portfolio, worth \$37 million.

The Althelia Climate Fund began in 2014 to make investments in sustainable landscapes in Africa and Latin America after receiving a loan guarantee from USAID’s Development Credit Authority (DCA), now part of the U.S. International Development Finance Corporation (DFC). The Fund leveraged \$118 million from 20 public and private investors in 2017. Althelia’s investments generate returns from commercial production and the sale of carbon credits for a targeted annual return to the fund of eight percent. As of 2019, the investments had the following economic and environmental benefits:

- 1) 89 sustainable enterprises created or supported;
- 2) 1,939 jobs created or supported;
- 3) 2.248 million hectares (ha) of land under improved management;
- 4) 1.975 million ha of critical habitat for protected species conserved; and,
- 5) 41.866 million tons of CO₂ emissions avoided.



In Panama, USAID established the first bee-keeping project in the Emberá Wounaan indigenous reservation due to the abundant vegetation in the Darien region.
RITA SPADAFORA, USAID/PANAMA

6. Principles To Guide USAID’s Programming in Economic Growth

USAID supports inclusive, sustained, and resilient economic growth in the shared interest of developing countries and the United States. Economic growth is essential to alleviate poverty and improve human well-being in developing countries, and to American prosperity.

To achieve our objectives, we must strive for greater impact from our economic-growth programming by applying six guiding principles (Box 6 on page 34), rooted in the approach to enterprise-driven development—informed by economic analysis of local systems and constraints—that this Policy advances. The sections that follow describe the six principles.

Programs Must Focus on Assisting Partners To Become *Self-Financing*

USAID should focus on equipping market and public-sector partners to raise and use financial resources to solve problems and take advantage of opportunities on their own. For markets to operate efficiently and

become self-sustaining, USAID-funded programs should focus on commercially based approaches that reduce the need for subsidies and continued assistance in targeted sectors. USAID’s programs should focus on promoting foreign investment, improving the enabling environment for private investment, and interventions that crowd-in private investment to generate the domestic resources necessary for the private sector to lead the development process.

Private, non-governmental, and civil-society associations require revenue and fees to sustain themselves by continually growing their operations, advocating for reform, and supporting the local economy. Government organizations require sufficient tax revenues to perform the essential functions of effective, citizen-responsive governance, and

successful [domestic resource mobilization](#) ultimately should take the place of foreign assistance. If USAID focuses on programs that result in self-financing, we will no longer need to design and implement follow-on activities.

Programs Must Prioritize Inclusion, Sustainability, and Resilience

USAID should seek to enhance access to productive opportunities for low-income people and socially disadvantaged groups to improve the inclusivity, sustainability, and resilience of growth. **USAID recognizes that an emphasis on human rights and dignity, individual liberty, and democratic accountability is a foundation for economic growth and development.**

Economic exclusion undermines resilience, not only because it denies poor and marginalized groups access to the opportunities that accompany growth, but also because these groups are the most vulnerable in an economic downturn, and often suffer from hunger.

When institutions respond to the needs of all groups, they contribute to broad-based socio-economic resilience. A [market systems perspective on resilience](#)⁹⁵ emphasizes that the well-being of the population depends heavily on whether markets can continue to function through periods of shock and stress. [Land tenure and property rights](#) rights shield people from many kinds of economic and other shocks and stresses by protecting a core asset, providing security for land users to improve the value of their land, increasing benefits from clear use and inheritance rights, and providing better opportunities to leave their property to seek other income sources.

While rising economic tides lift many boats, they do not lift all. USAID's staff should be able to explain how programs will, at least in the medium term, generate tangible benefits for marginalized groups and the poor. If our interventions do not benefit the poorest in the societies where we work, they can have the effect of reducing sustainability and resilience.

Box 6:



The Agency must ensure that our investments have impact at the enterprise level.

Environmental and climate risks also create unequal distributional impacts and directly affect efforts to reduce poverty.⁹⁶ Program-design teams should consider that the impact on economies, target beneficiaries, and objectives could be worse than anticipated depending on how climate shocks interact with other constraints in different geographies and assess the trade-offs, benefits, and costs between mitigating climate risk and adaptation.

Programs Must Be Systemic or Catalytic

Sustained economic growth depends on systemic change, and USAID's programs will have more impact when they benefit many firms and millions of people. Strengthening market systems, improving policies and governance, and creating opportunities for low-income people can achieve this transformative impact, rather than benefiting a handful of the fortunate. The success of a few firms, communities, and individuals is a tangible, but limited, accomplishment.

Although economic growth hinges on enterprise-level productivity, that does *not* mean USAID always must work at the firm level or provide resources directly to the private sector, but rather that the Agency must ensure that our investments have impact at the enterprise level. While USAID can work with individual companies, we should improve the wider economic system—the incentives, the scope for competition, and the growth potential—in which current and future enterprises can contribute to sustained economic growth.

Where systemic impact is not possible, catalytic impact is essential. We should limit demonstration activities to those that local actors can scale up; we and partners can

replicate widely; or that can lead to changes in policies, regulations, or institutions that can have significant impact on national or regional economies. USAID also should increase our use of [pay-for-results](#) approaches,⁹⁷ wherever practical, to boost incentives for achieving development outcomes, rather than funding inputs.

Programs Must Be Cost-Effective

A fundamental priority for USAID is to demonstrate the value of its programs compared to their cost to taxpayers. Where relevant and practical, the Agency should increase the use of cost-effectiveness analysis in designing and evaluating activities to make our programs and activities more comparable.

The Agency should encourage training in specific methods of cost-effectiveness analysis. For example, [cost-benefit analysis](#)⁹⁸ can strengthen a program's cost-effectiveness through an analysis of its impact on beneficiaries, donors, and other stakeholders, as well as the sustainability of projects. Cash-benchmarking is a type of cost-effectiveness analysis USAID should employ more: it compares a program's financial impacts on beneficiaries to the alternative of providing cash grants equal to the intervention's costs.

USAID should use [impact evaluations](#)⁹⁹ wherever feasible, because they are an important tool for learning about the extent and intensity of our project's effects, their associated costs, and the degree to which we can attribute these effects to a specific intervention. USAID also should include evidence of *additionality* of impact when designing and evaluating economic growth programs. "Additionality" means that results are unlikely to occur in the absence of USAID's funding because the private sector and/or partner government cannot resolve a problem and achieve results on their own. It also means that our interventions should "crowd in" additional financial and human resources to solve development challenges, but it does not mean that we should fund an activity forever. All USAID's programs must plan from the beginning to hand responsibility for implementation to local actors, funded by local or other, non-U.S. resources.

Programs Must Be Innovative, Data-Driven, and Adaptive

To ensure our economic-growth programs incorporate evidence and best practices into their designs, USAID will use practices in *Collaborating, Learning, and Adapting*¹⁰⁰ (CLA) to select and implement the most promising and effective activities. It is important to remember that USAID must take an incremental learning approach to address the broad systemic challenges that developing countries face in attempting to catalyze and sustain economic growth. Our staff often must learn to “think small” before our programs can scale up. At the same time, USAID must not assume a conclusion, or be afraid of failure.

Taking an experimental approach and shifting course based on data can be the best method to pursue development, as we often do not know what works. USAID’s staff should take full advantage of digital media to disseminate widely the knowledge that is emerging from evaluations of the Agency’s efforts and lessons learned in the field. Knowledge-sharing on this scale will build and demonstrate our technical leadership and expand the foundation for evidence-based decision-making. Consistent with the Agency’s Risk-Appetite Statement, USAID’s staff should take calculated risks to try new ways, and invest in new partners, to achieve measurable results.

