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Keynote at the Opening Session of the Fourth High-Level Forum on Aid Effectiveness

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Remarks

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Secretary of State

Busan Exhibition and Convention Center

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Well, good morning, and let me begin by thanking President Lee and the Korean Government for the excellent preparation and for the example that we have heard about and see for ourselves here in Busan. And let me also thank the OECD for helping to organize this Fourth High-Level Forum on Aid Effectiveness.

I'm pleased to be the first American Secretary of State to attend such a forum. We've already heard some excellent addresses with a lot food for thought, and I imagine that all of the prior speeches will be studied and relied upon as we judge the outcomes of our efforts here at Busan. Let me therefore say that I will put my entire remarks on our website for anyone who wishes to read them, but let me make a few comments about how I see what we are doing here today together, because I think it's important that we recognize the accomplishments that have occurred, in some places quite dramatically, as we have heard not only about Korea but also about Rwanda. But let us also acknowledge honestly the challenges and the problems that we must address if we expect to see greater progress.

It's imperative to recognize a fact that is important in all of our deliberations. Official development assistance from governments and multilateral organizations is no longer the primary driver of economic growth. In the 1960s, such assistance represented 70 percent of the capital flows going into developing countries. But today, because of private sector growth and increased trade, domestic resources, remittances, and capital flows, it is just 13 percent – even as development budgets have continued to increase.

So what does that mean for us? Well, with official development assistance representing a much smaller share of the resources flowing into developing countries, we have to think differently about how we use it. I believe it must serve as a catalyst to spark self-sustaining progress – by helping to reduce risks that prevent companies from doing business in developing countries; by helping governments and domestic financial institutions expand credit to local small and medium enterprises; by working with governments to address the structural barriers to advancement, especially for women – and we've heard already about education, but there are also outdated land tenure laws and access to capital that are real impediments – and by lending technical assistance that helps governments build their capacity to better serve their own citizens.

In short, we need to continue shifting our approach and our thinking from aid to investment, investments targeted to produce tangible returns. And we have to be very honest about it, because wise investors choose their investments carefully. They manage for risks; they amplify their impact by trying to draw even more participants to the table. But when a particular investment is not producing the projected returns, there have to be tough decisions made about whether to modify or eliminate it.

So even as we point to progress, I don't think it's appropriate for us to dwell on our accomplishments, but instead I'd rather talk honestly about what each of us – traditional donors, emerging economies, developing countries, the private sector, civil society, and NGOs – can do now to deliver on the commitments we have made and to produce the results we seek.

I recognize that the changes we've seen in development mean that old distinctions – like "donor" and "recipient" – are less relevant, since many emerging economies are both donors and recipients, but it is still worth taking stock of what each of us is called to do.

I'll begin with traditional donors, including the United States and the multilateral organizations represented here. Of the 13 measures of progress we all agreed to in Paris six years ago, we have achieved just one, and that just barely, related to coordination. Now, I recognize that these metrics are aspirational, but I believe we can and must do better. So let me describe a few of the concerns we hear about traditional donors and what the United States is attempting to do in response.

First, we need to get serious about what we mean when we talk about country ownership of development strategies. Let's be clear. Too often, donors' decisions are driven more by our own political interests or our policy preferences or development orthodoxies than by our partners' needs. But now our partners have access to evidence-based analysis and best practices, so they can better decide what will work for them. We have to be willing to follow their lead. We have tried

to do that in the three-plus years in the Obama Administration, starting with recognizing that development needed to be elevated alongside defense and diplomacy as one of the three pillars of our foreign policy. So we set about working not only through the State Department, but USAID and the Millennium Challenge Corporation to do just that. So, for example, our new U.S. Global Health Initiative supports country-led plans to try to strengthen health systems so our partners can eventually address more of their own health needs.

But we've also found that too often we see countries shifting resources out of their national budgets once donor money comes in, whether it is in a parallel organization or through the national ministries. So we have a substitute effect instead of a cumulative one. So as we make decisions about country-led development strategies, our partners have to be working with us in ways that truly set the outcomes we are trying to achieve and then hold both of us accountable for doing so.

Second, our partners express concerns about what is called "tied aid": requirements that some development contributions must be acquired through firms in our own countries. We certainly understand the benefits of untying aid and we attempted to do so. While we cannot commit to have untied all American assistance, we are working to untie as much as possible. And actually in – between 2005 and 2009, we more than doubled the percentage of assistance that is untied, from 32 percent to 68 percent. But one of the reasons tied aid has persisted is in order to get political support for the budgets that we turn into official development assistance. So we try to untie as much as possible, but recognize the political constraints that we and others operate under.

