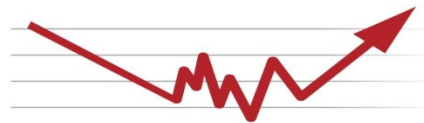


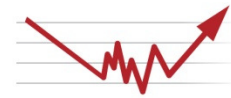
SGE/NEC Lunch Presentation
May 19, 2011

Programming for Growth: The Economic Impact of Foreign Aid



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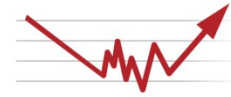
Overview



- Focus on programming ***“for growth”***
- Controversy on aid effectiveness
- Measuring effectiveness
- Evidence from USAID’s EG programs
- Policy implications



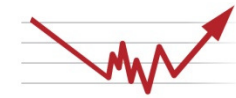
Programming for Growth



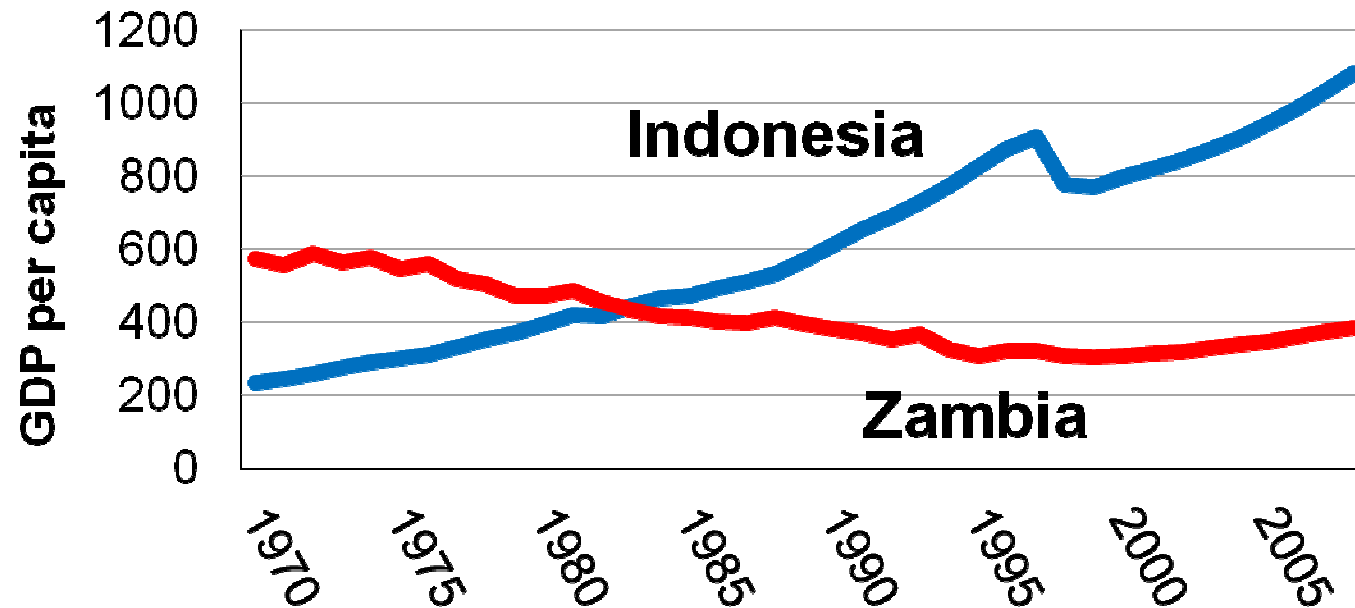
- Growth as a goal of U.S. foreign assistance policy
 - From Marshall Plan to 2010 Presidential Policy Directive on Global Development
 - G20: Seoul Development Consensus
- Growth as a central engine for poverty reduction
- Growth as a foundation for *sustainable* gains in health, education, food security, opportunity, choice
- Growth as an instrument to reduce conflict risk
- And yet, lack of constituency for EG programs



Divergent growth—Indonesia and Zambia



GDP per capita in Zambia and Indonesia
1970 - 2008 (constant 2000 US\$)

