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MR. NATSIOS: Well, thank you very much. It's actually a delight to be here. I say that at the beginning of all my remarks, but I really do mean it this morning.

Charlie McCormick is sitting here. I just wanted to say, I have the tie on. This, though, is not an indication that there's any bias towards a single NGO. This represents the entire community, Charlie.

MR. McCORMICK: Well, we'll still take your \$30.

MR. NATSIOS: It was actually given to me in the Nuba Mountains, in Sudan, as the United States Government was negotiating the first phase of the Nuba Mountain Accords. They were quite successful, then, but I'm not sure it's successful now.

The first phase of the effort to have peace in Sudan was the Nuba Mountain Accords over humanitarian assistance. It was designed to build up confidence on both sides that some permanent solution that was just -- that was just -- could be worked out. Now, we can all debate as to what's going to happen in the next few days, but that was very successful. When I was there, one of your people (Save the Children) did give me this tie, Charlie.

Anyway, I'd like to talk about several things today before I introduce our keynote speaker, Jim Kolbe. The first is the World Summit on Sustainable Development. Second is the Millennium Challenge Account, the current approach. I'm not going to go into enormous details on it, but I will talk a little bit about it, and then about the national security strategy, which has been discussed a lot in the media in a way that I think is really a distortion of what's in it. But that's another question.

Let me just say to begin with that it's the case when you're in public office that you always like to say you're at a critical historical juncture. I've heard that phrase begin more speeches over the last 30 years of my career. And of course if everything's a

critical juncture in history, then nothing is a critical juncture.

But the reality is, in this particular case the President -- and I have to say it is the President -- has changed the debate substantially. In the speech that he gave to the Inter-American Bank (March 14, 2002), which many of you either saw personally or read about -- if you haven't read it, I would strongly urge you, it's on our web site -- it changes the debate.

Part of the criticism of the United States within my community outside of the United States -- I mean within other donor governments -- some of them say: "You guys are changing the debate. We're not sure we like what the change is. It's not that you're not doing anything. It's not that you're not making a commitment; it's that we're not comfortable with the demands the President is making." They don't say it exactly that way, but that's what they mean.

And this goes for U.N. agencies; it goes for the banks. Because what the President is saying is: we've been trying for 20 years, with not a lot of success, with the poorest countries, with the 48 LDCs (lesser developed countries), only one of which has graduated in the last 20 years. That's Botswana, and they did not do it primarily through AID help. Primarily they found a way of avoiding the elites looting the country of all the wealth in the diamond mines instead of spending it properly, through good governance, on the people of the country.

That's the only country that's graduated. And the President made the comment: something's wrong with the system. Something is wrong with the system.

And so what he said is: telling countries that if you do all these things we'll give you more money in the future has not worked very well. Conditionality has not been a success. Why isn't it? Because the countries want the money, but they really don't want to make the reform necessary to have high rates of economic growth and good governance, both of which are difficult to do but are also absolutely essential to high rates of sustained economic growth, which is the only way countries become prosperous that are very poor.

And so they take the money and don't make the changes, or they make the changes and then as soon as they get the money they rescind the changes. Or

they don't implement them properly because there's no commitment.

And so what the President has done in the Millennium Challenge Account and in a lot of the other things he's said and done in our area of work is to say: well, I'm changing the paradigm here. We need to take the countries that are making a genuine effort to reform their political systems, to eliminate corruption, to respect human rights, to make the changes, microeconomic and macroeconomic changes in the economic system to stimulate investment, entrepreneurialism, to make the reforms necessary to stimulate economic activity and growth in the private sector, and then we will put money there, in the appropriate way, to accelerate what's already going on, what is clearly a commitment.

We're not going to have a debate about which countries should be part of it here, but you can tell the countries. I've seen the heads of state. I've seen the cabinets in some countries that are a disaster. In other countries, they're spectacular. And they are making the changes without us pressing them, because they know what the right things are to do. You can tell the countries that it's easier to work in. I mean, I don't have to tell people in this room that.

But by focusing on performance, not promise, the President is changing the debate in a profound way. And that is why I think the Millennium Challenge Account is so important. It's not just that there's \$5 billion more in the account. It is that the debate, the terms of the debate, have shifted.

I would argue that one of the principal utilities of the MCA is that it can be used by reformers in every country as a bludgeon against the mercantilists. They don't call them socialists anymore, but they believe basically in a heavy state hand in economic planning --which has been a disaster in every country it's been tried in. And so you have reformers who know what needs to be done, but they can't get the political system to do it.

What we're hoping is, for countries that are making progress but not very much of it, where some reform has been done but not enough, the reformers will say, look, we could have qualified for this if we'd only shown a commitment to do what's necessary to

create the platform for rapid rates of growth and social services and democratic governance.

