Andrew Natsios: Getting USAID on Its Feet

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ADMINISTRATOR ANDREW S. NATSIOS IS REBUILDING USAID FROM THE DARK DAYS WHEN ABSORPTION INTO STATE WAS LIKELY. BUT THERE IS STILL MUCH TO BE DONE.

By Ben Barber

When Andrew S. Natsios, the head of the U.S. Agency for International Development, went to the Heritage Foundation on Capitol Hill in May to defend his foreign aid program, he walked into the proverbial lion's den. Arrayed on tables in the entryway were a half-dozen treatises by Heritage scholars basically saying that Natsios' task was mission impossible. Foreign aid doesn't work. Trade, not aid, works. U.S. tax dollars are going down a rathole. Corrupt foreign elites grow fat off American aid.

Natsios, a conservative former Massachusetts legislator brought to Washington during the first Bush administration,

is mild-mannered in public, so it was never quite clear how he felt confronting so many critics. But what was immediately clear was that he was willing and ready to defend his agency's $8.5 billion budget against charges that foreign aid has frequently failed to improve living standards.

One of Natsios' biggest fans is the man who sat in his chair before him, J. Brian Atwood.

He began by reminding critics of the great success since 1960 of U.S. foreign assistance in East Asia, which helped develop impoverished Korea, Thailand and Malaysia into Asian tigers. "Private domestic investment and rapidly growing human capital were the principal engines of growth," he said. Nor can foreign aid reduce poverty without "sound macroeconomic management," he noted, citing a key ingredient of the Bush administration's view of foreign aid.

Admitting that USAID had made mistakes in the past, Natsios then stole the thunder of his critics by citing economist William Easterly, the dean of USAID critics, to signify his willingness to reform the agency. Quoting from Easterly's recent book, *The Elusive Quest for Growth* (MIT Press, 2001), Natsios said: "Broad and deep development happens when a government that is held accountable for its actions energetically takes up the task of investing in collective goods like health, education, and the rule of law."

This is another key conservative concept in foreign aid that has been widely adopted by many foreign aid experts around the globe. Even Natsios' predecessor at USAID under Bill Clinton, J. Brian Atwood, adopted this concept and shut down USAID programs in corrupt or poorly managed developing countries and ended aid to countries such as Thailand which "graduated" from depending on foreign handouts. Atwood also paved the way for Natsios' reforms by insisting on "sustainable development," which means that aid projects should ultimately generate more income than they consume — including consumption of environmental resources.

Having placed himself on the side of the angels by citing Easterly, Natsios then waved before his critics the "Millennium Challenge Account" announced by President Bush two months earlier at the Monterrey, Mexico Conference on Financing for Development, which some observers call the biggest shock to the world of foreign assistance in a decade. The president pledged to increase U.S. foreign aid from $10 billion to $15 billion a year over the next three budget years, but said this "smart" assistance will be targeted to governments that provide good governance, rule of law, sanctity of contracts and free markets. Recipient nations must also make their own contributions to improved health and education as well as develop economic, currency, trade and investment policies that encourage private foreign and domestic investment in sectors vital for growth such as education and infrastructure.

For countries that meet those standards, Bush and other donor nations pledged in the draft Monterrey Consensus document, to "commit ourselves to mobilizing domestic resources, attracting international flows, promoting international trade as an engine for development, sustainable debt financing and external debt relief, and enhancing the coherence and consistency of the international monetary, financial and trading systems."

Third World governments lacking such policies would be lured into adopting them by the promise of the cash and technical assistance to set up the required institutions. In part, some believe, the Bush administration acted out of concern after Sept. 11 that isolated swamps of poverty and discontent in the developing world could provide a ready ideological justification for terrorists as well as a pool of recruits.

Thus, despite having run on a conservative platform decidedly hostile to foreign aid, Bush and his appointee, Natsios, now argue that foreign aid is a vital ingredient in U.S. foreign policy. The justification may be terrorism, humanitarian crises, environmental challenges, world stability or all of the above. But regardless, the Bush administration is now as firmly entrenched in the quest for effective foreign aid as any of its predecessors dating back to Harry Truman.

A New Marshall Plan?

In an interview in his office at the Ronald Reagan building recently, Natsios recalled how the Marshall Plan had influenced his own thinking about the world.

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"As a kid I was in Greece to see my grandfather when per capita income was $200," he said. The devastation of World War II and the threats of communist insurgencies or political movements in Greece and other European countries had paralyzed the economy of the region. The Marshall Plan's massive infusion of income-generating projects and materials turned things around. In later visits Natsios saw his grandfather's village blossom and income shot up to $10,000 per capita.

