



HIGHLIGHTS OF USAID WORKSHOP:
PROMOTING ECONOMIC GROWTH IN A NEW ERA
JUNE 28 – JULY 2 2004

Overview on Global Trends, Growth Determinants and Aid Effectiveness

The purpose of this session was to highlight key trends in economic growth and to provide some new results on the relationship between aid flows and economic growth in developing and transition countries.

Steve Radelet, a Senior Fellow at the Center for Global Development, presented new research on the linkages between certain socio-economic indicators and rapid economic growth. The research shows that, on average, countries with the highest growth rates have also improved considerably on indicators such as life expectancy, infant mortality and adult literacy. Moreover, while many countries have not yet benefited from rapid economic growth, the empirical evidence refutes popular claims about the “tradeoffs” between economic growth and poverty reduction—that is, growth *is* poverty-reducing, given the right conditions.

The debate on the keys to successful development continues to evolve, but common elements from successful cases of economic growth include the following: political and macroeconomic stability; investments in health and education; a dynamic private sector, with solid investments in agriculture and labor-intensive exports (both manufacturing and services); and strong governance. Several messages resonate from our successes and failures to date. First, there is no “silver bullet” for achieving economic development. Second, countries do not need to fix *all* their problems at once, but should focus on interventions where the greatest opportunities for improvement lie. Third, priorities will change during the course of development, so strategies need to be flexible. And finally, development is much more difficult in some countries than in others, and a successful economic growth strategy needs to account for these differences.

Dr. Radelet’s presentation also touched on the debates and key issues surrounding the role of aid in economic growth. Despite the conventional wisdom that aid “works” only in a good policy environment, new evidence illustrates a strong, positive relationship between aid that is aimed at having an immediate impact on growth (infrastructure investments, agriculture, industry, and balance of payments support) and subsequent growth, regardless of the policy environment. Yet the U.S. foreign assistance program, despite notable successes, is in dire need of reform. Objectives are unclear, mandates are inflexible, coordination across programs is poor, and the budgetary commitment to development assistance falls short of the levels necessary to achieve sound foreign policy goals. USAID is also under considerable pressure with the advent of the Millennium Challenge Account, new international initiatives such as the Global Fund, and with a growing number of U.S. government agencies becoming engaged in international development. Dr. Radelet’s recommendations for overcoming these deficiencies included the following: the eventual establishment of a Cabinet-level department for international development; a new Foreign Assistance Act, which significantly reduces “tied” aid, and an annual Congressionally-approved foreign assistance strategy; simplification and clarification of the foreign assistance budget; improved monitoring and evaluation of development assistance programs to consolidate

lessons learned; and a strategic effort to refocus and reinvigorate USAID to clarify and solidify its role in the U.S. foreign assistance program.

Following Dr. Radelet's presentation, Joe Ryan, Mission Economist for USAID/Egypt, highlighted some of the important themes from the presentation. He noted the emphasis on aid as a financial flow, and cautioned against the tendency to equate aid effectiveness with budgetary commitment. He also applauded the discussion of Washington initiatives in aid programming (e.g., a new foreign assistance strategy, changes to the budget process, increased program/inter-agency coordination, etc.), but pointed to the hazards of completely centralizing aid programming away from the countries in which USAID operates.

During Q&A, Workshop participants pointed to the difficulties of working in "bad" policy environments; to the challenge of making economic growth empower local populations; to the uncertainty of USAID's role vis-à-vis the MCA in implementing economic growth programs; to the general absence of energy development from debates concerning economic growth; and to the need for enhanced coordination not only among U.S. Government agencies, but also internationally and across donors.