Employing Economic Growth to Catalyze Development

Keynote Address by

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A New Vision for International Development

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Andrew Natsios: Thank you very much. I should just make a comment on the Big Dig. I did it under duress because the Governor asked me to, my good friend who's now Ambassador to Canada. It was the worst job and the most interesting job I ever had. But people said it's much harder in Washington, isn't it? I said no. No, it's not harder. It's much easier. [Laughter]

In Boston they actually threaten you, physically threaten. In Washington they cause little problems here and there, they leak a story, I mean it's sort of a gentleman's game. In Boston, politics is a blood sport. [Laughter] Particularly when you're dealing with a $14.7 billion budget which is what the Big Dig cost -- The shots come more frequently the larger the budget. That's the physical law of reality in Massachusetts politics.

So I'm actually pleased to be in Washington, a much more civilized place in terms of public policy.

I typically like to actually speak extemporaneously. I'm not going to do that because there's another principle I follow which is I usually make one egregious indiscretion in all my extemporaneous speeches. We are perilously close to the general election, and even though this may be off the record nothing in Washington as we know is ever off the record, so I'm going to read this -- I didn't write it. I actually would like to take credit for it, but it's a wonderful piece of work. But I'm going to read it because we're getting a little close to the election for my indiscretions.

I do want to thank though CSIS for sponsoring this and being our partners in this undertaking. We are one of the, I think the sponsor of this with CSIS. It's very important to us that this set of issues get on the agenda.

I should tell you another story before I start, that Michael Porter, my good friend, designed, was Chairman of the Commission appointed by Bill Weld to take the Massachusetts economy which had virtually completely collapsed in the early 1990s. I don't want to make partisan remarks here as to who was responsible for that, but it took place under another Governor who ran for President unsuccessfully in 1988. [Laughter] And Porter was appointed by Bill Weld to chair the commission that led to the rebirth of the economy. Because they literally took Michael

Porter's recommendations, and Bill Weld went through and implemented literally every single one of them, methodically, through state government. And the state's economy was booming so much by the late 1990s that it was the wealthiest place on earth. I mean if you took all of the countries in the world -- maybe Connecticut was debatable, but Massachusetts by that time had the highest education level in the world and the highest level of wealth in the world. I don't want to attribute all of it to Michael Porter's theories and [cluster] in microeconomic reform, but I do want to suggest there is a relationship between public policy and economic growth -- not just in the developing world but in the United States.

I tell my friends in the developing world, we're not testing theories on you. I can tell you as the equivalent of the Finance Minister, because the job I had before I was head of the Big Dig was Secretary of Administration, Finance in Massachusetts, which is traditionally, for the last century, the most powerful appointed position in state government, and actually my favorite job in my career. And in that job the Secretary's the one that drives all this stuff because of the power of that job.

I went to see Michael Porter when I arrived to take it and I said Mike, is there anything else we need to do that you didn't do in the 1990s? He said, well, there are some things you need to focus on.

But these theories have been tested here in the United States. We're not just suggesting things to other countries that we haven't tried ourselves.

I also do want to thank, and I didn't notice that Michael is on one of the panels today which is very important. All of the members of the panel, though, bring expertise to this which we think is very very important to drive this agenda.

There is, as a former Finance Minister or Secretary of Administration at the state level, one overwhelming thing that I know of in domestic politics which is you can have all the abstract theories you want to, all the programs that are socially desirable and progressive, but if there's no tax revenue it doesn't really make much difference. It's all a bunch of pieces of paper. And all of the Millennium Challenge Goals cannot be implemented exclusively as a result of foreign assistance or ODA. It's going to require some tax revenue at the national level in the countries working on this in order to be successful, or it's not sustainable. It's not sustainable.

I might also point out that there is evidence, although I don't have studies to show it -- I can tell you from my NGO years

-- that when a country is spending its own tax revenue it's a lot more careful how it spends it than when it spends ODA. You misspend ODA people don't get as upset, but if they know their tax revenue's being misspent in their country there can be really very bad consequences politically.

So getting the developing world economies going is an essential part of achieving the Millennium Challenge Goals.