Some foreign aid analysts hope that similar income-generating assistance — they frequently call for "a new Marshall Plan" for sub-Saharan Africa, Central Asia or other poverty zones — can drain support for anti-American terrorism, much as the Marshall Plan drained away support for communism in Western Europe. This is an approach Natsios was clearly comfortable with, having witnessed up close the humanitarian horror of corrupt and indifferent rulers as head of the Office of Foreign Disaster Assistance under the first President Bush and then as vice president of World Vision, a major non-governmental organization delivering assistance around the world.

"If there are venal and predatory governments, foreign aid can keep people alive but the country won't develop," said Natsios in a March interview in his office. He said it is legitimate to ask why foreign aid investments sometimes fail and sometimes work.

"In Mali, Uganda, Ghana, Mozambique, El Salvador and Jordan — where there's a reform process going on, where there is a political will" — aid has worked, he said.

Natsios says the agency has learned from its successes and mistakes. "We know what works. You need political will and competent policy reform. Investing in health and education works — we learned that from Asia. And partnerships help — linking ODA [Overseas Development Assistance from all donor nations], private sector investment and the $30 billion a year [in remittances] diasporas in America send back home each year."

Fighting Terrorism

Would that lessons learned in one battle could be so easily applied to others.

Unfortunately, at a June symposium at USAID, Princeton economist Alan Krueger and others on the panel dashed hopes that the agency might easily play a large role in the all-consuming fight against terrorism. "Any connection between education, poverty and terrorism is indirect, complicated and probably weak. Terrorism is not a response to economic conditions. It's a violent political act," he said.

USAID Assistant Administrator for Policy and Program Coordination Patrick Cronin agreed that evidence shows "no compelling direct link between poverty and terrorism," though USAID programs are at least partially aimed at having an impact on the justification of terrorism and recruitment.

Krueger said that foreign aid can reduce terrorism through "changing the content of education." One goal would be to divert students away from the intolerant ideology taught at some Islamic schools (madrassas), where the Taliban were trained and thousands of students are still being taught to hate America.

"The message of Monterrey is you need to focus on what works — not just the amount of money," Natsios added. "When people stand up to corruption we have to stand alongside them. [But] without local leadership, it won't happen."

Natsios also backed the often painful policies in which donor countries and banks urge poor nations to cut subsidies for food, schools and health in order to balance their budgets — the highly unpopular "structural adjustment policies" that have set off riots in many nations in recent decades. "If you don't have macroeconomic stability," he said, "if you have rampant inflation, an economy can't grow. If you don't have convertible currency you can't trade. You have to balance your budget. We help countries balance their budgets."

The Atwood Years

If there is one major ideological difference between the Natsios and Atwood administrations — and it may be due to the new post-Sept. 11 emphasis on counterterrorism — it is that Atwood's zeal to promote democracy is now somewhat on the back burner at USAID. Stability in the face of terrorism is valued more highly at USAID these days than the Atwood-era faith in giving the poorest and least educated people in the world control over the levers of power, in the belief that will bring about either improved living conditions or greater world security.

This shift also reflects the influence of the two administrators' respective secretaries of State. Warren Christopher and Madeleine Albright both espoused a deep belief that democracy was the elixir capable of tam-

ing man's savage instincts. Colin Powell, although more liberal than his counterparts in the Bush national security team, appears more skeptical about the benefits of pushing rapidly for democracy, especially in countries with neither education nor traditions that support it.

Natsios believes that his agency has a far clearer mandate to work since the Sept. 11 attacks.

In addition, while Clinton was sympathetic to Atwood's goals, neither he, Christopher nor Albright appeared willing to stand up to congressional critics of foreign aid when it really counted. As a result, Atwood's attempts to reform USAID were largely stymied, though he did manage to defeat a campaign by Senate Foreign Relations Committee Chairman Jesse Helms, R-N.C., to merge USAID into State.

It is no surprise, then, that Natsios says that he inherited an agency badly in need of reform and repair. "Problems with USAID include personnel, the financial management system, computers, the procurement system and the system of grants and contracts," Natsios said. "These affect everyone. Congress wants information [on USAID programs], the NGOs want quick action [on proposals] and we can't do it."

Of course, since most administrations accuse those that went before them of leaving a house badly in need of repair and reform, it's hard to know whom to blame. But a Republican House staff aide with long experience overseeing the foreign assistance budget confirms that USAID suffered a huge loss of brainpower during the Atwood years. Not only was total foreign aid funding cut throughout the mid- to late 1990s, but about half of what remained was earmarked for Israel and Egypt to support the 1979 Camp David peace accord. Other aid was earmarked for child survival programs, leaving very little money for the kind of nuts-and-bolts development work that planners feel is needed to build productive economies.

Those cuts also forced Atwood to order major reductions in force. In 1990, there were 3,262 USAID direct-hire employees; in 2000, there were only 1,947. Recruitment of younger staff was also curtailed as work was farmed out to contractors instead of being handled in-house. This left a vast gap in the ranks of mid-level experts today.