To reduce risks, USAID will expand its use of alternative approaches to procurement, including *co-creation*,¹⁰¹ which can involve civil society, the private sector, faith-based groups, new and underutilized partners, traditional implementing partners, local experts, and officials from host governments. Our programs should prioritize relationships with local and locally established partners, especially as prime implementers and through transition awards that pave the way for smaller organizations to accept direct funding from USAID. Involving these local groups in the design and implementation of our work will help us better identify constraints and solutions, increase local ownership, and expand available resources and expertise.

Programs Must Benefit, or Show the Strong Potential to Benefit, the U.S. Economy and the American People

USAID’s programs in economic growth need to benefit, or show the strong potential to benefit, American workers and consumers, strengthen the American industrial and manufacturing base, and promote American economic prosperity. The activities the Agency funds should promote and advance U.S. interests and U.S. standards, rather than standards that undermine the competitiveness of American companies, while supporting economically beneficial relationships with our partner countries. USAID’s investments should enhance our national and geopolitical security by attempting to minimize the control and influence of our adversaries; American taxpayers should never support or subsidize projects outside the United States that benefit these adversaries.

USAID recognizes that open trade is not an end in itself. Trade is linked to crucially important human values, free and fair markets, economic and environmental sustainability, and U.S. national security and prosperity. Increasing fair and reciprocal two-way trade supports U.S. and economic and foreign policy; contributes to sustainable economic growth; creates jobs; leads to productivity gains, higher incomes, improved health outcomes, greater food security, women’s empowerment, better governance, and many other development objectives; and bolsters U.S. national security and economic prosperity. Supporting policies and programs to enhance an enabling environment in our partner countries characterized by accountability, transparency, open and honest public procurement, security, and the recognition of U.S. standards creates pathways to two-way trade between the U.S. and our partner countries. Finally, USAID should collaborate with other U.S. Government Departments and Agencies to strengthen the capacity of governments to comply with their international trade obligations. Working closely with the Department of State, the Millennium Challenge Corporation (MCC), DFC, the Department of Treasury, and the Department of Commerce, among others, will magnify our impact.

Manuel "Manny" Dagandan, sales manager at the Federation of Peoples' Sustainable Development Cooperative poses with 'Mountain Fresh' products, a brand of the Kalahan Educational Foundation (KEF) which is part of and distributed by the Federation of Peoples' Sustainable Development Cooperative (FPSDC).
JASON HOUSTON FOR USAID



7. Roles and Responsibilities

Roles at USAID's Missions

Mission Economic Growth Officers and Mission Economists will lead the implementation of this Policy, with the support of Program Officers, other technical officers, Offices of Acquisition and Assistance, and Financial-Management and Executive Offices. Missions are expected to apply the principles of this Policy during the analysis and design of their *Country Development Cooperation Strategies*, as well as while they are designing at the project and activity and design phase.

In practice, applying the principles of this Policy means identifying priorities for a country to meet its goals, given the analysis of trends and constraints related to (1) markets, (2) economic governance, (3) inclusion, and (4) environmental sustainability. Officers will ensure designs have a theory of change that (1) results in self-financing partners and the development of commercial markets; (2) demands systemic or catalytic impact; (3) opens markets for U.S. goods and services and increases two-way trade; (4) provides evidence of additionality; (5) is cost-effective; and, (6) has clear

benefits for the poorest segment of the population and marginalized groups.

During the implementation of programs, officers must strive to select and implement the most promising and effective approaches, including experimental ones. Our field staff must communicate the principles of our Economic Growth Policy to implementing partners and other private-sector, civil-society, and government partners. Implementing partners might be hesitant to change, so field staff should plan to be persistent and offer support.

Since this policy seeks to improve [effective evaluation of our programs](#), USAID's awards should dedicate more resources to this purpose. **Evaluations should challenge the underlying theory of change and assumptions that were the foundation of a program's design, while emphasizing trade-offs in the use of resources (in other words, cost-effectiveness).** USAID will scale up training in effective program evaluation particularly for mid-term evaluations, "pause-and-reflect" periods, and impact evaluations. USAID's staff, rather than external contractors, should lead evaluations when possible.

The Roles of Pillar Bureaus

[Transformation at USAID](#) will create hubs and centers of technical expertise that can lead the implementation of this Policy. USAID/Washington will support our country and regional Missions to implement this Policy through continued analysis by technical officers on topics related to its content and implementation. For example, our technical staff will help conduct and ensure the quality of analysis and design, share knowledge on the latest experimental designs, and generate supplemental learning materials, guidance, and tools to assist our Missions and other Operating Units to integrate these policy priorities into their programming. As noted, communication through digital media outlets will need to play an important role.

USAID/Washington also will support the increased use of performance indicators that reflect higher-level results and impact, including improved metrics for market-

USAID/Washington will support the increased use of performance indicators that reflect higher-level results and impact.

development, economic governance, and self-reliance. Data, including gender-disaggregated data, will play an essential role in increasing our accountability and impact. Our officers should receive training in specific aspects of this Policy. All these efforts will require continued adequate funding and technical staff.

The new Bureau for Democracy, Development, and Innovation (DDI) will focus its analysis on supporting well-functioning markets, sound economic governance, and improved access to productive opportunities. See Annex I for an overview of best practices and recent learning in these areas.

Measuring Success

One objective of this Policy is to increase the use of economic analysis in the program-design phase. We will measure its success by the number of designs for economic-growth programs backed by USAID-led economic analysis. The goal is 75 percent by 2026.

This Policy also seeks to increase the use of cost-effectiveness and/or impact analysis in the program-evaluation phase to better compare the impact of our programming. The goal is for 75 percent of the evaluations conducted by the economic growth technical sector to analyze a program's cost-effectiveness and/or impact, specifically compared to other potential approaches or uses of the Agency's resources, by 2026.



Two students enjoy a moment together in Read Beyond Zambia's reading room in Kalingalinga. Access to educational resources such as this reading room help to improve literacy and raise students' assessment scores — a critical first step toward building an educated workforce and ending extreme poverty in Zambia.

USAID'S ZAMBIA'S STEP-UP PROGRAM

8. Looking Beyond the Economic Growth Sector: Key Considerations

While this Policy directly addresses and improves only economic growth programs, many of the principles for effective analysis, design, implementation, and evaluation described here apply more broadly across all technical areas.

Economic Growth Officers will need to coordinate our implementation efforts across the Agency's technical backstops, field Missions, and USAID/Washington Bureaus. Perhaps most important for the success of this Policy,

USAID also will need to coordinate effectively **and form new partnerships** with the private sector, civil society, faith-based organizations, academia, interagency partners, and other donors (Box 7 on page 40).

Links to Private-Sector Engagement

The private sector is the catalytic, essential stakeholder for driving and sustaining outcomes capable of moving countries beyond the need for assistance. Enterprise-driven development means aligning with private enterprises as co-creators of market-oriented solutions, with shared risk and shared reward. It means recognizing the value of engaging the private sector in shaping solutions that achieve sustained impact long after USAID's support has ended.

Launched in December 2018, USAID's first-ever [Private-Sector Engagement \(PSE\) Policy](#) defines PSE as a strategic approach to planning and programming through which USAID consults, strategizes, aligns, collaborates, and implements with the private sector for greater development or humanitarian outcomes. The PSE Policy calls for USAID's staff and partners to assess the role of the private sector and increase the use of market-based approaches. [This mandate extends across all areas of our work](#), from health to humanitarian assistance, women's empowerment, education, and addressing crisis and conflict.

This Policy complements USAID's PSE Policy by offering guidance and considerations in assessing the PSE Policy's five questions.^{xxii} A first consideration is that the private sector in countries in which USAID operates is often weak, and markets are thin and fragmented.