The World Summit on Sustainable Development that Colin Powell and I went to -- Paula Dobriansky led the negotiating effort -- and the Doha meeting, which began the next round of trade negotiations, are also connected to the Millennium Challenge Account speech that the President gave. Because the President knows, we know, that the open trading system will in fact reduce poverty. If you look at the countries that have become middle-income or upper-income countries -- the Taiwans, the Chiles, the Costa Ricas, the South Koreas of the world -- they have done it through trade and a trading system which is open to their products and which allows these countries to export and to encourage investment.

And so there's a piece, in terms of Doha, that's very important. I am told that the U.S. Trade Rep has never set foot at AID until Bob Kimmitt came to see me last year. Normally, the AID Administrator and the Trade Rep are not necessarily on the same page. We are. Not only the same page, but 70 percent of all the monies spent on trade capacity-building in the developing world is spent by USAID. Seventy percent. It's a huge portion of it, and it's widely recognized that we do the best job. It's not me. It predates me by 15 years. But over the years, it's been building up. And if you ask heads of state and ministers in the Third World and you ask business people what's most important, it's that capacity-building.

I have to tell you, one of Jim Kolbe's top priorities is this area of capacity-building and trade. Because you can lower the trade barriers, but if people don't have the skill set to understand how the trading system works -- how it applies to sanitary codes, for example, how you can determine a niche market that will allow you to use value-addedness in your country to export more, to expand a particular part of your economy -- that makes a big difference.

So Doha is particularly important here. And WSSD. I mean, there was a lot of media and a lot of hype, but if you carefully read the document that was negotiated, we won most of the fights, most of the debates that we wanted to come out of that. And we made a series of very important announcements of tangible things we're going to do that have funding behind them.

The first is the Initiative to Cut Hunger, particularly in Africa but also in Central Asia, through agricultural development, a major interest of mine, as all of you know.

Another is the Congo Basin Forest Partnership, which is a series of national parks. Gabon has put aside 10 percent of its national territory into these parks to protect the rain forests across that center of Africa from the east coast to the west coast.

The Clean Energy Initiative seeks to transfer clean energy technologies to developing world, something we've been engaged in for 10 years and now want to expand.

And the Global Fund invests in health, in HIV/AIDS, which we've been at the forefront as a country in this, as many of you know.

And finally, there was a proposal in the area of water, especially in construction of municipal water projects. The West Africa Water Initiative is one of the elements of the water proposal. I want to mention that because it's part of the Global Development Alliance that we started last year.

I want to report that we just did our report for fiscal year 2002, and we invested \$125 million of AID funding in either explicit Global Development Alliance projects or partnerships with many other organizations in the private sector that seek to take private money from foundations, businesses, universities, NGOs, and think tanks. But it's not a grant program, where we give money to other organizations. It is not a grant program; it's an effort to leverage the money from different institutions, since much of the money going to the developing world now from the United States, 80 percent of it, comes from the private sector, not from ODA (Official Development Assistance).

That's a shift. 1970, 70 percent of all aid to folks in the developing world was ODA, from the United States. It's now 20 percent. It's not because of huge cuts; it's because of massive increases in NGO fund-raising, in universities. Universities give, according to a study that Carol Adelman has done, \$1.2 billion in private scholarships to people from the developing world every year. These are not the government. These are the private universities in the

United States. It's bigger than the aid programs in many of the democracies in Europe.

If you go through that, and you go through remittances -- there's a huge movement of remittances to the developing world we're only now beginning to understand. There was a study done -- I think I mentioned it to you before -- of funding for micro-enterprise in Mexico. Fifty percent of the funding for micro-enterprise in Mexico comes from the Mexican-American diaspora in California. It has nothing to do with us or our micro-finance programs. It comes from ethnic diasporas in the United States. We are the great melting pot, but we don't quite completely melt. Everybody keeps up their contacts with their families, for generations sometimes. I still correspond with family members in the old country from four generations ago. We still maintain -- now it's e-mail contact. And we don't send remittances back anymore, because where I come from, where my family is from (Greece), is not a poor country anymore.

The point is, though, that we're only beginning to understand how these remittance systems work. And the question is: could we facilitate this? Apparently, there's a high transaction cost in the private sector to move this money. And there's some things we might be able to propose in terms of Treasury regulations that would facilitate a much higher percentage of the money actually getting to people. Because in some cases, it's 18 to 20 percent of the money they send back goes for transaction costs, just to move the money, which is, I think, unfair and unreasonable.

One of these GDAs, Global Development Alliances that we formed around this notion of all this private-sector money was the West Africa Water Initiative, which we announced at WSSD. I'd like to thank the organizations involved in that. Steve Hilton of the Hilton Foundation put in, from his foundation, \$18 million; World Vision put in \$16 million. We have large contributions by UNICEF, Lions Club International, Desert Research Institute, Winrock, Cornell University, and the World Chlorine Council, and there are others, involved in a small way.