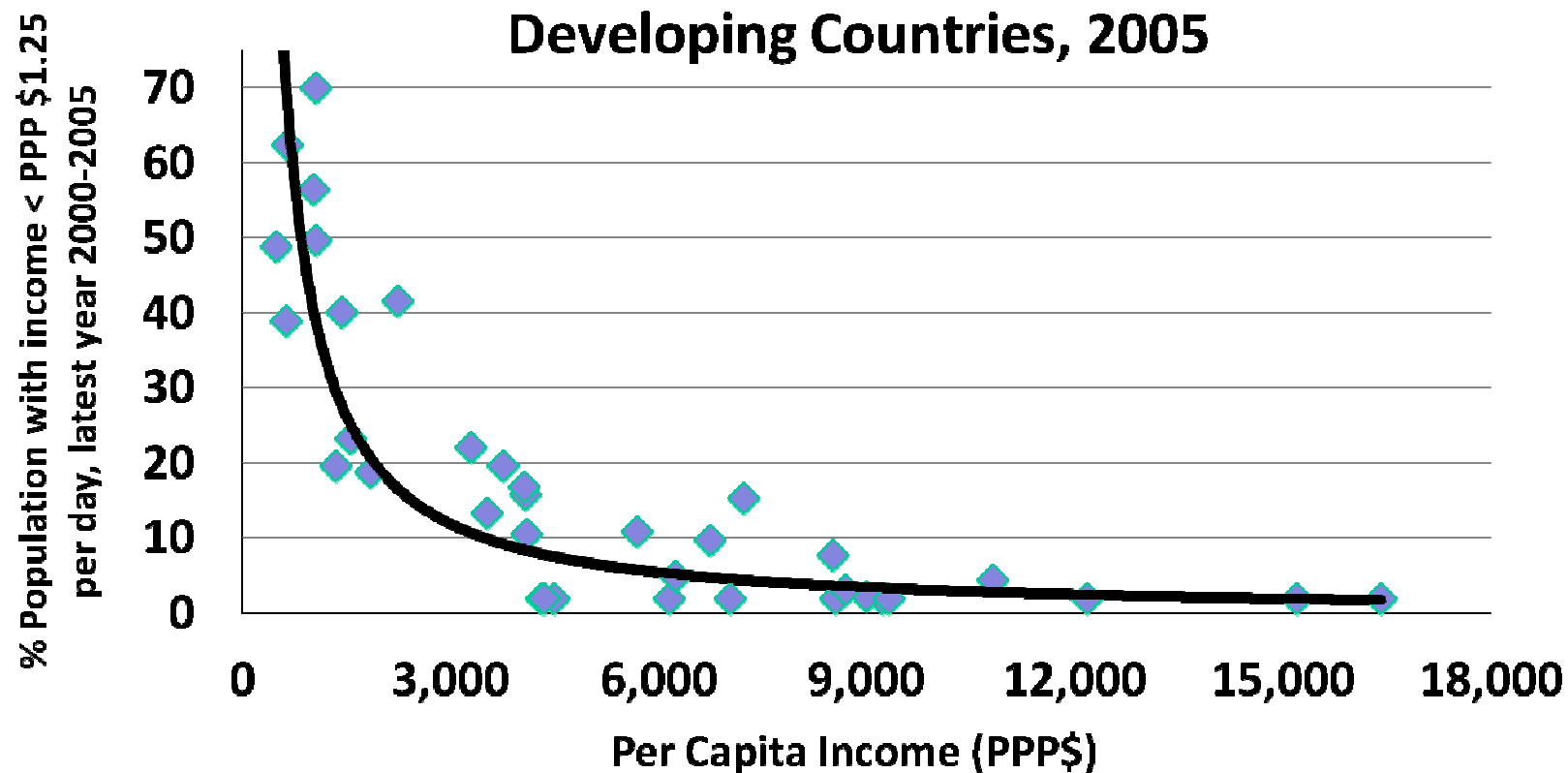


Source: World Development Indicators. Income is measured in terms of Gross Domestic