This Economic Growth Policy offers strategies for making systemic impact at the enterprise level, and offers strategies for developing the market systems and business-enabling environments necessary for the private sector to develop and thrive. By growing and strengthening the private sector, USAID builds more-capable partners, which enables local firms to serve as the engines of economic growth in the countries and communities in which we work (for examples, see Box 8 on page 41).

Second, both Policies call for "engaging early and often" with the private sector in approaching development challenges. The identification of specific market inefficiencies, ineffective governance, and the lack of inclusion and sustainability starts with listening to the views of the private sector, as these constraints directly affect local firms. When we engage the private sector, we will increase not only our understanding of the constraints to growth, but also our ability to co-create market-based solutions to issues.

xxii. Can the private sector solve this problem by itself? Could there be a market-based approach to addressing this challenge? What are the roles and interests of the private sector in addressing this challenge? Are there factors constraining the private sector from involvement and investment? Is there a role for USAID to help alleviate or eliminate these constraints?

Box 7: New Partnerships Initiative

Through the New Partnerships Initiative (NPI), USAID is tapping the ingenuity and knowledge of organizations that are deeply connected to the people and the communities we serve. With new and different approaches, NPI simplifies access to USAID's resources and makes it easier for partners to bring forward their ideas and innovation—while strengthening local capacity so that governments,

civil society, and the private sector in our partner countries gain new knowledge and skills to lead and sustain their own development. In doing so, we ensure that communities in our partner countries become agents of their own growth and prosperity for generations to come. This is the essence of the Journey to Self-Reliance.

USAID is working with partners to improve regional trade. THOMAS CRISTOFOLETTI FOR USAID



Box 8: USAID Engages the Private Sector for Impact

From 2008 to 2017, USAID brought the private sector into 2,300 Global Development Alliances and other partnerships, expected to leverage more than \$43 billion in non-U.S. Government funds toward U.S. objectives.¹⁰² From 2010 to 2018, USAID’s Africa Trade and Investment Hubs created more than \$600 million in investment opportunities for the

private sector in Africa, which has created 46,000 African jobs.¹⁰³ USAID’s Global Development Lab, now part of the new DDI Bureau, has worked with more than 40 business incubators, accelerators, and seed-funding investors, which has resulted in public-private partnerships that are leveraging \$100 million in private investment.¹⁰⁴

Third, both policies call for consistently assessing the additionality, cost-effectiveness, and systemic or catalytic impact of collaborating with the private sector in addressing development or humanitarian challenges. If the private sector can, and should, accomplish something on its own, USAID should stand aside. Our collaboration with the private sector should lead to substantially greater or more-inclusive development impacts, such as investment in poorer communities; greater inclusivity; innovation; increases in sales by many SMEs in several sectors; and/or the adoption of technology that benefits tens, if not hundreds of enterprises, and leads to growth in incomes.

Finally, both this Policy and the PSE Policy approaches elevate the importance of human capital and technology as the drivers of productivity for local firms. Effective PSE in the economic growth sector should focus on building firm-to-firm relationships that transfer the skills, know-how, and the application of scientific knowledge for practical purposes to new or smaller competitors in the market. USAID works with U.S. firms that have access to the best technology and business solutions in the world to support this enterprise-driven development approach.

Links to Feed the Future and Food Security

Particularly in least-developed countries, increasing agricultural productivity is critical for promoting economic growth and alleviating poverty.^{105,xxiii}

Low-income economies are largely agrarian; most low-income working adults earn their living through agriculture.¹⁰⁶ Higher farmer productivity increases

Agriculture-driven growth boosts the demand for non-farm goods and services and supports the structural transformation of the economy toward greater reliance on industry and services.

farm-household incomes and reduces food prices for the whole population. Agriculture-driven growth boosts the demand for non-farm goods and services and supports the structural transformation of the economy toward greater reliance on industry and services, which leads to more employment in higher-paying jobs in the formal sector, increasingly in urban areas.

[Feed the Future's technical guidance](#) states that the key to agricultural growth is to expand linkages among producers, transporters, processors, and other agribusinesses.¹⁰⁷ In many countries, yields must increase to meet the growing demand for food as population and incomes grow. Gains in yield can support economic growth only when the market system functions well, however. A market-facilitation approach that connects small-scale farmers and other primary producers with input-suppliers, processors, and more-profitable markets has proven effective in overcoming market failures. [Strengthening land tenure and property rights](#) especially for women, is also an effective way to increase productivity, mainly by encouraging increased investment.^{108,xxiv}

xxiii. Productivity growth is especially important for agriculture and its sustainability because the supply of land is inherently limited and further expansion has an enormous environmental footprint. See Keith Fugile, Madhur Gautam, Aparajita Goyal, and William F. Maloney, "Harvesting Prosperity: Technology and Productivity Growth in Agriculture" (Washington, D.C.: World Bank, 2020).

xxiv. While women make up approximately 43 percent of the agricultural labor force, women consistently have less access to land than men, and women's land rights are less secure. If women had the same access to resources for agricultural production as men, they could increase yields on their farms by 20–30 percent. An increase on that scale could raise total agricultural output in developing countries by 2.5–4 percent, and in turn reduce the number of undernourished people in the world by 12–17 percent. See FAO, "The State of Food and Agriculture 2010-11" (Rome: FAO, 2011). When women have secure access to land, nutrition outcomes improve. Studies in Ethiopia, Nicaragua, Honduras, Nepal, and elsewhere have found that an increase in land allocated to women decreased household food insecurity and improved health outcomes. See USAID, "Land Tenure and Food Security" (2016, https://www.land-links.org/wp-content/uploads/2016/11/USAID_Land_Tenure_Food_Security_Fact_Sheet.pdf).



Through Feed the Future, USAID works with the Government of Senegal to reduce poverty and undernutrition by promoting agriculture as a driver for economic growth. MORGANA WINGARD FOR USAID

Box 9: Increasing Agricultural Productivity and Food Security

From 2011 to 2018, the whole-of-Government Feed the Future Initiative unlocked \$3 billion in financing for agriculture and food-processing. This investment increased the sales revenues of small-scale producers

and SMEs by \$12 billion and decreased the number of families who are suffering from hunger by more than 5.2 million.¹¹⁰

Research and development institutions that develop or adapt and disseminate technologies to increase the productivity of large- and small-scale producers are vitally important. Given agriculture's impact on forestry, some of the most cost-effective and productive emission-reduction options are protecting and better managing standing forests, restoring forests, and promoting a wide array of climate-smart agricultural practices.

USAID can [build on experiences and lessons learned to date](#)¹⁰⁹ (Box 9 on page 43) and boost productivity in the agricultural sector consistent with this Policy, which will lead to increased incomes and food security

Links to Health and Nutrition

Global average life expectancy increased by 5.5 years between 2000 and 2016, the fastest increase since the 1960s, with the largest gains in Africa.¹¹¹ Emerging and developing markets also experienced a 42-percent reduction in the prevalence of undernourished people between 1990–1992 and 2012–2014.¹¹² These major gains in health and longevity are strongly related to economic growth that is inclusive and equitable.¹¹³ Better health and nutrition further boosts growth by increasing the productivity of the workforce.¹¹⁴

Yet over 2015–2018, the number of chronically undernourished people began to rise again, and returned to levels from a decade prior.¹¹⁵ Undernutrition increased partly because rising demand for commodities from more-rapidly growing markets drove up the prices of basic foods, which harmed the poorest in countries and areas that grew less rapidly. Undernutrition impairs cognitive, socio-emotional, and motor development, which leads to lower levels of educational attainment, reduced productivity later in life, lower lifetime earnings, and slower economic growth.¹¹⁶

[Effective strategies for combating malnutrition](#) must reach across disciplines to address the multi-factorial determinants of malnutrition. Perhaps most importantly, equality between women and men and the empowerment of women are critical to achieving nutrition objectives.