We have had considerable progress in reducing poverty, improving social conditions in the developing world over the last 50 years. We did a report called Foreign Aid in the National Interest which we published a couple of years ago which was sort of the follow-on report to the Woods Report done in the 1980s. We noted then that the number of people living on less than one dollar a day has fallen from 55 percent in the world in 1950 to 20 percent in 1998. We've made progress in infant mortality, secondary school enrollments. Developing countries have now reached or exceeded the levels that existed in industrial countries in 1950. Literacy in the developing world has risen from 35 percent in 1950 to 74 percent in 2000 among the adult population.

These are major gains of which all of us can be proud, however progress has not been uniform, especially in increasing growth rates. Most of the economic gains have occurred in Asia, first in East Asia, then in Southeast Asia, and most recently in India and in China. But African, Latin American, and Middle Eastern countries have not achieved those rates and many countries such as in Africa are in fact much poorer than they were in the 1970s.

I actually had one African come up to me, I will not mention which country. It was the saddest thing I've heard from an African because I'm an Africanist, when they said we wish the British were back. I said please don't tell me that. Not that I don't appreciate the British Colonial Office, I apologize. [Laughter]

Voice: I took that personally. [Laughter]

Robin Niblett: There's my indiscretion. That's not in the text, see?

But the point one in this particular country which is egregiously abused, the people have been, by a predatory government, they said the British were much better, colonial power or not, and that's a sad commentary.

This risks, this situation, a divide within the developing world between one set of countries that are engaging the global economy and making economic progress and another set of countries that are not. The second group includes a very large number of people. Hundreds of millions of people. This is not a good scenario for global development or for American interests in a world where economic failures can produce serious security threats. There is a relationship between terrorist networks and other darker forces in the new globalization of the world economy, counternarcotics trafficking, human trafficking, counterfeiting rings, all of which are connected into failed or failing states. It is not an accident that Headquarters, Al Qaida was first located in Somalia which has not had a national government since 1991; then in Sudan which has been in the middle of a civil war for 2.5 decades; and then in Afghanistan which was another failed state. These networks are attracted to weak or non-existent national states.

I believe that helping low income countries break through the barriers to economic development and poverty reduction is the next great challenge in development and it may not be using the traditional models that we've used before.

This is I think a critical issue for the Millennium Challenge Goals. If these countries don't increase their growth, as I said earlier, they will not be able to reduce poverty or make durable social improvements.

The MCA is specifically designed by President Bush to help countries increase their growth rates and their trade. The MCA calls on countries to propose innovative and ambitious development strategies that can break the barriers to growth of the past and it offers major support to those willing to do the most to help themselves.

It does also support those indigenous forces of reform. There are forces of reform in all societies including our own. >There are also people who feed off the status quo and do not want reform for very personalized reasons that have to do with vested interests. Mercantilist economics have existed for a very long time to protect established interests, and they are usually the ones resisting these reforms.

Why has growth been so limited in many countries in Africa, Latin America and the Middle East? Many of these countries have made macroeconomic reforms in areas such as reducing budget deficits, controlling inflation, having tradable currency, and improving trade balances. Some have privatized state-owned enterprises, but these changes have not produced strong growth or poverty reduction which has led in many places, and more particularly in Latin America, to movements toward a more radical approach which will be destructive instead of constructive to economic growth.

It was with these questions in mind that I recently received a briefing from people at the World Bank who produced a new report on business regulations around the world called "Doing Business in 2000" which I understand was controversial in the bank. I've told our people it's not going to be controversial in AID because we love the report. In fact I offer jobs to all the people from the bank if they can't get more support in the bank for their work. [Laughter]

This report focuses on five basic indicators of the regulatory environment that affects small and medium-sized businesses. Indicators like how many days does it take to start a business? The difficulty of enforcing a contract and labor restrictions. It measures these in the standardized ways that allows comparisons across countries, including developing countries, and it will expand the indicators now from five to eleven in the next two years of reports that they do.

The results are quite striking. Most countries in Latin America, by the way Latin American is the worst in terms of these microeconomic indicators, but Africa and Latin American score very poorly in terms of their regulatory environment over business investment. Registering a new business is much more time-consuming and expensive relative to local incomes in developing countries.

