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IN FRAGILE STATES

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P R O C E E D I N G S

MR. PETERSON: Good afternoon. Thank you all very much for joining me here at CSIS. I am Erik Peterson. I'm the Director of the Global Strategy Institute here at CSIS. I am also Senior Vice President.

Today's event is a collaboration across offices at CSIS. The Director of Studies Office and the Global Strategy Institute have worked together to make today's event possible. I'd like to acknowledge with gratitude Keith Smith in the Director of Studies Office who has given a huge time and effort to make today a reality. And in my own office, Lauri Keating [ph] with her camera, and Sam Brennan [ph] have helped a great deal.

We have a very interesting topic, certainly a very interesting set of speakers here, and I would argue that the timing is very critical as well.

I have the opportunity now to introduce Administrator Andrew Natsios. Over the past year I think it's fair to say that he has led what can be characterized as the most active period in the

history of USAID since its precursor institutions were established following the end of World War II. Imagine the reconstruction efforts in Iraq and Afghanistan, the tsunami events in Southeast Asia, and among other things, including of course the continuing global portfolio of activities. What a remarkable set of developments. All the while under Administrator Natsios's watch, USAID has managed to look ahead and to reflect on the future, and that in my view is a reflection of strategic leadership.

As a part of that, the Fragile States Strategy is among the end products of this institutional introspection that's underway and we are all glad that the Administrator can be here today to expand on the perspectives at USAID on this critical issue.

In 2002 the President's National Security Strategy elevated development assistance to the "third pillar" of our foreign policy on a par with defense and diplomacy. As USAID estimates, nearly one-third of the people on our planet are now living on what can be considered to be fragile states.

USAID defines fragile states to refer generally to a broad range of failing, failed and recovering states, and addressing these countries in these predicaments, clearly, definitionally, means long-term commitment and thinking on the longer-range horizon.

Administrator Natsios has a career that has straddled Washington, D.C., and his home state of Massachusetts, from his undergraduate work here at Georgetown University to his master's degree in public administration from Harvard. He has had a notable presence in Massachusetts state politics including as a Representative there and a Gulf War veteran. He has also served 22 years in the U.S. Army Reserves, retiring with the rank of Lieutenant Colonel.

From the standpoint of CSIS, we're proud to say that he is the author of a book published by CSIS in 1997 entitled U.S. Foreign Policy and the Four Horsemen of the Apocalypse.

Prior to becoming USAID Administrator in May 2001, Mr. Natsios served as Director of the

Office of Foreign Disaster Assistance, then the Assistant Administrator for the Bureau of Food and Humanitarian Assistance. President Bush as also appointed him as Special Coordinator for International Disaster Assistance, and Special Humanitarian Coordinator for the Sudan.

So we are very pleased to have him here today. Would you please help me in welcoming Administrator Andrew Natsios.

[Applause.]

MR. NATSIOS: Thank you very much. It's a pleasure to be back to CSIS. I did tell you, I don't know who was it the last time I came here, but I did tell the story that I was told by the publishers, the office that does publications, that my book called U.S. Foreign Policy was the best-seller of the year, I said, best-seller? I gave up the rights. I got paid $500 to write the book or whatever it was, this huge amount of money. And I said, I gave up all royalties to CSIS. I said, how many copies did you sell? They said, 1,200. I

said, that's a best-seller? They said, by our standards it's a best-seller.

[Laughter.]

MR. NATSIOS: In any case, it is a pleasure to be back at CSIS. You did note the name of that book, and I do feel that the four horsemen of the apocalypse have run over me four times in the last 4 years, and now we have the fifth instance. Although we're very much in the periphery of Katrina, we're having to coordinate some of the international response. We now have in the AID Operations Center, the OFD Operations Center, in Arlington, a NATO logistician, an EU disaster manager, a team under Kevin Kennedy from U.N. OCHA, a team from UNICEF, the World Food Program, and DFID, the British aid agency, and WHO now is working with the CDC in the field. So we have an international presence and a group of those people were sent out late last week, the WHO people, and a number of these people are being placed today into the structure of the system. So even domestic politics and domestic response, we have a role under the FEMA Disaster Management Plan

for major emergencies, and we're fulfilling that role with the State Department.

The President's National Security Strategy is a remarkable document. It was written at a year's distance from 9/11 and it is the first comprehensive response to the events of that day. The morning of that day we were a nation at work and at peace. Then that afternoon we were a world at war facing a new era of deadly challenges in our security and way of life.

The threats and dangers were unprecedented. We no longer faced the forces of nation-states masked behind clearly defined borders. The new belligerents were not professional soldiers, but irregulars, ad hoc forces that sought supporting environments where they could and inconspicuously blended into other places where they couldn't. Even the parents and siblings of suicide bombers confessed to being unaware of their activities and secret lives.

The strategic blueprint of a new foreign policy was presented in the National Security

Strategy document. We stand at a very dangerous crossroads of radicalism and technology it is said where groups of terrorists and rogue states actively seek weapons of mass destruction and are uncomfortably close to producing or acquiring them. Our challenges in the new era require new ways of thinking and operating to meet the challenges the whole spectrum of our foreign policy establishment have to be engaged and many of its programs redesigned. This included defense and diplomacy to be sure, but also development, the success of which mission is now viewed as a matter of great importance.

I see Charlie Flickner. Is Charlie here? Charlie, remember, in the mid-1990s the only way the 150 Accounts got through Congress is if we stuck it on something that had to go through like the Social Security or HHS Bill. It's an intriguing reversal of that change in mentality since 9/11 that the domestic budgets went through last year on the back of the 150 Account appropriation, the exact inverse

of what it was in the 1990s. I think it is a reflection of profound change.

You used to get a lot of attacks and arguments from the left and right over foreign aid in the 1990s, and now you have a great deal of interest I think, but you don't get the attacks except on some of the culture wars in the United States that are going on that we get drawn into unfortunately.

Our challenges are important and development today has received I think a level of commitment not seen since the Kennedy or the Truman administrations. Part of the intention of the National Security Strategy was to disabuse anyone of the opinion that development was something peripheral to our own nation's well-being. The promotion of freedom and development around the world is of course an expression of the highest ideals of America, but it is also more than that. Post-9/11, the success of the cause of freedom and development is absolutely vital to making this a safer as well as a better world. As the President

stated in his second inaugural, "The present moment sees our highest ideals and our national security concerns joined."

In the last 4 years we have been witness to the most extensive government reorganization since the Truman administration created the National Security Council in the Department of Defense, and I believe the Central Intelligence Agency as well. We have created a new department to guarantee the security of our homeland. We have revamped the nation's intelligence apparatus. We are modernizing, reequipping and redeploying our armed forces. We are adapting strategies that were designed to meet the dangers of a former era so that we can better meet the tests of a new world of global terrorism.

We have engaged our allies to meet the common threat, and we have taken the war to places that provide aid and refuge to our enemies. In short, we find ourselves once again present at the creation, to use the term that Dean Acheson as the title of his memoirs. In erecting the new foreign

policy architecture, we need to address the challenges in the area that stands before us.

Certainly, one of the central lessons of 9/11 is the critical importance of weak and failing states to foreign policy. The pathologies that emerge from fragile and failed states readily spread across porous boundaries and entire regions with crime, drugs, disease, human trafficking, environmental degradation as well as economic chaos and political instability. Failed and failing states are both the incubator and sanctuary of terrorists. It was, therefore, no accident that Sudan, Somalia and Afghanistan served as the headquarters for al Qaeda training and planning. As the National Security Strategy document so succinctly puts it, America is now threatened less by conquering states than by failing ones.

I must add that one of the very senior offices in the agency was sent without me even knowing it to the White House to work on the National Security Strategy at the President's instruction. When some announcements were made

around that strategy, other officers were seconded very quietly to develop the statistical bases for some of the arguments made in the paper. I found that I was very pleased, but I was a little embarrassed I didn't know about it. The White House said we're going to make this very quiet and we're just going to draw in these experts to draft this stuff. So part of the National Security Strategy of the United States by one of our most senior career officers which I'm not going to mention here, but anyone wants to know, I'll tell you later.

[Laughter.]

