

USAID: Strategies for Economic Growth and Financial Sector Development

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USAID's Regional Goals

- Regional Stability,
- Economic Growth and,
- Integration
 - Regionally (EU Accession)
 - Globally

Economic Growth Objectives for the Region

- Privatization reforms and transfer of state ownership
- Legal, Institutional, Monetary and fiscal reforms
- Strengthening of private sector, SME
- Increased Financial Intermediation

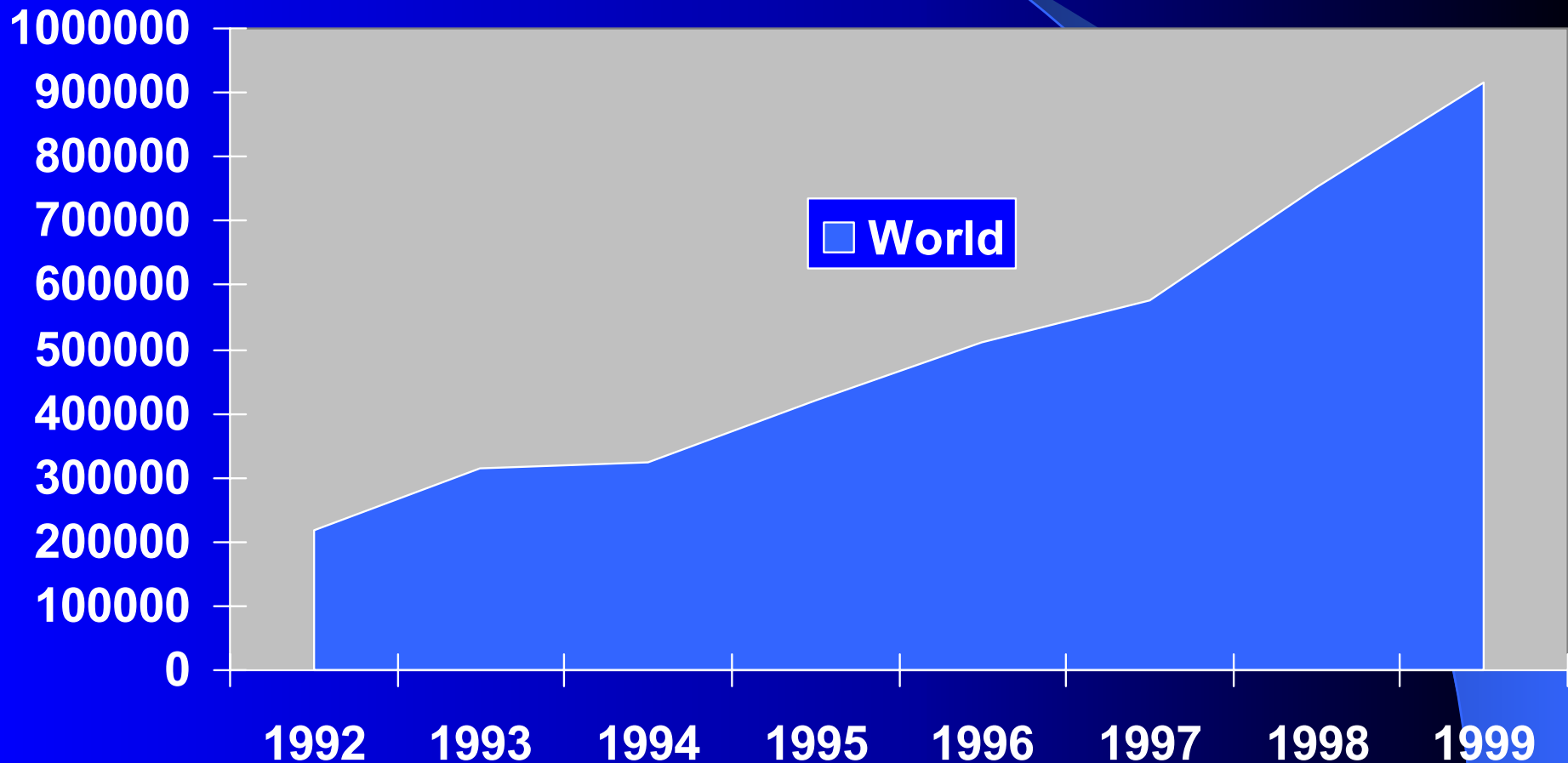
USAID has \$2.3 billion in active resources in the E&E region working toward these objectives.



