
ADMINISTRATOR'S STATEMENT

The Changing Landscape of Development

The world has changed dramatically over the past two decades. Of the world's 200 countries in 2001, 124 were democracies—the highest number ever. Today most of the world's 6.0 billion people live in market economies, dramatically up from 1.5 billion in 1980. Globalization has integrated the world's markets for goods, services, finance, and ideas. Population growth rates are down, and in most parts of the world health and education have surpassed where the U.S. stood 50 years ago. Remarkable advances in biotechnology are bringing the promise of new cures for the sick and new seeds for the hungry.

But not all is bright. Virtually all new democracies are fragile; others are democracies more in name than substance. Many market advances are being challenged by losses of business confidence. Nearly a quarter of people living in developing countries, or about one billion people, live in absolute poverty. They are stranded across a gaping digital divide, blind to the benefits of information technology that could be free for all. And for many people, especially Americans, the terrorist attacks of September 11, 2001, breached the sense of security offered by geography.

The National Security Link

In September 2002 President Bush introduced his National Security Strategy. For the first time development has been elevated as the third pillar of U.S. national security, along with defense and diplomacy. Foreign assistance will be a key instrument of foreign policy in the coming decades. Under the leadership of Secretary of State Powell, the U.S. Agency for International Development (USAID) is redefining its own strategic priorities to meet this challenge. These changes have altered the landscape for global development. Within this new landscape U.S. foreign assistance and USAID must be prepared to move in new directions. Six issues are paramount in redefining our future:

- Promoting democratic governance
- Driving economic growth
- Improving people's health and education
- Mobilizing private foreign aid
- Mitigating conflict
- Providing humanitarian aid

The first four articulate key development concepts driving the President's proposed Millennium Challenge Account, a major new initiative announced by

President Bush in March 2002, and showcased in his proposed budget for 2004. This is just the third major foreign aid policy statement since the second world war. The Millennium Challenge Account is based on the proposition that countries ruling justly, investing in their people, and encouraging economic freedom will receive more U.S. aid.

Strategic Direction and Themes

Around the world one of the most pressing needs is to advance Democratic Governance—no small task. At a superficial level the state of global democracy appears highly encouraging. Over the past quarter-century, democracy has become the world's most common regime and we have learned that democratic and accountable states do better. But swirling beneath this expansion is growing disenchantment with political leaders seen by their people as corrupt, tyrannical, predatory, and unable or unwilling to address economic and social problems. In many developing and post-communist countries, people are losing confidence not just in elected officials but also in democratic institutions. So, promoting democratic governance must become a higher priority of U.S. foreign aid. Democracy and good governance are vital to spur development and reduce poverty in poorly performing countries. They are also vital to U.S. national security and this was reiterated by the President's National Security Strategy, published last year.

Economic Growth is another essential element of sustainable development. Economic growth raises living standards and reduces poverty. The productivity growth that spurs sustained economic growth depends on a favorable business climate and -- closely related -- the sophistication with which companies compete. This calls for programs that address both microeconomic and macroeconomic aspects of the business climate. USAID programs in trade capacity building aim to strengthen policies, institutions, and other factors that enable countries to participate in expanding trade and investment and benefit from the unprecedented opportunities offered by globalization.

In poor countries agricultural development connects poor people to economic growth. The requirements for agricultural development are well known. Increased opportunities for farmers through better agricultural technology and adequate prices lead to profitable farm investments and higher incomes that lift people out of poverty. USAID programs will address these factors at the national, regional and local levels. The United States can also get global agriculture moving by restoring the budgets of global agricultural research centers, training scientists, and assuring that the full range of scientific advances such as biotechnology is available to developing countries. Additionally, we need to better connect farmers to the global supply chains by encouraging agricultural trade reform, by supporting producer organizations and promoting the development of needed market infrastructure.

Key to sustainable growth is that it occurs in an environmentally sound manner. Environmental degradation is an increasing threat to long-term development with severe effects on health, trade, and poverty reduction efforts in general. Effects can be felt directly in the United States as in the case of climate change. It is in our interest to ensure that policies and institutions actually support sustainable development.

Fundamental to this growth is improving people's Health and Education. Because of changing demographics, many developing countries' workforces will grow over the next two decades. As a result, more resources will be available to invest in economic endeavors. But for that to happen, investments must be made today so that workers are healthy and educated. Preventing diseases that cause illness and pre-mature death contributes to global economic growth, reduction of poverty, a sustainable environment and both regional and domestic security. As we are witnessing with HIV/AIDS in many developing countries, illness on a national level can have devastating social and economic impacts. Responding to diverse health challenges requires strategic budget allocations and more flexible programs.