MR. NATSIOS: The fragile states problem is not limited to any one region of the world. Since the fall of the Berlin Wall, AID has been involved in major conflict and reconstruction projects in countries in all our regional bureaus. The problem is of course one we currently grapple with. In Afghanistan and Iraq we are facing the sternest foreign policy test of the new era. The form and the consequence of state failure, the latter the most ambitious reconstruction project the country

has undertaken since the end of World War II. Without doubt, the problem of fragile states is likely to be on our foreign policy for many years to come.

The Office of Reconstruction and Stabilization of the State Department is playing a significant role as part of the new foreign policy apparatus that President Bush is putting in place. Though its design cannot be found in the strategy, the need for its office is implied in it. It can fill the gap, so to speak, in meeting some of the shortcomings we have all experienced in both the first Bush administration, the Clinton administration and now, in dealing with failed and failing states over the past decade and a half.

Let me say at the outset that USAID is a strong supporter of SCRS. I have to get used to the acronyms because CRS when I was on the NGO Committee meant Catholic Relief Services, not this office at the State Department. We have seconded a number of our staff, in fact, I think there may be more AID

staff on Carlos's staff than any other agency other than the State Department.

We have followed closely the development of the basic concept both inside the administration and in think tanks such as the U.S. Institute for Peace and CSIS. I have personally participated in the Senate Foreign Relations Committee Policy Advisory Group and have been supportive of the work of the Committee as it has carried this concept into proposed legislation.

If we are to be more effective in the future, we need greater understanding of the systemic causes of state breakdown in the regions of the world that are prone to it. We must draw on the considerable expertise that exists both within and outside the government. Our policy in dealing with failed states over the last decade and a half has in large measure been ad hoc and retroactive. All too often, policy makers have become seriously engaged only when the situation is deteriorated to such a point that continued inaction has become unacceptable as a matter of national security or

morality. In other words, we tend to engage ourselves at the point where interventions are most urgent and least promising.

The international community is beginning to mobilize itself. Our sister agency in Great Britain, our good ally, the Department of International Development, DFID, has put forward a Fragile States Strategy that closely parallels changes which I will talk about shortly that we are inaugurating at AID. Fragile and failing states were on the agenda of the Development Assistance Committee, the DAC of the OECD, in February of this year, and I attended and spoke widely on the subject, bringing some 100 heads of donor organizations, Western development officials and representatives from developing countries in Paris and afforded both DFID and myself representing AID the opportunity to unveil their respective strategies.

Many countries where AID works confront or are vulnerable to crises which can take many forms. Conflict and insecurity is one category; governance

and economic crises another; third, famine. Many local conditions can change quickly requiring AID to adapt quickly to both the challenges and the opportunities as they emerge. Our goals in these settings are to respond quickly to enhance stability and security, advance opportunities for reform when they arise, and develop the capacity of key institutions and infrastructure.

AID's work in fragile and failing states will be guided by its new Fragile States Policy which you have a copy of on your table. With assistance to weak states now at the center of our National Security Strategy, AID has undertaken an extensive reassessment of how to improve the effectiveness of its response to the unique challenges proposed by fragile states.

The strategy identifies three central goals: to improve the analysis and monitoring for early warning purposes of fragile states; secondly, focusing programs on the causes of state fragility; third, improving internal business practices and business platforms to facilitate a rapid and

effective response. The strategy is based on the understanding that close coordination among the range of USG agencies is essential. That is why we believe the SCRS office has such a crucial role to play.

Recognizing that AID must adapt its structures and functions to the current challenges our nation faces, we have made a number of important changes both preceding the establishment of SCRS and in synch with the new office.

When I came into office I established the new Bureau of Democracy, Conflict and Humanitarian Assistance, structurally linking the agency's response to the disparate elements which we often encounter in failed or failing states, humanitarian needs, conflict within a society and democracy and governance issues, because most state failure has a direct relationship to governance failure.

Within this new bureau I created the Office of Conflict Management and Mitigation, which I am happy to say is one of the most innovative offices in the agency now and is putting in place some

critical tools in the tool chests that our mission directors can use when they're faced with state failure, with the specific mission of tracking failing states and impelling responses to prevent full-scale state failure.

We have now organized DCHA's individual offices into a more cohesive body with an emphasis on stabilization, a key requirement for our fragile states programming. We did not do well in the OFDA office in our response to the Iraq intervention. Fortunately, we did not have a humanitarian crisis of the kind we had anticipated, and so it wasn't necessary, but we did not do well. So we're reorganized the office, but most importantly, there is a 22-page document which I think is public now that I have signed as the new mandate for the office which shifts its focus substantially in its programming. If you actually look at the documents in the grant proposals that are being done in Darfur now, you will see clear evidence of the shift in programming as a result of the changes in OFDA because they're the principal responders with Food

for Peace, CMM and the DNG office in Darfur. The DCHA bureau has the lead in Darfur, but you'll note it's not simply humanitarian assistance anymore.

Realizing that most conflict situations today require extensive interface with the military, the bureau is creating an Office of Military Affairs that improve coordination and response capabilities. Two things we've already done, I thought the AID officers who teach on the faculty of the National Defense University were teaching a curriculum on development and reconstruction from AID's point of view. I looked at the course and I said this is a Defense Department course. Why are you teaching their courses? They said we've always done this. I said where is our course? They said we don't have one. I said write one and teach it, which is what they've done. They have done a very good job in creating a curriculum on our view of how we approach development and reconstruction.

An article just appeared this past week on the nine principles of reconstruction and development and parameters which is the Army War

College Journal which I wrote with one of my young staff people, Steve Felstein [ph], on how we see development as a doctrinal matter. There are nine principles of war, we chose nine, there's a magic number, to show the military that they may have doctrines, we also have doctrines, and most NGOs and people in the U.N. and the World Bank, if they read the article, even if they quibble about I'll use Afghanistan as a case study in how to illustrate each of these nine principles, I would guess on seven or eight of the principles there would be no debate whatsoever, maybe one or two there might be.

We went through a huge debate among 8,000 people by Email in AID over whether--I wrote the nine principles and then some staff said, Andrew, everybody doesn't agree with you. I said, I'm the Administrator.

[Laughter.]

MR. NATSIOS: I said, but is this is going to outlast me, I need to get buy-in by the agency and rewrote it and I actually think, I don't want to

admit it, but it's better than my original list of nine which I now have disposed of.

It reflects the doctrines of the agency in development situations, but most importantly, for the military and our friends at the State Department to understand why we do what we do and what are essential elements of a successful development program particularly in a conflict situation.

DCHA is also increasingly focusing the Democracy and Governance Office toward the fragile states issues. Because effective governance is a crucial determinant of state failure and conflict, it is essential that the office take a greater role in addressing fragile state situations.

For example, in Southern Sudan now, I think we've done about a thousand days of training for about two-thousand southern officials who will be standing up the new government of Southern Sudan based on the Naivasha Peace Accords, the new CPA. That was one of the earliest interventions. It was not humanitarian assistance, it was not job

creation, it was governance and democracy building in Southern Sudan.

More broadly, DCHA is reassessing how it responds to complex emergencies and in incorporating a longer-term and more expansive agency-wide approach. I say in every one of our emergencies including our response to the avian flu which we're dealing with now, our response to the HIV/AIDS pandemic, our response to the tsunami, that all of the bureaus are to work together as a unified whole. Feudal responses, I don't mean feudal being a thousand years old, I mean feudal being individual bureaus that are led by the AID feudal lords.

[Laughter.]

MR. NATSIOS: Do you feel like a feudal lord, Jim?

JIM: More like a feudal servant.

[Laughter.]

MS. NATSIOS: Is there press here? I'm going to get in serious trouble. I usually make one really egregious indiscretion in every speech I give, and I think I just may have made it.

In any case, we want an agency approach to crises, not individual bureaus, because that's the only way AID's real strengths are going to be tied together, and I think there is growing understanding that the culture of separate office and bureau responses to things don't work.

One of our great moments was the tsunami response. It was not just a DCHA-OFDA response, it involved all of the offices within DCHA and the ANE Bureau. In fact, the first responders were in the AID Mission in Jakarta, and I am very proud of what both bureaus did in making this almost a textbook response to a massive catastrophe.

What this means is that rather than only providing short-term humanitarian assistance to a community suffering from a crisis or disaster, but it will also address long-term stability issues in order to preclude future fragility. We will also call upon resources from other bureaus in the agency such as Economic Growth and Global Health which can provide sustainable platforms for economic growth, recovery and health sector rehabilitation.

