**INTRODUCTION TO BRIEFING PAPERS ON**

**USAID'S ECONOMIC GROWTH OBJECTIVE**

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These briefing papers were written in order to bring to a wide readership a better understanding of how promoting economic growth in recipient countries serves the broader aims of the U.S. foreign aid program, and how USAID's activities contribute to the achievement of this goal. The papers are not intended as executive summaries, condensing masses of material into a paragraph or a page. Instead, they try to give readers an insider's view. They try to communicate many of the subtleties and complications that are encountered in the actual implementation of foreign aid programs. They try to share with readers the complex linkages that connect foreign aid programs at one end of the chain to host government policies and actions, and ultimately to the end result of greater economic growth and the many benefits it brings to the affected population. And finally they try to give readers a fuller understanding of the growth process itself.

Briefing Note #1, entitled "Economic Growth Challenge" sets out the reasons why economic growth has been and should continue to be a pillar of our foreign aid programs. Economic growth has been the most important catalyst helping millions of people, all over the world, to escape from poverty. It has enhanced the role of women and fostered individual initiative and energy. In general it has been accompanied by sounder economic policies that have supported advances in education and health, and have furthered competition, innovation and enhanced productivity in the private sector.

Note #1 also points out very early that USAID's activities supporting economic growth have yielded "high returns on the aid dollar". This brings up a point which I have repeatedly emphasized in other contexts. Business people characterize their projects in terms of the rate of return that they generate, and individuals assess their portfolios in this way. These also are the terms in which we should think when we try to evaluate government spending of many types, including foreign aid projects aimed at promoting growth. This last assertion may be obvious to most people, but many still remain who seem to be thinking in other terms when they are assessing the worth of foreign aid. Thus one all too frequently finds intimations that aid has failed if the recipient country's growth rate has not bounced to the 5-7 percent range. Clearly such thoughts are not even remotely based on a "rate of return" framework. An aid project or program amounting to 1% of the recipient country's real income should be judged successful if it raises that level by a tenth of a percent. This would mean a 10% real rate of return on that aid investment. And such a rate of return would meet the rigorous criterion for successful public investment that the World Bank has imposed over the past 50-odd years. To put the matter bluntly, if we invest 1% of (say $1000) of our income, we should be happy if as a consequence our income increases by $100 per year (a tenth of a percent). It would be almost a miracle for an investment of $1000 to end up yielding an annual return of $1000 (100% per year). So when thinking about aid's impact on growth we have to measure the results in relation to the amount invested (by USAID alone, or by USAID plus other contributors).

In assessing the results of foreign aid programs, particularly those aimed at promoting growth, it is only very rarely that a program's individual contribution to growth can be isolated.

This might work for a project introducing a new crop in a certain region of the country, where the specific costs and returns of the operation can be separately identified and quantified. But much of the time a given project will represent only one of many different forces working to improve economic performance, so that we have to resort to indirect measures in order to estimate the project's specific contribution. And even here we often encounter deficiencies in the statistical data we have to work with, limitations of the available statistical techniques, and the very common problem of isolating "our" project's specific contribution. Special problems also arise in the cases of projects of policy reform and institutional capacity building. Here it is quite easy to assess the specific results of the project -- the actual change in policy, the actual institutional change -- but hard to go from these to the project's ultimate impact on the future course of GDP or some other measure of public benefit.

Briefing Note #2 deals with the concept of economic growth. This is not as simple a matter as it may at first appear, because our standard measure of growth -- the increase in real gross domestic project (GDP) -- does not capture all the facets of growth that might be considered relevant. The mere discovery of a mineral deposit may add greatly to the perceived wealth of a nation, but it does not add to its GDP until its reserves are actually extracted. Reductions in infant mortality and increases in the expected lifespan of men and women are other manifestations of increased welfare that are not directly reflected in GDP. And various other types of perceived improvement in welfare -- such as reducing the incidence of poverty or expanding the reach of education -- can in principle take place even in the absence of an improvement in per capita GDP.