One example, how much does it cost to start a business? In Ethiopia, before some changes based on this report that Mellus has made, Prime Minister Mellus Zinawi, it cost $2,000 to start a business in Ethiopia, which is one of the five poorest countries in the world. Why was that? It was just a regulatory thing that required when you start a new business you have to publish an advertisement of it in the most expensive newspaper to advertise in in the country. It was required by regulation. It was $2,000 to publish that notice. Now $2,000 in Ethiopia is an enormous amount of money for a new business person. So Mellus found out about it and he rescinded the regulation. But there are so many regulations like this in so many countries that when you aggregate them it has an effect.

I know there are class -- I believe in classical economics, but I have to tell you the notion that these microeconomic regulatory environment issues do not affect growth in my view, from my own experience in Massachusetts and my own observation of the business climate of the developing world, that notion is nonsense. It really doesn't make any sense empirically because Michael Porter I think has proven now that these, the question of the productivity of private enterprises do affect growth rates over the longer term.

I believe those conditions identified in doing business in 2004 or the World Bank study are the tip of the iceberg. It is not just these regulations that hurt business development, but adverse policies, ineffective institutions, power systems that do not deliver reliable power, electrical power, banks that don't lend without full collateral, customs delays. Many factors make it hard and risky for business people and farmers to create private enterprise and create wealth.

I call these practices the microeconomic agenda to distinguish it from the macroeconomic stabilization agenda. Some people have told me not to use the term because it reminds them of Economics 101 in college, which in some people's case probably is not a bad thing to remind them of. Michael Porter uses, however, this same term and that puts me in my view in good company. If people prefer the term business environments, that's fine with me. I don't really care what the label is as long as we identify the specific conditions that affect business enterprise and productivity.

I believe that bad business environments are a principal reason why structural adjustment has not been able to achieve the strong growth payoffs in many countries. I'm not suggesting it's the only reason, but it is a principle reason. The problem has not been that market-oriented reforms don't work in poor countries as some have concluded, the problem is that reforms have not gone down to the microeconomic level which has prevented private investment and capita from increasing especially local private investment. This limits growth and poverty reduction.

If reforming governments want to reap the full benefit of reform they have to change their view of business development. They have to stop seeing the private sector as a force to be tightly controlled and regulated by the state.

Some of my friends in the developing world come from a more socialist history in terms of their earlier careers, and that is in the legal systems of their societies, and trying to purge the system requires really very aggressive reformers who have support at very senior levels. That's difficult to do.

They are beginning to see that private enterprise is a source of job creation and growth. This does not suggest subsidies for business. Poor countries have too much of that. One of the fundamental obstacles to growth in poor countries is the politicization of economic life. Because governments in poor countries often appear weak we think they don't have much power but they have enormous power in terms of the ability to intervene in the economy and affect [its sentence]. Many existing businesses are dependent on political relationships and government favors. This sabotages growth if you can't get dynamic private sector led growth, if the expansion of business activity depends on political connections rather than productivity and profitability.

Economies grow through the profitable expansion of business and firms, as I've said earlier. That is what creates jobs, that is what creates wealth. To get private sector expansion people have to see realistic chances of making returns on their investments. If people don't see those opportunities the rich will take their capital in capital flight abroad, the poor will keep their savings in a mattress or start a small business, and the farmers will produce at subsistence levels.

Some think business practices are only important for the wealthy. Actually the rich don't need good business conditions because they can get exceptions made through their political connections. But bad business conditions hurt poor people. They stay locked in poverty and underemployment. In the World Bank study which I mentioned earlier, it finds a direct correlation, high correlation between excessive regulations and informality. The high level of informality -- this is the sort of thing that Hernando DeSoto has been the champion of, this kind of analysis -- means that a large proportion of the workforce works in small businesses that operate outside the formal system of law. These businesses can't borrow money legally, enforce contracts, or become too big. As DeSoto has argued, the lack of property rights hampers growth and poverty reduction. The informal sector does not allow the dynamic development of business development capacity and improvements in productivity that are essential for growth and higher living standards. The same is true for small folder agriculture. Small farmers are sabotaged on many fronts by governments that subsidize urban consumers and industries.