Global markets are changing, as more developing countries shift from production based on low-wage labor toward higher-end manufacturing. Doing so requires workers able to learn new skills and use new technologies. In countries where access to primary schooling remains incomplete and where educational quality remains seriously inadequate, the urgency of correcting these problems is increasingly apparent. Where improvements at the bottom of the educational ladder are enabling more students to finish primary school and move on to the secondary grades, countries need to ensure that they continue to gain new skills along the way. Taking full advantage of the potential offered by the global economy requires workers with the academic and technical skills needed to adapt emerging technologies to local conditions. While continuing to help countries get the process of educational improvement underway, U.S. foreign assistance must help more successful countries maintain their upward momentum.

Given the devastation caused by Conflict, the United States needs to do much more to mitigate it—and when that is not possible, to help manage it. Conflict is the product of deep grievances, political and economic competition, irresponsible political leaders, and weak and unaccountable institutions. It does not occur simply because people are unhappy or greedy, or because a country has the resources to sustain violence. Nor does it happen where all state and social institutions are weak. It happens when causes at multiple levels come together and reinforce each other.

Preventing conflict requires long-term interventions that make states and societies better able to manage tensions. Whatever the causes, a crucial part of the solution is encouraging innovative institutions that can deal with problems—

local, regional, and national. The most important principle when designing country programs is to apply a conflict lens to each major area of foreign assistance—from agriculture to economic growth to democracy and governance—and to have each area work in concert.

In the aftermaths of conflict and natural disaster, the United States has a critical role in providing Disaster Assistance. It must project a clear, consistent message about addressing humanitarian needs and reducing vulnerabilities that transform natural, socio-economic and political events into disasters. The defining disasters of 1990's were conflict-related, and the recent growth in humanitarian aid was largely driven by the devastation in failed and failing states. Wars triggered many of the great famines of the late twentieth century. They drive farmers from their land, disrupt markets, destroy food stores and result in food shortages.

U.S. assistance can do much to shape the 21st century. Assuming the Millennium Challenge Account moves forward, U.S. official development assistance is set to rise from \$10 billion a year today to \$15 billion in 2006 and thereafter. This does not include additional funds recently proposed by the President for famine relief, complex foreign crises, and HIV/AIDS which will add significant financial support to our development and humanitarian efforts globally. U.S. assistance is generally measured solely as the official development assistance that the government provides through USAID, the Peace Corps, multilateral institutions, and programs sponsored by the State Department and Department of Defense. But many nongovernment sources also provide foreign aid: foundations, corporations, private and voluntary organizations, colleges and universities, religious organizations, and individuals.

All these Private Aid sources—providing over \$30 billion a year—must be taken into account to plan aid more effectively. With private assistance predominating, U.S. official assistance will have to expand and strengthen partnerships with the full array of private sources.

The dominant themes, then, are for foreign assistance to focus on governance, on policy, on people, and on partnership. Unless a country's leaders make smart choices for national priorities and show their political will to work with outside donors, development—and development assistance—cannot succeed. Unless sensible policies are put in place, with the rule of law to promote good governance and individual freedom, development cannot be sustained, particularly for agriculture, the engine of growth for most poor countries. Unless countries invest in health and education, people cannot take on the demands of today's competitive workplace, and development cannot even start. And unless the official development community works better with partners, both traditional and new, many development opportunities will be wasted. Too much is at stake in all this. We have to ensure that these themes suffuse the future of foreign assistance—all in the national interest. (1)

Program Priorities

This budget request supports programs and new initiatives directed at addressing the changing global environment and critical challenges facing the United States as we work to establish “a more secure, democratic and prosperous world”. (2) These include:

- The President’s International Mother and Child HIV Prevention Initiative is given priority funding especially for sub-Saharan Africa and Latin American countries.
- A commitment to increase support to the Afghan people as they rebuild their country, as well as continued support to other front line states, including expanded programs in Central Asia, Pakistan and Sudan.
- Increased funding for Economic Growth promoting trade-led growth and development, notably the Central America Free trade Agreement (CAFTA) and the Trade for African Development (TRADE) Initiative. Funds will also support microenterprise and small business development worldwide.
- Increased attention to agriculture as an important contributor to economic growth and trade especially in Africa, Central Asia, and Latin America. Particular emphasis is given to Africa to help reduce hunger.
- Continued priority funding for Education with a focus on basic education in Africa and in selected states of Asia and the Near East.
- Environment including increased funding for four international environmental initiatives -- Water for the Poor, Clean Energy, Congo Basin Forest Partnership, and Global Climate Change -- as well as ongoing programs aimed at natural resource management, tropical forestry and illegal logging.
- Democracy and Conflict Assistance to support elections, political party assistance, rule of law, security, anti-corruption, human rights and conflict prevention. It also supports programs to help prevent trafficking of persons and to assist victims of war and victims of torture
- USAID’s Child Survival and Health programs to address critical health and family planning needs worldwide. The request, for example, includes support for HIV/AIDS and other infectious diseases programs, for example, the request includes funding for the Global Fund to Fight AIDS, Tuberculosis, and Malaria.
- Emergency relief in response to natural and manmade disasters that are often accompanied by displacement of large numbers of people and human suffering. This year we targeted drought-affected populations in Ethiopia,

Southern Africa and continued assistance to protracted complex emergencies such as Sudan or potentially in the Middle East.