Yet when all is said and done, GDP remains as our most reliable single indicator of economic performance. The newly discovered mineral deposit may not add to GDP right now, but it certainly is likely to do so over its productive lifetime. And if it does not do so (as would be the case of the value of the ore that was extracted ended up being less than the economic costs of extracting it), the operation is clearly not worthwhile.

Many studies have also shown that most of the other measures of welfare (reductions in poverty and infant mortality, increased longevity, improved education, nutrition, housing and medical care) are all strongly linked to GDP per capita. Note #2 compares the experiences of Haiti and Chile. It reveals vast differences in welfare over the last half century, mostly generated by the different growth rates of the two countries in the period since World War II. Korea is also cited as an outstanding example of the fruits of economic growth. Many people are not aware of the fact that living standards in Korea were not much different from those of Haiti and Ghana in 1960. Five decades of spectacular growth in GDP per capita have been the main force that transformed Korea into a modern economy.

It is difficult to expound on the merits of GDP as a measure of growth without seeming to anoint it with an aura of perfection. One should always bear in mind that no single measure will ever capture all the richness of a complex phenomenon or process. So when we measure and observe GDP growth we should also pause to reflect on the whole process of growth and on the way societies tend to evolve as growth takes place. Economic growth tends to free people from drudgery. It provides greater opportunity for cultural and educational pursuits. It generates greater possibilities for people to become involved in the political process, and broadly speaking is associated with more open and democratic political arrangements. In addition, women tend to become more centrally involved in both the productive and the political process in economies enjoying good economic growth.

Institutions are another important element in the story of growth. Schools and universities expand both in number and in quality as economic growth proceeds. The institutions of the financial sector tend to grow more than in proportion to GDP. Almost as a necessity, the quality of a country's police and judicial institutions has to keep pace with its economic development (the economy cannot function well enough to grow rapidly if these institutions cannot provide adequate support). Similarly, the press and other communications media almost necessarily play a larger role as an economy develops.

But the linkages between economic growth and all these associated benefits are not perfect. Authoritarian governments have survived long periods of growth. Indeed, a few of them (e.g., Singapore) have been remarkably successful in fostering it, but where this is true they have not stood in the way of good economic policies and of institutional arrangements (other than some basically political ones) that are supportive of growth.

But one thing should be clear -- the engines of growth are not likely to make everybody happier. By its nature economic growth has losers as well as winners. The biggest driving forces behind the growth process -- innovation and real cost reduction -- work through newer and cheaper methods displacing older and more expensive ones. Those who are tied to the old way of doing things by habit or tradition or even mere location (as with certain agricultural crops and methods) will tend to suffer as their methods of production or even their way of life is rendered obsolete. This can happen even in the most well-ordered and well-functioning growth scenario. But growth can also work to the detriment of people when its fruits are plundered by a rapacious elite. When this occurs it is usually connected to major mineral discoveries whose profits are then captured by a ruling (often military) elite and used for its own private benefit. But please note that it makes no sense to put the blame for this on anybody but the culprits -- it certainly isn't the growth process that is at fault.

Briefing Note #3 focuses on how economic growth typically works to reduce the incidence of poverty and to enhance society's welfare in important dimensions. The worldwide record clearly shows how high levels of poverty are mainly observed in low-income countries, and how these levels tend to fall sharply as such countries advance, even if only to lower-middle-income status. But it is also true that the incidence of poverty is subject to many other influences in addition to per capita income. Yet growth is still the strongest and most pervasive force working to promote the escape from poverty. One often encounters in the public media the idea that with economic growth "the rich get richer and the poor get poorer". There is no plausible evidence to support such a thought. Extensive studies (particularly by David Dollar and Art Kraay) have shown that there is no tendency whatever for the incomes of the poor (the bottom fifth of the population) to fall as overall GDP per capita surges. On average the share in total GDP of this bottom quintile actually tends to increase somewhat in the process of growth, indicating that their incomes typically improve by a greater-than-average percentage as growth proceeds.

In other dimensions of welfare and human development the correlation with income per capita is also extremely strong. Infant mortality falls, people become better educated and live longer and healthier lives. Women shed many traditional burdens and take on positive new responsibilities. Many of these welfare dividends of economic growth also serve, in a sort of virtuous circle, as promoters of still further growth.