Higher income, less poverty



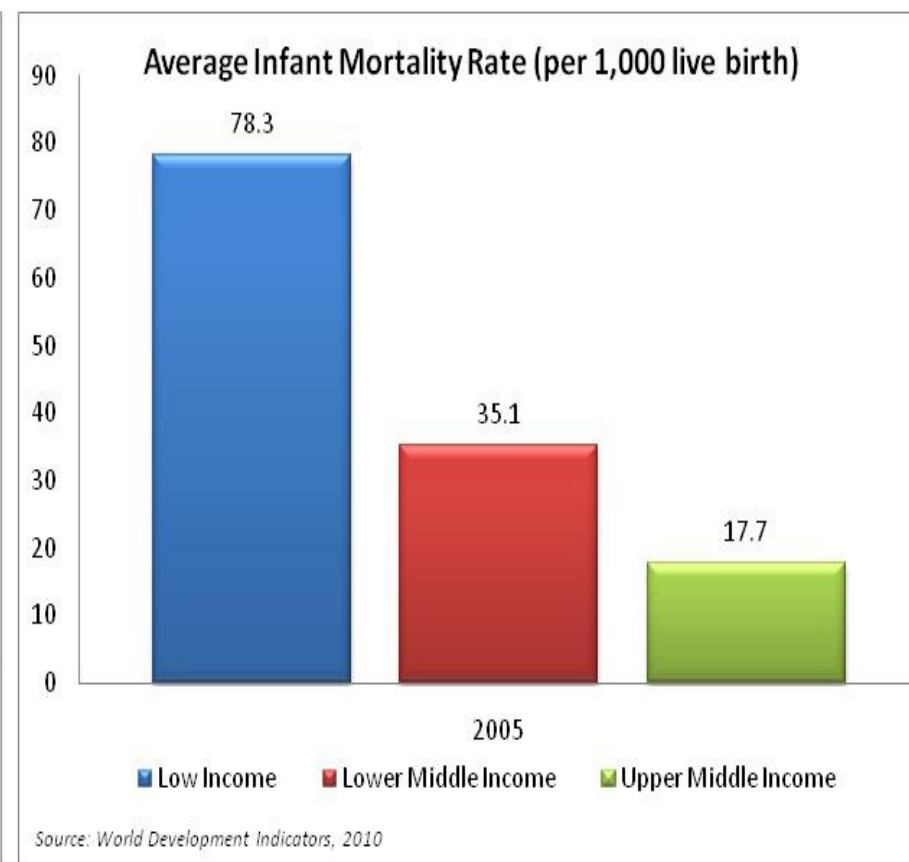
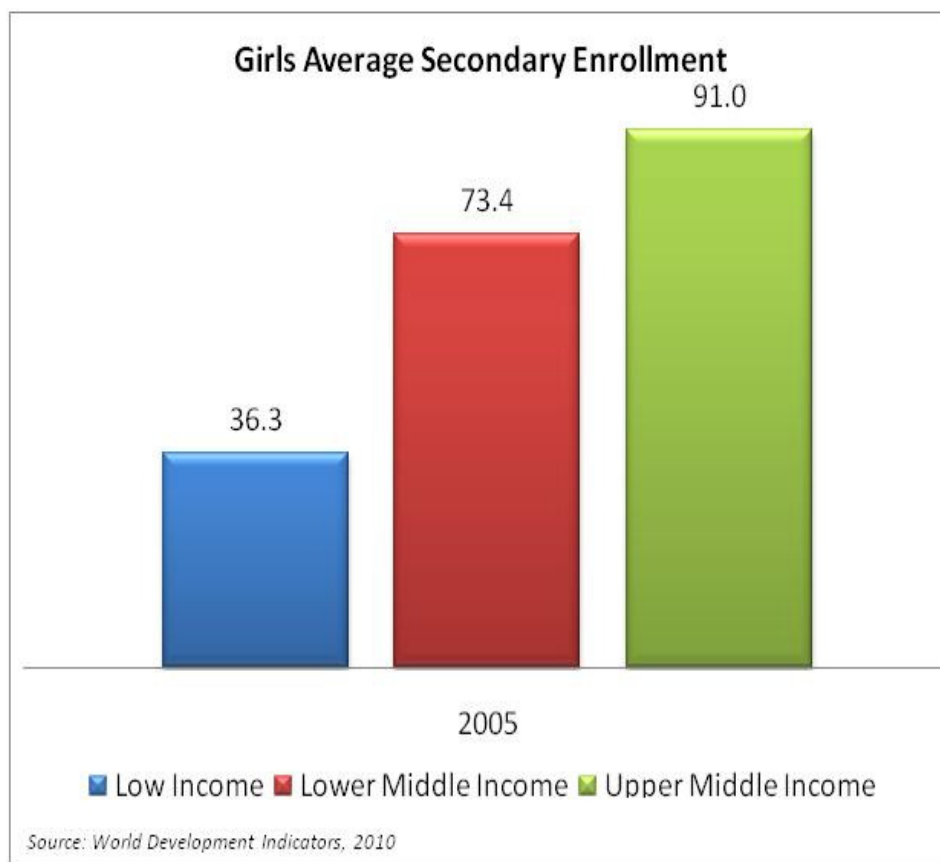
Poverty and Per Capita Income in Developing Countries, 2005