Undernutrition impairs cognitive, socio-emotional, and motor development, which leads to lower levels of educational attainment, reduced productivity later in life, lower lifetime earnings, and slower economic growth.

The economic costs of infectious diseases are enormous, and throughout history have shaped the geography of development.¹¹⁷ HIV/AIDS and malaria, for example, reduce productivity through chronic debilitating illnesses, diminished incentives to accumulate human capital and make investments, and death. For decades, USAID has been a leader in the control and prevention of infectious diseases, having achieved tremendous success through the President's Malaria Initiative; the President's Emergency Plan for AIDS Relief; and the fight against tuberculosis, neglected tropical diseases, pandemic influenza, and other emerging threats.

In 2020, the world witnessed how a global pandemic could devastate economies by disrupting global supply-chains, collapsing demand, and stressing health care. **USAID must help ensure that the economies and public and private health networks of developing countries work together and are more resilient in the face of the next pandemic.**

Links to Education

A large share of the development gap is attributable to cross-country differences in human capital.^{118,119} Because education has positive spill-overs—it benefits society more broadly, not simply the individual—even modest differences in average levels of human capital within countries can explain much of the development gaps between countries.

Investments in human capital have become more important as the nature of work has evolved. Although the adoption of technologies such as three-dimensional printing, artificial intelligence, and automation—the “Fourth Industrial Revolution”—ultimately will be beneficial for workers and economic growth by creating more jobs than are eliminated, some jobs (likely in the manufacturing sector for developing countries) will be lost. Employers are demanding more advanced cognitive skills, improved teamwork skills, and skill combinations that are predictive of adaptability.¹²⁰ Despite substantial progress, significant gaps in human-capital investments are leaving workers poorly prepared for change and emerging opportunities. Children who are living in fragile states make up about 20 percent of the world’s primary school-age population, yet they represent about 50 percent of those not in school.¹²¹

The U.S. Government’s investments under its [International Strategy for International Basic Education](#) serve as a force multiplier for all of our work in international development. This Policy also supports and reinforces USAID’s Education Policy. The foundations of human capital are created in early childhood, and the heightened constraints faced by girls—both in attending school and in excelling in the subjects of their choice—particularly demand attention. Human-capital development therefore requires governments, private providers, and civil society to invest in [education that enables all children and youth to acquire the skills they need to be productive members of society](#). Institutions of higher education should be central actors in economic development by conducting and applying research, delivering high-quality education, and engaging with communities.

Links to Infrastructure

Enterprises require effective infrastructure to reduce the costs of producing and transporting goods and services, which will increase their productivity and incentives to invest. At the start of the 2020s, 840 million of the world’s people still lived more than two kilometers from all-weather roads, one billion lacked electricity, and four billion lacked access to the Internet.¹²² On average, electric-power outages cost African countries one to two percent of their GDP annually.¹²³

The investment needed in infrastructure in developing countries add up to two to eight percent of GDP, and meeting these targets will require private as well as public investment.¹²⁴ While USAID no longer funds much infrastructure development directly, we can help by focusing on activities that create the conditions to enable sound and smart investments in infrastructure, including activities that “crowd in” private investment in infrastructure and create the fiscal space required to increase public investment.

The energy sector in developing countries offers considerable scope for efforts to increase self-reliance in infrastructure investment. In many countries in which USAID works, energy subsidies drain government coffers and have large negative environmental consequences. Globally, state energy subsidies were worth an estimated 6.5 percent of GDP in 2017, mostly from developing countries. According to projections from the International Monetary Fund (IMF), efficient fossil-fuel pricing in 2015 would have lowered global emissions of carbon by 28 percent and deaths from fossil-fuel air pollution by 46 percent, while increasing government revenues by 3.8 percent of GDP.¹²⁵

USAID has many opportunities to help scale up private and public investment in clean energy and further support the decoupling of growth from carbon emissions.^{126,xxv} The cost of facilities to generate renewable energy at scale (particularly photovoltaic solar and onshore wind installations) has fallen dramatically,¹²⁷ but the policy and regulatory environment and financial market failures

xxv. U.S. net greenhouse gas emissions dropped 13 percent from 2005 to 2017, even as our economy grew over 19 percent.



Workers at the Olkaria Geothermal Plant in Kenya. Two out of three people in Sub-Saharan Africa lack access to electricity.
CAROLE DOUGLIS/USAID WEST AFRICA

Box 10: USAID Is Improving Energy and Digital Infrastructure

Between 2013 and mid-2019, the whole-of-Government Power Africa Initiative brokered the financial closure of 120 private-sector investments in renewable energy in Sub-Saharan Africa, with a total capacity of more than 10,000 megawatts of electric

power. Between 2011 and 2019, USAID leveraged more than \$192 million from public and private partners to catalyze the enabling environment for inclusive digital infrastructure and services, such as Internet connectivity and digital payments.¹³¹

have slowed private investment in renewable energy in developing countries. Through [Power Africa](#) and similar approaches in other regions, USAID will continue to help create an attractive environment for investment in renewable energy by supporting policy coherence and predictability, enhancing the transparency and efficiency of government procurement mechanisms, and advocating for the elimination of fossil-fuel subsidies that drain public resources and harm the environment.

Even as traditional infrastructure remains vital to economic growth, digital infrastructure and services are becoming more important than ever, and USAID works to create a supportive investment climate for digital services (Box 10 on page 46). Recent studies confirm that [increasing access to broadband Internet services](#) correlates positively with economic growth.¹²⁸ Nevertheless, Internet penetration rates in the least-developed countries were only 15 percent, or about one in seven individuals.¹²⁹ As mentioned, women in developing countries are much less likely than men to have Internet access or own mobile phones.¹³⁰

By leveraging the digital economy and [promoting digital inclusion](#), small businesses can gain access to market information and new technologies to bring their products and services to market faster and increase their competitiveness in world markets. Interventions that [strengthen market-driven digital ecosystems](#) and draw people into the digital arena are essential for economic growth and human development.¹³² Digitally enabled SMEs are also much more resilient to shocks such as the pandemic of COVID-19, through online sales, marketing, and payment systems.

Links to Preventing Conflict and Promoting Stabilization

In conflict-affected countries, designing programs that are “conflict-sensitive” and applying a “do-no-harm” lens are particularly important to ensure USAID-funded activities do not fuel corruption, group grievances, or other drivers of violence. Assistance interventions in fragile settings should look to strengthen cooperation, commitment, and coordination gradually between society and the state in a way that explicitly recognizes power dynamics.¹³³

Besides building human and physical capital, USAID should work to build *social capital*,^{xxvi} which requires increasing the bonds and interdependence within, and among, communities. Enhancing government capability and willingness to deliver basic social services is essential, while ensuring these services are inclusive.^{xxvii} We can address these capacity constraints to improving performance with technical assistance and interventions that recognize current bureaucratic capabilities of line ministries and work sequentially and at the margin to improve the performance of tasks required to implement policy. Access to, and the use of, technologies that reduce the cost and complexity of carrying out governmental functions can be particularly effective for building state capacity.

In 2018, USAID and the U.S. Departments of State and Defense completed a [Stabilization Assistance Review](#)¹³⁴ to streamline interagency coordination in conflict-affected areas. USAID offers a number of resources related to [working in crisis and conflict](#)¹³⁵ and is building our capacity in these areas through our new [Bureau for Conflict Prevention and Stabilization](#).¹³⁶ Continued efforts to understand what [works in reducing community violence](#) and improving [the management of the risk of disasters](#) are also needed in fragile states, in line with the U.S. Government’s Global Fragility Strategy.

xxvi. The OECD defines social capital as “networks together with shared norms, values, and understandings that facilitate co-operation within or among groups” (OECD, “The Well-Being of Nations: The Role of Human and Social Capital” (Paris: OECD, 2001, p. 41).

xxvii. For example, programs like the Afghanistan Basic Package on Health Services or Ethiopia’s Productive Safety Net (both supported by USAID) have effectively built trust in government and strengthened norms and networks among fragmented communities. Evidence also points to a premium on quick, visible “wins” to demonstrate the state’s effectiveness and contribute to its legitimacy among the population.