Efforts by countries to deal with their poverty problems should in general be applauded, but care should be taken in the choice of policies aimed at this objective. I would call attention to two potential traps -- that of "handout" regimes that develop a passive dependency on the part of the recipients, and that of policies focusing too heavily on incentives to capital. On the first we recall the old proverb that "it is better to teach a man how to fish rather then to give him a fish to eat every day". This proverb carries a strong lesson, but one must recognize that cases do appear in which the immediate alternative to a handout is starvation. Such cases give strong backing to the idea of strictly humanitarian aid. Yet one must always be mindful of the fact that such aid, by sitting in the sidelines with respect to growth promotion, has no natural termination date.

On the second trap I can do no better than recall Brazil's program of investment incentives for the poverty-stricken northeast and Amazon regions of the country. This program was initially aimed at dealing with the chronic problems of low wages, of unemployment and of underemployment in these regions. It mainly operated through the forgiveness of corporation income taxes arising out of private investments approved for execution under the program. The problem was that this incentive was concentrated on the capital factor, and was therefore stronger, the more capital-intensive was the covered investment. It is said that one of the first investments approved under the program was a petrochemical plant in Recife, in which the greater part of the wages bill went to pay chemists, engineers and other technicians brought in from the prosperous Sao Paulo area. After the entire program had been functioning for some 15 years, the sum total of new jobs authorized under its aegis was less than one year's natural increase in the labor force of the affected regions!! This case calls attention to perhaps the greatest maxim of all concerning public policy. Policies are only good when their benefits exceed their costs; hence major (expensive) policies deserve careful analysis and planning in order to ensure this result.

Even though GDP growth is far from being the only force operating to reduce poverty and advance human welfare in a country, the force with which it works in these directions is truly impressive. Note #3 cites the cases of Zambia and Indonesia. Zambia's level of GDP per capita far exceeded Indonesia's in 1970, and Zambia was ahead on the other main welfare indicators as well. But by 2005 Indonesia's GDP per capita had quadrupled while Zambia's had actually fallen, and Indonesia's poverty rate had been brought down to only a quarter of Zambia's. The key difference was the conduct of economic policy in the two countries. Indonesia's was managed by a notable team of technocrats (the "Berkeley Mafia"), well founded in economic fundamentals and strongly supported by USAID and others. In contrast, Zambia's policy departed from the messages of good economic policy in almost every direction, falling prey to a local variant of populist interventionism known as African Humanism. The study notes that this comparison is by no means a one-off event. One could pick any of a number of successful growth performances (China, Botswana, Mauritius, Korea, Chile) and juxtapose it to any one of a number of laggard economies (Haiti, Moldova, Cameroon, Madagascar, South Africa) and come to exactly the same conclusion.

The conclusion of Note #3 is that sound economic policy should be an important pillar of any effort to promote economic and human development. Good policy should pay attention to spreading the reach of education, medical care, and public health measures. These aims can be justified in their own right, but it should be noted that they also contribute positively to a country's economic performance. They therefore are useful complements to more strictly efficiency-oriented objectives such as fiscal reform, improved public investment appraisal, trade liberalization and financial deepening.

Note #4 deals with policy actions that can be taken to promote growth. Here I believe the most important lesson is that policy only rarely affects growth directly. Its influence is indirect and can work through many different channels. I came to this realization by studying the technical details of the growth process. When economists study economic growth they typically (since around 1950) decompose the rate of growth into three main components -- a labor contribution, a capital contribution, and a third one due to what I call "real cost reduction" but which in the literature bears a number of different names -- "technical advance," "improvement in total factor productivity", "the fruits of innovation", etc.

The labor component of the growth rate can in turn be broken down into two main pieces -- additions to the labor force and improvements in its quality. The capital contribution likewise can be split into a part due to the amount of net investment and a second part due to the productivity (rate of return) to be expected from that investment. Real cost reduction explains the remainder of growth -- that is not accounted for by the labor and capital components.