Third, we hear from our partners that we need to focus on the right measures of success. All of us know the difference between inputs and outputs, but sometimes we confuse both with outcomes. Too often, we measure success by what we put in – namely the number of textbooks delivered to schools or seeds provided to farmers – rather than what we get out. We know textbooks alone don't lead to a well-educated workforce and that seeds alone cannot produce a thriving agricultural sector. So we have to be clear about what our outcomes should be and then hold ourselves and all of our partners to them. Within our government, the Millennium Challenge Corporation has been a pioneer in this area. And USAID recently adopted a new measurement and evaluation model that has been broadly recognized as the gold standard.

Fourth, we hear that we need to be more flexible. And the truth is that we make and implement decisions more slowly than the private sector and often more slowly than some emerging economies. Now, of course, we do have to demand due diligence to make sure that dollars are spent effectively and efficiently, but I admit that, over time, our procedures have become bureaucratic and cumbersome. So we should take, with your help, a hard look at how we streamline our protocols so we can invest faster and adjust our strategies more quickly without sacrificing either high standards or outcomes. The United States, through USAID's Forward agenda, is working to streamline our procurement process and channel more resources into government ministries that can use them efficiently.

And finally, I want to say a word about coordinating our efforts. This has been a topic of development conferences for so long that it is a cliché, but it is also still a problem. Many donors, like ourselves, have multiple agencies that engage in development. The United States Government alone has more than 15. And all too often, we require different measures of success, so it is easy to see how our good intentions can create frustrating burdens for our partners.

So we are trying some different approaches. Through the Obama Administration's new Partnership for Growth, the United States is working intensively with four partner countries – El Salvador, Ghana, Tanzania, and the Philippines – to identify their biggest impediments to growth, and then to coordinate the efforts of every U.S. agency, from Agriculture to Treasury, in helping them overcome these barriers. In addition, our Feed the Future program now helps our partners bring together international donors to invest in the country's plan to improve agriculture and food security.

So in all of these areas, from country ownership to coordination, the United States is responding to the concerns we have heard. We are guided by President Obama's Policy Directive on Global Development and by the first-ever Quadrennial Diplomacy and Development Review that I commissioned to make a blueprint for how State and USAID become more nimble, more effective, and more accountable. We recently launched a Foreign Assistance Dashboard at www.foreignassistance.gov, which lets anyone with an internet connection see where we're investing and how much. And today we are taking another step. I'm pleased to announce that the United States will join the International Aid Transparency Initiative, and we will – (applause) – report data in a timely, easy-to-use format.

But just as traditional donors can work smarter and do better, so can others as well. We welcome the emerging economies that are embracing the responsibility to help solve shared challenges. For example, Brazil and Japan are partnering with Mozambique, whose climate and soil condition are similar to Brazil's, to expand its soybean crop. And Mexico, like Brazil, is sharing lessons with all of us from its innovative conditional cash transfer programs.

All of us must live up to the international standards that the global community has committed to, starting with a commitment to help countries become more self-reliant. That means, for example, helping countries with natural resources escape the so-called "resource curse" that leaves them rich in oil, gold, or other commodities but poor by many other measures. And while national sovereignty is an important principle, it cannot become an excuse for avoiding scrutiny of development efforts, not if we want results. Transparency helps reveal our weaknesses so we can improve our work.

Being an accountable partner also means refusing to look the other way when leaders repress their own people. This year, the World Bank reported evidence that respect for economic freedom and civil and political liberties helps explain why some countries achieve better long-term economic outcomes than others. Well, it stands to reason. Any plan for growth that depends on opening new businesses will also depend on an environment where citizens can exchange ideas and compete for customers freely, and where all people have a chance to contribute to progress. It also depends on strong institutions: impartial courts, a competent, honest police force, a free press to call out corruption.

Finally, I know that the historical distinction between developed and developing countries still influences how some see development, with traditional donors on one side, emerging economies and developing nations on the other. That won't work anymore. We need every provider of assistance at the table, emerging and traditional, public and private. And we need to make sure we get past the old divisions so we can deliver results for everyone.

