

**Keynote Address: "USAID's New Approach to Development"
Andrew S. Natsios, USAID Administrator**

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Thank you very much Bill. It is indeed a pleasure for me to be here this morning for several reasons. The first is that the position of AID Administrator was the most important and the principal job I was interested in taking in the new administration. In fact, it was really the only job I was interested in. The second reason is that I have the privilege of working with a true American hero, Colin Powell. He is, I think, going to be one of the great Secretaries of State, along the lines of George Marshall, who in many ways created the foreign assistance program of the United States.

There is another reason why I am pleased to have this job, and that is the President's commitment. I believe that the President supports the neutrality of humanitarian relief in difficult situations. He also shares our concern about Sudan. Two days after I was sworn in, the President appointed me Special Humanitarian Coordinator for the Sudan, in order to focus more senior-level attention on the human rights abuses, the atrocities, and the horrendous suffering in that country. Now, superimposed on all of that is a terrible famine sweeping across the country that I think is much more severe than is commonly understood publicly. The Administration's policy toward Africa, a subject that's very important to me, is laid out in Secretary Powell's remarks at the University of Witwatersrand in Johannesburg, South Africa, which is available on the Department of State's website [www.state.gov]. That speech outlines a very powerful vision of a development and humanitarian agenda for Africa.

It is also a pleasure for me to be here this morning because ACVFA has had an important role in advising the senior members of the Administration on the views of the nonprofit sector--the PVO community and the NGOs in the United States--over a very long period of time. The role of the nonprofit sector is something I think all of you are interested in or you wouldn't be here this morning.

I can report to you some data from our Finance Office that is of enormous interest to me and is central to understanding where AID is going in terms of our relationship with PVOs and NGOs. The data is not entirely complete because the way in which we code our expenditures is not comprehensive and was set up to account to disparate constituencies. We have several separate accounting systems that we are now trying to integrate into one unified system, which will be in place in the next couple of years. That makes it difficult to get data together, but based on the data we have now, approximately one-third of AID's total expenditures goes to American registered NGOs, while another third goes to nonprofits including universities, indigenous NGOs

and other organizations, such as labor unions and cooperatives. The AID missions provide a good deal of funding to local NGOs that have no western or international base. The nonprofit sector is important to me, and obviously to AID, because we spend two-thirds of our budget on it. In contrast to the European countries, which have a different set of budget pressures, we do a large amount of our work through NGOs.

On my trip with Secretary Powell to Mali, South Africa, Uganda and Kenya, I met with three groups of people in each country: the AID staff, the NGO community, and religious leaders. I think the religious vision, regardless of which tradition you are in, is a very powerful force in the developing world, and we need to recognize that and work with it. It is the western world that has become secularized. The developing world is not a secular culture. I had some useful and powerful conversations with religious leaders in Africa about the AIDS pandemic, about how they are grappling with it from a theological standpoint, from a philosophic standpoint, and at the church and mosque level. They are deeply engaged in combating the spread of this horrendous pandemic.

There are two principal characteristics that mark the post-Cold-War world. We haven't yet characterized, in a positive sense, the period that we are in the middle of right now. The two characteristics are: **globalization** - the intersection of national economies with the international economy of the new global trading system. The increase of the NGO community worldwide and its linkage with AID is also a phenomenon. For example, thirty years ago AID dealt with twenty NGOs. Today, we deal with two hundred, so there has been a tenfold increase in AID's interconnection with the NGO world. It was my world, now it is your world - our world together, I guess.

The second characteristic is **conflict**. I asked the staff at PPC [the Bureau for Policy and Program Coordination] to research how many of the seventy-five countries that have AID missions experienced some form of conflict, major conflict. Two-thirds of the seventy-five missions had major conflicts in the last five years--two thirds! These conflicts are setting back the development process dramatically, because one civil war in one year can do as much damage as an earthquake. The infrastructure is destroyed, hospitals and schools are demolished and the educated people--that is, those who are most mobile--flee and don't return. So the damage being done to the societies by these conflicts is incalculable. While AID has been doing lot of conflict prevention work, it has not been raised to a high level, and I hope to do that over the next four years.