Just by thinking about this decomposition of the growth rate, one can see that it can be applied not only to the growth in a country's overall GDP but also to that of its major sectors (agriculture, manufacturing, services, etc.), to individual industrial classifications whether big (like automobiles or textiles) or small (like ladies' dresses or men's shoes), and even down to the individual enterprise or even the individual product lines of a given firm.

Thinking about the growth decomposition in this way, one quickly recognizes that the place where growth takes place is in the individual enterprise and that: 1) adding to the quantity of labor used by an enterprise, 2) hiring skilled rather than unskilled workers, 3) making decisions to invest so as to increase the capital stock, 4) finding investments of higher productivity, and 5) discovering ways to save costs -- all these things are what the owners of small enterprises and the management teams of large ones are constantly engaged in. Once this is recognized, one's next natural reaction is the realization that there is little direct connection between the policy decisions that are taken in the halls of government and those millions upon millions of separate decisions of hiring, firing, investment and real cost reduction that are taking place in thousands upon thousands of productive entities throughout the economy.

Seeing this, one quickly recognizes that the role of economic policy is indirect -- policy does not make growth, but certainly may and without doubt can influence it in both the negative and the positive direction. Some governments have created a policy environment conducive to a flowering of the forces of growth, while others have produced policies that have led these forces to wither. Note #4 lists (in exhibit 2) a number of policy categories and objectives that usually work to build an environment favorable to growth. Among them are 1) improving and expanding infrastructure, 2) maintaining macroeconomic stability, 3) investing in education and health services, 4) disseminating information on market opportunities and relevant technologies, 5) implementing financial market reforms, 6) reducing barriers to trade, 7) simplifying regulations and bureaucratic procedures, 8) making the tax system and its administration more efficient, 9) creating a legal and institutional setting that keeps corruption under control, 10) maintaining a sustainable budget profile, a competitive exchange rate and a sound banking system, 11) strengthening institutions to protect property rights, enforce contracts and control crime, 12) providing a clear framework of rules and procedures (as against administrative discretion) covering investments and other business operations, 13) respecting human rights, 14) establishing accountable governance and 15) developing effective processes for dispute resolution.

Commenting on this list, I would say first of all that it would be hard to find a serious development economist who would raise objections to it. Yet some would probably want to add emphasis to some points or add a few others. This merely reflects the facts that each item in such a list is really a huge umbrella, covering a wide range of potential policies and government actions. Such a list calls attention to how enormous is the task, and how the job is probably never going to be really completed.

Moreover, a careful scrutiny of the list makes it clear that serious mistakes can be made even as one appears to be following one or another of its maxims. One can build infrastructure projects that are ill-designed and too expensive, so that their benefits are not large enough to justify their costs. And so it goes with other rubrics -- education initiatives, health programs, deregulation moves, etc. can turn out to have very positive results, but they can also turn out to have benefits that are too small to warrant their costs.

What does this tell us? It tells us that the task of providing a good policy framework goes far beyond a list of sensible maxims. Note #4 goes on to emphasize the need for investments to be efficient and competitive, the desirability of a tax system that treats alternative investments even-handedly, and the usefulness of a policy environment which does not discriminate against foreign investment. One could go on almost indefinitely, bringing in more and more detail and concreteness. But the real message is that the maxims are perfectly good and sensible, but they do not themselves provide justification for any specific set of policies or actions. Such actions must be studied individually and carefully before reaching the conclusion that they will contribute to an environment that is supportive of economic growth.

When all the complexities and possibilities of error in economic policymaking are taken into account, it is small wonder that many countries have faltered or stumbled along the way.

This can stem partly simply from a lack of adequate knowledge and expertise or from the absence of a reliable and competent cadre of civil servants. But failure can also stem from the heavy hand of social traditions and norms that resist rationalization and modernization, and from entrenched elites whose power and status is threatened by the openness, transparency, and social mobility that are key elements in a favorable growth environment.

