

Five Debates on International Development: The US Perspective

*Andrew S. Natsios**

Andrew S. Natsios was Administrator of the United States Agency for International Development until January 2006. The US has the largest aid programme in the world but labours under certain constraints, notably a proliferation of Congressionally-imposed budget earmarks. Mr Natsios has been an articulate advocate as well as an outspoken reformer of the US approach to aid. It was appropriate, then, for the All-Party Parliamentary Group on Overseas Development of the Westminster parliament, together with ODI, to invite him to speak in Parliament on 12 October 2005.¹ The present article, a version of that APGOOD speech revised by Mr Natsios since his November resignation, has been judged by DPR Editors to be an important development policy statement worthy of publication.

Adrian Hewitt

We are at a critical moment in the international system and in the debate over international development policy. I should like to comment this afternoon on five ongoing debates among policy-makers about international development assistance.

1 Strategic realignment

The European debate addresses the development challenge largely devoid of foreign policy or national security considerations. It is doubtful for how much longer this posture can be maintained before overriding security concerns impinge on the debate. As we face more instances of global terror, traumatised populations may be the catalyst for change in other countries.

Europeans may begin asking their governments what connection European aid programmes have with the threats they face. These threats may come in the form of terrorist networks, disease epidemics such as avian flu, the narcotics trade or criminal syndicates which corrupt the global trading system. 'Pure' development, that is, development abstracted from foreign policy concerns in the real world and the challenges they present, is not likely to be sustainable over the long term, I fear. The history of more than half a century of foreign assistance in the US demonstrates this. 'Aid' increases with the urgency of national security threats, such as in post-war Europe with the Marshall Plan, and during the Cold War with the Alliance for Progress.

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1. The audio of Andrew Natsios' speech, and the subsequent discussion, are available on the ODI website at http://www.odi.org.uk/speeches/apgood_oct05/apgood_oct12/index.html.

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Funding falls at more settled strategic moments, such as the era of 'détente' or times when threats are seen to recede, such as the period following the fall of the Berlin Wall.

As Administrator of USAID, I am struggling with the damage done to my Agency during the 1990s, an era that was dubbed, not unfairly, 'a vacation from history'. I believe that the principal reason for the decline of official development assistance and the institutional damage to USAID in the 1990s was the absence of a clearly understood foreign threat to Western interests which foreign aid could remedy. I am dealing with the legacy of the 1990s at the dawn of a new century, a time of global terror and a renewed emphasis on development. It is a moment of historic realignment in the national security structure of the federal government, including USAID, where changes have been dramatic, both in funding levels and in internal restructuring.

Given the magnitude and dimensions of the darker side of globalisation, I would venture to say that the heightened role for 'development' will probably continue in the years to come, despite a change of Administrations in Washington or control by one party or the other. It may well be that the country is going back to an era of broader bipartisanship, a return to the conditions that favoured large commitments to development initiatives as a critical part of our foreign policy. In any case, even if partisan fights of the past continue to affect the foreign policy debates of today, it seems clear that the party that fails to address the terrorist threat for the challenge it is will not be elected.

Global terrorism has changed the relationship of the US with the developing world in at least two strategically significant ways. During the Cold War, the dynamics of a bipolar world and competition with the Soviet Union required us to guard and expand our alliance systems. Diplomatically, this meant friendship with some unsavoury leaders and regimes. Militarily, the nuclear policy of mutually assured destruction built caution into our foreign policy deliberations, and constricted policy choices. Our foreign assistance programming reflected these same imperatives. It was built around stability, not transformative development.

Today this has changed. We now realise that civilised life depends crucially on transforming the troubled regions of the world. Unlike the Cold War, we are now menaced more by 'fragile states than by conquering states', as President Bush's National Security Strategy of 2002 declares. Few have grasped the full implications of what is being said here. Opening up the developing world to economic opportunity and expanding the ranks of democratic states are now vital to our own national security. These are the goals of what future generations might call the Bush Doctrine, and they are now central to the mission of USAID. I might add that both DFID and the World Bank have carried out pioneering policy work of high quality on fragile states.