Financial Sector's Role

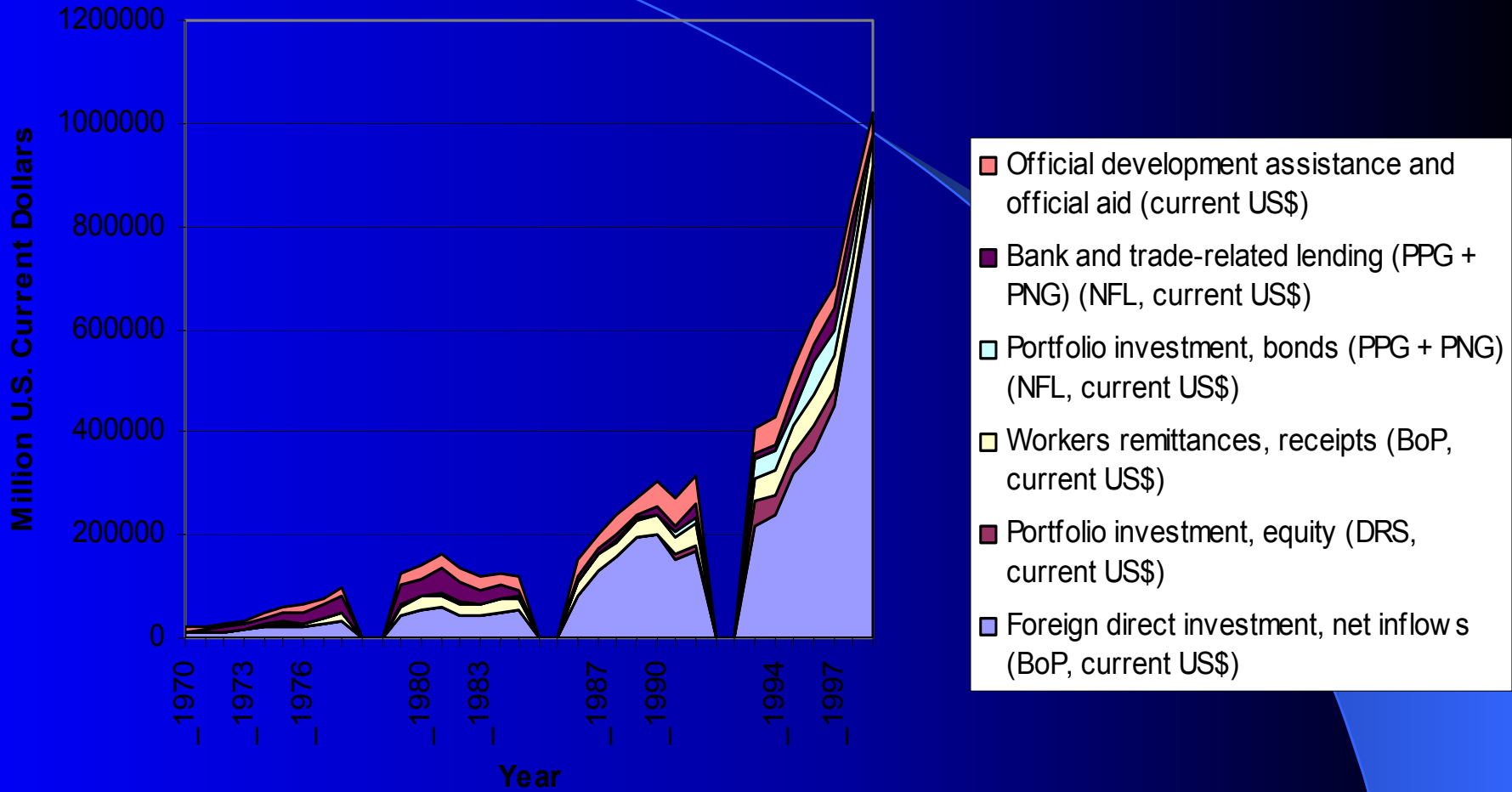
- ***Hernando de Soto:-***”*Capital* is the force that unleashes productivity that generates the wealth of nations.” -*The Mystery of Capital: Why Capitalism Succeeds in the West and Fails Elsewhere*
- ***Jeff Levine:*** Financial Markets lead.....economic growth follows.
- ...but, what propels financial markets...