Close coordination with interagency partners (especially the DFC) as well as other donors (particularly multilaterals, and including humanitarian agencies) will strengthen coherence, complement development programs with diplomatic and security interventions, and leverage foreign assistance to “crowd in” private investment through scalable projects that lower production and transportation costs for the economy.

Links to Gender and Inclusion

Women's economic empowerment has been a part of USAID's work around the world for many years, and should be central to the design and monitoring of our economic-growth interventions. USAID prioritizes equality between women and men and women's empowerment because some of the largest returns in foreign assistance come from evidence-based investments that increase women's economic power, which spurs economic growth and contributes to global peace and prosperity.^{137,138} Women often work in insecure, low-wage jobs in the informal economy. Therefore, USAID focuses on transforming employment so that women obtain, retain, and are promoted into well-paid industries, such as energy and technology. In addition, USAID supports women's inclusion in higher levels of supply-chains, such as wholesalers and buyers. Further, USAID encourages innovative investment models in women-led ventures and corporate policies that advance women in the workplace, such as to place more women on boards and leadership positions, provide equal pay, offer paid parental leave and childcare benefits, and enforce policies against sexual harassment and misconduct.

USAID focuses on transforming employment so that women obtain, retain, and are promoted into well-paid industries, such as energy and technology.

Women make up half of the world's population, but they own only one-third of formally registered SMEs globally, and there is a significant gender gap in credit. (See Box 12 on page 49.)¹⁴² USAID increases women's economic empowerment by promoting more-inclusive formal financial and market systems. Most women-owned SMEs in developing countries have financial needs beyond microfinance, but their assets do not qualify them for larger commercial loans. Addressing this problem requires reducing gender biases in the financial system and the expansion of digital banking services. In addition, USAID funds village savings-and-loans associations, cooperatives, and peer groups that provide support to women who assume the risk of starting and managing a business, and increases their access to markets and services.¹³⁸

Women face legal barriers and discriminatory norms that limit their participation in the economy. They have less access to finance, markets, networks, and property than men, and are less likely to benefit when interventions fail to consider gender barriers and inequalities. Women require both access and agency to improve their economic

Box 11: Advancing Gender Equality and Women's Empowerment

Between 2011 and 2018, Feed the Future helped 2.6 million women and their businesses gain access to financing and support, by unlocking more than \$630 million in agricultural loans.

USAID also enabled more than 8.2 million women to apply improved technologies and practices to lift themselves out of hunger and poverty.¹³⁹

USAID works with the Haitian Government and companies to modernize the country's private sector — creating much-needed jobs.
STEVE DORST FOR USAID



Box 12: The Women's Global Development and Prosperity (W-GDP) Initiative

The W-GDP Initiative is the first-ever, whole-of-Government approach to global women's economic empowerment. The W-GDP Initiative seeks to empower 50 million women economically by 2025 through programs and partnerships. Established by President Donald J. Trump on February 7, 2019, through National Security Presidential Memorandum-16 (NSPM-16), the Initiative focuses on three Pillars for increasing women's full and free participation in the economy:

1. **Women Prospering in the Workforce:**

Increasing women's participation in the global labor force and advancement in the workplace by providing women with high-quality education, training, and support, so they can secure and thrive in well-paying jobs in their local economies;

2. **Women Succeeding as Entrepreneurs:**

Increasing the access of women entrepreneurs and business-owners to financing, market opportunities, and training to establish and grow their businesses; and

3. **Women Enabled in the Economy:** Promoting an enabling environment that increases women's economic empowerment by reducing barriers and enhancing protections in policies, laws, regulations, and practices (public and private) to facilitate women's participation in the economy.

The Initiative promotes the integration of programming in women's economic empowerment across development portfolios of the participating Federal Departments and Agencies, while allowing for a wide range of interlinked and targeted interventions.

NSPM-16 also established the W-GDP Fund, managed by USAID, which is geared toward partnerships with the private sector and non-governmental organizations (NGOs), as well as faith-based and local groups, to advance the three pillars of the W-GDP Initiative.

In December 2019, a new [Presidential Memorandum on W-GDP's Pillar 3](#) directed Departments and Agencies to prioritize action to address the legal and societal barriers to women's economic empowerment. These barriers include women's ability to access institutions, travel freely, own and manage property, build credit, and work in the same jobs and sectors as men.

In its first year, the W-GDP Initiative has reached 12 million women; nearly nine million of those women were direct beneficiaries of USAID's programming and partnerships.

position. Women’s agency to use economic resources effectively depends largely on the protection of women’s rights—to own, inherit, and control land and property, to live free of violence, and to be socially empowered to make financial decisions for herself and/or her family. Reducing policy and regulatory barriers and discriminatory norms to increase women’s participation in the economy at the national, subnational, and local levels is the longer-term goal, and will require bottom up, demand-driven reform.

Links to Youth, Employment, and Urbanization

More than 90 percent of global poverty is concentrated in countries with predominantly young populations, where the number of working-age people is expanding rapidly.^{xxviii} By 2030, 60 percent of the world’s population will live in urban areas, up from 30 percent in 1950, partly because so many people will move urban areas in search of employment.

The economies of most developing countries struggle to create enough employment opportunities to absorb new entrants into the workforce. These circumstances force many people to move into self-employment in the informal sector, which can result in resentment, social instability, and lost productivity. About two-thirds of the labor force in developing economies is informal, and this share has remained remarkably stable.¹⁴⁰ On average, an informal enterprise in a developing economy is only one-quarter as productive as the average firm in the formal sector, and this lower productivity translates directly into lower wages and the absence of health insurance and social protection.¹⁴¹

Young people’s full participation in development efforts can contribute to more-sustainable investments to end cycles of poverty.

USAID recognizes that [youth impact](#) is vital to development. Young people’s full participation in development efforts can contribute to more-sustainable investments to end cycles of poverty. By working in partnership with the private sector, national governments, and civil society, USAID’s youth programming can continue to build the capacity of the next generation of leaders. Given that youth increasingly are migrating to urban areas, USAID’s focus on [urbanization](#) will apply systems-based, holistic approaches to development that integrate food security, health, education, climate adaptation, and resilience programming in a context of economic growth.

Ultimately, wages from employment are an essential link to foster self-reliance. USAID will continue to use [evidence and learning to advance effective approaches to the design and management of our investments](#) to support better employment outcomes.^{xxix} For examples, see Box 13 on page 51.

xxviii. By 2030, the number of youth in Africa will have increased by 42 percent from 2015 and will more than double by 2055. While Asia will see its youth population begin to shrink, it will remain home to more youth than any other region until around 2080 (World Bank, “Global Monitoring Report 2015/2016: Development Goals in an Era of Demographic Change,” Washington, D.C.: World Bank Group, 2016).

xxix. Because modern, private firms tend to produce the most formal, highest-paying jobs, the most effective strategy is to focus on growing employment in this sector. Nevertheless, the reality is that until a country reaches upper-income status, most of its labor force will not obtain a formal wage job. Support for microenterprises remains necessary and is important for development—not only for reducing poverty and increasing resilience, but also for strengthening markets.