There is a guy at the University of Colorado, his name was Ponwell, I think it was. He's an economist. He did a study of land reform. What he concluded was in many countries well-intentioned land reform turned into in fact regulatory schemes to rob the farmers and subsidize urban areas. I'm trying to remember the name -- "Peasants Betrayed" I think is the name of the book. It was written some years ago. It's a wonderful book.

Marketing boards have declined in many countries but many of the problems that block agricultural development such as lack of credit and bad roads remain firmly in place.

Why are business conditions so adverse in poor countries?

Here I think we have to go back in history not just in the developing world but our own history too. The West also had rent-seeking governments and the politicization of economic life for much of the last thousand years. European kings and barons extracted wealth from peasant farmers and urban merchants to fund their wars; mercantilism fostered private monopolies, guilds, and other restraints on competition. Douglas North earned the Nobel Prize for his analysis of how this vicious cycle was broken in Europe. The process started with merchants in Italian city-states who forced princes to improve the conditions for trade and business in return for taxes and loans. It took another step forward in the Netherlands in which parliaments dominated by commercial interests limited the power of the kings. It reached fruition in Britain in the glorious revolution of 1689 when the King was forced to accept the primacy of parliament which was dominated by the landed gentry and commercial interests. Some people would be appalled by that. I think it's a good thing, actually.

This produced a comprehensive set of property rights in Britain in 1700. North argues that this formed the basis for the industrial revolution. Once property rights were secure, business people had the conditions they needed to invest, tap the power of machines, and systematize production in factories. Later this led to a continuous technological innovation. The result was a spectacular increase in growth and a steady rise in living standards.

Two points are relevant for development today. First, the kings did not willingly cede power. It was demanded of them by independent business interests. In the words of one of my favorite writers Montesquieu, "Self interest induced monarchs to govern with greater wisdom than they themselves had intended." But the prerequisite was independent businesses and farmers that did not depend on political favors.

Second, other European countries were forced to move in similar directions by Britain's success. One of the things that disturbs my friends in the developing world most about the Millennium Challenge account is it's going to distinguish between one set of developing countries that have good policies and others that do not. This sort of breaks the notion of solidarity and fraternity and all this stuff. That's actually a very dangerous concept because if countries don't compete, everybody will be weighed down by this refusal to be critical of governments that have really very bad policies, whether they're deliberate policies or accidental policies. Thus France and Germany and others eventually adopted their own forms of capitalist development after the pressure from Britain.

One that sagged or lagged was Spain. Spain had a long history of centralized political power, heavy reliance on colonial gold, and a suppression of economic producers. It lost its great power status and became a poor cousin in Europe until recently when it liberated its economy after Franco's death.

Spain's colonies in Latin America imported many of the governance norms of the mother country 200 years ago. The politization of economic life was made worse by the dependence of many Latin American countries on large plantation agriculture and natural resource exports which compounded inequality.

Many leaders and activists are trying to change these conditions in Latin America and elsewhere but they are struggling with the legacies of the past that have left their countries with insecure property rights and weak independent business sectors. This creates a dilemma. You need a strong independent business sector to demand property rights, but without secure property rights you can't get strong, independent businesses. This makes it hard to change bad business environments. I believe this dilemma is a major factor in poor growth performance in the regions of the world I mentioned earlier.

I might add that one of the things AID does is we like to form Chambers of Commerce and business associations, and one of the things I'll talk about a little later is the microeconomic programming that AID does.

One of the things we always do is to try to get the business men, many of whom because they're competitors otherwise, don't want to talk to each other, until the realize they do have common agendas beyond their own competition with each other in terms of reforming public sector regulation to make it more business friendly.

We have to find ways to break these obstacles. All the aid in the world won't produce growth if local economics and people don't see their countries as safe places to invest their own money. Improving business environments should be the focus of a second generation of economic and development reform.

I'm not going to try to lay out a detailed agenda for that, but perhaps some of the speakers later can do that. But let me mention three points.

First, the challenge of economic reform cannot be led by donors or produced by conditionality. It has to be led by reformers within poor countries. The job of donors is to create incentives, positive and negative, for such reforms and to support the reformers. This means giving sustained support to countries that are willing to make real changes to improve their business environments, but it also means that such aid has to be highly selective, targeting those willing to help themselves. Aid has to be performance based.