Problems of the types just mentioned create a very useful role for external assistance to developing countries. These problems help to highlight why developing countries do not usually respond well to “one size fits all” recipes for economic policy reform -- even when the standardized policy package is well designed from a technical point of view. The trouble is that such packages usually run afoul of deeply entrenched traditions or fail to enlist the support of key stakeholder groups. The bottom line here is that a good program of foreign aid usually requires a good deal of tailoring-to-measure in order to suit the specific needs and overcome the specific obstacles in a given country. As Note #4 says “taking into account each country’s unique history, culture, economic structure and resources, donors need to study the constraints and opportunities particular to each situation.” Decisions on identification, design, sequencing and measures of reform have to be “country specific”. This is where USAID has special advantages due to its presence on the ground, usually over a long prior history, its direct involvement with the individuals and groups like to be affected by a program of reform, and its relative agility in responding to new challenges and opportunities.

Briefing Note #6 deals with the economic impact of projects, programs or policies. In many cases this boils down to applying the standard procedures of economic cost-benefit analysis, which will be described in more detail below. But the lack of adequate data, the imprecision of our estimates and forecasts, or what is often the near impossibility of attributing a specific flow of benefits to a particular project or program, can make it necessary to resort to less technical, more descriptive language in assessing its worth.

The idea behind economic impact studies, and behind cost-benefit analysis in general, is to try to prevent public funds from being badly allocated or at worst, even just wasted. It is hard to quarrel with this laudable objective, but its execution is far harder than just stating the principle. But before embarking on a survey of the methodology and its challenges, I want to emphasize that, no matter how great are the difficulties of identifying and measuring them, it is a big step forward simply to spend some time and energy trying to think sensibly and rationally about the costs and benefits of a project or program. Technical challenges and difficulties are no excuse for simply routinely approving projects ex ante or for just bypassing the possibility of an evaluation ex post!!

Standard cost-benefit analysis is a branch of applied welfare economics whose roots go back at least to the 18th century. Its underlying principles lie behind the economic arguments favoring competition, free trade and free entry. They also underlie much of what the economics profession has to say about how best to organize a country's tax system. The application of these principles to the evaluation of investment projects has its roots around the 1920s but reached its fuller development starting in the 1950s and 1960s. By now the analytical framework of cost-benefit analysis is well developed, and is regularly applied in the evaluation of public investment projects in an increasing number of countries.

The framework of cost-benefit analysis builds on the construction of two histories -- what the relevant "world" would look like, one "with" the program or project under review, and the other "without" it. Looking forward in an ex ante analysis thus requires a quantification of the stream of costs and benefits, with and without the project, going from the date of the earliest outlays on the project up to the expected termination of its economic life. This is relatively easy to do for a highway improvement or an addition to an electricity grid (where the expected results of our project are compared to meeting the same energy demands at the expected normal alternative cost per kilowatt hour). It is far more difficult to do for a program of trade liberalization or for an agricultural research station. In an ex post review of an existing project, one needs to look backward and try to specify what the relevant piece of the world would have looked like if the project had never been undertaken. Yet more complicated are programs like judicial reform or village social services.

Standard cost-benefit analysis does not even attempt to break down the costs and benefits of a project by source of funds. It rarely makes sense to split up a project's benefits into a part due to USAID's contribution, a part due to funds from other donors, and a part due to the recipient country's own funds used to finance it. It usually makes more sense to assess the overall benefit of the project, and then to arbitrarily distribute this amount in proportion to the contributions coming from the various sources.

Sometimes a project or program will result in a significant increase or reduction in government revenues. In such cases, modern cost-benefit analysis places a percentage premium (on added inflows of cash) and an equivalent percentage penalty (on added outflows). The rationale behind this treatment is based on the fact that getting an extra rupee or peso of tax revenue entails two kinds of costs -- first, the administrative costs of collection and second, the efficiency costs due to the distortions that added taxes typically introduce into the economic system. Such a premium/penalty rate is hard to estimate even for advanced countries, and even more difficult in developing economies. But it is clearly a mistake to proceed on the assumption that these costs do not exist. The immediate "solution" to this problem is to adopt an estimate of "extra economic cost per peso/rupee of extra tax revenue" which is clearly conservative. Most economists who have worked in this area would probably agree that a premium/penalty rate of 10-20 percent would fall in the conservative range. This provides a mechanism for recognizing an economic benefit from projects that by themselves bring an added inflow of cash to the national treasury, and to recognize an economic cost when the project produces an added cash outflow.