At the risk of sounding presumptuous, I would argue that the developing world may understand the new dynamics better than certain Northern countries. The message I get from the Presidents and Prime Ministers whom I know in Africa, for instance, is a consistent one. 'We don't want to be permanent wards of the developed world', they say. They would prefer to be engaged as geostrategic allies of the US than being part of the charitable enterprise of wealthy countries. When they sense the strategic value of their countries to the survival and well-being of the US, they know that the US cannot afford to let them fail. The relationship that is on offer is one of partnership, not dependency. And it is the relationship that they clearly prefer.

2 The MDG debate

The second debate is over the Millennium Development Goals (MDGs). The pledge to devote 0.7% of national GDP to development assistance has generated the most controversy. This has spurred debates within the debate.

I do not want to enter this debate here; I merely want to make two observations. First, that the volume of assistance, however defined, is increasing significantly, here and elsewhere, and that the character of *assistance* has changed just as dramatically. Second, it may well be that *official* development assistance as the measure of what is taking place between developed and less developed countries fails to capture more meaningful phenomena, indeed a whole set of interchanges furthering development that characterise the more open and dynamic world of today.

Consider the following statistics to gauge some of the changes I am talking about. In the 1970s, the US Federal Government was the largest source of funds flowing to the developing world. As a result, USAID normally defined a development problem and its solution internally, implementing activities through grants and contracts. Today, about 86% of resources are 'private', meaning foreign direct investment, international bank loans and security investments, money sent home to countries by immigrants (what we call remittances), donations from corporations and corporate foundations, scholarships from universities and colleges, donations from faith-based groups, and finally donations from family foundations in the US.

Though I don't want to enter the debate over appropriate levels of funding of the MDGs, I do want to say something about the 'goals' themselves. No one can possibly argue about the desirability of achieving these goals. It is a bit like arguing against 'motherhood and apple pie'.

What is not being debated is the fact that some MDGs are more important than others to the development process, and yet they are all treated as though they are of equal weight. Moreover, a list of goals, however desirable, does not speak to a strategy to achieve them. Nor is the 0.7% funding benchmark any hard and fast guarantee that what is set out will be accomplished. Adequate funding for development is necessary, but it is far from being a sufficient condition of success. It is also the case that generous aid, when misdirected or misappropriated, can in itself be damaging to transformational development in recipient countries.

The MDGs are also heavily weighted towards social services. A country may have all the social services in the world, and still be a horribly oppressive and desperately poor place. Consider the fact that illiteracy in Cuba is practically non-existent. Or that it has the largest proportion of medical doctors per capita in the world. It also has problems feeding its population, it should be pointed out, despite a luxuriantly rich tropical soil.

Let me be clear. We support the MDGs. President Bush has twice endorsed the Millennium Development Declaration. On the President's instructions USAID has invested heavily in advancing the MDGs over the past five years. But if energies are exclusively directed to achieving them over the next ten years, we will inevitably fail in our greater development mission. In overemphasising these particular goals, we risk underemphasising the importance of equitable economic growth, good governance, and democracy, without which, we cannot produce the tax revenue to sustain the social

services that the MDGs embrace. What is needed is a proper emphasis on economic growth as a necessary condition for social services, instead of vice versa.

This is why USAID and the Millennium Challenge Corporation have both made economic growth central to the US government's development strategy, embracing four key elements to help bring this about: namely, trade capacity-building, agriculture, investment in infrastructure, and 'microeconomic' reform, which refers to regulations, policies, and a system of laws designed to create a favourable environment for investment and human enterprise. USAID currently supports more than 600 of these activities throughout the world and spends several billion dollars a year on these activities.

Finally, the MDGs understate the importance of governance issues – matters of transparency, the rule of law, and democratic institutions. In short, the MDGs are a necessary and desirable set of development objectives, but are an incomplete and insufficient description of where we need to go between now and 2015.

3 Aid effectiveness

The issue of aid effectiveness has been submerged in the debate over aid levels. Neither outweighs the other in importance, however. This should be obvious. It behoves us therefore to bring the issue of aid effectiveness forward and to deal with it honestly.

I would like for the moment to comment on the Continental European critique of American foreign assistance. Typically, it goes something like this. Foreign assistance in the US takes place within a political context that undermines its effectiveness. Both levels of aid and particular programming are driven more by domestic groups and foreign policy than by the needs of recipient countries. The key groups include Congress, the committees with jurisdiction over foreign assistance matters in particular; pressure groups; the myriad of NGOs, universities and firms that vie for foreign assistance funding; and the aid bureaucracies themselves. As the critique has it, this includes my agency, USAID, whose various bureaux and offices ultimately pursue self-serving agendas, in the manner of all bureaucracies.