We have announced the four new pillars that I talked about in my congressional testimony, and that I will be discussing even more in the coming months. Where do the four pillars come from? They actually go back to Harry Truman's second inaugural address to which a career civil servant added four points that basically became our foreign aid program. Those four points became the four pillars. Former AID Administrator Peter McPherson also had four pillars that were not quite the same as Harry Truman's or mine. Peter McPherson's were the instrumentalities by which we do our work; mine focus on the substance of what we do. There is a reason why we are reviving the notion of four pillars. When we try to explain what NGOs and PVOs do, what AID does in the developing world, it generally is so complicated that no one can understand or remember what we are talking about. We haven't gotten our message out to the

American people. We certainly haven't done that as well as we could in AID. The four pillars are an attempt to simplify, for public purposes, what we are doing into four areas. Three of them are sectoral; one of them is a way of doing business, and I will talk about that in a few minutes. We are attempting to begin the process of reorganizing the Agency's structure centrally around these four pillars. The budget and finance system and our programming system will be organized around them. In addition to making our work more effective, the idea is that any AID employee anywhere will be able to say clearly and very quickly in two sentences what we do. Even if we simplify and therefore distort to some degree, it will be helpful for the purpose of explaining to the American people, to the Congress, and to the world what we do in terms that are much easier to remember, to conceptualize, and to focus our attention on. Does that mean we are dropping things we are doing? No, it does not. We have a large Global Bureau now, with a lot of expertise, but there is general agreement that it is too big. We are going through a debate right now as to how it might be changed to better reflect what we do.

What are the four pillars? The first pillar is Global Health. What does that include? It includes HIV/AIDS, infectious disease, women's reproductive health, population programming, child survival, nutrition, micro-nutrition, public health, water and sanitation – all of those issues will be in this new bureau. And there is general agreement, I think, that having a Global Health Bureau makes sense.

There is a second area that I want to put increased attention on. We can do our development work, but if there is not economic growth there isn't going to be an elimination of poverty. Poverty, after all, is a function of people's livelihoods being too small. Unless we change family incomes or livelihoods, people will remain poor. We can't decrease poverty without economic growth. Some people would argue as [Georgetown University professor and former USAID Deputy Administrator] Carol Lancaster does in her book [*Aid to Africa: So Much To Do, So Little Done*] that we should turn over the economic growth function from AID to the World Bank. The World Bank and the other multilateral lending institutions do not do development work in the same way that AID does. They may work with us; but they are banks, their function is to lend money. There are lots of things you have to do to prepare countries to trade that banks don't do. AID trains countries' finance ministries and their trade offices on how to enter the global trading system. If you ask African heads-of-state what they most want, it's to get into the global trading system to bring wealth into their countries.

But, if you just increase growth without some redistribution, you will still have poverty. We know from the work we do and the studies that have been done that how you do development can profoundly affect how income is distributed among different populations. The World Bank did a study some years ago that showed that Asian countries have invested in rural infrastructure and thus have a more even distribution of wealth than Latin America has, for example. In Brazil, as of a few years ago, ninety percent of people in the cities had electricity, compared with only ten percent in the rural areas. In Thailand in the same time period, sixty percent of the urban population had electricity, and forty percent of the people in the rural areas had it. Why? In Asia, investment in rural areas was seen as necessary. We know that investment in infrastructure in schools, roads, electricity and water profoundly affects income levels, livelihoods and development in rural areas. So, we have a role to play--AID has a role to

play, all of you have a role to play, in my view--on the economic development side. And thus, the second pillar is Economic Growth and Agriculture.

The second area of emphasis in that pillar will be agriculture, which has been neglected at AID for many years. In 1985, the budget for agriculture--this is in 1985 dollars; it would be even more now--was 1.3 billion dollars. This year, it's three hundred million dollars--a drop of almost a billion dollars in funding in that account. That is a bigger drop than in almost any other AID account. You cannot deal with the income disparity between the wealthy and the poor; you cannot deal with the problem of poor people, particularly in Africa and South Asia; you cannot deal with food security, hunger and malnutrition, unless you invest in agriculture. Agriculture doesn't just mean seeds or soil conditions, it means rural roads to move surpluses around, it means developing world markets, and connecting rural surpluses with port facilities to ship excess grain out.

For example, Mali, which had very high rates of malnutrition for thirty years, last year produced a half-million dollar surplus among small holders in maize. The agricultural development program in Mali, supported by the Rockefeller Foundation, AID and other donor countries, changed a country that suffered from chronic malnutrition to a country of substantial surplus. This contrasts starkly with other countries in the region that have gone from food surpluses to deficits because of poor agricultural development policies. We know that rural investment works, we know it makes a difference, so I am going to put much more focus on agriculture and economic growth than we have had in the past. It will be focused to attempt to address the income disparity problem, to invest in rural areas.