As we implement our Fragile States Strategy, we are now pursuing further organizational changes within AID so that we can meet the agency's new mandate under the President's National Security Strategy. This includes organizing to interface effectively with CRS across the range of AID's response capabilities. We are concurrently perfecting an agency-wide response platform that links rapid postconflict humanitarian and stabilization activities with immediate planning for longer-term recovery.

We view this linkage as the real value added AID brings to the U.S. government's reconstruction and stabilization arsenal. AID's management recognizes that we need to stop the instability when states fail to stanch the bleeding, if you will, but we also need simultaneously to sew the seeds for longer-term reconstruction and development. In military terms, we need to take the steps that will allow our troops to come home as soon as possible, but also need to initiate the long-term development that will help ensure that

they will not be called back to the same country several years later which has happened too often.

We're developing a standard structure and system for standing up and operating a complex emergency task force that can become operational as quickly as USAID's response management teams, RMT it's called, which is the reach-back office for when we send DART teams to the field. There's an RMT that's been functioning since we sent the DART team to Darfur and they're still there. We have a DART team now in Ethiopia of 10 people because of the food crisis there, and in Niger. That's why we had to move the Katrina response to our backup offices in Arlington.

We have created a new Office of Infrastructure and Engineering. I asked our staff do we do roads and bridges and highways, and they said, no, we don't do that anymore. We stopped doing that 15 or 20 years ago. I said, really? So I asked PPC then please give me an accounting report, a budgeting report, on how much we spent on construction of roads and bridges and

infrastructure: $3 billion in the 1990s. I was told by everybody we did nothing, $3 billion is not nothing. It's a lot of money. How did this happen? Almost all of it or a huge portion of it was for supplemental budgets.

The reality is that a lot of our funding is now through supplementals. In fact, I caused a furor in the senior staff. We have a senior staff of 80 people who meet once a week and I give my little sermon once a week to them and we have an exchange. I said, development assistance is only 10 percent of our budget. It's just a fact, $1.4 billion out of $14 billion is 10 percent, and that's how much we spent I think 2 years ago when I brought the statistic up. People were enraged across the agency. What do you mean? How could Andrew say this? I said, that's what the development for assistance budget is. Even if you added the regular health budget, it's still the case that a large portion of what we do is not in our budget. Colin Powell looked at our budget and he said, Andrew, how come you spent $14 billion and

your budget says $4 billion if you include all your appropriated accounts? I said, because people give us money to manage because they know we can do a good job with it, and because we get a lot of money from supplemental budgets like Iraq, Afghanistan, the tsunami, and this is not just now, this was in the 1990s and even in the 1980s.

So we have regularized supplemental funding by creating an Office on Engineering to rehire engineers to do the projects we're doing. It's not just Afghanistan and Iraq. We're now building a very large highway to Banda Ache through the center of Indonesia. It will actually in some ways be a larger and more disaster resistant highway than the one that was destroyed by the earthquake and then the tsunami.

But the fact is we're doing this and we need our own staff of Foreign Service officers and civil servants who are career officers who can take their experiences from one country and them to another. The strength of the Foreign Service is that you learn something in one place and you try it

and you move it to another place, you try it again, and then you move it around the world. That's how we create a unified culture in the agency is through the Foreign Service Personnel System.

We've also created as I mentioned earlier the CMM Office, the Office of Conflict Mitigation and Management. I think Elizabeth told me we're about to put into place the toolbox that we started designing 2 years ago of easily available tools that can be rapidly used without going through a long contracting process by the missions if they see state failure or fragility such that they need to intervene developmentally. I haven't seen all the tools, but she's done what I asked her to do.

They also have a very interesting assessment tool that they're using to determine whether or not a country is facing state failure which we have now tested. Is anybody here from CMM? Chip, how many times have we tested that?

CHIP: The fragility framework?

MR. NATSIOS: Yes.

CHIP: Four times.

MR. NATSIOS: Four times. So we're beginning to see whether or not this will give us the kind of in-depth analysis. Did we use it when we did the thing in North Africa recently that Sharon went out on?

CHIP: No, that was the conflict framework.

MR. NATSIOS: The conflict framework. In any case, we're developing a set of tools that we're testing in the field because the missions need an analytical framework to assess what's going on and then design programs based on that assessment. That's how AID does all of its work, even though it's a little bit arcane for people. I don't think arcane for all of you, but to the Beltway generally, this kind of approach to things is a little different than maybe the way people do things domestically.

We also created a new career track which I tried to create 15 years ago unsuccessfully because I wasn't the Administrator in the Foreign Service for crisis, stability and governance which now has 135 people in it; 135 Foreign Service officers now

are in that backstop within the agency. We did not have that before. I don't even think there was a democracy backstop in the Foreign Service. We have a specific backstop which means there is a career track now for people. Getting from a Food for Peace officer, OFDA officer or office in CMM to becoming a Mission Director, there was no track for that in the Foreign Service which kind of sent a message to everyone, this is a side thing, it's not central to what we do, which has a huge effect on the way people take career positions in the agency, what they bid on and what they don't bid on.

If you want tie this together into the agency, you need a unified personnel plan. Most people who are in policy areas, no offense to anyone here, do not think of the mundane sort of things like budgeting systems and procurement mechanisms and personnel systems that are actually more important than almost anything else to having a powerful agency that's able to do things in the field in these new areas that we're working in.

If you redesign the systems of the agency and the incentives within those systems to perform, people's behavior within the agency will also change and you will institutionalize and it will be difficult to change later on, which was the whole idea of these changes to make my successor find it impossible to undo what we've started.

[Laughter.]

MR. NATSIOS: That's another indiscretion, I guess.

We are moving to incorporate greater flexibility in our food aid programs through local purchase. I didn't make it big issue publicly, but next year I'm going to because I think I've convinced everyone in the White House we're going to put it back. This is once chance for the Congress to do this change. This is the biggest change in Food for Peace in 40 years.

The President said in the budget at our request for 2006 that 25 percent of the Title II Budget should be used for local purchase of food, not American food, because 40 percent of the cost of

food is transportation. I don't have to go into all of the politics of that. You know about the Maritime system and all of that. It takes 4 months to ship the stuff.

When we had a crisis in Darfur, I didn't have 4 months' notice. The Janjuweed didn't send a little note saying in 4 months we're going to start this and you're going to need a huge food aid program, it just happened. Wars happen. Sometimes famines catch us because the systems break down in terms of predicting them. Sometimes there could be a locust infestation and the crops could fail fairly rapidly.

We need to have new tools, and I recognize there are many interests in this country that are attached to our budget and our systems, but the fact of the matter is that famine relief is more important than interests are. Many people who maybe have very good intentions I think are being extraordinarily parochial about this.

I'll give you an example in Afghanistan. When we had the response in 2002 to 9/11 and we sent

the troops into Afghanistan, Afghans had next to North Korea, maybe including North Korea, the lowest caloric intake per capita in the world. There was an incipient famine beginning that summer and we sent DART teams in before 9/11 to Afghanistan.

What happened the next year was quite interesting. We began a large-scale effort to bring in an improved variety of wheat that had been developed over a period of years that was high producing and drought resistant, and it produced with other donors putting money into it, too, the biggest wheat crop in the history of the country. Guess what happened to food prices. They went down, way down, 20 percent of the normal level. As a result of that, farmers said I'm not growing this stuff next year. I'm going to grow poppy next year because I can make a lot more money.

We were importing 300,000 tons of food. The New York Times did a nasty little attack on us. I answered it, but I have to say it was a little bit difficult for me to answer it because part of the criticism was true. The fact is, it's not that we

were depressing prices because this was the poorest of the poor and they did not go out and sell this food.

However, if we had purchased the food locally, the price would have risen. In fact, one of lead economists said, Andrew, if you bought 300,000 tons of food, the food would have been at a normal level in terms of price and it would have been an incentive for people not to grow poppies the next year, and once you get hooked on poppies it's difficult to get off it as a crop. We could have used this as a way of supporting our agriculture programs.

It's very important that we have these new tools, and the President knew he was going to get in the way of interests when he proposed this, and he certainly has been, and I bore the brunt of this I have to say, but we're still working on it.

In Afghanistan, one of the signal achievements of AID was the construction of the Kabul to Kandahar Road, a managerial feat that was accomplished on schedule and underbudget. It should

be noted that Afghanistan was a barely functioning country when the road project began. This was a vast multinational effort operating under dangerous and trying circumstances on a very restricted timeframe.