This brings me to our developing-country partners. Today, we know donors must do more to support country ownership, but we also have to expect more from developing countries. The political will must be mobilized to take on the biggest obstacles to a country's own development. For some, it may be a court system where the rule of law only applies to some of the people some of the time, or a system of laws that prevent women from owning or inheriting property. For others, it may be a tax system that makes it easy for people to avoid paying, or fails to levy taxes at all. And for many, it is a ruling elite who protect their own interests at the expense of their fellow citizens. And in many places, it remains security, and I applaud the countries of Central America, who are working together to take on one of the biggest barriers to development, the lack of sufficient security, by working to reform a criminal justice sector and fight corruption.

All of these challenges require leaders who have the courage to make tough choices and who are willing to tell powerful people something they don't want to hear, that their taxes are going up, for example, or that their special privileges are going away. Elites in developing countries need to support political leaders who take on these tough issues that will benefit everyone by making the pie even bigger.

Developing countries also need to be smart shoppers. Be wary of donors who are more interested in extracting your resources than building your capacity. Some funding might help fill short-term budget gaps, but we've seen time and again is that these quick fixes will not produce sustaining results.

And finally, the developing countries represented here should recognize that the domestic and foreign private sector can play a productive role in development. Now, I understand that some of you may be reluctant to buy that, for understandable reasons. You have seen corporations put their profits ahead of your interests in the past, and you have suffered the consequences. But today, we see companies truly exercising corporate responsibility, like IBM and Unilever, offering sustainable solutions for development problems. If the business climate in a country is improved, if businesses can start without having to pass money through many hands and go through many hoops, you will see results, and you can create more opportunities for more people.

We recently saw an announcement in Haiti, where the Government of Haiti, working with a Korean company, Sae-A, is putting together a \$70 million investment by one of the largest garment manufacturers in the world to help build that company's first textile mill that will eventually employ 20,000 people. But it wasn't only the employment. It was also building a school and building housing and helping to model what could work, coming straight out of the Korean experience.

And now, let me say a word to our partners from the private sector and civil society. I want to thank our civil society partners for your tireless efforts to improve lives around the world and congratulate you on developing the Istanbul principles for development effectiveness. Now it is time to get to work. (Applause.) And let me say, most importantly, like traditional donors, you must end the practice of creating your own strategies independent of a country-led plan. It is in your interest – (applause) – to coordinate with government agencies and other NGOs. Otherwise, we see you, what President Kagame very eloquently described, which is parallel programs that do not build capacity and leave sustainable outcomes.

As for the private sector, as you well know, some, if not many, in the development community are still reluctant to work with you. You can help bridge this divide. Don't wait for activists to push you to set industry guidelines for workplace safety, pay, transparency, or other issues. Take these steps yourselves and build trust.

The potential is enormous. USAID, under Raj Shah's leadership, recently launched a new partnership with the World Food Program and PepsiCo. Together, we will invest \$6 million in Ethiopia, Prime Minister, to help smallholder farmers grow more chickpeas. Pepsi will buy those chickpeas and turn them into a high-energy paste, which the World Food Program will then distribute to malnourished children throughout the Horn of Africa. Let's expand on models like this. We need new types of public-private partnerships, new mechanisms for sharing technology, and new ways to align your business interests with development goals.

And there is one last challenge I want to discuss, and that is to echo the eloquence of Queen Rania: leveraging the impact that women can have on effective development. If we didn't know before, certainly a growing body of research should convince us that nations which invest in women's employment, health, and education tend to have more economic growth; farmers are more productive, children healthier and better educated. So for our part, the United States is putting women at the center of our development efforts, and we are collecting data – (applause) – to make sure we're having the impact we want.

In just a little while, I will attend a meeting for the gender issues, and I thank Korea for cosponsoring that. That will be chaired by Michelle Bachelet, where we will announce our program for trying to collect data to convince those who remain unconvinced to invest in your girls and your women if you wish to develop. (Applause.)

So today, I'm asking all of us to take a hard look at where we need to improve, starting with my own country's shortcomings, because the stakes are too high for anything else. And as we look ahead to future gatherings where our work will be discussed, we need to be able to say that out of Busan we really made a difference, we learned from our mistakes, we took on the hardest problems, and we held all of us, with no exceptions, to the highest standards, and then we delivered on our commitments. Not just a commitment to a certain level of funding, or even to a series of principles, as important as those are, but the ultimate commitment to improving the lives of millions of people and to helping those who are on the frontlines doing development work day in and day out, and a commitment to the idea that every person, boy or

girl, should have the right to fulfill his or her God-given potential in the world of the 21st century. That is, after all, the purpose of development, and that is the goal of this forum, and it is an honor to join all of you in working to achieve it.

Thank you very much. (Applause.)

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