It should be clear from what has been said up to now that it would be illusory to think of maintaining a full-blown, state-of-the-art cost-benefit analysis for each and every program or project that USAID finances. Indeed, the cost of such an evaluation could easily exceed total project outlays in the cases of low-budget projects. So full-blown cost-benefit analysis should be done selectively, on projects whose size and characteristics make them suitable for such studies. The remaining projects should not be forgotten, however. They deserve analysis ex ante and scrutiny ex post, applying tests of plausibility and reasonableness such as may be justified by the size and nature of the project.

Briefing Paper #5 is intentionally placed here (after rather than before briefing paper #6) because it examines specific ways in which USAID and selected other organizations have actually applied cost-benefit analysis and other evaluation techniques. The Millennium Challenge Corporation, which is a sort of sister organization to USAID, finances programs designed by the recipient countries themselves. Its motto could well be "helping those who are ready to work hard to help themselves." The programs that MCC helps to finance typically consist of several components, each of which is subjected to an ex ante cost-benefit analysis by MCC. This cost-benefit analysis then forms the basis for follow-up monitoring at various stages of the construction and execution of each program component. The MCC imposes a criterion real rate of return in the neighborhood of 10%, and requires an independent ex post evaluation of each project. In many respects the MCC's procedures come close to fulfilling the dreams of cost-benefit analysts, a result that is bolstered by the fact that most MCC projects are of the types (infrastructure, etc.) that are readily amenable to cost-benefit analysis.

The World Bank regularly conducts both ex ante and ex post economic analysis of projects, but many of them are of types that do not lend themselves to full-blown cost-benefit studies. In such projects the Bank uses a 6-point grading scale, rather than developing detailed quantitative project profiles and calculating a real rate of economic return. The World Bank's Independent Evaluation Group, which conducts the ex post analyses, finds that something like 80% of its cases end up being judged satisfactory. This should be good news for supporters of foreign aid programs generally -- note that a project with a 5% real return (not bad by most investors' standards) would be judged unsatisfactory under the World Bank's traditional 10% standard.

Note #5 is frank in recognizing that USAID's monitoring and evaluation program is less well-developed than those of the MCC and the World Bank. It can surely benefit from more extensive and more rigorous use of economic analysis, both ex ante and ex post. Equally important is the cultivation within USAID of a mindset of continuous hard-headed focus on the likely costs and benefits of new projects and on actual outcomes of older ones.

Briefing Note #7 is titled "Intermediate Results" (IRs). It focuses on how one can use available indicators to get information on the development effectiveness of a project while it is still underway, or when a full-blown cost-benefit analysis is precluded because of its cost or by the nature of the project. Such indicators can provide IRs, which can be thought of as measuring different intermediate steps in the causal chain which connects a project's actions to the ultimate benefits that it is expected to bring about.

Some of the cases mentioned in Note #7 are:

| PROJECT | RESULTS INDICATORS |
| --- | --- |
| • Financial Reform | Increase in World Bank's "Getting Credit" Score |
| • Dairy Sector Technical Support | Percentage of Productivity Increase<br>Increased Supply of Milk |
| • Agricultural Inputs Market Development | # of Dealers and Agents Trained<br>Size of Increase in Crop Output |
| • Streamlining Business Registration | Increased Number, Cost and Speed of Registrations |
| • Strengthening Competition in Telecommunications | Introduction of Voice Over Internet Source<br>Drastic Cuts in Prices of Calls |
| • Securities and Stock Exchange Reform | Increase in Trading<br>Number of New Listings<br>Amount of New Investment Funds Raised Through the Stock Market |
| • Financial Sector Reforms | Increased # of Bank Locations<br>Increase in Volume of Loans |
| • Fiscal Sector Reforms | Improved Compliance<br>Reduced Evasion<br>Savings of Administrative Costs<br>Increased Revenue With Same Tax Rate |

These example demonstrate that even though intermediate results do not tell the whole story, they can be powerful indicators of how worthwhile a given project is likely to be.