Approximately 35 percent of Afghanistan's population lives within 50 kilometers of the Kabul-Kandahar Highway, much of it agrarian and rural, and I might add, at the center of Taliban-Pushtun support, Pushtun support for the Taliban. There are four plans among the Pustun and one of them was the base of support for the Taliban, and that's where they were located, through which the road went.

These populations now share the benefits of the new road including revived markets for their goods. They now have better access to health clinics. We are helping to build and equip as well the hospitals in Kabul where more complicated procedures and emergency services are handled. The road has facilitated access to Kabul University, the regional teacher training schools as well as secondary schools and remote primary facilities.

The benefits of the road are not only social and economic. It has also had enormous symbolic significance. Karzai wanted this because he believed by building the whole road which we're now doing to Herat near the Iran border that will tie the country together. Of course, the centrifical forces in Afghanistan for centuries have been so powerful it pulls the country apart.

We need now developmental interventions that tie the country together. And it was his genius, and I actually resisted this, but the President announced it with President Karzai and of course I saluted and said we'll do it, and now I'm changing my mind about how important roads are in postconflict situations.

I could talk more about this, but we are now doing the same sort of thing. We're investing a lot of money in road repair in Southern Sudan and we've done that through the World Food Program, and we're working now also on a longer-term construction and management contract to facilitate that.

I could go on, but I'm now over my time, and I do want to answer some questions. So we're working on this. There's a lot in place, a lot of things moving, but I do believe that unless you change the systems of an institution, you will not make the changes permanent. And I think there is a wide buyership, ownership, by the career staff in what we're doing. I think most people understand it and support it. There are a few that can't, but the great bulk of people in the career service do, and as a result of that, I think the agency is going through a profound and good change to prepare ourselves for the new era. Are there any questions?

MR. PATRICK: Stuart Patrick from the Central for Global Development. Mr. Administrator, two questions. The first one is a few months ago there was talk about drafting a National Development Strategy that would parallel the National Security Strategy. Is that in the works or has it been put on hold?

MR. NATSIOS: It is still being drafted. We slowed down. I won't go into the reasons why.

There are lots of other things going on that I cannot discuss. We are not finished with the changes, and that I think will be on the agenda. There was a lot of buy-in by the intellectuals within the administration who were focused on these sorts of issues to do that, but the question is the timing of it.

MR. PATRICK: The question about prevention and interagency coordination. USAID obviously has the Fragile States Strategy as well as the CMM work to try to inform programming and policy in vulnerable states, but also the fragile states-weak states challenge is one that will require a whole number of tools that go across agencies.

Is there any way to make it a USG-wide strategy? SCRS, for instance, has conflict prevention aspirations, although obviously very little funding or staffing to support that. You've got DOD interested in ungoverned zones and what to do in those areas.

What efforts have been done to make this a government-wide strategy so it won't be ghettoized?

MR. NATSIOS: You can write a strategy, but the question is whether the career officers over several administrations will implement it. The way you do that is structurally through personnel systems of the kind I just mentioned and the creation of new institutions one of which I didn't mention because I jumped over it in the talk is the new Office of Military Affairs. We've had liaisons from OFDA in the military commands for natural disasters. We have not had an agency approach in a systematic way, and I think there are going to be a dozen AID officers in that office in DCHA. The office has been stood up.

It's very interesting. People can tell when something is being taken seriously and people are interested. I didn't think anybody would bid on it, very senior Foreign Service officers. Three of the most senior and experienced Foreign Service officers in the agency who I thought would be DAAs. Do you know what a DAA is in AID? It's like a DAS. That's the highest point for the career service unless you get to be an AA. They applied to be head

of this office. I said people are getting the message in AID that that's where the center of the action is.

A senior Foreign Service officer would not normally apply to anything in DCHA in the last 20 years. They just wouldn't do it. I ran DCHA before and we couldn't senior officers to serve there other than Bill Garbalink [ph], and they even had their careers compromised because in one of the things it said you're not being promoted because you're off career track because you're in what used to be called DHA.

That's changed now, and what it means is that we will once again tie the agency together from a personnel standpoint, but those officers will be mission directors in other countries having run that office. We've never had a professor teaching a course in development at the Army War College in Carlisle. We now have that, too. So we've done it at NDU, we've done it at the War College, and we're thinking of other educational interventions that will introduce us to the military in a formal

systemic way, but the other way is for us to get introduced to the military and put people in the command structure of the military.

There is a lot of interest in the U.S. military in this, so I think that's a structural way to deal with that question.

[End Tape 1, Begin Tape 2.]

MR. EBEL: I'm Bob Ebel [ph] of the Urban Institute. You've commented on two thousand people in the government of South Sudan.

MR. NATSIOS: We expect them to be in the government. There is no government now.

MR. EBEL: Can you fill me in on what's going on what's going on in Sudan post Garang's death and how that's playing with your strategy both in the South and with the Government of National Unity?

MR. NATSIOS: First, I think the entire South is still in shock over Garang's death. We had done a focus group through the NDI on the South about Garang and there was a perception among military officers, diplomats, the CIA, that Garang

was a military leader and that's about it, and he had a very thin level of support.

The NDI focus groups were quite extensive and they showed that he was far more than even a political figure. He was compared repeatedly to Moses by the Southerners, and these are poor people, He was our Moses. At the funeral, the Anglican Archbishop said, He was our Moses and Jacob is Salva Kiir, his replacement.

It's very interesting that 15 years ago it was principally animist in the South. It is principally Christian in the South now because there's been a massive cultural change, and for them to use biblical images like this is a very powerful statement of how the South has changed.

But the fact is they're in shock over his death. Rebecca, his wife, gave an extemporaneous eulogy because I went to the funeral in Juba, and it was extraordinarily powerful, and she did it extemporaneously. So she is now the most powerful female figure, clearly, and one of the most

charismatic figures in Sudan now. We knew that she was behind her husband, but now she is the figure.

In addition, I'm not suggesting there aren't other figures, but there has been a shift just in the icons in the legendary figures of the South. Salva Kiir is a devout Catholic, for example, and he is a brilliant military commander. He in fact commanded much of the military force that led to the near defeat of the North in the last 4 or 5 years. This is one of the reasons why the North agreed to negotiate. They didn't just agree to negotiate because we put pressure on them.

So shifts are going on. We're not understanding all the shifts. I just heard a report yesterday that was a little troubling about what's happening, but he died 3 or 4 weeks ago. When did he die? In early August? What happened in the United States when Jack Kennedy was assassinated a month later? So I think we need to wait a little while before we see how this unfolds. That's number one.

Number two, Salva Kiir is now Vice President of Sudan and he is the President of Southern Sudanese government. I did tell John before he was sworn in, You do have a plan, John, just in case something happens to you for succession? He said, Andrew, we've discussed it and discussed it, we've planned it, it's in place. It obviously was planned and it took place very rapidly.

They are about to sign the Southern Constitution because it's not just a national constitution, there's going to be a new Southern Constitution. They are very close to completing work on that. They have not announced a new cabinet, but once again, that was close to being announced before, but Garang got killed. So they're working on that now.

Then of course, the new Government of National Unity in Khartoum has not been announced either because I think there's one cabinet post that remains. So they're not meeting all of their deadlines, but they are making progress, and given

the trauma the South has been through, I am astonished at actually where they are now.

Because of Garang's death, the Southern leadership got back to Juba 2 years earlier than they expected to. So they have not left Juba, and they've not opened two roads. We helped open one and they opened another one themselves from Juba to Uganda so that people can get into the city.

The Northerners are leaving. The Arab business community departed when there were riots in the city after Garang's death. I think Juba will become capital of the South much more rapidly than we had anticipated and that will facilitate the standing up of the new government.

The ministries are functioning. I asked how of our staff who were working on this had contact with how many ministries. There are 12 ministries we're working in now in terms of capacity building, training and setting up systems. There's a new budgeting system we're about to put in place for the Southern government for all funding so that

we have accountability and transparency in our work. I don't know if that helps at all.

MR. WEBSTER: My name is Russ Webster. I work for Development Alternatives. I very much appreciate your comments. I was wondering if you could elaborate a bit more in terms of the issues where we find consensus with our allies like DFID. But what about the issues where we find some disagreement whether it be in terms of the strategic approach we might take, in terms of the critical issues that link fragility with eventual reform and development?