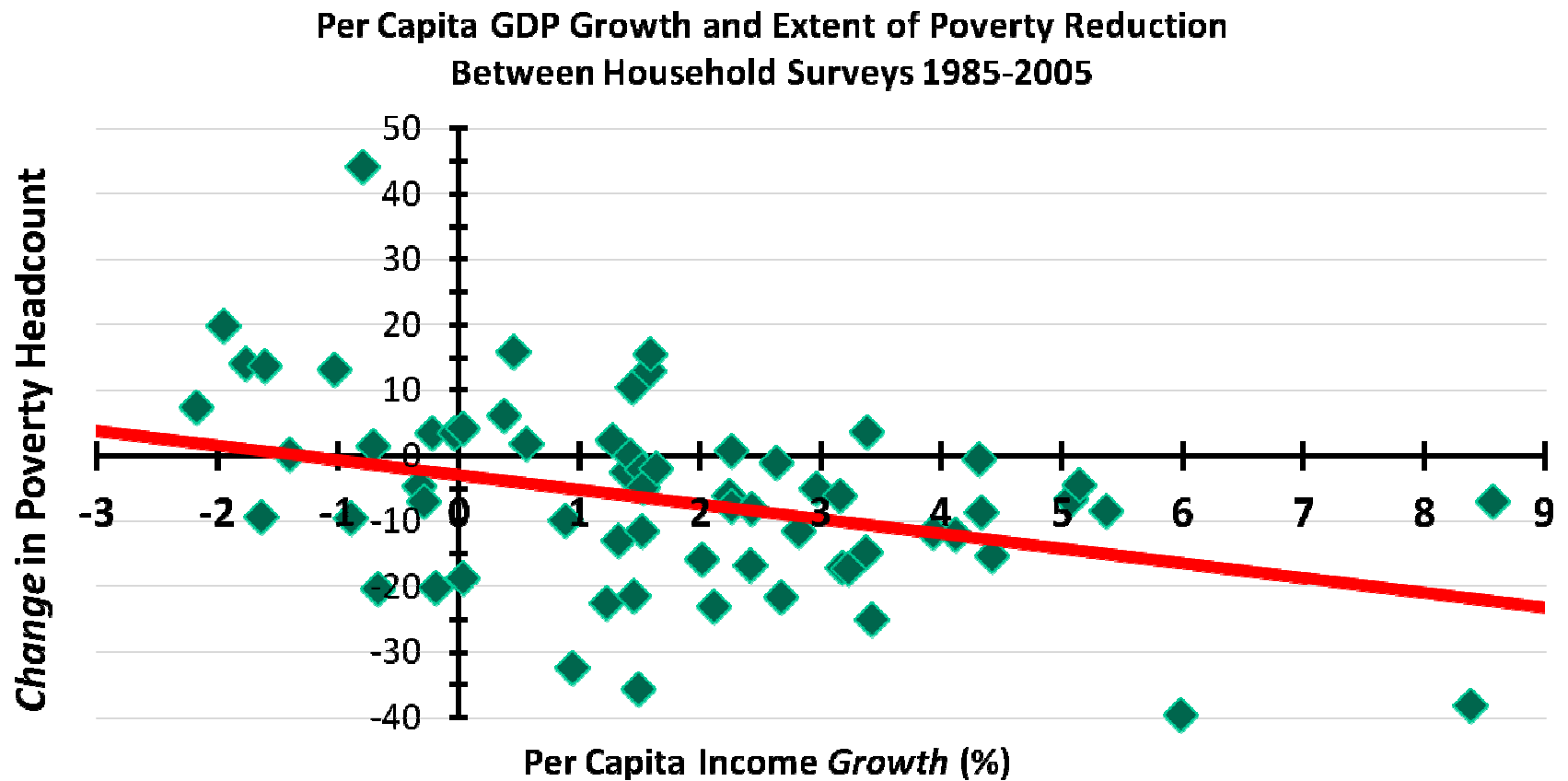
Source: World Development Indicators, 2010 and author's calculations