Of the \$41 million in this plan, \$4.4 million comes from AID. The rest of it is private.

Now, I gave a speech yesterday and a lady said, "well, how come you're giving so little?" I said, "well, it means we have other money to do other things with." But the notion that all of this has to be entirely public-sector-driven, I think, fails to understand this profound shift in money in terms of flows to the Third World in the last 30 years.

Beside the hype about WSSD, some constructive things went on, because there is a growing understanding now in the developing world -- and, I think, an acceptance in Europe, Canada, and Japan -- that a performance-based system is a much better system for everybody. Just giving money is not going to solve all the problems. It is not just a funding problem; it is what happens to the money once it's spent. It becomes an issue that we should need to focus on.

I think that the NGO community and the university community in the United States, have played a major role in many of these international conferences, particularly the American-based ones. I'm being a little biased here, but this is sort of an unspoken comment that you really don't make, but I'm going to make it publicly now. The notion that all NGOs are the same all over the world is like saying all businesses are the same, or all universities are the same. There's a huge difference. And there is a gap, a difference, between the way NGOs in other Northern countries behave and those in our country. And I want to tell you a couple of things that are very different.

My observation is that, for the most part -- there are exceptions -- our NGOs tend to be far less ideologically abstract. For me, if you're too abstract, you get lost in abstraction; you don't get anything done. My observation of the developing world is the American NGOs tend to be -- I mean NGOs in the largest sense of that word -- much more operational, much more interested in what actually works, not in simply abstract theory that frequently is never represented by anybody on the ground, in reality, because there's such a gap between the theory sometimes and what we find when we have to deal with reality operationally.

And so I appreciate the contribution that our community has made, our universities, our private for-profits, our NGO community, our think tanks have

made in trying to close the gap between the realities that we find in the developing world and the, sort of, abstraction that we deal with at a lot of international conferences.

My main purpose here, however, is to introduce our keynote speaker. I've now gone into his time a little bit. He is a powerful figure in our community now and, I have to tell you, wise. Some committee chairs and subcommittee chairs in the Congress do their work, they chair the committee, but they never fully master the technical disciplines that they are chairing. Jim Kolbe is an exception, a shining example of the opposite of that. He has not only mastered it, he's become an expert in some areas, so much so that he's always keeping me on my toes when he asks me questions that I'm not anticipating.

He has three major interests. We all have major interests; it doesn't mean we're not interested in other things. But he is heavily focused on the issue of trade, because Jim Kolbe knows there is a direct connection between trade and economic growth and poverty reduction.

Just a little side-note here. We had Michael Porter from the Harvard Business School, one of my favorite business intellectuals in the United States, to speak to our senior staff for two hours at our headquarters. We videotaped it, and now require everybody all over the world in AID to see the tape. I don't know if we're going to have a test on it or not. A lot of what we do, even in the social service sector, can hang off of the kind broad, visionary view of development in the Third World that Michael Porter brings. And by the way, we'll make that tape available to anybody who wants to get a copy of it.

But what he says is we now know we have to have good political governance. Governance makes a huge difference. Democracy makes a huge difference. We need to have the macro economics policies in place. But those two things alone are not enough. And what his focus in these two hours was on, micro economic things -- from the rule of law, the question of infrastructure, the question of marketing, the question of firms and investment and elite education, leadership in the economic sector.

Jim Kolbe understands all this. When I described some of the things in the Porter speech at a recent meeting, I could see his eyes light up, because

they're the same things that Jim Kolbe's been talking about. I don't know if they have a secret alliance or something, but listening to Jim Kolbe's comments on this are very similar to the kinds of things that Porter talked about in that brilliant lecture.

The second of his major interests is HIV/AIDS and other infectious diseases. Because we know we can make progress in the battle for hope in the Third World by combating, through the science and through medicine, the scourge of HIV/AIDS and the other terrible infectious diseases we have to deal with, particularly in sub-Sahara Africa.

And the third interest he has is something that very few people on the Hill have in a government agency, and that is on internal management systems. He has a deep interest in this, and I do as well, and so we are talking constantly about what progress we've made, or not made, in certain areas of the business systems reform that I announced in my comments to the Senate Foreign Relations Committee when I was up for confirmation last year.

The staff at the Legislative Public Affairs Bureau would be upset if I failed to mention how delighted they were that our poet laureates, who remain anonymous, had their poem of limericks on the chairman's birthday this year put into "Roll Call." It was a great piece of poetry, and if you want to read it, you can see it in "Roll Call." We have that kind of relationship that we can send the lyrics in, have them accept it, and then have them publish it.

Now I would like to introduce Jim Kolbe, my friend.