Could you talk a little bit about those areas where we're still trying to build consensus with our allies?

MR. NATSIOS: I think the biggest problem we have with our European friends particularly Continental Europe, because DFID in some ways is closer to us than they are to the European Continent because is not united not just on the issue of the constitution, even in their development frameworks there are wide divisions in Europe and they have a

lot of problems which are not publicly known because we're not as visible as the diplomacy and the military stuff. I just listen to it because I sit with my friends who are development ministers, some of whom I've known for some years.

I think our problem is more at the abstract level, very abstract level. For example, the debate we had at Monterrey and Johannesburg. At the country level there's not as much debate over any of these issues. Do you know the point seven? We never used the point seven in the United States in any administration, and we're not going to use it. We don't use it for our domestic stuff. They're into that stuff in Europe, and they're into kind of abstract conceptualization, and the reason they are is that's how they created the European Union. If they had not done that, there would be no European Union now.

We don't have those debates. We ended those debates in the mid-18th century after the Civil War. We don't have these sort of abstract debates about these sort of broad principles. We're

more focused on the operational realities in the field. So our strongest and best interactions with our European allies are at the country level where we have Country Coordinating Teams where our mission directors sit with the European Union mission directors.

Do you what's increasingly happening now? We've all agreed to do this. We're funding some of their programs and they're funding some of our programs. The Dutch, for example, it's a conservative government, they're into trade as we are. I'm not bragging now, but we have the best trade capacity building program, I think it's even better than the World Bank's, frankly, in the world, and they are now talking to us whether they can put some of their funding through our mechanisms in Africa since among Africans it's a very program. Secretary Rice just announced the opening one of our new trade hubs in Senegal at this AGOA forum that she just went to.

Or in other places, I think in Pakistan, either DFID gave us money in education or we gave

them money. I can't remember which one it was. But we're doing this more and more to simplify the mechanisms for implementation because they are too complex and they're confusing a lot of people in the developing world. When you put money in each other's systems, you have to get consensus or you can't get anything done programmatically.

So I think there's an effort now to deal with these issues, but the best way to deal with them is not to have endless debates on these very abstract things at the international level. We go to them and I talk, but the best place these things work is at the country level.

MR. RASMUSSEN: Lewis Rasmussen.

MR. NATSIOS: Lewis, I didn't recognize you.

MR. RASMUSSEN: Yes, it's been a while, Andrew. It's good to see you again, and I appreciate you sharing your vision.

I know that you've spoken a lot about civil and military relations and mil-mil work in the context of development of security. I'm wondering

if you would share with us a little bit about the agency's thinking as you're reexamining your policing policy.

MR. NATSIOS: Our what?

MR. RASMUSSEN: Your police assistance policy.

MR. NATSIOS: We made a change. It does take a while to do this stuff. We had a huge debate and the agency was split in two over this issue.

Half the agency said I don't want to deal this issue, and the other half said security assistance reform is critical for us to do. We've had two or three countries where Congress allowed us to do this, and one of them was El Salvador and it was a huge success.

The police had when we started in the early 1990s an 8 percent approval rating in El Salvador. When we ended the program it had a 92 percent approval rating and crime rates were significantly dropping.

It was in community policing. We're not training people in lethal weapons and all that

stuff, but the community policing model is a much better model for developing countries which is the American system for policing as opposed to a garrison style policing system which is what they traditionally have in Latin America that does not work very well given the challenges they face.

We did that because there was an exception in the statute. The statute prohibits us from doing any of this work. We worked with State and there was a debate with State, and it wasn't State versus AID. It was half of AID and half of State opposed to the other half of State and the other half of AID. It was a very interesting debate. You should have seen the list of who checked off on this change.

Congress approved, it may have been Charlie's last act, a change in the statute that said that we could do police reform work in community policing, not in the lethal stuff, we're not training people on how to shoot guns and all that stuff, and it's in place now.

In Nigeria, President Obasanjo kept going to Howard Jeter, saying tell AID to do this, and Howard Jeter would call the mission director and then the mission director would say I can't do this thing. I'm not going to jail. And he said, but the President has come in to see me three times. We want this done. We said, we can't do it. Now we can do it.

QUESTION: Andrew, first of all, let me congratulate you for all the initiatives that you've taken. It's clear that you're getting down to the institutional roots and I really commend you for it. I know there were previous efforts and they were much more superficial.

I wonder if you would comment on what obviously is going to be our biggest challenge as far as failing states is concerned, and that is Iraq. What is your thinking and what is the debate going on within AID about future reconstruction efforts, the challenges ahead? And are we thinking in terms of not only preferred outcomes if the

political transition continues, but also worst-case outcomes and contingency planning?

MR. NATSIOS: The first thing is, let's put aside the appearances and the front page paper because I do think it's somewhat distorted, I have to say. For example, the characterization of the new constitution, it's a very progressive constitution by I think any standard in the Middle East or in the Muslim world, if you look at the whole document. We actually provided a lot of the technical support of scholars from around the world to support in terms of different alternatives they could look at to the Constitutional Commission that wrote the draft.

There are four conditions for a stable democratic state. One is a middle class, and the middle class is reviving itself. I think we're pouring a lot of money in and it is having an effect. There are thousands of new businesses, and we have a business registry and we know this, this is not made up, there are thousands, in fact, I think 10,000, businesses in the country that have

registered in the last 2 years that are new. Some of them are small, some of them are manufacturing facilities small-scale.

So the middle class that was destroyed in the 1990s and with the Saddam's wars in the 1980s, there was a large middle class in the 1960s and 1970s I'm sure you know in Iraq. That's being revived from an economic standpoint.

Two, they have a large, highly educated technocratic elite. I spent lunch, in fact 2 days, with the new Iraq Cabinet. I have to tell you that they're very sophisticated men and women. I was very impressed. Zoellick and I had lunch with them and their nuanced understanding of what had to be done and how it needed to be done was very important and very impressive. They obviously have a critical question and the critical question is are the Sunnis going to participate in the new system or aren't they. That's the issue that they're dealing with now.

I might add we had we had a similar debate and set of issues in our early republic. It took us

a while, in fact, it took us four or five decades, to resolve some of these issues about the role of federalism and the states and slavery and the two economic systems that had developed in the North and the South. We resolved them. It's not going to take 40 or 50 years to do it in Iraq. I think it will be much shorter.

I think a lot of Sunnis including some of the tribal sheikhs who are also very sophisticated people and the Sunni community realize they made a very serious mistake in telling people to stay home from the elections. If you look at our RTI Program, the local governance program, the most developed and sophisticated local councils that were elected were in the Sunni areas. So it's very sad that they didn't run for the parliament because a lot of these people were elected to these councils and are very impressive people, and they didn't run because everybody was told to stay home or we'll kill you. And there was some beyond just intimidation, there was some philosophic movement to stay away. They realize they made a mistake.

And a lot of the Shia now and the Kurds are saying you're blowing all our people up, you're trying to destroy the country and you want us now to include you in all this? So there are hard feelings and there are a lot of memories of the atrocities, terrible atrocities. I have to say I wouldn't forget that stuff. I went to the mass graves. I've seen what they did. It's not as though Saddam did all this, someone carried this stuff out, and they know these people are still around. So there's a lot of history and a lot of unseen scars from what happened.

The notion that they're going to do all this in 2 months or 3 months and deal with it and on from there, that's ridiculous. That's not the way the world works. I think they're sorting things out, I think there is a leadership elite there that recognizes an issue, and there is someone who I am worried about, I have to say, about his safety, and that's Sistani. The pietistic form of Shia Islam that he believes in and has written about is a

critical part of stabilizing the country because his view is the opposite of Iran, the exact opposite.

In Iran they said we need a Shia dominated, a clerical dominated government to make people virtuous. His view is you need a virtuous citizenry by their inner strength and their devotion to Islam and they by their virtue will make a virtuous state. It's the exact inverse of the view of the state versus the individual in Iran. He is the most powerful and loved and respected and revered figure in the South. They are protecting him, but his stabilizing the South is an important factor in making sure that this process moves along.

So I am more guardedly optimistic than you may think, but it's going to take a little while, and it's not going to happen smoothly and easily according to any plan. But it's going to happen in my view from knowing them and seeing them and my staff reporting.

It's interesting, we're not the most conservative agency in the world, and many of you know I'm a conservative Republican. Career people

said we don't really believe you're a Republican and I said I don't really believe you're all that liberal, actually, but we had this big debate.