Non-income measures



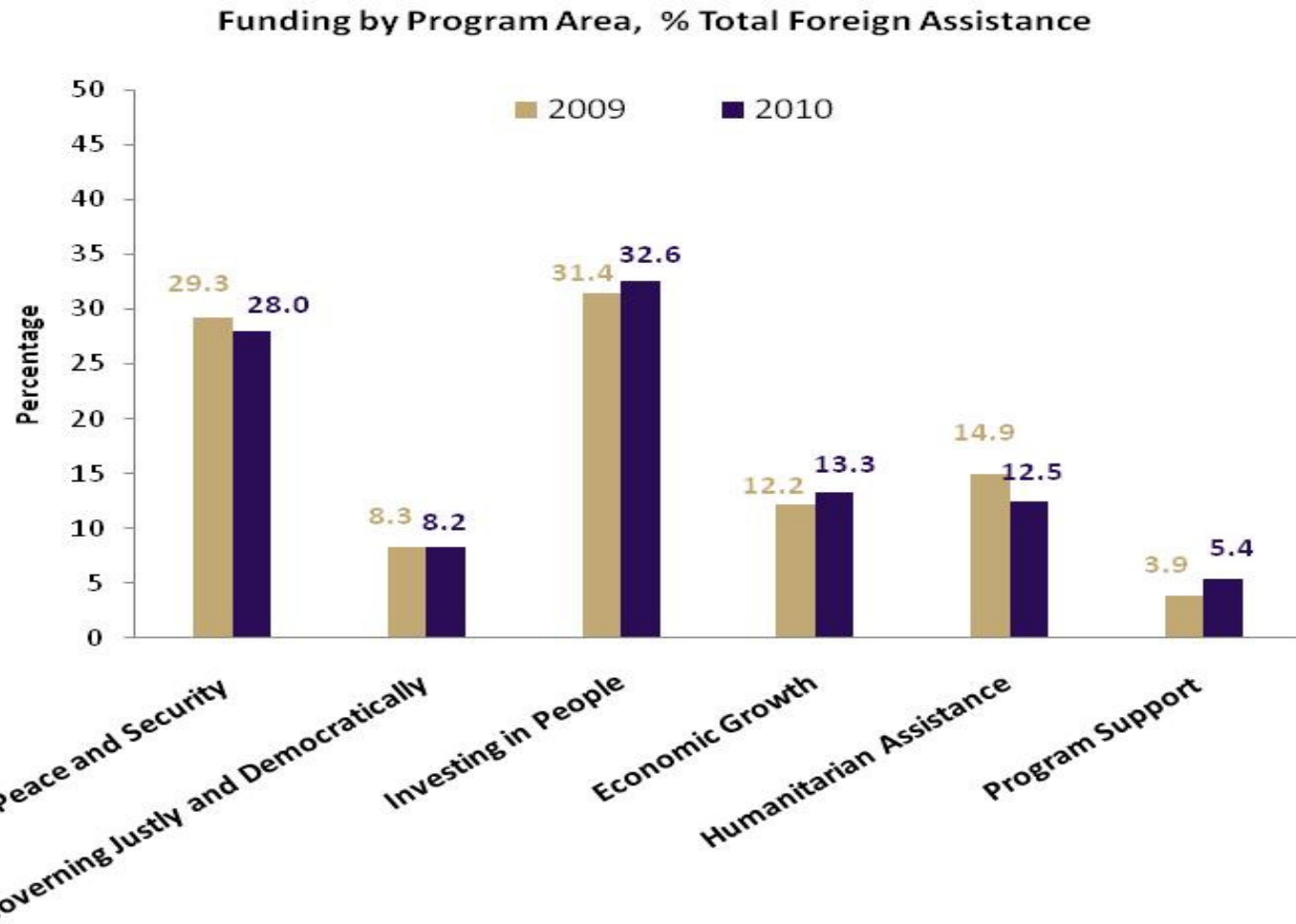
Faster Growth, Faster Poverty Reduction



Source: World Development Indicators, 2010 and author's estimates.