Second, we have to get over any remaining hesitancy to assist business development. This does not mean ODA should subsidize business, quite the contrary. But ODA should support improvements in business conditions including regulatory reform, strengthening commercial courts, improving infrastructure, strengthening private banks and financial intermediaries. Strengthening independent businesses is vital for development. Not just to increase growth in the short term, but also to support forces that press locally for good economic governance.

We also support, AID does, around the world the establishment of private think tanks to do the kind of analysis needed, country-specific analysis by local people, that can lead to reform.

Third, we should give special emphasis to agricultural and the informal sector. Urban businesses will take advantages of better business conditions but poor farmers and workers in the informal sector may have a harder time finding footholds to advance. We should pay special attention to helping these people register their property, gain access to credit, and improve their skills.

AID has been most active as an aid agency of all of the multilateral and bilateral agencies in supporting private sector development and improving the business environment. We have not had much money to do this, but we have been able to make important contributions because we have missions on the ground that can work with private organizations.

For example, we helped Jamaica's progressive business community improve that country's business conditions. Jamaica was the only developing country to be listed in the top ten countries in doing business in 2004. USAID worked with governments and private sectors in 23 countries to implement investor road maps that test the time and money required for a local or foreign investor to establish a new business.

In the region of Morocco time to register a business dropped from six weeks to less than two days.

USAID worked with a confederation of Mozambican business associations to help reduce customs processing time for imports by 50 percent.

We deepened the grain market in Bulgaria through the licensing of grain warehouses and the provision of credit.

We helped the Fair Trading Commission of Barbados open up the telecommunication sector to competition. And cellular prices to businesses and the poor alike dropped 76 percent while investing in telecommunications more than doubled as a result of these reforms.

AID helped the government of Tanzania break up a national coffee auction monopoly and allowed grower-to-roaster sales which increased the earnings of smallholder coffee growers by 50 percent.

USAID assistance in the banking sector in Bosnia led to a greater public confidence in the banking system and an increase in deposits by 120 percent in the first year.

I am proud of what we're doing but we'd like to do more. There aren't a huge number of institutions in Washington that can support Congress when they take the risk of giving us money to do this, and I hate to be cynical about this, but people think Congress does these things arbitrarily. They do not. They have people coming in pressing them from interest groups, and every line item in the AID budget has an interest group somewhere in the United States attached to it. It's like every budget line item in the state budget in Massachusetts.

When I first started as state legislator 30 years ago I had an old and wise, it was Bill Solemstall, Senator Solemstall's son who was a state senator with me. He said, "Andrew, you will find out every single line item in the state budget has some interest group attached to it. That's why the line item has been protected from change."

The same thing is true in Washington. When Congress tries to move things to a more flexible way, and we've tried it a couple of times, the interest groups walk in and say oh, no, no, you can't touch this and allow them discretion. You can't let the mission directors make these decisions or AID development offices. That would be horrendous. Then our little nest egg here in this account will be affected.

It is a problem. It's macroeconomics in terms of budgeting. It's the same problem in terms of freeing up money so we can invest in areas that may not have a line item with a special interest group beside it, but nevertheless, makes a great deal of difference.

Thank you very much. I'm sorry I went over my time a little bit.

[Applause]

Q&A SESSION - AFTER KEYNOTE ADDRESS

Robin Niblett: We could take some questions. We've got a few minutes, I think. As we're over time let's keep going over time. Five or ten minutes, perhaps.

And if you could please identify yourselves first before asking the question. Try and keep the questions short so we can get as much of the answer, but let me open it up to the floor. Any questions stimulated here?

Question: [inaudible] from the Embassy of Switzerland. [Inaudible]. What do you think about the sanitary and [FISO] sanitary standouts? What kind of role, do they [inaudible] also development? Tariff is only one I think one part of the question, but what about the possibility, the capability of the developing countries to respond to sanitary measures?

