The past five years have witnessed more changes in our foreign assistance program, and the U.S. Agency for International Development, than at any point since the Kennedy administration: in fundamental purpose, in spending levels, in allocation standards and in new programs. These changes are designed to prepare the agency for the foreign policy challenges of the post-9/11 world, in recognition of the likelihood that international development may be the most powerful and appropriate response to these challenges. This article will explore the intellec-

Reforms are realigning the agency’s policies and operations to match today’s strategic and developmental challenges.

By Andrew Natsios
tual rationale for foreign assistance programs, describe the organizational changes already undertaken in USAID over the past five years, and discuss the changes yet to be implemented during the remaining years of the Bush presidency.

The urgency of these changes becomes even more evident given President Bush’s announcement over the past five years of 21 new foreign assistance initiatives. U.S. spending levels show an increase in official development assistance from $10 billion in 2000 to an estimated $27.5 billion in 2005.

Modernizing Foreign Assistance

Whenever the vital national interests of the country are being redefined, as they have been since the 9/11 attacks, foreign aid goes through a redefinition as well. It is not surprising, then, that the program strategies, funding mechanisms, organizational structure and business systems of USAID have all undergone more change in the past five years than in the past several decades combined. The focus has been on realigning the policies and operations of the agency to: match the strategic and developmental challenges facing the developing world in the post-9/11 era; modernize the business systems that carry out the agency’s work; create a new set of nontraditional partners; contribute to the administration’s major foreign policy initiatives; and participate more aggressively in the U.S. government’s public diplomacy efforts.

Toward these ends, USAID has promulgated more than a dozen new strategies in various sectors, reshaping program design, budget decisions and staffing patterns. The most significant of the strategic documents explaining the new direction are: Foreign Aid in the National Interest; U.S. Foreign Aid: Meeting the Challenges of the 21st Century (commonly known as the White Paper); the Fragile States Strategy; and the Democracy and Governance Strategy.

These four strategy papers represent a historic departure from traditional development practice. The first two address broad questions of development policy and programming, while the White Paper proposes to move USAID away from sector-based programming (the traditional way in which our country assistance programs have been designed) to a model based on the stage of development which each country occupies. Specifically, it recognizes the following categories: transformational states that are experiencing rapid rates of growth and progress; countries that are neither collapsing nor progressing (a category added later); strategically important states; fragile states under stress; failed states in crisis requiring humanitarian assistance; and transnational challenges such as avian flu and HIV/AIDS.

USAID is now redesigning its budgeting and programming systems to reflect these developmental categories. In Sudan, for example, the reconstruction program for the south has been redesigned as a fragile-state strategy by focusing the effort on the factors that would most likely lead to a breakdown of the 2005 Comprehensive Peace Agreement; after all, if the agreement collapses and the war starts again, the rest of the reconstruction program becomes irrelevant. The most important factor, then, in reducing the fragility of Sudan and making sure reconstruction succeeds is ensuring the success of the CPA. Under the new strategy, early initiatives will be taken in the three most explosive geographic areas covered by the peace agreement to reduce the country’s vulnerability.

Two of the new strategy papers address the central...
challenge of dealing with governance failure in developing countries that have become magnets for terrorist networks, criminal gangs, illegal arms trade, narcotics cartels, money laundering and counterfeiting rings. Three such states — Somalia, Sudan and Afghanistan — served as hosts for Osama bin Laden’s al-Qaeda network during the 1990s.

Addressing Failed States

Fragile and failed states also represent one of the greatest development challenges of our time. Two billion of the poorest, most undernourished, and sickest people in the world live in about 50 fragile or failing states.

Fortunately, in responding to this challenge we now have a truly historic confluence of vital national interest, rigorous development analysis and great moral purpose. In fact, not since the Marshall Plan of nearly 60 years ago have we witnessed such a clear alignment of these traditionally conflicting interests in our aid program.

Over the past five years, USAID has sought simultaneously to realign its organizational structure, budgeting and personnel systems, and programming to address state fragility and failure. For instance, we have created a new career track (called a “backstop,” equivalent to a “cone” in the State Department) within the Foreign Service personnel system called crisis, stabilization and governance, which 10 percent of the agency’s officers have now joined. This cadre is now being trained in common doctrine, programming design and operating systems to carry out these new strategies.