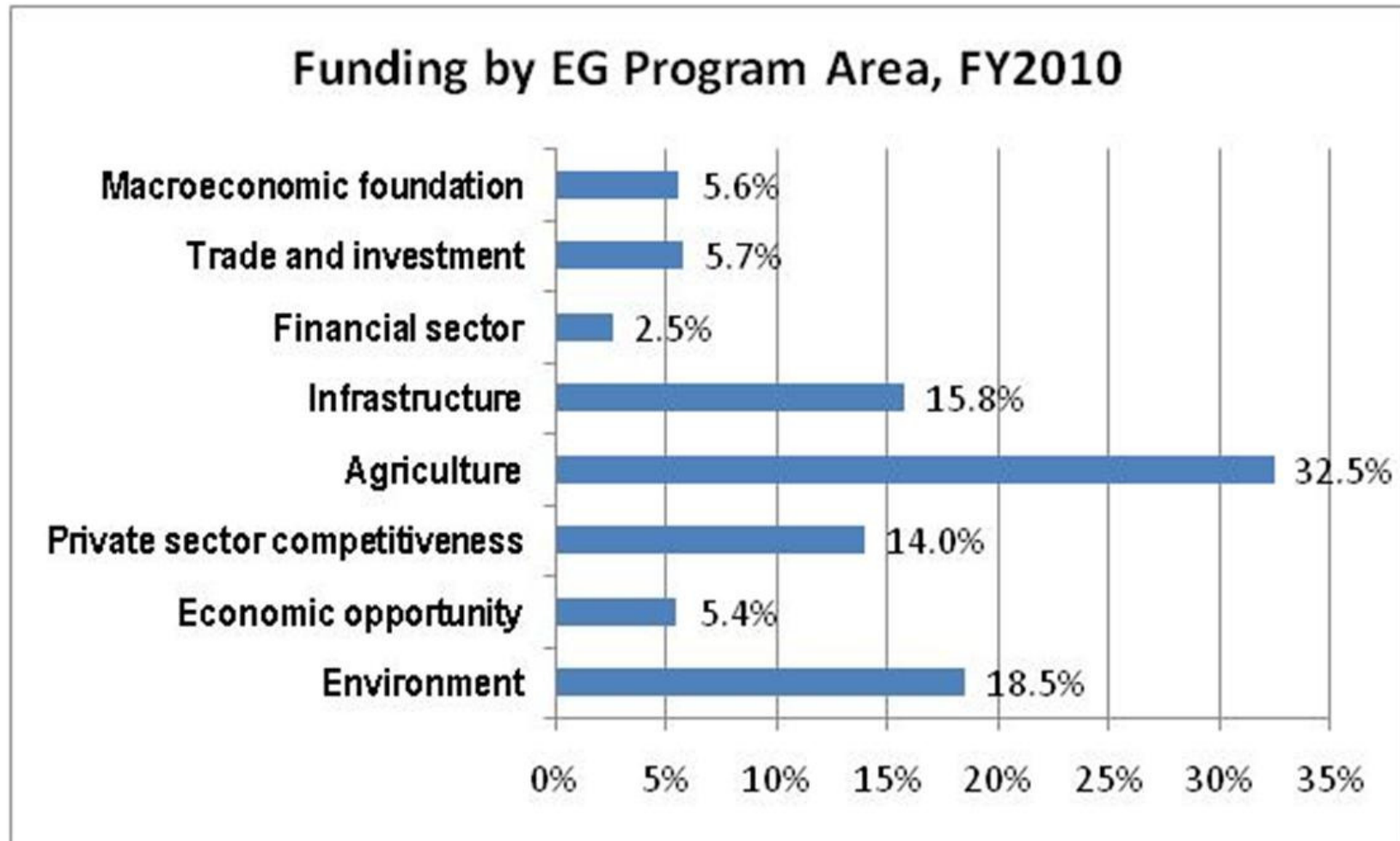


Funding for EG Programs

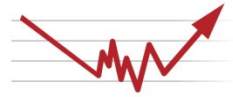


Source: FY 2009 Foreign Operations Performance Report & FY2011 Performance Plan

What are “EG” programs?