Briefing Note #8 deals with the long-term benefits that USAID programs often generate. The note covers cases illustrating five categories of goals: building policy analysis capacity, promoting trade and investment, modernizing the financial sector, improving revenue mobilization and supporting enterprise development.

Korea is an outstanding example of successful economic growth, for which USAID (together with its predecessor ICA) can claim a non-negligible share of the credit. Even if that share were as little as 1 or 2 percent the benefit stream would often be gigantic in relation to U.S. aid disbursements. Korea's GDP today is, in real terms, more than 25 times what it was in 1964. USAID's contribution probably added up to around 1 year's worth of Korea's GDP at that time, including the financing of the bulk of its imports of the period, the provision of technical advice (especially in the early years) and the training of a cadre of policy and technical experts. Long-term effects similar to those in Korea can be found in Indonesia and Thailand and, to a more modest but nonetheless impressive extent, in El Salvador.

In the case of Vietnam, the work of USAID was particularly notable in promoting trade and investment. It set in motion a series of initiatives and reforms that led to Vietnam's accession to the WTO in 2007. In the process the country's investment and exports soared, and brought it into the ranks of "growth champions."

In Kazakhstan, USAID concentrated on a Financial Sector Initiative, which helped build a burgeoning capital market, create a mortgage finance system, and stimulate the development of funded pension plans in both the public and private sectors.

Fiscal Reform has been a major focus of USAID's work in many countries, of which Note #8 selects Jamaica for closer treatment. After a fall of 22% in that country's per capita income over a decade (1973-83), a major effort at policy reform was mounted. USAID provided expert advisors who, working with a local Tax Reform Commission, designed a modernized tax system that scored well in terms both of economic efficiency and of political acceptability. Tax rates were lowered, and the tax base was broadened and greatly simplified. The result was an increase in revenues and a restoration of vigorous economic growth.

A good example of USAID's support for enterprise development is its work with the Ica Farmers Association in Peru, supporting the introduction and expansion of a new crop -- green asparagus. Starting from zero, Peru became the world's leading exporter of this product, beating out even such giant countries as the United States and China. Subsequently USAID has played a major role in spreading the cultivation of other products which ended up opening further new export markets. While one may expect that green asparagus and the other new crops would probably ultimately have reached Peru's farmers even without USAID's help, the evidence is overwhelming that this would have taken a long time and would probably have followed a rocky path. USAID surely played a critical role in bringing about quick acceptance and rapid development of these new lines.

In many parts of the developing world small and medium enterprises have been important wellsprings of economic growth. Note #8 reports on USAID's support of a single Sri Lankan poultry enterprise. Technical assistance given by USAID helped this firm to expand output and its labor force more than fivefold, and to provide a corresponding stimulation to over 2000 surrounding farms which supplied the enterprise with chickens.

Briefing Note #9 deals with programs of support for food and agriculture. It is hard to exaggerate the importance of food availability in first permitting and then sustaining the huge expansion of the world's population and the concomitant rise in human welfare that have occurred in the last two to three centuries. Before that period most Europeans were living on only about 1500 calories per day, and poor health and lack of energy were important impediments to greater production of food and other items. Today there are still parts of the world where conditions are not much better, and some of the world's overall supply of food products has been diverted to nonfood uses (e.g., biofuels). As a result we have witnessed substantial rises in the world prices of the major foodgrains, which have cut into the diets of many of the world's poorest people. International donors have responded by reversing a strong downward trend in food and agriculture assistance.

USAID has long been active in promoting the modernization and diversification of agriculture in developing countries. Some of the biggest hurdles to be overcome consisted (and in a number of places still consist) of ill-designed government interventions in market processes, of artificially low prices (below world markets) for food products and agricultural inputs, and of government monopolies in the storage, export, and sometimes even the distribution of key agricultural crops. In some places farmers have been required to plant basic pulses and grains on land that could have been planted to fruits and vegetables of much higher value.