Links to Our U.S. Government Colleagues

As the lead U.S. Government development Agency, USAID uses the technical expertise of interagency U.S. Government colleagues and is the key player in many whole-of-Government initiatives that expand the impact of development assistance, such as with the G-20 Development Working Group, Prosper Africa, Power Africa, and the Global Food Security Strategy to name just a few. USAID will continue to enhance collaboration with the U.S. Departments of State, Commerce, Defense, the Treasury; and other U.S. Government Departments and Agencies involved in providing development assistance and promoting trade and investment in developing countries. The Agency supports the work of the Millennium Challenge Corporation (MCC) to improve the policy indicators that MCC uses to determine eligibility for its assistance programs and coordinates investments to ensure complementarity between our work. USAID also will work to improve the flow of deals for the DFC, mainly by continuing to support improving investment climates and supplying the missing pieces to reduce risks that can make potential deals happen.

Links to Civil Society

USAID forms direct relationships with a broad set of organizations to ensure that our economic interventions draw from, and ultimately address, local constraints and meet the needs specific to local conditions. Our engagement includes faith-based, non-profit, business, and other local voices to improve the enabling conditions for growth, recognizing that reform works best when it is driven from the bottom up by local people. Partnerships with professional associations, chambers of commerce, and exclusive membership groups are potentially key to sustainable economic growth and promote democratic participation. USAID will continue to support legal and regulatory frameworks that provide an enabling environment for civil-society organizations, democratic labor organizations, and independent media.

Links to Other Donors

USAID directly supports and complements the work of multilateral and other bilateral donors to promote scalable approaches that “crowd in” private investment by using foreign assistance as a catalyst. For example, while USAID funds little infrastructure construction directly, we can facilitate multilateral lending programs by offering needed technical assistance.

Box 13: Employment and Entrepreneur Support

USAID helps develop public-private partnerships that test new strategies to support businesses—often led by youth—to overcome barriers to growth and often to create jobs. USAID’s Partnering to Accelerate Entrepreneurship Initiative catalyzes private-sector investment for early-stage enterprises and has worked with more than 40 business

incubators and accelerators and seed-stage impact investors. Such partnerships, like the joint effort with Village Capital, have spurred \$150 million in private-sector investment in support of more than 800 small and growing businesses,¹⁴² which created 2,530 jobs.¹⁴³



USAID's resilience programs in the Sahel are helping pastoralists to diversify their livelihoods so that they are not solely reliant on the land and are better prepared to cope with dry seasons. Sahra Osman Ibrahim received a loan to open up a shop through the USAID-supported Somali Microfinance Share Company. USAID/ETHIOPIA

9. Conclusion

Since our previous Economic Growth Strategy, “Securing the Future,” first published in 2008, USAID’s thought leadership has supported unprecedented growth in income, development gains, and reductions in poverty within our partner countries. While these achievements are cause for celebration, we know our work is not done and recognize that this progress has been uneven across regions and countries, within communities, and even within families. Relatively small investments in development assistance can accelerate the economic growth process and prevent development reversals that push millions back into extreme poverty. This Economic Growth Policy will provide the Agency with a renewed vision to enhance our partner countries’ capacities to achieve inclusive, sustained, and resilient economic growth, which is critical for building on these gains.

USAID’s enterprise-driven development approach emphasizes competitive market economies founded on democratic principles and effective, citizen-responsive governance. Our diverse partnerships will help ensure that local actors lead their nations’ own development. Economic analysis will help our partners identify and target specific market and governance failures that are preventing them from taking advantage of opportunities, which will result in greater impact and cost-effectiveness from our programs.

Economic growth is critical for governments, civil society, and the private sector in our countries to plan, finance, and implement solutions to solve their own development challenges, ultimately to advance their Journeys to Self-Reliance. It also plays an important role in creating regional and global security. Prosperous states are stronger security and trading partners able to share the burden of confronting common threats. Growing economies with more prosperous citizens demand more American goods and services and offer new investment opportunities for U.S. companies overseas. USAID’s programs can, and must, redound to the benefit of American companies and consumers, by opening markets, promoting U.S. standards, and increasing two-way trade.

While new development challenges will continue to emerge, by adhering to the principles outlined in this document, USAID’s field Missions will be able to meet these challenges better, through targeted and innovative solutions that enhance our impact. With increased commitment to economic-growth programming as a mutually beneficial investment, we advance USAID’s vision for a free, peaceful, and prosperous world.

Annex I: Best Practices for Inclusive, Sustained, and Resilient Growth

To help achieve inclusive, sustained, and resilient growth in our partner countries, the U.S. Agency for International Development (USAID) will do the following:

- *Support well-functioning market systems* by identifying and helping correct market failures to increase firm-level productivity;
- *Strengthen economic governance* by identifying and helping improve policies, institutions, and public goods to boost incentives and competition;
- *Bolster the competitiveness of American companies*; open markets for U.S. firms goods, and services; increase two-way trade between the United States and key geographies; promote the adoption of U.S. standards; and strengthen the capacity of governments to comply with their international trade obligations; and
- *Enhance access to productive opportunities* to improve the inclusivity, sustainability, and resilience of growth for low-income people and socially disadvantaged groups, including women; youth; persons with disabilities; lesbian, gay, bisexual, transgender, and intersex (LGBTI) persons; Indigenous Peoples; and ethnic and religious minorities.

When binding market and governance failures have been addressed, the private sector can lead the economic growth process and reduce poverty. USAID provides sector-specific support in the following areas to help unleash this potential.

A. Supporting Well-Functioning Market Systems

I. Championing Private Enterprises

The private sector creates nine out of ten jobs in the developing world and provides the critical pathway to self-reliance.¹⁴⁴ Yet, [based on evidence](#), only a small number of transformational small and medium-sized (SMEs) grow rapidly and gain the ability to drive

employment and economic growth.¹⁴⁵ Firm-level productivity varies greatly, and better managed firms are generally more productive, grow faster, and are less likely to shut down.¹⁴⁶ In the countries in which USAID works, enterprises face a number of challenges as they seek to grow, including the absence of business know-how, access to finance and high-quality business-advisory services, and enabling conditions (which might actually forestall uncompetitive firms from exiting the market—the process of “creative destruction” through which economies advance).

The private sector and non-governmental organizations (NGOs) in developing countries often have game-changing ideas but lack the resources to overcome the systemic constraints that prevent them from pursuing and implementing those ideas. In some circumstances, [innovative grant competitions](#) can untap this potential and introduce local firms to best practices, technology, and innovations that enhance firm-level productivity and increase sales, employment, backward linkages with suppliers, and overall market efficiency and competition.¹⁴⁷

2. Unlocking Private Capital

Private capital now accounts for about 90 percent of financial flows to developing countries, while foreign assistance has declined by almost half as a share of developing-country Gross Domestic Product (GDP) since 2006.¹⁴⁸ Perhaps more important, local capital pools in the developing world have burgeoned over the past 20 years. As a result, most of our partner countries have adequate internal capital to finance their own needs for capital investment—if they can pool and allocate that capital effectively.

High transaction costs and risk still constrain the allocation and use of this capital. Underdeveloped financial infrastructure and unfavorable enabling environments drive up costs and increase the risk premium. The higher rates of return required in these circumstances deter capital investment.

Access to equity and other non-debt instruments is largely absent in many developing countries, which constrain entrepreneurs from launching enterprises and high-potential SMEs from financing rapid growth. Even when these financing instruments are available, constraints on the demand side limit the number of projects that are seeking financing. Limited business know-how and the lack of high-quality business-advisory services means that fewer “bankable” projects are available for financing. The result is the creation of fewer jobs, and lower economic growth.

The rapid growth of private capital in emerging economies, global leadership of U.S. capital markets, and new business models and technology for financing have created unprecedented opportunities for USAID to help [mobilize private finance for development](#) and increase the number of bankable projects in the developing world.¹⁴⁹ USAID can provide transaction support to connect investors to opportunities, promote policy and regulatory reforms, and work with multilateral development banks and government investment-promotion agencies. Through the judicious use of blended capital (the use of concessional funds to attract commercial funds for investment), USAID is catalyzing immense amounts of private capital for development.