Andrew Natsios: I went to, I think it was a meeting of the DAC. I can't actually remember the meeting. It was in Brussels. It couldn't have been the DAC because the DAC meets in Paris. It was a meeting actually of development ministers around trade issues and it was about two years ago. The EU had just made an announcement that they were going to farms not arms, this new policy of eliminating tariffs for agricultural trade with the developing world, I think particularly with Africa. On the same day in all the newspapers it announced a story, it was a story about the [FISO] sanitary code of the EU stopping the importation of a particular kind of goat's cheese that did meet the regulations but the regulations keep being, apparently were being used to prevent this cheese from entering Europe. It would have probably sold very well. I think it was from Mali or Mauritania or something. They learned the code and then they found out they couldn't, even when they learned the provisions of the code they could not import.

We do need health standards. I'm not a libertarian who thinks that these restrictions should be eliminated, but we need to make sure that the standards are not being used to stop trade, and sometimes they are.

I can tell you in our own government, I won't tell you the agencies because I don't want to say something provocative at the wrong time of year. [Laughter] But we had our own problem, and one of the trade rules, microeconomic trade rules in this particular government agency was being used to prevent a certain kind of agricultural product being imported from the developing --

We got it fixed, but we have to be the advocates with the State Department and Treasury to turn it around. It was only because we had three federal agencies on the right side of the issue to overcome this regulatory impediment.

What we're doing, we've doubled our trade capacity building budget in the last two years with the help of Jim Colby who's a very strong advocate of this, the Chairman of our subcommittee. It's nice to have a chairman who understand this stuff. But what that has allowed us to do is set up hub training centers around the world, particularly in Latin America and Africa, to train business people and people from the ministries in what the microeconomic regulatory impediments to trade are around issues like the [FISO] sanitary code, Customs, et cetera.

I asked some people who went through the training program, is this helpful? They were so excited they said we're going to go back to our capitals now and see if we can't make a list of the things that need to be changed, or to see by understanding how these regulations work in the developed countries that impede our trade that we can in fact trade.

So we're spending more money to do this, but it is absolutely the case that these regulations are not just for the purposes they're written in the north. They're also written to protect domestic interests, even though that's not the purpose of the regulation as it was initially intended.

Question: You spoke I think very well about the need for a better investment climate in terms of property rights, better regulation and so forth which I think affects more the small/medium enterprise level. I was wondering what your thoughts are about infrastructure because there's been a major exit of private investment and infrastructure. I know the development communities really grappling with how to address that, and I think the kind of regulation and issues around small/medium enterprise isn't going to simply address the problems of infrastructure, whether it's power, water, telecom, roads, and so forth. So I was wondering what thoughts you had about how to revitalize private investment and infrastructure.

Andrew Natsios: When I arrived at AID there was sort of a bias. There still is a bias against some people, against building anything, and there are several reasons for it. One is our budget was cut until two years ago. Our budget actually has doubled in the last two years, but when I arrived it was at $7.9 billion, all spickets. Last year was $14.2 billion so it's increased very substantially. Our ODA, by the way, has increased 150 percent in two years, and only a relatively small part of that is Iraq. It's not mostly Iraq.

But we didn't have the money to do large infrastructure projects, and they're expensive. The road from Kabul to Kandahar which we did in 13 months, 379 kilometers long through the middle of the Taliban heartland, I was told it was impossible to do it based on my Big Dig experience I thought it was impossible, but career staff did it, I wanted to give them credit for it.

It is having an effect not just on security but also social services in that area. I was ordered to do it by the President. I was very resistant, particularly because I thought our other projects were going to be cut. In fact they would have if it were not for the fact that Congress said, a certain person in Congress said that had to be taken out of ESF account money rather than our developments, which protected our regular agriculture, education, et cetera, accounts. So there was a bias within the agency if it meant shutting down all our other programs, and I still share that bias. I think we need to do our regular program. We need more money to do the infrastructure. But the fact is the banks are supposed to be doing this. That's the purpose I think of the banks. I guess I'm being a little critical here but by getting into the social services so heavily the banks have gotten to the same area that the bilateral development agencies are in. The banks have been criticized before for doing exclusively infrastructure. I'm not suggesting they go back to do only infrastructure, but the response I got from our career staff was well the banks, they do that. I looked at the bank and the bank wasn't doing it. The only one is the Asia Development Bank and I have to say they move, a tortoise moves faster than the Asia Development Bank on their infrastructure projects.