Four years ago we created the Office of Conflict Mitigation and Management to create new program instruments and analytical tools to deal with conflict, a major factor in state fragility and failure. Officers from CMM have been assigned to State’s Office of the Coordinator for Reconstruction and Stabilization to do joint planning. USAID has also established an Office of Military Affairs to better coordinate its crisis response planning with counterparts in the regional commands.

This enhanced focus on conflict and fragility is reflected in a USAID program on the island of Mindanao in the Philippines. The Livelihood Enhancement and Peace Program is designed to assist formercombatants of the Moro National Liberation Front make the transition from guerrillas to commercial farmers and fishermen. Since 1997, LEAP has provided over 24,000 former MNLF combatants with technical assistance and training, agricultural and aquaculture production inputs, and post-harvest equipment and support facilities. In order to assist in bringing about greater trust between the Philippine government and the former combatants, LEAP uses local government offices to deliver services.

I recently came across a poignant endorsement of this program’s efforts in a letter from an Islamic insurgent commander in Mindanao to former U.S. Ambassador to the Philippines Frank Riccardone, a good friend of mine and one of our most able diplomats. It says: “If LEAP-USaid was in Mindanao 30 years ago, war did not happen in Mindanao” (sic). The commander asked the ambassador for a similar program to be extended to his area. Riccardone responded that they would have to lay down their arms first; then we would talk about a reconstruction program for them.

USAID’s internal realignment will assist our friends in the developing world to escape the failed-state trap. One African head of state turned to me at an international conference and remarked, “As a nation, America can no longer afford to have its friends fail in the development process.” I would put it more positively: it is in America’s national interest for our friends to succeed in the development process. That mandate calls for a better alignment of American diplomatic, trade, military and development resources to facilitate their efforts to reduce poverty through sustained economic growth; build competent, well-governed democracies; and provide reliable public services.

A new communications strategy is being implemented to parallel the State Department’s own enhanced public diplomacy campaign. All USAID missions are hiring development information officers to work alongside the political section in embassies to explain USAID programs to the public. For instance, a new branding campaign for all USAID field programs uses the traditional handshake logo, which goes back to the Marshall Plan, but combines it with a new tag line — “USAID from the American People” — in red, white and blue.

In strategically important regions such as the Islamic world, USAID missions are carrying out public service campaigns on local radio and television to advertise programs. We now have ample polling data to conclude that the branding and communications plans are substantially increasing public awareness of these programs. In the West Bank and Gaza, awareness of the USAID programs among the Palestinian people went from 5 to 55 percent.
as a result of this aggressive communications campaign. In Aceh, Indonesia, where a large U.S. government tsunami reconstruction program is under way, more than 50 percent of the people surveyed could identify U.S. projects. This much higher visibility and public identification of American aid programs make a powerful statement about our intentions in the world that can win the hearts and minds of people at the community level.

**The Global Development Alliance**

Over the years, USAID cultivated a comfortable group of implementing partner organizations — universities, nongovernmental organizations and contractors — which did not change much from year to year. The agency maintained this continuity for a good reason: this relatively fixed set of partners has reduced the risk of program failure and improved accountability and program quality. But some of these organizational relationships fostered dependency and a sense of entitlement, which translated into an increasing effort by some partner organizations and advocacy groups to protect themselves and their sectors against the risk of USAID leaders changing priorities, regional emphasis and programming focus. They did this by encouraging congressional earmarks and directives, which have tied the agency into a budgetary straitjacket with little flexibility.

To minimize this tendency, we have now expanded the circle of partner organizations to include more groups that do not principally depend on the federal appropriation process for their survival. Through an initiative called the Global Development Alliance, the agency has invested more than $1.1 billion in more than 300 alliances with private foundations, faith-based groups, nongovernmental organizations, corporations and universities, garnering $3.7 billion in private foreign aid. The Kennedy School of Government at Harvard University recently conducted a case study on USAID alliance-building and has chosen the GDA for its Lewis and Clark Award for Innovations in Government.

The GDA takes advantage of the massive increase in private funding of foreign assistance programs over the past four decades. In 1970 only 30 percent of aid flows to the developing world from the U.S. were private contributions, while 70 percent were official development assistance, principally from USAID. By 2004 nearly 85 percent of the cash flows came from private donors, while just 15 percent was public. This is not so much because of cuts in U.S. government funding as a massive increase in private funding, a desirable trend in that private funding brings with it commitment and support from American civil society for foreign assistance.