[Laughter.]

MR. NATSIOS: People are lined up to work in Iraq. People who may not have supported the way think it can work. There are people bidding on positions in Iraq which is given that it's not that secure in Baghdad, our compound is kind of nice, it is a risk, and yet they're willing to go. I think they're willing to go because the stories coming back from the career officers is this can work. Thank you all very much.

[Applause.]

MR. PETERSON: Mr. Administrator, thank you very much for your comments.

MR. NATSIOS: Sorry to leave.

MR. PETERSON: Sorry that you're leaving. We're now going to bring up an expert panel to discuss further the many issues that were raised, and now I'd like to invite our three panelists to come up if you would, please.

The three experts who have agreed to join us on this panel, I'll introduce them in the order of speaking. First is Lael Brainard who is the Vice President at Brookings Institution, Director of the Global Economy Development Center and holder of the New Century Chair. She'll be followed by our CSIS colleague Steve Morrison who is the Executive Director of the CSIS's Africa Program, and who is also the Director of the CSIS's HIV/AIDS Task Force. Our third expert is James Kunder who is the USAID's Assistant Administrator for Asia and the Near East.

The game plan here is for each of these experts to make a few preliminary comments and then we'd like to open up for discussion with you afterwards. We'd like to express our thanks to all three of our participants, and Lael, I'd like to invite you to begin. Thank you so much.

[End Tape 2, Begin Tape 3.]

MS. BRAINARD: I commend your staying power, and each us will try to be very brief after those very interesting comments.

First of all, just on the Fragile States Strategy generally, I think all of us in the room probably welcome this new focus. The last decade has clearly shown this should be at the very top of our priority list since this probably is the class of development problems that cost us as a nation the most in terms of blood and treasure. But it's also the class of problems where I think we have to be very sober about what our ambitions are since turning around dysfunctional societies is both very hard and something I don't think the United States is particularly good at if you look at the history.

Just a few brief comments. The underlying analytical framework for what is a fragile state, who should we be focusing on, is not altogether apparent yet, but my sense is there's a lot of good out there that USAID and the overall administration can build on. I haven't seen a lot of that in terms of predictive capability reflected yet. I hope we will.

For instance, there's a tremendous amount of work that shines a light on a combination of

youth bulges, lower declining economic and employment opportunities and poor governance, that that is really an unusually combustible mix and that if you look at the history both of internal conflict and cross-border violence, that that is a pretty good predictor. If you look at where that mix is present, we saw it in Bosnia, we saw it in Haiti, we saw it in Algeria, and there are predictors of certain countries in the Middle East and sub-Saharan Africa that whatever you think about the religious politics, they have that underlying set of factors and are at high risk for conflict.

DFID has done some very good work on difficult environments. The World Bank has done very good work on so-called low-income countries under stress. What they tell us is that there are about 46 countries out there which should be on a watch list and that those countries are a locus with a disproportionate concentration of things like poverty, disease, child and maternal mortality and physical insecurity. They account for about 14 percent of the world's population, but one-third

of all the poorest people in the world, so disproportionate, and one-third of the people living with HIV/AIDS in developing countries. They're twice as likely to be undernourished, and one-eighth of all children in those countries are still dying before the age of 5. So it does suggest it's a large group of countries with very severe problems.

The second point is I think the USAID strategy is absolutely right about being selective, but it's a very different kind of selectivity than the one that we see employed on the Millennium Challenge Corporation, for instance. I don't think it is conditionality or should be based on virtuous policy performance. That's by definition not what we have here. By definition this is a group of countries that have severely state functioning, and the imperative, therefore, the selectivity, has to be on the basis of how important is this place to us in terms of its stability either directly in terms of national security or from a moral imperative point of view.

It's the perils of a downward vortex there, and we have to get a lot better at delivering very short-term results, improving the security environment and in cases where the government is dysfunctional, effectively working around the government which is exactly the opposite of what we're doing with the Millennium Challenge Corporation. So two very different classes of countries, and I think we should take very different approaches to them.

Third, that means that our goals have to be hard-headed and achievable. I think this talk about transformation in those kinds of societies is really somewhat misleading. Freedom, those are all nice goals, but the reality is what's possible and what we have to achieve in those economies is far short of that and in the short-term.

And our attention has to be a lot longer. Many of the countries that are on the list today were on the list 10 years ago or 15 years ago and are back again by virtue of our short attention span. There is a cycling phenomenon with failed

states. We saw it with Haiti, Afghanistan is the most clear example of that, and we have to have a policy which allows us to engage, to continue to engage, to continue to spend money when Congress is no longer focused, when there is no longer an immediate and present crisis, and that's one of our weakest capabilities as a government.

The USAID report is very useful in distinguishing between countries that are vulnerable, in conflict and post-conflict. But if you look at our financial commitments, we're all about post-conflict. We're all about being in places where the U.S. military has been engaged. That's where the bulk of the money goes.

We're not as effective, and we can talk about why, in places that are on the verge or where there are underlying signs. Is it political will? Is it that our government is not as strong there? Whatever the reason, we have to recognize that, it's a reality and decide are we going to try to do it in which case we have a much larger commitment, or are we going to come up with a division of labor, of

international labor, and give that to the UNDP, give it to DFID, give it to a country that can more seriously politically commit to staying engaged for a long period of time.

If you go through the stories, they are mostly about a small handful of countries where USAID is deeply engaged, as opposed to a lot of countries where we all have worries including people in USAID; we just don't have a lot of capacity at the moment.

A fifth quick point which relates to the meetings that we are looking forward to next week, it's clear from all of Andrew Natsios's statements here, from our national security strategy documents, from the reality that we live in today, that we have as a nation an enormous stake, an enormous, enormous stake in having support among the developing world. It is stunning to find us going into the UN General Assembly Summit next week with the most in your face about-face on global poverty imaginable, and I can't for the life of me understand what we're trying to accomplish by backing away from the Millennium

Development Goals, but like it or not, that is where the international community is. What we're doing is we're rallying other countries who might not have been quite as committed to the Millennium Development Goals more firmly around them, and it's really quite difficult to tell what we're trying to do there.

I think if you look at the outpouring of support for victims of Katrina, for victims of the tsunami, that there is a gulf between where the hearts of the American people are and where the kind of hard heads of some administration officials are on this subject. I don't think it serves us well as a point of national interest.

The final point I would make is on reorganization. The Administrator of USAID can't say this because of where he sits, but the reality is he is right that we have seem the most extensive reorganization of the national security apparatus in years and years and yet the one place we have not seen any rationalization, any serious reorganization, is in this area that we've decided

is so important on the soft power side. Instead what we see is a proliferation of entities, a confusion of roles between USAID, the State Department, on things like HIV/AIDS, on this whole area. I think Andrew Natsios to his credit is doing a wonderful job of working with this proliferation of entities, but the truth of the matter is, no management consultant would design a structure that looks like this with all of these overlapping authorities. What I'd love to see is that the administration spend some political capital on fixing that piece of the puzzle as well. Thank you.

MR. PETERSON: Thank you, Lael. Steve, over to you.

MR. MORRISON: Thank you. Just as a point of background, 12 years ago this past summer, Jim Kunder and I were asked by Brian Atwood when he came in as head of AID to spend the summer of 1993 scoping out what became the Office of Transition Initiatives. At that time, this was deeply threatening to the core mandate and culture of USAID and we were not very popular within the building.

What we came up with was very controversial and took a long time to get off the ground.

Listening to Andrew talk today and reading through the policy paper, the Fragile States paper, and thinking a bit more about all the other work that's happened, it is quite clear that the debate is not finished, but the debate in the last 12 years has moved just a profound distance to the degree where there has been a culture shift within the agency, there's a legitimacy to redefining the core mandate of the agency around this strategy to a significant degree, and using it as a conscious way of renewing the agency and helping it to see its way forward in this period as Lael pointed out of fragmentation, of greater peril to the agency's survivability as you see MCC, PEPFAR and other things take off.

There is a lot of good intellectual work that is contained in this Fragile States strategy that reflects the work that the U.S. Institute of Peace has done, that CRS has done through the post-conflict resolution, CSIS, the Center for Global

Development's On the Brink Project, as well as the National Security Strategy, the work that Carlos has done at State. There's a great deal of consistency in overlap in those analyses. If you were to line those up and look at them, the thematic unity and coherence there is reflected in what AID has done, and I think AID was very smart to try to distill that into the kind of statement we have here today.