The situation finally stabilized in 2001, when for the first time in years the agency was permitted to try to keep pace with attrition. But the staffer warns that USAID still faces a personnel crisis: the people who know how to run the system are about to retire and there are few rising stars in their 30s and 40s to replace them.

The damage from the massive budget cuts and firings was deepened by the waste of $100 million on various initiatives, chief among them a badly executed attempt to leapfrog technologically from 1960s-era Wang computers to a state-of-the-art system.

Tackling the Problems

Before becoming USAID administrator, Natsios had already spent more than a decade struggling with ever-larger bureaucracies — among them, stints as director of USAID's own Office of Foreign Disaster Assistance and assistant administrator of its Bureau of Food and Humanitarian Assistance (now the Bureau of Democracy, Conflict and Humanitarian Assistance) during the first Bush administration; vice president of World Vision U.S.; and, in 2000, back in Boston as a trouble-shooting director called in to straighten out the mammoth, over-budget "Big Dig" project that buried a major highway under downtown Boston. So he plunged into his new role with purposeful energy.

He is primarily focusing on the management systems in five areas: procurement, personnel, financial management, computer services and administrative services. He's begun to introduce electronic systems to replace paper in hiring and other areas. He says he's replacing an 18-year-old system of writing contracts with a new automated system and will bring a new financial management system to the field next year.

The 2,200 Foreign and Civil Service officers he manages, as well as the 4,000 Foreign Service National employees, are about 40 to 45 percent below levels of the 1990s due to the RIFs. So Natsios says he wants to get more out of the staff by getting more of them out in the field — where they also will learn more about how foreign aid works in the political, economic and social climate of the current decade. And he is committed to increasing Foreign Service staffing overseas: in 2003, for the first time in over five years, there will be 700 FS slots at USAID's missions worldwide.

He is also responding to critics who say USAID contracts go mainly to former officials who set up large firms with the know-how to write proposals and contacts within the agency. "Small business can't break into USAID so now one criterion is how much of a budget is in subcontracts — the more the better — to stop the perception of an old boy network" dominating the USAID system, he said.

One of Natsios' biggest fans is the man who sat in his chair before him. "I've followed him closely and speak often to Andrew — I hold him in the highest regard," said Atwood in an interview from his new office as dean of the Humphrey Institute for Public Affairs at the University of Minnesota in Minneapolis. "He's leading USAID into a new era, especially with respect to resources."

Atwood admits he's jealous that Natsios now has increasing supplies of cash. He predicts USAID will likely get a lion's share of the $5 billion Millennium Challenge Account because "it's the agency with the ability to deliver on the ground."

While he believes Natsios' reforms are "generally sensible," he was at first concerned that democratization programs were being channeled into a back burner role inside the bureau for crisis management and post-conflict issues. "But he has taken steps to see that democratization programs are central to sustainable development."

Atwood also notes that one of Natsios' strongest assets is his longtime relationship with a fellow Massachusetts ex-legislator, White House Chief of Staff Andy Card, who was the best man at Natsios' wedding.

Thus, any plans to turn USAID into a grant-making foundation or a subsidiary of State, as once proposed by Sen. Helms, have now been permanently shelved.

For his part, the man who controls the USAID budget — Rep. Jim Kolbe, R-Ariz., chairman of the House Appropriations Subcommittee on Foreign Operations — agrees Natsios "is doing a good job."

"Natsios inherited a difficult [agency] that historically

lacked management and he's been good to his word," said Kolbe in an interview. "He has begun the process of cleaning up management and putting systems in place. I would not give him an 'A+' but in terms of effort there has been an 'A.'"

Due to this effort, Kolbe was optimistic that the $5 billion foreign assistance increase President Bush pledged at Monterrey will be approved. "I think there will be support in the House," he said. "What's new is he is focused on results. He's making sure aid goes to countries where it will make a difference economically. We put billions into Africa and the per capita income there is lower than it was 25 years ago. You've got to go where institutions can accommodate the aid."

While Kolbe said Natsios "is tackling the problems" at USAID, the Republican legislator said he'd like to see a new personnel system in place and a change in the contracting system. But management changes are not all that Kolbe would like to see USAID consider. The day he was interviewed, Kolbe said the House subcommittee held its first hearing on the Millennium Challenge Account and listened to visionary Latin American economist Hernando DeSoto discuss one of the most revolutionary development ideas — the idea of helping peasants use their land as capital to borrow money to pay for investments such as farm machinery, irrigation, fertilizer, transport and the like. Because most peasants lack legal documents giving them title to their land, banks won't make loans. DeSoto proposes that USAID and other development agencies help set up local banking systems geared to unlock trillions of dollars in wealth already in the hands of the poor but unusable as collateral assets at present.