The third pillar is the Conflict Prevention, Democracy/Governance and Humanitarian Response function. Now, how we will organize this Bureau is a debatable question. Some of the democracy/governance people think this function should be in a different bureau. There is a fairly red-hot debate on both sides of the issue. I am hearing from Mission Directors and the private sector community as to how we should structure this function. Let me just say, conflict prevention does not mean stopgap measures two weeks before a civil war or genocide starts. Conflict prevention means, for example, that you design your program to balance resources in a country to avoid situations where anger and rage build up because of great disparity in wealth. There was a study that I am not sure I agree with, that attributed the Rwandan genocide in part to the fact that President Habyarimara focused all of the resources of the central government on his prefecture, and the anger in the rest of Rwanda contributed to the genocide. It would be difficult to prove this, but it is a disturbing concept. In some way we all participated tangentially in one of the most horrific events in the last fifty years in the world, the genocide of Rwanda, an event I will never, ever forget.

We need to do a better job in focusing on those things that we do that have conflict implications to them. We know there are traditional conflicts--actually going back to biblical times--between pastoralists and sedentary agriculturalists. These conflicts continue, and there are disputes over water resources in Jordan and elsewhere in the Mideast. One of the reasons AID is investing in rural infrastructure in the water deficit areas in the Mideast--putting in waste water treatment, water treatment plants, and water systems--is that water will be a source of conflict later even if there is a peace settlement--and I pray there will be a peace agreement. I

see the infrastructure project in water and waste water treatment that AID has been running for some time now as a function of conflict prevention in the future. So do not think of that term in a narrow sense.

We are also using the term “developmental relief” because once again we have not dealt very well, in my view, with the relief-to-development continuum posited by Mary Anderson and Peter Woodrow, who wrote the book *Rising from the Ashes - Development Strategies in Times of Disaster*. That book and Fred Cuny’s book *Disasters and Development* argued several years ago that we needed to connect the two. I’m connecting humanitarian response and development in developmental relief. What does that mean? It means putting developmental initiatives inside relief programs.

For example, if we are going to do a seed program, we improve varieties of seed that will increase production levels beyond what they were before whatever caused the seed problem in the first place, whether there was a drought or civil war or some collapse of the agricultural system. There are lots of things we can do. I see Charlie MacCormack here from Save the Children. One of my favorite programs was a million dollar grant our Office of Foreign Disaster Assistance (OFDA) gave Save the Children to re-dig the irrigation ditches in the richest agricultural area in Somalia in the middle of the civil war. And Charlie’s staff asked if the ditches could be extended. I said, absolutely, do it. You mean you want to actually extend an irrigation project beyond where it was before the war started? And that’s exactly what happened. The farmers who participated ultimately benefited from that program, which was both reconstruction and agriculture, and it was done with an OFDA cash grant. At the time, some people said that Congress would never agree. I mentioned it to Congress and they said why wouldn’t you do that? It makes enormous sense. So, the term is developmental relief. Of course, there are certain things we can’t do with OFDA grants. We are not going to be able to rebuild the curriculum of the school system, for example. If you submit a grant application for that, it would not be approved. But development initiatives can be built into OFDA grants.

The final pillar is the Global Development Alliance. Linda Morse, AID’s Acting Assistant Administrator for Europe and Eurasia, will be talking about that in more depth later today. I have often thought that because of the profound change in the last ten years in the source of money flows into the developing world, we need to focus more attention on linkages, partnerships, and alliances. You can use any of those terms. I like to use a term that our economists at AID, the few that are left unfortunately, don’t like very much. We will hire more economists. They will tend to get upset when I use this term, but conceptually it is a very useful term. And that is that AID should think of itself in the future as a venture capital fund. We are not going to do all the things that venture capital funds do. AID tends not to take many risks nowadays because we suffer so much criticism when things fail. But there are some things we’ve done that have been spectacularly successful, and some that haven’t worked. If you want to have an agency that innovates, you are going to have to have some failures. I’ve told that to Congress and I’m going to say it again. We are going to try some things that won’t work and we will try some other things that will work very well for small amounts of money.