USAID will work with the new U.S. International Development Finance Corporation (DFC) to identify a pipeline of financing opportunities in countries in which we work, while continuing to advance ecosystems in which financial markets can operate freely and efficiently. These activities will increase capital investment in those countries, which is critical to achieving self-reliance.

USAID will continue to fund Investment-Mobilization Platforms and other wholesale approaches to catalyze financing for Mission and U.S. Government priorities. We will continue to focus on strategies for “crowding in” transactions that advance development, and do so in ways that maximize value for money, ensure additionality, minimize market distortion, and build the capacity of the financial-market ecosystem in countries where we operate. These efforts may include [financing business incubators and accelerators](#) that provide essential technical assistance to start-up and early-stage enterprises.¹⁵⁰

Evidence consistently shows that trade reforms that significantly reduce import barriers have a positive impact on economic growth.

3. Building Trade Capacity

As the [2019 U.S. Trade Policy Agenda](#) reiterates, “International trade can play a major role in the promotion of economic growth and the alleviation of global poverty.”¹⁵¹ Evidence consistently shows that trade reforms that significantly reduce import barriers have a positive impact on economic growth on average.¹⁵² International trade can increase efficiency through competition and economies of scale, and participation in international markets helps developing-country firms gain access to improved technologies, reach more-profitable markets, and create better-paying formal-sector jobs.

USAID’s trade capacity-building assistance usually involves partnerships with other U.S. Government entities, international organizations, and private-sector stakeholders. Trade-facilitation and capacity-building are most effective when done through a [sequential planning strategy](#) that consists of (1) increasing the political will and knowledge of better and more-transparent regulatory practices; (2) procedural simplification; (3) compliance management; and, (4) interagency cooperation and coordination.¹⁵³ Trade agreements, trade-preference programs, and purchaser-sourcing standards all require compliance with labor and environmental requirements that USAID is well-positioned to support, and the Agency’s programs should assist governments to comply with their international trade obligations.

Private-sector engagement is essential to increase market access for local SMEs by linking them to new buyers and increasing their capacities to meet product standards and manage growing demand. Sound public financial management is critically important for trade, because reductions in tariffs and customs duties typically

USAID supports small and medium-sized enterprises to grow and improve livelihoods. USAID/PAKISTAN



Box 14: USAID Strengthens Policies, Institutions, and Public Goods to Increase Economic Growth

Supporting domestic-resource mobilization. Between 2011 and 2017, USAID assisted the Government of El Salvador to modernize its tax administration to improve taxpayer services, reduce tax fraud and evasion, and increase public confidence in the tax system. USAID's investment of \$3.6 million yielded an estimated \$230 million in new revenues—an additional \$64 in domestic resources mobilized for every dollar USAID spent.

Reforming the regulatory and commercial legal environment. A USAID-funded program in the United Mexican States greatly expanded access to credit for SMEs by establishing a modern secured lending system incorporating new laws and an

electronic registry for registering non-real estate assets as collateral. Five years later in 2019, México saw more than seven million filings, 68 percent of which included items such as crops, livestock, fish, sewing machines, and vacuums used by small entrepreneurs. Loans carried an average interest rate of 12 percent, far below the average 75-percent interest rate charged by microfinanciers.

Supporting resilience. USAID and other donors established the Global Resilience Partnership.¹⁶⁹ This public-private partnership works with partner governments, regional institutions, and companies to advance the measurement of risk and resilience, learning, and cooperation.

mean that other domestic taxes will have to offset the lost revenue.

B. Strengthening Economic Governance

I. Supporting Domestic-Resource Mobilization and Public Financial Management

Generating the [financial resources necessary to reduce dependency](#) requires adequate public revenues and effective public spending to provide governments with the means to alleviate poverty and deliver public goods and services.¹⁵⁴ Yet developing countries often lack the fiscal space to increase public investments to optimal levels for economic growth and development.

For example, the International Monetary Fund (IMF) estimates that African governments could increase their revenues by three to five percent of GDP, which is more than they receive in foreign assistance, by undertaking relatively simple and low-cost policy changes.¹⁵⁵ As is typical with governance failures, the root causes are either a lack of capacity in fragile states or a lack of commitment (often tax exemptions and subsidies are used to bolster political support).

[Domestic resource mobilization](#) (DRM)¹⁵⁶ generates sufficient public revenues through effective tax policies with a broad base of payers, diversified revenue sources, and high levels of compliance. Well-designed and implemented tax policies reduce compliance burdens and minimize distortions in economic decision-making, while generating sufficient revenue for public investment. Successful DRM strategies can include simplifying the tax system, curbing exemptions, reforming indirect taxes on goods and services (such as excises), and improving the management of compliance risks by strengthening taxpayer segmentation (often beginning with strengthening a Large Taxpayers Office or equivalent).¹⁵⁷ Effective DRM strategies also should combat inequality, ensure investments are pro-poor and inclusive, align with country priorities, and include a range of contextually appropriate approaches.

Sound *public financial-management systems* allocate scarce public-sector resources based on widely accepted priorities, efficiency, and transparency to contribute to improved governance and accountability. Effective public financial-management systems reduce the likelihood of excessive government debt or inflationary spending. Since 2013, debt levels in the Sub-Saharan Africa region have been on the rise; the median debt-to-GDP ratio increased from 31 percent in 2012 to 53 percent in 2017.¹⁵⁸ Economic growth rates tend to be significantly lower for countries with relatively high levels of public debt.¹⁵⁹ Better domestic-revenue mobilization and sound public financial management can help alleviate this problem; these systems are important at the national, sub-national, and local levels.

2. Reforming the Commercial Legal and Regulatory Enabling Environment

Businesses—particularly SMEs—can play a key role in supporting economic growth and job creation.¹⁶⁰ However, their ability to enter the market or formalize and thrive hinges on the efficiency, quality, and enforceability of laws and regulations relevant to starting and operating businesses.¹⁶¹ More specifically, red tape and unpredictable rules are costly in both time and money; they discourage business entry and create more opportunities for corruption and the charging of arbitrary fees, which disfavor entrepreneurship.¹⁶²

Legal/regulatory environments in which rules are efficient, clear, accessible, and backed by access to speedy and effective justice are associated with higher levels of investment, financial development, and long-run economic growth.^{163,164} The rule of law and the specific assurance that the judicial system will enforce property and contract rights are essential to building public trust, incentivizing new investment, and spurring increased economic activity.¹⁶⁵

Although many developing countries have implemented policy and regulatory reforms to improve their performance on international governance benchmarks, red tape continues to hamper business activity in many countries. The reasons are wide-ranging, including, but not limited to, a lack of political will to bolster reform efforts, a shortfall in government institutional and/or technical capacity to design reforms with lasting effects, and poor

Approaches that only end up helping a few firms and a limited number of people with grants and training do not generate the impact that we seek.

implementation of reforms, all of which hinders the achievement of intended results. The potential impact of improving the policy and regulatory environment is large.¹⁶⁶ All levels of government must establish and follow regulations and processes that are efficient, holistically designed, rooted in broad stakeholder consultation, transparent, and that reflect responsible budgeting for public expenditures. An [assessment of ongoing and potential policy reform activities](#) requires a detailed examination of existing laws and regulations, administrative practices, institutional capacity, stakeholders' needs and interests, and the political economy of change.¹⁶⁷

3. Supporting Resilience

Recurring economic or environmental shocks drive many of the same communities into crisis in any given year, and can erase previous gains. Economic diversification is central to reducing volatility. USAID's support for trade capacity-building, the private sector, and finance and investment can play an important role, as can investments in improved management of the natural resources that are essential for economic growth, such as water, land, and forests. USAID also will continue to help partner governments create the fiscal space and capacity to respond to environmental shocks and natural disasters, and to improve preparedness for, and response to these disasters.