Money down a rat hole?



- Decades of controversy
 - Peter Bauer, Jesse Helms ... Dambisa Moyo
 - William Easterly vs. Jeffrey Sachs
 - “Randomista” revolution: Esther Duflo, Abhijit Banerjee
 - Debate on income growth as metric for well being
 - Public opinion on aid
- Decades of inclusive econometric analysis
 - Absence of robust findings
 - Causality problems
 - Measurement of “aid”
 - $H_0 : \partial gY / \partial (A/Y) = 0?$ Or perhaps 0.1??



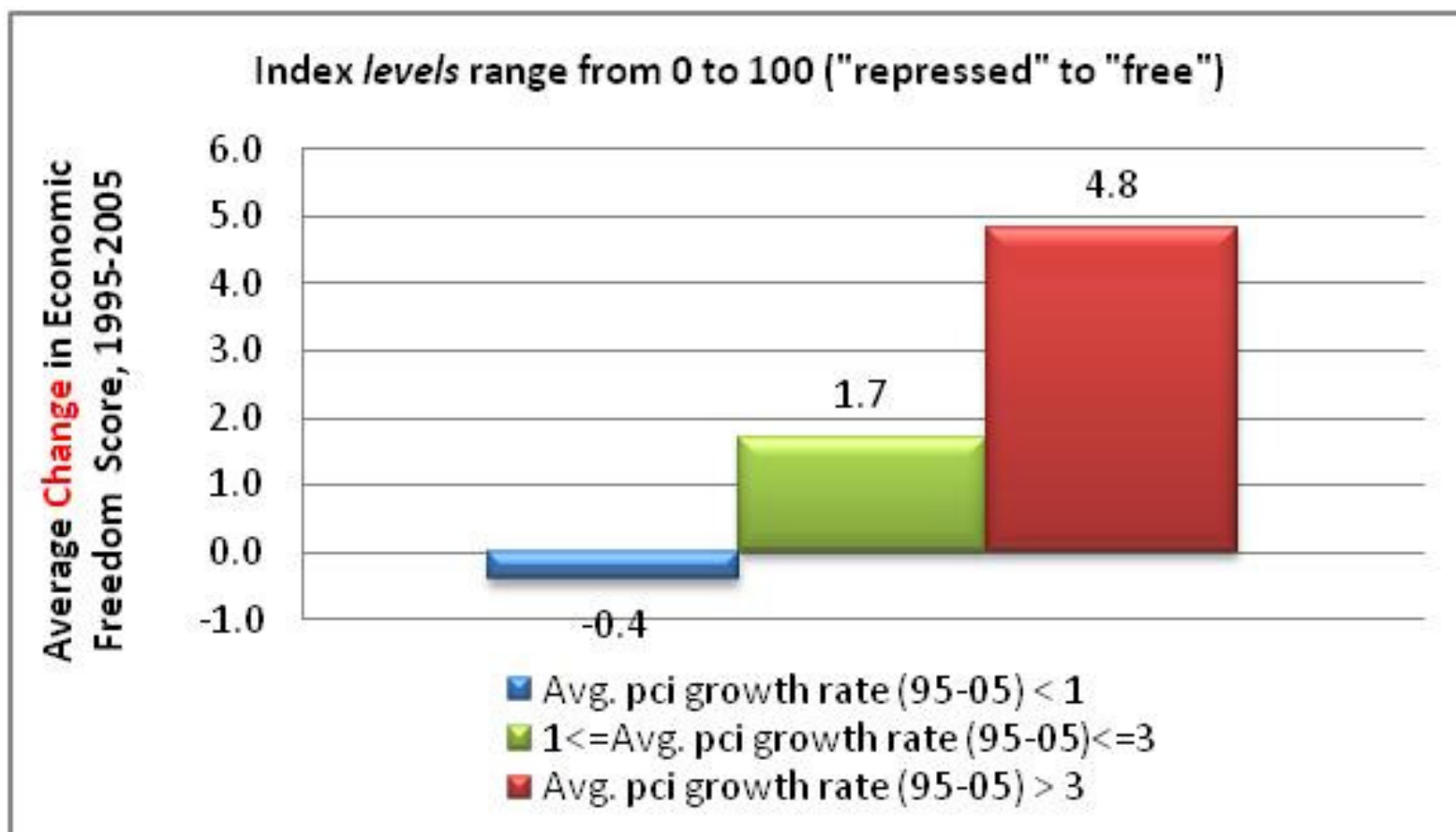
How to spur economic growth?