Honesty requires me to say that there is something in this critique. It is not a pure caricature. I offer three quick responses from my perspective as Administrator of USAID. First, it is incumbent upon a good administrator to act in the policy environment in ways that maintain the integrity of the foreign assistance mission and prevent its 'capture'. In other words, effective leadership in the Agency is the antidote to the centrifugal forces that the critique describes. This, I might add, is a constant challenge and preoccupation of mine. We are, for example, engaged in acrimonious debate about President Bush's proposal that up to 25% of our food aid budget be used to purchase food locally in emergencies. Second, the heightened importance of foreign assistance today to the nation's security puts it 'centre stage', so to speak. This removes it from the control of policy subgroups, so-called 'iron triangles' that work most effectively 'off stage', in closed policy arenas. In other words, the 'capture' theory was more applicable at various times in the past than it is today. Third, 75% of USAID's staff is in the field in over 80 countries. They are closest to the needs of recipient countries. They are the real development experts. And their policy input serves as a check on Washington politics.

The US is generous to UN agencies. The US is the largest contributor to many UN organisations, such as UNICEF, UNHCR and WFP, not to mention the fact that it is the largest financial contributor to the functioning of the world body itself. The US is the largest single contributor to the Global Fund for AIDS, in addition to mounting its own aggressive five-year \$15 billion programme. We are also the largest shareholders of the World Bank and the IMF as well as the regional banks. The African peacekeepers in Sudan today, like peacekeepers elsewhere around the world, are heavily funded through the US and supplied logistically by us, along with the European Union. 20% of our ODA goes through multilateral institutions.

In short, we are aware of the significant strengths of multilateral organisations and duly use them in furthering the mission of development. We are also aware of some significant weaknesses. For instance, we do not turn to the UN when acting with dispatch and decisiveness is called for. Whenever a complex institution of multiple actors is operating in different areas of world consensus building, it requires time and deliberation. Ours is a pragmatic standard. Support of multilaterals in and of itself is not by any stretch a proper test of virtue. When a UN agency performs well in the field, our USAID supports it; when it does not, we don't.

Foreign assistance European-style is also highly centralised. Its favouring of social services reflects the social welfare slant of domestic politics in many of the nation states. We could say that European foreign assistance, as is the case in the US, is also 'captured' by domestic politics. It too is forced to operate in a constricted policy environment. I would also add that many of the pressures pushing towards the project of the European Union make themselves felt within policies of foreign assistance.

For the moment I would like to question general budget support, on the ground of its 'purity' or universal effectiveness. Under such arrangements, development purposes may be incidental to influence-buying within foreign capitals. This, frankly, characterised much of the foreign aid in the Cold War period, which prioritised government-to-government transfers in selected countries. Of all implementing mechanisms, general budget support is also most vulnerable to diversion, and may impede reform by strengthening the bureaucratic status quo.

The fact of the matter is that all implementation mechanisms have weaknesses and strengths. There is no 'pure' or optimum method. There are inherent trade-offs.

I do not think the debate over aid effectiveness is properly capturing these inherent tensions and contradictions. The problem of development today is to manage complexity. If there are multiple missions and purposes in foreign aid, then our mechanisms have to reflect this. Implementing mechanisms are also related to stages in a country's development. Sectoral budget support tied to real reform may be appropriate for Ghana, but not for Liberia.

We must play to the strengths of multiple partners within recipient countries. Not all, by any stretch, are found in government. Many are found in civil society, in religious institutions, farmers' co-operatives, and non-governmental organisations.

The European aid agencies tend to be more highly centralised. Decision-making is undertaken in capital cities, where most of the development staff are also to be found. USAID has most of its staff in the field. You may be surprised to learn that most of the people who work for USAID are not Americans. They are foreigners, many of whom have worked with us for decades. By and large, they are professional people who subsequently often go on to serve in office in their own countries. This is a form of

capacity-building in and of itself. They have learned to function in modern management settings by running American programmes in their own countries. To a great extent, it is people from the developing world, not Washington functionaries, who are running the American aid programme. What I am describing is a highly decentralised system, and a highly desirable one, I might add.