At the household level, people are escaping, but then falling back into, poverty in the face of shocks and stresses, underscoring the broader relevance of USAID's resilience programming. [Sources of household-level resilience](#) include the following: (1) social capital (the ability to access community support); (2) financial

inclusion that builds household assets and savings; (3) gender equity within the family; (4) diversification of livelihoods; (5) sustainability of the natural-resource base for development; (6) investments for better adaptation to current weather and future climate risks; (7) enabling access to markets, allowing greater opportunity to sell household goods and services; and, (8) training to help people adopt positive coping strategies to better adapt.¹⁶⁸

Box 14 on page 55 presents specific examples of USAID's efforts to strengthen policies, institutions, and the provision of public goods to increase economic growth.

C. Enhancing Access to Productive Opportunities

I. Microenterprise Development

In developing economies, informal microenterprises account for about one-third of GDP and 70 percent of employment, and more than half of the total is from self-employment.¹⁷⁰ Often self-employment in a micro-enterprise results from a lack of jobs in the formal sector for low-income people, particularly youth.

USAID's assistance will address the systemic constraints that prevent microenterprises from integrating into the formal economy, while helping to create the conditions that reduce the need for self-employment. Although, in some instances, young people have improved their livelihoods after receiving training focused on self-employment opportunities, the surprising result is that simply giving cash grants might work just as well.¹⁷¹ More important, approaches that only end up helping a few firms and a limited number of people with grants and training do not generate the impact that we seek.

[Based on the evidence](#), USAID is shifting its approach to microenterprise development to address multiple challenges simultaneously.¹⁷² USAID's programs should focus geographically, by sector and/or by gender, and build local institutions, such as networks of non-governmental, private-sector, and governmental entities, that can continue to support microenterprises with services after our assistance ends.

2. Increasing Employment

As countries develop, workers shift from informal to formal-sector employment. Only about 20 percent of employment in low-income countries is in the formal sector, compared to 55 percent in middle-income countries.¹⁷³ In emerging markets, SMEs create seven out of ten formal jobs.¹⁷⁴ Growth becomes inclusive mainly through the employment channel; economic development is not only about creating jobs, but about jobs becoming better, safer, higher paying, and more inclusive. Social and legal restrictions that exclude large segments of the population from participation in the labor force entail huge economic costs.^{xxx} USAID will work to improve labor rights and combat the stigma, discrimination, and lack of access that contribute to high unemployment rates for socially marginalized groups, including ethnic and religious minorities, [persons with disabilities](#), [Indigenous Peoples](#), [LGBTI persons](#), and [other vulnerable populations](#).

Demand-side interventions should help to remove systemic policy barriers to productivity, competition, trade, and foreign direct investment, as described above. It is important to remember that supporting the market entry of new firms and market exit of firms with low productivity is often more important for creating jobs than supporting existing firms to grow. For example, we can increase the demand for employment by helping younger businesses start up and compete with existing firms by supporting access to financing and technical assistance better-tailored to their needs. USAID can facilitate the development of supportive networks for start-up enterprises that allow early-stage businesses to realize their potential.

The demand for workers from growing firms drives the creation of most jobs. Yet even when the opportunities for formal-sector employment are relatively good, some segments of the labor force will require training and other support, such as career counseling or mentoring,

to fill open positions. There is growing [evidence on what works and what does not work](#) to increase formal employment in developing countries, and locally specific diagnostics will be key to addressing this challenge.¹⁷⁵

USAID recognizes that developing-country economies will increasingly demand workers with higher levels of skills, including socio-emotional ones. Educational institutions will need to respond to this challenge. Post-school training is an expensive response to weak schools, and it helps only when demand is present and when the training equips jobseekers with the skills they need to fill vacancies that would otherwise go unfilled. Many job-creation and training interventions do not measure job-displacement effects—the substitution of trainees for other workers—and do not create new jobs.¹⁷⁶

3. Access to Financial Services and Financial Inclusion

Financial inclusion involves the ability to access and use a [range of financial services](#)¹⁷⁷ effectively to improve financial well-being and resilience to external shocks. Increased access to finance results in higher employment growth, especially for microenterprises and SMEs.¹⁷⁸ Yet almost 70 percent of SMEs do not use external financing from financial institutions because of the high transaction costs (including collateral requirements) and risk premiums.¹⁷⁹ Financial inclusion contributes most to economic growth when a favorable enabling environment that fosters competition, innovation, and consumer protection.¹⁸⁰ Market failures nevertheless plagues the financial sector, including poor risk-assessment and customer-development capacity on the part of banks, and misperceptions and an inability to meet bank standards on the part of potential savers and borrowers.

Worldwide, 1.7 billion adults still do not have banking services, but two-thirds own a mobile phone. Although bank-account ownership has surged in some developing countries, progress has been slower elsewhere. Access to a savings account—the least costly financial service

xxx. For example, persons with disabilities represent at least 15 percent of any population, or at least one billion people internationally, with 80 percent estimated to live in developing countries (World Health Organization, “World Report on Disability,” Geneva:WHO, 2011). No country will be successful in its Journey to Self-Reliance if large fractions of the population are unable to engage productively in their economy.

to provide and use—is the most-important financial service for low-income individuals and households. Savings accounts foster self-reliance and provide an entry point to other financial services.¹⁸¹ There is a nine percentage-point gap in savings-account ownership between men and women in developing economies, a gap that has remained unchanged since 2011.¹⁸²

USAID will reduce the number of unbanked people globally by supporting the enabling environment and ecosystem of market actors to address barriers to access financial services, particularly through digital technology. Digital finance^{xxxxi} (or, more broadly, “FinTech”) can foster greater efficiency and transparency, resilience, and empowerment across a variety of contexts, whether in agriculture, health, education, energy, or governance. Financial-inclusion programs, whether [FinTech-focused private sector engagement](#)¹⁸³ or [more broadly oriented initiatives](#),¹⁸⁴ should first understand market systems, define market gaps, scope out the key market actors (for example, commercial banks, mobile-network operators, regulatory authorities, consumers), and then select the engagement model that can address the identified constraints.

In designing interventions, programs should account for the systemic issues that often contribute to exclusion. Support for basic financial literacy training through local financial institutions frequently leads to significant improvements in how the poorest people manage their money. Ultimately, programs should aim to demonstrate that even the poorest (the “bottom of the pyramid”) are an important source of growth in the client base for commercial banks and that financial inclusion is profitable.¹⁸⁵

Box 15 summarizes examples of the impacts of USAID-funded initiatives to improve access to productive opportunities through microenterprise development and better access to financial services.

xxxxi Digital finance, or FinTech, refers to financial services enabled by or delivered through digital technologies such as mobile phones or the Internet. These services can be offered by bank or nonbank institutions. Digital finance services include payments, credit, insurance, savings, and financial advisory tools.

Box 15: USAID Increases Access to Productive Opportunities

Microenterprise development. In 2017 alone, USAID’s assistance to develop microenterprises improved the livelihoods of almost five million very poor people worldwide.¹⁸⁶

Access to financial services. Between 1999 and 2018, USAID’s Development Credit Authority, now part of the DFC, helped make \$5.5 billion in bank financing available for businesses in 80

developing countries.¹⁸⁷ In 2019, USAID co-founded the [Alliance for eTrade Development](#),¹⁸⁸ which includes multiple major U.S. businesses, such as Cargill, Etsy, MasterCard, PayPal, and Visa. The Alliance advances the development of markets for digital finance and expands the use of online financial platforms for trade by small businesses in developing countries.

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