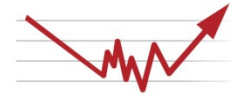
- Conclusion from a half century of development experience & piles of studies:
 - No simple recipe for growth
 - Strategies must be tailored to country conditions
- But we do have a broad understanding of obstacles and principles for success
 - Committed, capable leadership
 - Global linkages
 - Macroeconomic stability
 - Saving and investment
 - Market allocations



Economic Freedom and Growth



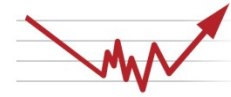
Gauging Aid Effectiveness



- 2005 Paris Declaration on Aid Effectiveness
- Performance evaluation
- Impact evaluation
 - Compare outcomes to a counterfactual
- *Economic* impact evaluation
 - Valuation of benefits vs. costs
 - Economic rate of return as standard metric
- Rigorous methods rarely used by USAID
 - Often difficult to implement for EG programs



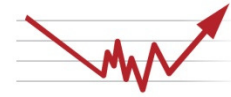
The official report



- Annual Foreign Operations Performance Report, 2009 (latest)
- EG program results
 - 12 “representative” indicators
 - Examples
 - Macroeconomic foundations: Fiscal deficit
 - Financial sector: Credit to the private sector
 - Private sector competitiveness: Commercial laws
 - No serious information here on EG program effectiveness or return on investment of aid \$\$\$



So what do we know?



1. Economic impact of EG programs can be huge
2. Intermediate results can be compelling
3. Long-term benefits can be dramatic



Economic impact can be huge



- Measured as return on investment of aid \$\$\$
- Private sector development
 - *e.g., Armenia: ISP monopoly pricing*
- Business environment
 - *e.g., Georgia: Customs facilitation*
- Trade and Investment
 - *e.g., Mozambique: Foreign exchange regulation*
- Fiscal reform
 - *e.g., Bosnia-Herzegovina: Tax administration*



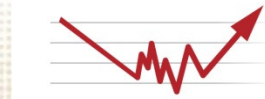
Note on methodology



- These findings are not based on randomized trials or quasi-experimental analysis
- Pragmatic “third-best” field methodology
 - Identify program benefits that are
 - Quantifiable, relative to a plausible counterfactual
 - Attributable, with high degree of confidence
 - Unavoidable mix of measurement and judgment
 - Examples
 - Georgia customs
 - Mozambique foreign exchange regulation



Intermediate Results can be compelling



- Private sector development
 - e.g. *Ghana (agriculture inputs)*
- Business environment reform
 - e.g. *Philippines (telcom regulation)*
- Financial sector reform
 - e.g. *Jordan (capital market)*
- In some qualitative results are compelling
 - e.g. *Investor Roadmaps, South Africa (Mandela Economic Scholars)*



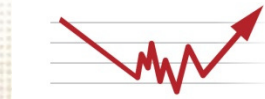
Long-term benefits can be dramatic



- Building capacity for policy management
 - *e.g. Korea, Indonesia*
- Promoting trade and investment
 - *e.g. Vietnam (legal reform)*
- Financial sector reforms
 - *e.g. Kazakhstan (capital market)*
- Private Sector Development
 - *e.g. Peru (green asparagus)*



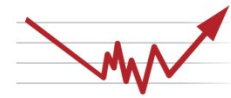
How representative are these examples?



- We don't know
- Need more systematic evidence
 - MCC as world leader
 - New USAID Evaluation Policy, January 2011
 - World Bank's Independent Evaluation Group
- But let's also recognize practical difficulties



Conclusions



- ***EG programs are critical for development success***
 - Including poverty reduction, social welfare, human development, food security, conflict risk reduction
 - For poorest countries, “no aid” option defies arithmetic
- ***Evaluation systems have been highly deficient***
 - Need stronger evaluation procedures
 - Don’t look to cross-country econometrics for answers
- ***But available evidence indicates that EG programs often do work***
 - Target catalytic “game changers”