I have to tell you, we came in, I'm sorry to say these things, but I was in Afghanistan and they were going to fund the northern half of the Ring Road and the Japanese, the Saudis and we were going to do the bottom half of it. They came in and told us we're going to fund it. I said really? And how fast -- We're going to have assessment teams in here in December. This was two years ago. I said you're going to have assessment teams, you're going to be in construction in three months. So they said no no, not December of 2002, December of 2005. Two years later. I said that's just not going to work two years from now. So that was in 2002.

So the point is the banks need to do it because it's very expensive to do it but they shouldn't do it exclusively and I think a lot more money needs to be spent on rural roads and rural infrastructure, not just the big giant projects, the mega projects.

I have seen the effect of a rural road system on narcotrafficking. We built 3,000 kilometers, I can't remember if it's kilometers or miles, in Bolivia in the Chapari Region which was the center of the coca growing area of the country over an 18 year period. These were stone-paved roads, much cheaper but much better than dirt roads, and most importantly, they can be maintained by the rural workforce, because there's no asphalt involved in it, by setting up community-based associations to maintain them. I drove all over that area about two months ago and I was astonished at the condition of the roads. It's because AID created these community-based maintenance programs, which another argument against roads is you can't get them maintained, they all fall apart and that's not happened in Bolivia because of these community-based systems that were set up to maintain the roads.

That's a long answer to your question but it is a very serious issue and needs to be dealt with.

Question: Charlie Flickner, House Appropriations Committee.

Andrew, you're correct in the statement that every line item, as Bill Saltenstal said once, has an advocate, but what you're talking about at this conference today doesn't have an advocate -- economic growth. I'm not sure what can be done about that but people in the room ought to think, at least as far as the U.S. Congress is concerned, what could remedy that.

But you mentioned with some pride that ODA has gone up 150 percent, but the types of things you're talking about, policy reform with willing local reformers in the lead, doesn't cost much. You can set up civic-minded Chambers of Commerce, you can do policy reform, you can talk Mr. Mellas into giving land tenure to his rural people. None of these things are going to increase ODA. The international community measures efforts in development by the amount of money that goes out. The things you're talking about don't cost money.

Andrew Natsios: They're qualitative rather than quantitative.

Question: Yes, and they're expensive and Michael Porter is not cheap, I'm sure, but -- [Laughter] -- in his charges. But the one thing --

Andrew Natsios: He was a volunteer in Massachusetts.

Question: In response to the last question though on infrastructure, doesn't AID have a role in small infrastructure?

And that will use money and will increase ODA. Could you explain a little bit the efforts that y'all are making to restore you ability to do smaller infrastructure and infrastructure that can't wait for the banks to wake up? And also if you could comment about the absence of public support for economic growth matters.

Andrew Natsios: Let me talk about the last first. I think Charlie's right. We need to find advocates for this and it may be in the business community that we get it. But I have to think if the think tanks all got together in the city and said this needed to be done and other development agencies said it, the more reports that come out certainly help to drive this.

I have to say maybe there needs to be a conversation between the development policy people and the NGOs because the NGOs frequently, they will not publicly undermine this but privately they do. They don't want money spent in these areas because none of this money tends to go to the NGO community. I come from the NGO community. I'm just telling you that's the nature of the community. But the fact is they can help us sometimes in some of this rural infrastructure, for example, many of the roads that have been done have been done by NGOs. These associations that were set up to maintain the roads were done by NGOs.

So perhaps a set of meetings between the think tanks in Washington and the development policy people and the NGO community around these issues might be very useful as a discussion. Frequently those communities don't talk in a systematic way about the growth issues.

There are people hostile to the growth environment issues among the NGOs on the left, but NGOs are all not of the same stripe. There are NGOs in the center and the right. There are a number of agricultural NGOs that actually do a lot of market-based work that's quite good and they would be perhaps the beginning of a base of support for this.

Around the smaller infrastructure, we are getting more involved in that. We're building a thousand schools in Afghanistan, 400 health clinics, we've rebuilt 2500 schools in Iraq. Of course we have very large budgets to do that.