For example, Hernando DeSoto’s institute on the informal sector in Peru was one-hundred-percent AID funded. People don’t know that or they’d talk about it. That’s where he

started, with AID. Now that was a small investment by the AID mission in Peru many years ago that has caused a revolution in Latin America. DeSoto's group just briefed Hosni Mubarak on the informal sector in Egypt. Aerial photographs showed that houses were being built on agricultural lands. The problem was that all those settlements were illegal and the people had no equity in their houses. Since they didn't own titles, people couldn't transfer the houses. This affects the investment of the country as well as the disparity of wealth in the country. The idea of stimulating the economy through the informal sector started with an AID investment fifteen years ago, and it has been a spectacular success. We are talking with Hernando about how we can expand this to other countries that have the same dysfunctional regulatory system over smallholder property.

So, we are going to focus more on how we can make investments with NGOs and PVOs, with private markets, with foundations. There are a lot of new hi-tech foundations, not quite as big as they were eight or ten months ago when the stock market was doing better, but there still is a lot of money in those accounts and many of those foundations want to work with us. The Bill and Melinda Gates Foundation has placed a senior health person in AID, and Gates Foundation money is being programmed alongside our money in that sector. That's how Bill Gates wanted it. He doesn't want to have a field organization. He wants to program through existing mechanisms, and I know he is working with the NGO community as well. You will hear more about the Global Development Alliance later in the program. That is the fourth pillar. We are debating now how to structure it to inform AID's work. We do these alliances now. We just don't do them in terms of scale and in terms of systematizing AID's investments and expertise. We have developed a dozen very successful partnerships using this model. We have not done it on a very large scale and that's what we propose to do now.

I would like to say something about terminology. I am not going to use the term "sustainable development." That is an arcane term that only NGOs and PVOs, AID staff, and UN agencies know. The rest of the world doesn't know what we are talking about. If you have to explain it, you have already lost the battle. If you say you are doing global health programs, people know what that is; everybody knows what health means in a general sense. When you say conflict prevention, intuitively people know what that means: you want to stop wars that are already started, you want to prevent them from happening. If you have to constantly explain what the terms mean, you are walling out the American people, and the media, and people in the private sector. The word "development" in the United States means raising money for private charity. That's what that word means. You and I know what we mean by it, but it is just not a term that makes it easy for other people to understand what we do. If you explain that we do economic growth, we do agriculture, we do environmental programs, we do micro-enterprise programs, we perform all of these different functions, people intuitively know what we do. I am going to focus our attention more on what we do, rather than use these generic terms that I think are difficult for people to understand.

The final thing I want to say has to do with our central management systems. I am very interested in management as a pure science. I think part of the reason that Congress--in both parties across ideologies--has had trouble with AID is that we have not focused enough attention on our central management. Our procurement systems, our personnel systems, our financial accounting systems and our management information systems are not functioning well. Now is

that the career staff's fault? No, it is not. They did not create these systems. Some of them were imposed statutorily on us. The systems have developed over the years. They required political leadership to create in the first place, and they require political leadership to change. This will have to happen at my level, so I'm going to be meeting once a week, or once every two weeks depending on my travel schedule, with each of the heads of those four functions of AID until we get them right. But we have to realize that these systems compete with each other in certain ways. Everybody wants certain things out of these systems. Obviously, those of you in the audience today are probably affected more by the procurement system than by any of the others, but those other systems affect you too, even if it is not apparent. The people we hire obviously affects your work as our employees manage your grants, cooperative agreements, or contracts. Our personnel system affects you too. Are there agronomists left in AID? We used to have two hundred fifty-three agronomists fifteen years ago. We had forty when I started a month ago. We have forty-eight now because we just hired eight more. Our technical workforce has decreased except in the health area, where we have maintained our strength.

If you try to optimize the best, most desirable characteristics of each of these systems, you will end up with a more dysfunctional system. Why? Because some characteristics are mutually exclusive--that is, you can't do more in one area without doing less of something else that optimizes another characteristic. For example, in procurement, if we try to increase the access of smaller groups, we will have longer processing time periods, because smaller groups cannot compete with the large groups in the timeframes we have now. I favor more competition and greater inclusiveness, but this will affect efficiency and the length of time that it takes to process awards. We have to think through those issues to decide how we want the system to function best. Improving all of these systems is what I will focus on.

We have a Secretary of State and a President who are very supportive of what we are doing. There will always be some tension between AID and the State Department because our work has a longer-term perspective. Theirs is necessarily shorter-term. State must deal with immediate crises and events. The tension does not mean that AID and State will always be at odds; it means that we have to understand our different perspectives, different timeframes, and different level and kinds of expertise. Overall, our relationship is positive. I am looking forward to the next three or four years, perhaps eight years, and I look forward to working with all of you. Thank you very much.