A few things. Identifying this gap and saying this is now going to be core, the Fragile States gap is going to be core to the mandate, I think that's a compelling statement. I'm not sure that it's credible that there's a strategy or that the resources are going to be there to do this, and I'll get back to that point in a moment, but there are several very new things laid out that Andrew detailed, the focus on security, the change towards an acceptance of policing, the provision of direct services, giving high priority to analytic work in conflict settings, have a new operational model, and beginning to set incentives for staffing on a career basis around a culture of working within conflicted

settings, all of these terribly important and new things.

One of the issues that jumps out for me is what does this really mean. We know from what Andrew said that the funding comes in big chunks in an ad hoc way and it comes towards dedicated, high-level priorities, i.e., Iraq, Afghanistan and Sudan. We know that these are enterprises that are high risk, high uncertainty, controversial, very uncertain long-term costs and sustainability. In that sense, those are going to dominate in the future in defining what the strategy is really for fragile states.

If you step back from the inherited agenda, Africa is the continent that has arguably 70 or 80 percent of the fragile states. It's where there has been a huge investment made by PEPFAR in a number of very fragile places, by the counterterrorism strategy of this administration, around a number of key states, and it's where our energy stakes have risen very dramatically particularly in the Gulf of Guinea and where our military has made a projection

into the Gulf of Guinea, but where AID is really a thin presence.

If you look at all of those rising stakes and the instability among them, what jumps out? What jumps out is the multilateral commitments made in UN peacekeeping in the last 5 years going up to 75,000 blue helmets now worldwide of which about 70 percent are deployed in Africa, and a central factor in restoring stability in the conflicted zones in Africa.

Second, the PEPFAR programs are the largest single investment in those fragile, conflicted states to deal with a vector of instability that gets a lot of attention in the national security strategy but almost no mention in this strategy. There is a very odd and unnatural segregation between this strategy and PEPFAR which I think could be bridged quite simply and should be bridged because what is happening in Eastern and Southern Africa as well as in Nigeria is a very large investment in places that are quite unstable and matter significantly to us.

As I said earlier, these enterprises, whether it's Sudan, Iraq or Afghanistan, or it's other places in which we choose to get involved because they're fragile states, there is a high risk of building dependence, there's a high risk of corruption, there's a high risk of romanticizing these entities. There are all the ambivalences of a neoimperial enterprise that we see in all of these. Those factors, those risks, have not been addressed sufficiently as ones that will be recurrent, tough and ones that Congress will continue to push back on and the media will continue to push back on.

We could talk more about, for instance, what it means to be building a presecessionist South in Sudan and what does that mean? What does that mean in terms of U.S. foreign policy, and particularly one that is absorbing such a vast portion of direct development and transitional aid for Africa from the United States? It may be a fully worthy enterprise, but it may also be putting us on a path that it becomes increasingly uncomfortable and which has hidden costs in terms of

things we cannot do elsewhere either in Khartoum or outside of Sudan in other settings.

Where is the money going to come from? It's very clear in the document and in Andrew's statement that the next big graduating step is to somehow figure out a way much like MCC or PEPFAR to find a stream that is recurrent, reliable and predictable that gives flexibility and graduates out of the ad hoc chunky supplemental approach that binds this strategy to just a few select, high-priority nation-building enterprises.

Where is the champion for this strategy outside of AID itself? Clearly the strategy gets a huge bump up by Iraq, Afghanistan and Sudan, by the National Security Strategy, by 9/11, but where is the champion in the White House or in Congress or somewhere else that's going to carry this forward to put the pieces in place that you can see are now absent, the most important being the broad, flexible and ample funding provisions that are going to be needed? Thank you.

MR. PETERSON: Steve, thank you. Now for a final word we'd like to turn to James Kunder.

MR. KUNDER: Thank you, Erik, and let me echo Andrew's gratitude to CSIS for inviting us here. We appreciate the honor.

You've heard a lot from AID, so I'm going to be very, very brief and allow you time for some useful interchange here. Let me just make a couple brief observations on I think salient points that haven't been discussed so far.

Number one is please do take a look at the strategy document. It's 18 pages long. We're looking for feedback. I think the guys of it are on page 4 where we talk about crises both of capability and then legitimacy. I think there has been some very useful intellectual work done by our policy people on this issue, and I think we'd welcome your comments.

Embedded in that, in my mind, when you get into questions of legitimacy, and we mention human rights several times, I think it raises an interesting question for me in terms of what kinds

of programmatic mechanisms the U.S. government or the entire international donor community and able to bring to fragile states situations because while we do have a significant delivery infrastructure in place in terms of health care, in governance support and infrastructure and all the things Administrator Natsios was talking about, on the human rights side except in very targeted areas like refugee rights and so forth, we simply don't have the infrastructure. We don't have 500 people at USAID able to go out and focus on rights protection issues, so I think that's one of the interesting issues raised in that paper.

The second is I'd like to touch very briefly on how this is being implemented on a day to day basis. It's a great paper. Do we have any practical implications of how this would be done in the real world? We've already had one I think very interesting test case and that was in Nepal where you've got obviously a Maoist insurgency, you've got a long-term development program, you've got an antipoverty program. Is there something that can be

done to adjust what we're doing in Nepal to take into account the Maoist insurgency in the countryside and the profound governance problems in Kathmandu?

In April of this year we brought together USAID, the State Department, DOD, the military and civilian sides, and other parts of the U.S. government, for a giant conference in Kathmandu around the topic of the USAID strategy. How should it be changed to take into account what's in that Fragile States paper? Obviously we don't have time to discuss that in great detail today, but I think it was a highly successful undertaking.

We're all supposed to be talking to each other within the U.S. government anyway around all of these topics, but people are busy, people are focused on different priorities. The mere fact of focusing on the issues of fragility and governance in Nepal and bringing together the interagency players in Kathmandu was actually a dramatic and useful step forward for us.

Third is question of institutions. I think Steve's question is profound, where is the leadership, where is the sustainable impetus going to come from? There is an awful lot of interest in CRS in Carlos Pasquale's shop. I think that's a good locus, but it's going to have a piece of this action, how does the U.S. government mobilize itself?

Those of us who have worked in the international disaster assistance field, there's a legendary cable that came in from Skopje in what was then Yugoslavia back in the 1950s when an earthquake leveled the city.

[End Tape 2, Begin Tape 3.]

One of the junior political officers from the State Department there at that time was Larry Eagleburger who went on to become Secretary of State. He pointed out that the U.S. government had not much of an institutional mechanism for responding to a bit earthquake. That led to the creation of the Office of Foreign Disaster Assistance, and while we're not perfect, we do these

things pretty well now because we put the institutional legs under a perceived problem. I think the question that all the panelists have raised about how you do this on the fragile states side is critical.

Next to last, I guess I would challenge Lael's comment a little bit in terms of the U.S. government not doing this very well. Clearly we've had some spectacular failures. Clearly we've blundered a number of times as a government in this administration and in pervious administrations. My point is that sometimes the analytical focus falls I would argue disproportionately on just the failures.

If I look around the world over the last 20 years and I look at South Africa, El Salvador, Guatemala and former Yugoslavia, these birthing processes have not been without their pains, but my sense is that in Mozambique and a lot of other places around the world we've had some pretty dramatic transitional successes as well. As one of my recurring themes when I get an opportunity to address serious organizations like to CSIS is to ask

that we balance the ledger sheet a little bit and look at some of the lessons learned from the positive success stories as well.

Finally, I'm going to back to something else Lael mentioned which is this question of institutional chaos or overlap. I guess some see chaos, some see ferment. I'm a cup half full kind of person or I wouldn't be in this line of work, and I see a lot of institutional interest around the system right now.

Obviously the entire Bush administration created through the National Security Council mechanism the CRS Office at state. If you look at DOD's Quadrennial Defense Review initial papers, they're looking at these kinds of issues as well. AID has got its Fragile States paper. To me this is positive. It's a recognition of the problem, and clearly we're all conceptually groping towards what the solution is going to be and haven't yet solved the entire structural problem.

I guess I see in all of that a very healthy trend, a clear recognition of the profound problem

we need to face and the need to organize the U.S. government to do something about it. Thanks very much.