- Transition Initiatives to provide a fast and flexible response capability to address the needs of countries experiencing significant political transitions or facing critical threats to basic stability and democratic reform. Recent interventions helped Afghanistan, East Timor, Zimbabwe, Macedonia, and Venezuela.
- The Global Development Alliance to mobilize resources from and alliances with U.S. public and private sectors in support of USAID objectives. In Brazil, for example, USAID is working with private companies and NGOs to encourage low-impact logging; while in Angola, USAID is cooperating with a U.S. oil company to promote small business development in rural communities.

Management Improvement

Meeting foreign policy and program management challenges facing USAID and other foreign affairs agencies requires a modern, flexible and well disciplined organization. In close coordination with the President's Management Agenda, USAID is aggressively implementing an ambitious management reform program including the introduction of new business systems, processes and changes to our organizational structures. As part of the Department of State's "Diplomatic Readiness Initiative", we are taking action to ensure that the Agency has adequate numbers of well qualified personnel to meet present and future national security challenges. We are also evaluating, with the Department of State, the feasibility of more closely linking some of our business systems with the intent of achieving future operating efficiencies. And lastly, we are working closely with the Department of State to improve our support for U.S. public diplomacy and public affairs efforts overseas, especially targeting the Muslim and Arab worlds.

To date USAID has:

- Completed a comprehensive organizational restructuring to de-layer the Agency and strengthen program management capacity in the field, while centralizing technical leadership in three Washington-based "pillar" bureaus corresponding to Agency program priorities and joining the policy and resource allocation functions in the same bureau.
- Expanded recruitment and implemented a New Entry Professional (NEP) Program to address the critical human capital gap that resulted from a combination of substantial lay-offs and negligible recruiting in the 1990's.
- Started drafting a comprehensive Human Capital Strategic Plan designed to address both USAID's particular needs and the President's Management Agenda requirements with completion expected by mid-2003.

- Fielded an automated e-recruitment module (AVUE) reducing the average processing time for recruiting new staff from 120+ to 30 days.
- Implemented improvements to the headquarters core accounting system, including the capability to handle web-based queries from vendors, electronic invoicing, and improved financial and performance reporting.
- Financial management improvements enabled the Agency to close its material weakness on reporting and resource management and obtain an opinion from our auditors on the Agency's financial statements.
- Piloted an automated e-procurement system and deployed e-procurement capabilities to the Offices of Procurement, Security, Information Management and Administrative Services to speed the procurement of frequently used goods and services.
- Started drafting a knowledge management strategic plan to reposition the Agency as a global leader on development issues and to facilitate knowledge sharing among partners and staff with completion expected by mid-2003.
- Developed a strategic budgeting model to enable us to better link performance and resource allocation.

Later this year we will start implementing the plans for human capital, knowledge management, and strategic budgeting. We will procure new acquisition and assistance software, begin pilot testing our Phoenix financial management system overseas and reintroduce the International Development Intern program for recruitment and training of junior Foreign Service officers.

The budget request for salaries and support costs of our staff that manage programs totaling \$9.5 billion in FY 2004 includes:

- \$604 million for maintaining current staffing levels and adding up to an additional 50 staff overseas as part of the Diplomatic Readiness Initiative.
- \$146 million for our new Capital Investment Fund supporting information technology and facilities construction.
- \$35 million to cover operations of the Office of the inspector General associated with USAID's programs and personnel.

The Budget Request

In summary, this budget request is founded on three precepts:

- Foreign aid and the U.S. Agency for International Development are essential elements of our country's national security apparatus.
- Our programs have evolved to meet the challenges of the new millennium.
- We must press ahead with the management reforms begun in 2001 and transform USAID into an organization of excellence.

I assure the Congress that we will aggressively continue along the path the Secretary and I have charted. This budget represents the minimum that I consider needed to maintain an effective field presence and to carry out our mission. I look forward to working with you over the coming year as we move our foreign policy agenda forward.

(1) Excerpted from *“Foreign Aid in the National Interest: Promoting Freedom, Security and Opportunity”*, Foreword by USAID Administrator Andrew S. Natsios, Washington, D.C., 2002.