The DeSoto plan is an idea similar in many ways to the innovative microcredit systems developed by Bangladesh's Grameen Bank and the Bangladesh Rural Advancement Committee 20 years ago. It's one of the visionary approaches to development some at USAID and other agencies think can make a difference in countries from the Congo to Guatemala, where poverty, illiteracy and disease fueled by social, tribal and other rivalries, keep billions of people from achieving the minimal

living standards that are seen today as a natural human birthright.

Relations With State

Natsios has worked hard to improve relations between USAID and State. In the past, the relationship between the two sister agencies was frequently tense. When the USAID mission in a country such as Egypt or Thailand once gave out billions in aid, and housed hundreds of U.S. experts — a far larger staff than the local U.S. embassy — a certain rivalry for power tended to develop. In addition, in some countries, the USAID mission of development was not necessarily the primary mission of the State Department.

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But Natsios has put to rest any suspicion that he has an agenda independent of the secretary of State, Colin L. Powell. On Powell's trip to Africa last year, Natsios was along and was given a chance to come back in the plane and talk to reporters — a gesture of trust between the two men that symbolizes the nature of their relationship. Natsios made clear that there is one foreign policy chief in the administration, Powell. And Natsios is part of the small core of close advisors who meet every day with Powell at 8:30 a.m. to set a common approach to issues and problems.

Natsios was in awe of Powell, the legendary son of Jamaican immigrants who rose from his Bronx neighborhood, through City College of New York, to command the U.S. Army in the Gulf War and serve as Chairman of the Joint Chiefs of Staff in the first Bush administration before becoming the first black secretary of State last year. But he quickly learned how to work with Powell, whose leadership style resembles that of President Bush. Both men expect their subordinates to bring with them not just the issues, not just the problems — but the solutions to those problems. "He wants you to say what you want to do," recalled Natsios. "Now I know if I bring a problem, he wants a set of options."

"Powell is a very secure person — he let me speak on the Africa trip. It's disarming to work for someone like that who does not worry about ego questions. There is no rivalry at the senior level." This is a far cry from recent reports that Natsios is fighting a turf war with State and other agencies to control foreign assistance. It may be that Natsios, Powell, Defense Secretary Donald Rumsfeld, National Security Advisor Condoleezza Rice and other Bush administration foreign policy heavies like to wrestle. Each offers their view and argues it. But when the die is cast — by Bush — all fall into line like the good soldiers they appear to be. Even within the State Department's corridors, Deputy Secretary of State Richard Armitage and Natsios both find themselves considerably more conservative than Powell. But this does not prevent Powell and Armitage from being "best friends," says Natsios, who has now developed a habit of frequent phone conversations with Armitage.

Looking Ahead

Natsios agrees with the critical analysts of foreign assistance who say trade is capable of greater growth than aid. He cites the example of Uganda, which is exporting $9 million a year in flowers and selling vanilla to Europe with the help of USAID expertise and assistance. However, Natsios disagrees with critics who say the Bush farm bill, with its billions in subsidies for American farmers, is undercutting Third World efforts to increase agricultural production. These critics say that when U.S. and European subsidized wheat, corn and rice hit world markets, it drives down prices below the break-even point for Third World farmers. Natsios counters by saying "our experts think it's exaggerated — we help subsistence farmers" who neither buy cheap U.S. grains nor sell to their own domestic or export markets. Cotton was the only crop he said might be depressed by U.S. farm supports.

Natsios also dismisses as unfounded fears expressed by diplomats that the Bush plan to convert some World Bank loans into grants might undermine the international financial institutions which have huge amounts of cash to support development work because they see that loans are repaid.

Above all, Natsios believes that since Sept. 11 his

agency has a far clearer mandate to work. He says the Bush administration's foreign policy has three legs — defense, diplomacy and development with its humanitarian component. Even before the attacks, the U.S. government was the biggest donor fighting famine in Taliban-ruled Afghanistan as well as North Korea — two countries seen as enemies of the United States.

Natsios and other USAID experts hope to find a way to push investment in social sectors, good governance and economic freedom to build good will, prevent the despair that breeds anti-Americanism and defend American interests through the apparently altruistic system known as foreign assistance — a system for development that is itself in the midst of development.

"President Bush, in his March 14 speech, set a new direction for development assistance by insisting on performance, not mere promises, to determine which countries would qualify for assistance under the new Millennium Challenge Account," said Natsios at the Heritage Foundation last May. The increase failed to satisfy critics seeking that the United States meet a donor level of 0.7 percent of gross domestic product, set at previous U.N. development conferences. But it was a recognition that even with the Cold War over and the global economy inserting far more cash into the Third World than the roughly $50 billion a year in total overseas development assistance given by all donors, the Bush administration thinks foreign aid is 50 percent more important than it was in the recent past.

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If Natsios has had a part in bringing the Bush administration to this point in the road, he can call that a success. ■