One of the most interesting components of this private foreign aid has been remittances from ethnic diasporas in the United States. While remittances account for a substantial percentage of the gross national product in many developing countries, until recently, research on international development did not examine their full impact. For example, much of the private funding for micro-lending in Mexico comes from Mexican-American remittances from California.

Recognizing this trend, we designed an innovative approach to multiply the power of remittances through the technical and management disciplines of the agency. Working with members of the Haitian-American community who agreed to contribute a small percentage of all their remittances passing through a bank in Port-au-Prince, USAID matched their contributions through a Global Development Alliance grant and built public schools using the combined funds. We opened the first of these Haitian schools in 2003.

**Changing the Way USAID Does Business**

USAID’s business systems, country strategy processes and internal structures have all been overhauled to prepare to implement the new strategies and programs. In the summer of 2001 we undertook a major reorganization, which later made possible the agency’s massive efforts in Iraq and Afghanistan. A new financial management system has been installed, the first unified system in 25 years. This has resulted in clean, unqualified audits for two years in a row, the first time this has happened in the agency’s history. All nine management vulnerabilities identified by the Inspector General in 2000 have now been eliminated. A new automated procurement system, designed also for use by the State Department, is under development. And a new unified management information system to better track USAID spending and programming will replace 129 informal ad hoc systems that individual operating units have created over the years to help managers with their budgets and programming.

We undertook these internal reforms just as the agency was designing and implementing two of the largest programs in its history in Afghanistan and Iraq, together totaling more than $8 billion over four years.
USAID efforts have contributed to rebuilding infrastructure and supporting increased agricultural production. In fact, we have paid more than $15 million in wages through a “cash-for-work” program to approximately 194,000 farmers to provide a viable alternative to poppy cultivation. The agency has worked hard to improve over 6,000 kilometers of irrigation canals covering 290,000 hectares of farmland. Consequently, agricultural output has risen substantially, with cereal output increasing by 24 percent and livestock and poultry production yielding an additional $200 million annually.

Since 2001, over 170,000 students (58 percent of them young women) have participated in USAID’s Accelerated Learning Program which is educating adult women who were denied access to schooling under the Taliban. More than 60,000 former combatants have given up their weapons and are reintegrating into the civilian labor force. Some seven million Afghans (70 percent of them women and children) now have better access to quality health services.

Similar successes have been achieved in the Iraq reconstruction effort, particularly in education and health. As of September 2005, over 2,800 Iraqi schools had been rehabilitated and 45 constructed. Over 47,500 secondary school teachers and administrators had received training. USAID has edited, printed and distributed 8.7 million Iraqi math and science textbooks. School supplies have been distributed to one million primary, and two million secondary, schoolchildren. In addition, sports equipment has been distributed to every school. USAID-supported emergency campaigns in 2005 alone immunized 98 percent of Iraqi children between 1 and 5 years of age (3.62 million) against measles, mumps and rubella and 9 percent of children under 5 (4.56 million) against polio. USAID partners have trained 11,400 staff at over 2,000 community-based centers in almost every province to manage malnutrition in children.

Admittedly, these efforts came with a significant cost in human life. Nearly 150 staff of USAID-funded partner organizations were killed implementing this massive effort, the largest loss of life the agency has sustained since the Vietnam War. Many of those killed were selected because USAID programs were a softer target of opportunity than taking on the U.S. military directly, which insurgents quickly learned could be quite costly to their forces.

USAID’s increasing reliance on contractors and FSNs is exacerbating chronic funding problems.

Fixing Our Foreign Assistance Structure

Severe understaffing remains one of the most serious problems facing the agency. Nine new USAID missions — mostly in the Islamic world — were opened during the past five years, even as the agency experienced severe staff and operating-expense shortages.

This situation is a grim legacy of the 1990s, when USAID lost nearly 35 percent of its Civil Service and Foreign Service staff through a reduction in force and retirements. Most of these positions have never been replaced, even during the subsequent period of new missions and budgetary expansion. Instead, the agency hired contractor staff and Foreign Service Nationals to provide surge capacity in the new missions. While these employees are able and dedicated, they are not direct hires of the U.S. government; do not fully understand the business systems of the agency and perform functions that, in my view, only direct hires should be carrying out. Furthermore, when FSNs and contractors take jobs in other institutions, their departure deprives the agency of historical memory and technical expertise.