Certainly any debate over appropriate aid levels must address the issue of the absorptive capacity of recipient countries. Typically, only a small fraction of available donor resources are disbursed in a given year. What we have found is that internal donor management methods significantly affect these absorption rates. The degree of decision-making delegated from donor headquarters to country-based field offices has been found to be a major determinant of resource disbursement rates. Donors with the greatest delegated decision-making experienced the highest disbursement rates (75-87% compared with 7-12% for those with the least delegation). The study involved nine donor countries, including USAID, which was found to have the greatest delegation of implementation authority to the field and the highest disbursement rates. We also encounter absorptive-capacity problems when we try to push too much money into fragile country-based institutions without adequate capacity-building.

4 Resources

At Monterrey, in 2002, President Bush pledged to increase US development assistance by 50% by 2006. We achieved that level three years early. In 2005, US assistance totalled an estimated \$27.5 billion, up from \$10 billion in 2000. It now accounts for a quarter of the OECD total, the highest share in 20 years. US assistance to sub-Saharan Africa has also dramatically increased, tripling since 2000. Our aid budget is almost as big as that of the World Bank and our spending will surpass it by the end of 2005.

While we have met and surpassed our pledges at Monterrey, we have also taken steps to ensure that development assistance funds go to countries that have proved their commitment to change. This too was an integral part of the consensus arising from the financing meeting in Mexico.

In the debate over resources, there has been an imbalance since Monterrey, where the understanding was that there would be reform in exchange for significant increases in donor assistance. The debate in the financing meeting in New York in November 2005 was almost exclusively over money; the centrality of reform has been forgotten, and the focus on results has been lost. From our point of view, we are going to have another set of development failures if this imbalance is not redressed.

In 2004, the United States established the Millennium Challenge Corporation. This is perhaps the most promising development initiative in a generation, and is noteworthy for reflecting the full 'spirit' of Monterrey. In the coming years, it will disburse billions of aid dollars to countries that govern justly, invest in their people, and maintain policies and institutions that support market-led growth. Compacts with Madagascar, Honduras, Cape Verde and Nicaragua are now in various stages of implementation.

The MCC is not only benefiting countries under the aid programmes, it is also having a useful effect throughout the developing world as threshold countries prepare themselves for eligibility by focusing on performance indicators. USAID is charged with helping these countries put in place the institutions, systems and practices necessary to achieve eligibility. I want also to underscore the fact that countries become

eligible not through promises of future 'good behaviour' – in other words conditionally – but as a reward for past performance.

At the last financing meeting in November 2005, the US pledged to forgive more than \$40 billion in debt owed to the World Bank, the International Monetary Fund and other international lenders by 18 nations, most of them in Africa. I mention this not as an example of American largesse but to get at the point I'm trying to make in another way.

In the debate over this particular issue, one essential point should not be lost sight of. If we do not sufficiently reform the business models of the banks for least developed countries, we shall be back again in a couple of decades facing another debt crisis. The entire edifice of loans is built upon presumptions of high rates of growth that will not occur unless more fundamental reform takes place within financial institutions and LDC economies as a whole. USAID abandoned sovereign loan programmes 25 years ago. A number of other donors continue to lend money to countries that cannot repay them. I don't want to be misunderstood in this regard. The goal is not to eliminate debt, which can be a valuable source of development financing, but to make it sustainable.

In this particular instance, as in the debate as a whole since Monterrey, the reform part of the equation has been downplayed and needs renewed emphasis. The terms of the debate today are all about aid volumes.

5 Transformational development

Finally, I would like to see some of the very terms of the development debate changed. In USAID, we have abandoned use of the term sustainable development and now use the phrase 'transformational development' as the goal of our programmes. My reasons are not only semantic.

Earlier, I tried to make the point that 'politics' is part and parcel of aid delivery in all donor nations, in Europe as well as America. The policy environment of different nations – and this includes international organisations as well – affects foreign assistance programming.

'Politics' is also among the most relevant factors for consideration in donor and recipient countries. There is a reason why countries follow bad policies. It is not a question of 'backwardness'. Nor is it a question of 'limited minds' in the developing world that will be 'enlightened' by a sudden light that is shed by reasoned argument. It is more a question of deeply entrenched interests that attach themselves to property, ideas, social advantage, prestige and traditional ways of doing things. It is very hard to change policies where these interests are involved, North or South.