One of the things we are doing which I'm excited about is, and it has slowed things down, but in Afghanistan we are requiring earthquake resistant schools. That is one of the highest risk earthquake areas in the world. The first design of the schools came and I said these aren't earthquake resistant. They're all going to collapse on the kids if they have an earthquake. We just can't do this. I'm not going to have an

American school collapse on kids. So we've redesigned. It's not very expensive when you're building them from scratch to redesign them to make them earthquake resistant. These are smaller schools, these aren't huge things, but we have one factory producing the steel frames that will make the roofs earthquake resistant. Now we've told the contractor to set up two more factories to produce the same frames. We'll be able to build all of the schools now using these standards.

But we are doing that, but of course there's a lot of geostrategic focus on these two particular countries. But we are reviewing now proposals to set up an office of infrastructure and engineering with in AID. We have a lot of AID engineers from 30 years ago who are excellent. We're bringing them back from retirement to build things now. We need a younger generation of engineers in the agency who can help us with this as we get back into it.

So I think we do have a role, Charlie, on schools and clinics and rural roads in particular, maybe not the massive dams although I flew over the Kajaki Dam which AID built in 1973. It's the principle source of power and water in the Taliban area. It was built to be doubled in size. We're now reviewing a $50 million investment that could double this in size, both for irrigation but for energy. It will go from 50 megawatts to 100 megawatts of power. We're now rebuilding all the generators. The generators were installed in 1973. They haven't been touched since then. We're down to 12 megawatt production. We're going to get up to 50 and then we can maybe even double it by just building on what we already built in 1973.

Question: Good morning, I'm Rishika Sang from Deloitte and Regy Markets. Thank you for your presentation.

I just had a more general question about the role and interaction between MCC and AID moving forward. I'd be interested in hearing your thoughts on that particularly at the country level.

Andrew Natsios: Clay, should I say anything? [Laughter]

This is all evolving, but it's evolving in a constructive way that I am particularly pleased with. It was not evolving that way two years ago and I was very upset about it.

I am a conservative and I think a lot of criticism of AID over the years that it can't be trusted, that it doesn't know how to do this stuff, is utter nonsense. The best development professionals I've met in the world, and I come from the NGO community, are in AID. They have the experience, they've been around longer, they know what to do. The problem is there are a few high visibility issues we've been criticized on and people generalize. Our people are market-based, they're very interested in markets and how they function. They know how to do this stuff. And I think people are beginning to get that.

What's happened is Paul Applegarth came to me privately and said could we by contract have AID be the country manager of the relationship with the government in particular countries. I said yes, absolutely. That's the way in my view it should work. He did say it though in his congressional testimony when he was testifying before Congress, on his nomination. And so when he said that in testimony I took it that that is a serious thing being considered by the -- Of course I sit on the Board and I will vote for that if Paul presents us as a policy.

We want to be collaborative. But I want to say this also. If we didn't have the MCA Board, the MCC Board, and we didn't do this separate structure, since I report to Colin Powell there would be a tendency to use that money for strategic reasons. I've got to tell you, I sat through it in the first administration and now. Very well-meaning people say well, can't you find a country to give money to that is supporting us on X issue in the UN or in some negotiation? That's what will happen. And that is not the intention of the President of the United States. He's extremely adamant about it. He said this is to reward good performers, to stimulate reform. It is not to reward people for a more mundane, not mundane, a more strategically oriented decisionmaking process or allies. If we want to do that, that's why we have the USF account. We've written a paper on this called the White Paper. If you haven't read it I urge you to read it, because what we're trying to get people back into is the discipline of using money from the appropriate accounts to do that sort of thing.

The purpose of humanitarian relief is not to reward our friends. It is to save poor people's lives in the middle of emergencies. We should not be using that for geostrategic purposes. We should use the ESF account for that. The purpose of the MCA account and the DA account in my view are to reward good performance and by having this structure set up I think what we're doing is over the long term insulating this from it deteriorating into simply being an extension of ESF which could happen under pressure.

Robin Niblett: Thank you very much.

Please give a warm thanks to the Administrator for a great --

[Applause]

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