UNLEASHING GROWTH THROUGH SOUND DEVELOPMENT POLICIES

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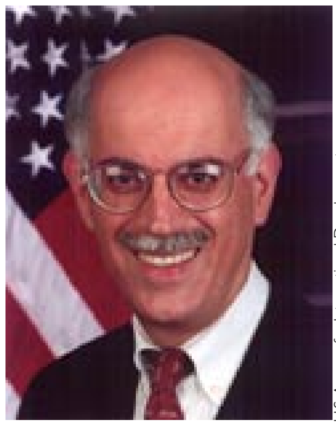

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In September 2000, 189 nations agreed to join forces in a fight against poverty, illiteracy, hunger, lack of education, gender inequality, child and maternal mortality, disease, and environmental degradation. These countries, including the United States, pledged to take bold decisions to make development a reality for all nations. On September 14, 2005, five years after that historic meeting, leaders from more than 170 nations will gather at the United Nations in New York City to take measure of the progress made to date. While much remains to be accomplished, the progress has been substantial.

The 2000 meeting gave the political impetus for reform, but it was two years later, at the 2002 United Nations-sponsored International Conference on Financing for Development held in Mexico, that leaders agreed to the definitive framework for successful development called the Monterrey Consensus. At that meeting, developing countries and donors alike, with input from civil society and the business community, embraced good governance, domestic ownership of development strategies, trade, and private investment as key elements of economic growth and prosperity.

In Africa, for example, many leaders are now working through the New Partnership for Africa's Development (NEPAD) process, linking poverty eradication to policies that promote sustainable growth and trade, good governance, and the fight against the pernicious evil of corruption.

For its part, the United States has increased its official development assistance (ODA) even beyond President Bush's 2002 Monterrey pledge. Since 2000, American assistance has nearly doubled, rising from $10 billion to $19 billion in 2004. That constitutes one-quarter of the ODA from the 30 industrialized member countries of the Organization for Economic Cooperation and Development.

History has shown, however, that the amount of development assistance is less important than the uses to which it is put and the implementation mechanisms used to carry out programs. It is essential, therefore, that increases in ODA be matched by increases in effectiveness and sustainability.

Countries that have proven their commitment to change and reform, governing justly, investing in their people, and maintaining policies and institutions that support market-led growth will receive billions of dollars in the coming years from another of President Bush's initiatives: the Millennium Challenge Corporation.

But the United States gives far more development assistance than is reflected in ODA statistics. Contributions from the private sector, for example, whether corporations, private voluntary organizations, or nongovernmental organizations, are not counted as official development assistance. And yet these private sources of capital account for a large percentage of what the people of the United States contribute to development every year. According to figures released by the Hudson Institute, a nonpartisan policy research organization, U.S. private donations to developing countries exceeded $62 billion in 2003.

The U.S. Agency for International Development (USAID) has tried to take advantage of these new sources of development assistance in recent years, joining forces with socially responsible private sector organizations in our Global Development Alliance. Since 2002, we have invested $1 billion in 290 public-private alliances in 98 countries, while our private sector partners have contributed more than $3.7 billion in total resources.

Too often, humanitarian relief has been treated as if it were somehow separate from development and the achievement of the goals set forth in the 2000 Millennium Declaration. It is not. The failure to respond to food emergencies in countries in Africa and elsewhere can only lead to further instability and make their development even more difficult.

To help states caught up in crisis and conflict return to stability and put their economies on the path to sustained growth, President Bush recently announced that the United States will provide an additional $674 million for humanitarian emergencies in Africa this year. This is beyond the approximately $1.4 billion already committed.

As a founder and largest donor of the Global Fund to Fight HIV/AIDS, Tuberculosis, and Malaria, the United States also provided $459 million to the fund in 2004. The U.S. contribution for all of its HIV/AIDS programs totals more than $2.8 billion in the current fiscal year. In addition, we provide approximately $435 million annually for voluntary family planning and maternal health care to 60 countries.

Achieving the goals articulated in the Millennium Declaration is very much in the interests of the United States and central to the mission of USAID. As the first-ever bilateral development agency—and still the largest—we have had considerable stake in the process and more than 40 years of experience in what works and what does not. That is why we put so much emphasis on economic growth. Simply put: Without trade, there can be no sustained economic growth. Without economic growth, there will be no increase in tax revenues to support improved public services. Without growth and services, there will be no increase in wealth and reduction in poverty. Unless foreign aid contributes to economic growth, it is failing to achieve its primary mission.

There are several components of a successful economic growth program. One of the most important, we have learned, is trade. The United States has long led the world in trade liberalization, and USAID devotes substantial resources to helping countries participate successfully in trade negotiations and enter the World Trade Organization (WTO). Liberalizing trade laws and participating fully in the global economy does not just benefit developed countries. The completion of the WTO Doha Development Round could add $200 billion annually to developing countries' incomes and lift more than 500 million people out of poverty.

For several years, the United States has been at the forefront of the movement to ease the Third World's debt burdens. The United States and other G8 countries have called for 100 percent cancellation of many debt obligations owed to the World Bank, the African Development Bank, and the International Monetary Fund. This could result in approximately $40 billion in immediate debt relief—and it could reach more than $56 billion if all the Heavily Indebted Poor Countries* become eligible.

Another immense source of potential revenue for the developing countries of the world lies within their own borders. The report of the U.N. Commission on the Private Sector and Development—*Unleashing Entrepreneurship: Making Business Work for the Poor*—estimates that developing countries have $9.4 trillion dollars in private financial assets that cannot be fully mobilized for development, largely because of corruption and inadequate legal protections for property and contracts. Further, as the Peruvian economist Hernando de Soto has shown in a number of his works, the inability of millions of Third World people to capitalize on their homes and businesses due to overly rigid property and titling regulations suggests that a great reservoir of wealth remains to be tapped in many developing nations.

A competitive, well-regulated private market is indispensable because it is the most effective institution ever devised for allocating resources efficiently, for fostering innovation, and for communicating information that helps consumers and producers make decisions. It is no coincidence that the wealthiest and most developed countries of the world are all free market democracies. Regulatory frameworks that build confidence in private markets, protect property, enforce contracts, and generally respect the rule of law are essential if developing nations are to achieve the goals of the Millennium Declaration.

According to a World Bank study, in one developing country, it takes 203 days to register a business, while in another enforcing a contract takes 1,459 days. With barriers to business formation and entrepreneurship such as these, businesses remain small and in the informal sector. There is no point in debating whether official development assistance should be $68 billion or $100 billion or $195 billion when the most basic policies for generating wealth are not in place.

Ending poverty is a serious challenge. Building effective and equitable economic institutions takes time, persistence, and reform. Policies must be put in place to safeguard the most vulnerable members of society. The good news is that many countries have already blazed a trail and that the United States and the international community will help those prepared to help themselves. With the right choices, we have a good chance of reaching the goals we set for ourselves at Monterrey and in the Millennium Declaration. ■

* The HIPC Initiative is a comprehensive approach to debt reduction for heavily indebted poor countries pursuing IMF- and World Bank-supported adjustment and reform programs.