Private Capital Flows, (millions current U.S.\$)



Source: World Bank, World Development Indicators 2001

Net Capital Flows to Developing Countries by Type of Flow, 1970-99



Strategic Approaches (1)

- Develop Financial Market intermediation
 - Mitigate Credit Risks (DCA)
 - Expand/Deepen Financial Markets (NBFI)
 - Mobilize domestic capital/Attract foreign Capital (HdeSoto formalization, rating institutions)
 - Provide opportunities for intermediation to downstream markets (MI, DCA, IRPA)
 - Strengthen financial institutions (Bank Supervision, regulation)

Approaches (2)

- Standardization, application of best practices, and harmonization of legal processes and systems
- Domestic resource mobilization
- Legal, Institutional and Regulatory Reform for primary and secondary market development

Operational Strategy

- Transactional
- Environment

Transactional Activities (1)

- Credit MECHANISMS

- Development Credit Authority (DCA)

- 50% GUARANTEE Private Bank Loans up to \$250k per loan
- (Kazakhstan first to use DCA for housing, \$1m pilot for mortgage lending and MBB issuance.)
- (Croatia: Post –Conflict reconstruction: DCA leverage \$17.5 million from domestic banks ...also USAID providing \$5m to support Governments voucher scheme for reconstruction.)

Enterprise Funds (10, \$1.3 billion)

- Equity investments/Mortgage Lending Institutions
 - RAEF, BAEF, Baltic Funds, Russia, Poland, Albania

Transactional Activities (2)

- Land Reform

- Croatia: w/IBRD \$25.7m Prop registration and Cadastre pilot.
- Serbia: new TA designed in coordination with GTZ and other donors

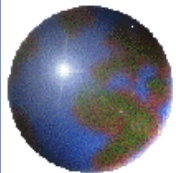
Focus is on efficient, uniform registration procedure in title registration

Environment (1)

- Macroeconomic Reform
 - Monetary
 - Fiscal
 - Financial Sector Policy
 - Bank Supervision/regulation
 - Financial Institution Strengthening

Environment (2)

- Microeconomic Foundations for Growth
 - Commercial Law Reform (contracts)
 - Judicial Reform (enforcement, collateral law,)
 - Competitiveness
 - Business Strategies and Operations
 - Cluster Development



Roadmap to Competitiveness



Meta Level

Political and Social Sustainability

Poverty Reduction

Institutionalized Dialogue

Bi-Partisan Support For Key Priorities

Low Brain Drain

Macro Level

Business Environment

Employment Gains

Macro-Economic

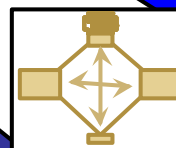
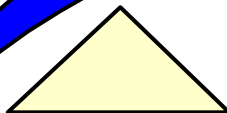
- Low Inflation
- Modest Deficits
- Trade Openness

Micro-Economic

- Good Transport, Energy, Telecom Infrastructure
- Sound Financial System
- Education Adapted
- Strategic Privatization
- Reliable Commercial Law
- Transparency
- Efficient Customs
- Good Labor Relations

Meso Level

Industry Clusters



Micro Level

Private Enterprises

- Productivity Gains
- Export Growth
- Repositioning
- Higher Wages

- Profit (Return on Equity)
- Growth
- Sustainable Positioning in Market

- Clusters Formed
- Industry Strategies
- Initiatives
- Policy Reforms

Where do we go from here?: Some possibilities

- Cluster of financial sector organizations in the region.
- Network development
- Institutionalize public/private sector dialogue mechanisms (national/regional)
- Identify gaps in harmonization of laws, regulation, adjudication, enforcement
- Regional Mortgage fund?
- National/regional credit bureau(s)?
- National/regional MI?