I once asked a government minister who was engaged in a fight to stop corruption within his government to identify the most important thing the agency did for him. He replied that the technical assistance from NGOs was useful and the funding was helpful, but what made a critical difference was having a USAID FSO down the street who helped him with strategizing, recruiting and planning. It is not an overstatement to say that the USAID staff of each mission is the program, providing the technical expertise to design projects, advising government ministries struggling with policy reform, and helping civil society organizations implement their projects. These officers have traditionally spent much of their time working alongside local counterparts to ensure that programs are effective or get them back on track.

With impending retirements, the agency will shortly have fewer than 1,000 Foreign Service officers; in my view it needs at least double that to do its job properly. So
if the executive and legislative branches are serious about expanding foreign assistance, they must restaff the USAID Foreign Service to bring in officers with the technical (economists, agricultural scientists and medical doctors, etc.) and program management (procurement officers, financial analysts and logistics officers, etc.) skills needed to sustain this effort over the long term.

The increasing reliance on contractors and FSNs is also exacerbating chronic funding problems. While USAID’s overall budget rose from $7.6 billion in FY 2000 to over $12.6 billion in FY 2005, representing a 44-percent increase when adjusted for inflation, the operating expenses component (which includes salaries and benefits for direct hires, administrative costs, and maintenance of computer systems) increased far less substantially — going from $519 million in FY 2000 to just $696 million in FY 2005, or about 17 percent when adjusted for inflation. The OE budget of USAID is rooted in the mistaken view that technical staff is separate from programs. An anachronism, it is compromising the agency’s ability to carry out its work.

Another critical foreign assistance issue that needs to be addressed is the diffuse organizational structure of the agencies and departments administering the current foreign aid program. Our foreign assistance portfolio is now spread out over a dozen federal departments. There are too many internal bureaucratic and external interest-group pressures driving conflicting agendas, leading to a serious imbalance in funding for some sectors and reliance on organizations lacking expertise on program implementation abroad under sometimes challenging conditions.

For example, Africa needs to strengthen democratic institutions and good governance, prevent or settle civil conflicts, stimulate economic growth through trade and agricultural development (70 percent of the people are farmers) and build infrastructure. Yet with the exception of the Millennium Challenge Account, the U.S. government’s budget for Africa has been focused disproportionately on humanitarian assistance and social services. While these social service programs are admirable, does anyone believe that their success would meet the continent’s development challenges? If so, consider just one statistic: the U.S. government spent over $1.4 billion on food aid to Africa in FY 2005, but only $134 million on agriculture programs to enable Africans to grow their own crops and end recurring food crises.

Toward a Strategic Vision

Finally, the U.S. foreign assistance program lacks both strategic coherence and a comprehensive vision — unlike national military policy, which regularly undergoes the Quadrennial Defense Review. This is a broad, governmentwide process that produces a strategy to drive programming and budget allocations. In contrast, while USAID has worldwide sector and country strategies and program-results indicators in each of the 80 countries in which it has a presence, these have no effect on spending done by other departments. Worse, hundreds of special-interest-driven congressional earmarks and directives determine programming decisions, not a thorough analysis of U.S. interests, program performance or host-country needs.

Precisely because President Bush has so dramatically increased foreign assistance funding and reformed the strategy for using it, the need for structural reform to address these discontinuities is all the more apparent. The Rice Plan for Foreign Assistance Reform will tie together the president’s foreign assistance initiatives and correct some of the weaknesses in the existing system. Under the plan, the administrator of USAID will be dual-hatted, also serving as the director of foreign assistance programs, with Deputy Secretary of State rank and control over all 150 Account spending. Randall Tobias, my successor as USAID administrator, will have authority to speak for the U.S. government internationally concerning foreign assistance policy and implementation. And by holding both portfolios, he will be able to rationalize what is currently a highly diffuse, and not very strategic, use of foreign assistance dollars.

In English, we say that “the devil is in the details,” for the invariably boring minutia of how processes will be changed and business models altered determine the success of reforms in any institution. We all know that badly implemented reforms can make things worse rather than better. However, there is a Hungarian proverb that suggests the other side of this reality: “The angel is in the details.” Sometimes even modest reforms, well implemented, can be profoundly salutary.

Sec. Rice’s proposals provide the structure needed to ensure that our $27.5 billion in foreign assistance resources are effectively and accountably used, advancing America’s vital interest in seeing developing countries succeed in achieving good governance.