As development professionals, we should be trying to institutionalise pressures within a given political system that are consistent with one another and that work to favour reformers and put the status quo protectionist at a disadvantage. Several years ago, our schools of public administration were dominated by the so-called 'quantitative analyst' view of public policy. On the basis of empirical study and analysis, they came to certain 'optimum' conclusions about issues of public policy, all impeccably researched and eminently demonstrable. Richard Neustadt, among others, led a revolt at the Kennedy School of Government against this approach. He questioned the relevance of such exercises. What was needed was political analysis to determine whether

optimum reform is possible in a given political context. The most relevant research, he was saying, goes beyond what can be captured by empirical data.

I don't know how many times I have been engaged in conversation and debate by so-called development experts who say something like the following: 'I don't do politics; I'm into development.' This is a common mindset that artificially compartmentalises 'development' to its detriment, while it largely removes it from any strategic context.

'Development' can certainly be enriched by historical studies. I include in these studies of countries in the developing world, of course, but also those societies that have achieved high levels of development, such as South Korea, Taiwan, and Chile, not to mention the history of the US itself, which is not, to say the least, usually read in this light. For example, I surprise many when I say that Abraham Lincoln was my country's greatest development president. His Homestead Act helped settle the immense territory of the West, giving a burgeoning population ownership of land and a fungible stake in an expanding and diversifying economy. His Morrill Act set up land grant colleges throughout the same territory, which made education available to the lower socio-economic classes and laid the foundation for a robust middle class. There, the latest in agricultural technology and animal husbandry practices was studied and disseminated. He laid the way for the continental railroad that helped integrate this immense nation into one national economy. And he established the National Academy of Science to advance the scientific project and deepen the nation's attachment to science and research. Much can be learned today from the study of his development vision and strategy; so also can countries emerging from war and ethnic violence learn from our own civil war experience and period of reconstruction.

'Development' can also be enriched by religious studies in the mode of David Martin, at the London School of Economics. In tracing the 'Explosion of Protestantism in Latin America', he opens up for his readers a 'revolution', which, from a certain distance, will probably prove to be of deep and lasting significance to the development of the region. Professor Martin's work is noteworthy in cutting against the grain of more than a century of scholarship dominated by social analysis that saw religion as a weakening force in modern society, or, like the Marxists, as an epiphenomenon of deeper economic structures. Contrary to such scholarship, Martin shows how it is religion that shapes economic structures and how, in particular, evangelicalism is transforming the Southern hemisphere.

The fact of the matter is that a social science whose methodology places religion outside its purview declares its own bankruptcy and ignores the most powerful transformative force in the world today. Professor Martin's work also appears at a time when the miserable failure of Che and Fidel in Cuba still has, incredibly enough, a certain cachet in development circles.

Development studies can also be enlightened from classic texts such as the *Federalist Papers* and de Tocqueville's *Democracy in America*. Given the centrality of 'democracy' to my country's foreign policy, I can think of no better text than the *Federalist Papers* to inform us about liberal constitutionalism and the institutions of democratic government. And I can think of no text greater than de Tocqueville's to inform us of the social foundations of healthy democracies and how local government and associational life are essential to democratic development. They are works that I often return to and whose wealth of reflections is remarkable.

The late Edward Banfield, author of *The Unheavenly City*, theorised about the 'time horizons' that characterise different classes in modern society – from the instant gratification that defines the timeframe of the underclass to the broad concerns of the upper classes that embrace generations. In this particular, his book was an elaboration of his still pertinent study of post-war southern Italy, *The Moral Basis of a Backward Society*. More recently, Francis Fukuyama focused on 'trust' to unearth deep truths about different societies and cultures.

I would just like to add a small gloss to these studies. A commercial society is not only a machine that generates unheard-of material wealth. It shapes aspects of the human spirit as markedly as democratic life. Among other things, it broadens time horizons. It also energises society at the same time as it spreads trust. Alexander Hamilton, perhaps America's greatest development mind, understood this.

What scholars like Fukuyama and Banfield are saying is directly relevant – in a practical way – to understanding the less developed societies we operate in and even to helping design development strategies. Their insights, however, are not found by analysing statistics or measuring income levels. They are addressing development questions on a level that is not the conventional one but which probably approaches more of what I mean when I call for a development strategy that is truly 'transformational' and not merely 'sustainable.' In the end, I would like to see the development debate broadened, deepened and enriched by a greater stock of scholarly sources and thinking.