MR. PETERSON: James, thank you very much. Now is our chance to hear from you. What I'd like to do is because we're running short on time here, I'd like to ask you first of all to confine your comments, and let's limit the number of interventions from your side to three. Sir, in the back, would you like to begin as you wait for a microphone to arrive and identify yourself, and then let's try to be brief on both sides here in order to get as much exchange.

MR. HAMILTON: Thank you. John Hamilton from CSC. I think there are three very important pieces of background that have been raised for the Fragile States Strategy today. One is the Administrator's comment that a third of the world population lives in fragile states. There is Mr. Morrison's comment that money is limited. I don't think anybody would take issue with that. Then there is the whole backdrop of the foreign

affairs strategic plan for promoting the interests of the United States.

In view of all of this, how does the Fragile States Strategy prioritize among the fragile states? I was looking in the strategy, I didn't see a list of them, and I didn't see a list of priorities. How does it fit against that matrix?

What I'm suggesting is that rather than being a Fragile States Strategy, maybe what it really is is a fragile state methodology that serves other strategies.

MR. PETERSON: James?

MR. KUNDER: Point well taken. I understand. I don't think Andrew went into it, but we've established an internal process in this new Crisis Mitigation and Management Office that he's established. As you know, there are many, many attempts to do some scoping and crystal ball gazing on what the next problem is going to be within the U.S. government and outside the U.S. government. We look at that in our CMM office and then we have a so-called Fragile States Council of senior managers

which reviews the data to try to align potential problems and opportunities for us. Then we establish an internal priority list.

The priority list is not in here for a couple reasons; obviously the situation changes. Secondly, it's not lost on us that the designation by the U.S. government of an entity as a fragile state has internal political repercussions. It's the opposition politician's dream, your prime minister has just named head of a fragile state as declared by the U.S. government.

I take your point, but we do have a process to try to establish some priorities, and please do understand that while the resource issue is profound, as I was trying to illustrate with the case of Nepal, part of this is just a perception issue and trying to reallocate and focus the resources we do have available on some of these fragility issues.

MR. PETERSON: Steve or Lael, would you like to add anything to that? Other questions? Don?

MR. PRESLEY: Don Presley with Booz, Allen, Hamilton.

One of the things Andrew pointed out is that of the budget that goes to USAID, only about 10 percent is really called development assistance. So the Agency for International Development is doing 90 percent of something that's not considered development. I think that is part of the broader strategy question that the U.S. government is struggling with. So when you think about development now being a part of the national security strategy, is it really development or is it the really the advancement of the soft power interests of the United States? And what does that mean for who carries it out and whether we have stand-alone, functionally oriented agencies like the Millennium Challenge or PEPFAR, or whether we have an agency for international something that is the outreach of the U.S. government?

I think if you look at those issues, that then helps you figure out whether a Fragile States Strategy is the right approach or not.

MR. PETERSON: Jim, do you want to react to that?

MR. KUNDER: After you've read the USAID Fragile States Strategy and you've got nothing else to do, then go to the website and read our new White Paper on development. The problem is, with each of these questions we could have a 3-day workshop on it.

The traditional funding categories no longer align very well I think with the geostrategic and humanitarian realities we're trying to confront around the world. In the White Paper what Andrew tried to do, and he did intellectually impel this paper, was try to change the categories, development assistance, the Economic Support Fund and the International Disaster Assistance Account, to try to align with the categories of impact we're actually trying to have in the world. So there is a category of humanitarian assistance.

There's a category of Transformational Development States and that is that group of states, it's like the Millennium Challenge Account, those

states where the government is on board, there is sound governance, there is an opportunity with a little injection of outside capital for the state to move forward politically and developmentally.

So I think we're trying to convince the rest of the U.S. government now that these categories need a fresh look. The problem is the traditional one of brand names. You might want to call it something else, but the USAID logo, like a Coca-Cola logo, counts for something around the world and it's a little hard to completely restructure, but your point is well taken.

MS. BRAINARD: As almost always, I agree wholeheartedly with Don's reframing because I think that is exactly what's missing. And I think that USAID is by all signs trying to grapple with this, and what is missing is the larger administration effort because I don't think it can come just from AID, but the reality is that we have a bigger question, that the majority of the world is in the so-called developing countries and that majority is growing day by day. The future really lies in

countries that are much poorer than ourselves. That's where the fastest population growth is.

So we need an integrated strategy, and over time assistance is going to become a smaller piece of that as well, and we don't integrate across trade. Trade is really not hardly at all deployed as a tool for development. So there should be a really serious rethink of how we deploy soft power and where that decision-making locus sits.

MR. PETERSON: Thank you. I think we have time for one more if there's one more question.

MR. FLICKNER: Charlie Flicker, affiliated with CSIS, formerly up on Capitol Hill. There are two problems, two challenges that haven't gotten mentioned even though it's been an extraordinarily good discussion.

In dealing with fragile states, and it's better than calling them failed states in terms of Jim what just said in terms of identifying specific ones, all of the institutional changes that Andrew Natsios talked about, deepening career paths, institutionalizing the challenges to reflect the

changes in the last 20 years, there are two places that have been mentioned only in passing that are extraordinary impediments to any of the responses that are needed.

One is the career State Department which wants respect and wants prerogatives and wants authority that really is not willing to work things out. I think it's interesting how the people who have been most successful in CRS, in RAC and PEPFAR, are not career State Foreign Service or civil servants. Carlos Pasquale is an aid officer. It's important to mention that Randy Tobias comes from the private sector, and Bill Taylor. We can go down the whole list. We don't have as Tony Cordesman has said the courage and the initiative coming from the State Department to lead in these issues.

The second problem is the Congress. The authorizing and the appropriations committees like the State Department seek prerogatives, seek respect, but are for the most part unwilling to show imagination and courage in moving out. Can of the work that you and others are talking about with

fragile states with the issues that Steve has referred to make progress without either the institutional State Department, not the political appointees, and without the Congress stepping up to the plate and recognizing there the challenges all of you have mentioned?

MR. PETERSON: Who would like to begin on that one?

MR. KUNDER: This is an opportunity for me to criticize my State Department colleagues and my appropriators at the same time.

[Laughter.]

MR. KUNDER: I'd like to comment on the question on the Hill because the issue had been addressed. As Andrew mentioned, he was a participant as were several other people in this room in discussions that Senators Lugar and Biden launched at the Senate Foreign Relations Committee level, but I do believe that that has been a relatively isolated initiative on Capitol Hill.

Reforming, this is perhaps the wrong time to talk about FEMA's successes previous to Hurricane

Katrina. The institution had been felt to be reformed and that took a major rewrite of its authorizing legislation. So at some point, you're right, I would to Lael's point, I would agree with her, that at some point these are very useful, very innovative ideas that we're kicking around here, but there has got to be more heft behind it and a critical component is getting the Hill bought in on this.

MR. MORRISON: Just to add to your pessimism, Charlie, it's not a very good moment to be thinking about trying to launch such a Fragile States Initiative if you consider that the administration has had several signature initiatives put forward already that are continuing to require very careful kind of care and nurturing to keep them moving forward. They're very costly. Their sustainability and true costs are remaining sort of up in the air. You have the deficit and now you have the Gulf of Mexico and all sorts of other things. So I think we need to keep that in mind.

I think the answer in terms of the State Department and the Hill would be there has to be leadership. That's the only feasible answer. There is some openness to discussion of these issues at senior levels within the Senate I think. There is openness to the notion of looking at new challenges on foreign aid and the like. Maybe I'm being too optimistic.

Within the State Department leadership itself at the senior levels I think there's support for the conceptual approaches that we've seen introduced at AID. I don't see it as such a huge culture gap at this point. I think there's much closer alignment than in the past.

MR. PETERSON: With that comment then we come to the end of what I think has been an extraordinary discussion marked by a range of complexities and dynamics that no doubt we could stay here and debate or discuss for hours and days on end. I think that this was a very good marker in that regard.

Let me repeat what James said earlier. I think that there is a chance for feedback. This is an important document that I think is worth examining very carefully, and please follow-up by going to the websites that he mentioned. Now is our chance to weigh in I think at a critical period.

So with that, would you please join me in thanking the members of our panel?

[Applause.]

MR. PETERSON: And let me thank once again our colleagues from the Director of Studies Office here, and we look forward to seeing you at the next event. Thank you for your time.

[END OF TAPED RECORDING.]

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