Note #9 recounts some of USAID's achievements in programs of modernization and rationalization of agricultural production, marketing and trade. Particularly notable success was achieved in Bangladesh. There, largely through programs arranged by the International Food Policy Reserve Institute (IFPRI), USAID supported the abolition of food rationing programs and the development of modern markets, resulting in both increased production efficiency and in large savings for the country's Treasury. In another very successful program, food supplements to households were made contingent on school attendance by the children, thus simultaneously promoting the twin government goals of improved nutrition and enhanced educational attainment within poor families.

In Indonesia USAID played a key role in supporting the advanced training of agricultural specialists, plus the development and strengthening of food policy institutions. In Egypt USAID played a major role in liberalizing feed and rice production and in opening the country's credit, distribution, and agricultural procurement operations. This was followed by reforms in water resource management, in the markets for agricultural inputs, and in institutional development, all of which strengthened the role of the private sector in Egyptian agriculture.

In Guatemala USAID helped to stimulate the adoption of new, labor-intensive horticultural crops, raising farm incomes and greatly expanding non-traditional agricultural exports. Other programs were directed at improving the productivity and incomes of farm families in the poorest regions of the country.

USAID continues to work to promote agricultural productivity, diversification and modernization, aiming at the goals of improved nutrition, agricultural income growth and food security for the recipient country's people.

Briefing Note #10 deals with promoting economic growth in post-conflict situations. Growth helps such countries surmount the low and stagnant income levels and the heavy dependence on extractive industries which tend to fuel new outbreaks of violence. But beyond a possible initial bounce as pre-conflict activities are resumed, most post-conflict economies face many obstacles in creating an economic, legal and institutional environment in which the fundamental forces of growth -- investment, innovation and real cost reductions -- can flourish. Often a certain tension arises in the choice of policies. If major regeneration of employment is to occur right after the end of a conflict, it pretty much has to be done by government. Yet the long-run aim is for the private sector to be the principle generator of new employment and economic growth. It becomes a major challenge to find ways of accomplishing the first objective without imperiling the transition to the second. USAID has helped countries respond to this challenge by supporting first-stage programs that are quite clearly transitory in nature and in aiding the post-conflict recovery of farms and small businesses.

In the macroeconomic area it is important that post-conflict governments get quickly onto a sound policy track. Good budgetary management is a key factor here, which the U.S. has helped to provide with notable success in Bosnia (in modernizing Treasury operations) and Liberia (hands-on tutelage in budgetary practices). Major reforms in tax policy and administration are also often called for. On the expenditure side USAID has been instrumental in introducing a totally new pension system in Iraq (which paid a big dividend by significantly increasing the national rate of saving). It also helped to greatly improve the management of resource earnings in East Timor and Sierra Leone.

Monetary management, exchange rate policy, and financial sector development obviously pose critical challenges for governments generally, but especially so in post-conflict situations where countries can all too easily fall into the trap of trying to keep the public sector working and striving to stimulate the economy, simply by running huge budget deficits financed by printing money. The tasks of giving outside assistance here tends to be shared by many entities, of which the IMF, the World Bank, the U.S. Treasury and USAID, are among the leaders. Among USAID's important contributions have been helping to establish a new national currency and strengthening the technical capacity of the central bank in Afghanistan, assisting in creating the central bank in Kosovo and supplying training for its staff, and collaborating in the establishment of a nationwide credit system in Bosnia.

Efforts to promote private development face special problems in post-conflict situations, but USAID has often found ways to overcome them. In Iraq a web of small business development centers was created, in Afghanistan a series of financial services outlets processed nearly a quarter of a million loans; in East Timor a coffee cooperative supported by USAID has grown to become the country's larges coffee exporter.

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I hope this introduction gives readers a sense of the richness of the menu presented in the ten briefing papers. Promoting economic development is an enormously complex task, full of obstacles and pitfalls, yet presenting great challenges for all who are involved. To make progress toward this goal one cannot rely on romantic shibboleths; instead one must put one's mind and hands to work on one obdurate real-world problem after another, seeking always to find paths whose benefits outweigh their costs. This is the world that faces all who are dedicated to promoting growth and fighting poverty in developing countries. And obviously this is the world in which USAID lives and works. Readers will enrich their understanding of this world and deepen their appreciation of USAID's role within it, as they absorb the messages contained in these briefing notes.