

Testimony of Andrew S. Natsios, Former Administrator, USAID

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“Foreign Aid in the National Interest: Steps for Reform”

Introduction

Chairman Mast, Ranking Member Meeks, and members of this committee, I thank you for the opportunity to speak today on USAID. My comments today are my own; I am not representing the Bush School of Government and Public Service nor Texas A&M University at large.

USAID serves as a powerful force protecting and advancing America’s national interests in the world. USAID needs to be refashioned, not abolished for this new era of Great Power competition. It needs to return to its roots. USAID has not always done a good job explaining to the public or the Congress what it does and how it does it. President John F. Kennedy created USAID by executive order in 1961 and later through legislation within months of the Berlin Crisis, one of the most dangerous confrontations between the western alliance and the Soviet Bloc, and the announcement by Fidel Castro of Cuba that he was a Communist aligned with the Soviet Union. It was a time of crisis and imminent threat, just as it is now.

I have been directly involved in the development world for over 30 years, including almost nine years at USAID. Between both the public and non-profit sectors, I have seen the overwhelmingly positive impacts of foreign aid. Before I became administrator of USAID under President George W. Bush, I was the director for USAID’s Office of Foreign Disaster Assistance from 1989 to 1991, Assistant Administrator for the Bureau for Food and Humanitarian Assistance, and Vice President for one of the largest ecumenical, evangelical, Christian organizations in the world for five years in the 1990s. To me, foreign aid was never a “criminal” enterprise as Elon Musk has said—it was delivering textbooks to village schools, responding to disease outbreaks, ending child trafficking, preventing mass starvation, and providing economic opportunities. As Administrator for USAID, I always sought to uphold USAID’s mission, to promote and demonstrate democratic values abroad, and advance a free, peaceful, and prosperous world.

While I share Mr. Musk’s concerns over our national debt, I believe that shutting down our aid program is a mistake. I am a conservative Republican who believes in fiscal responsibility. I was named legislator of the year by the Citizens for Limited Taxation organization in Massachusetts during the 1980s. I was brought in to overhaul the Massachusetts Turnpike Authority’s Central Artery/Tunnel Project, also known as “the Big Dig” after massive cost overruns. I made tough, cost-saving reforms so the project could be finished. The most serious domestic crisis in the U.S. is our debt, which can only be addressed by entitlement reform, which I understand the White House to be very reluctant to undertake given the political battle that would ensue. But what Elon Musk has done is to cut the muscle and bone of federal institutions, particularly those in the foreign policy apparatus of the U.S. government just as we require those institutions to defend against growing threats from abroad. USAID and the State Department, combined, comprise approximately 1% of the federal budget. Cuts at the State Department have not yet begun, but rumors are circulating of what Musk has planned. Gutting these programs is not the solution to balancing the budget, and it will dramatically harm our national security, putting American lives at risk.

The blanket shutdown of our 80 USAID missions damages our ability to conduct diplomacy in countries of the developing world, who will now turn to China and Russia for foreign aid. In fact we have evidence in Cambodia that this has already happened. Development is a way for the U.S. to spread influence abroad. Hard military power is important, but it is not everything. I say that not only as a development expert, but

as a retired Lieutenant Colonel in the U.S. Army Reserves who served in the first Gulf War. My son, Philip, served as a field artillery officer in an infantry unit in Afghanistan in the middle of Taliban insurgency. My other son, Alex, has served as an aid worker himself in Africa. So we as a family have been on the front lines. The U.S. is facing a dangerous era of Great-Power competition with a rapidly arming China and a revanchist Russia. These threats warrant having a diverse toolkit at our disposal, which should include both hard and soft power. USAID is instrumental in achieving our objectives and has been a stabilizing force throughout the world for decades.

As a conservative I believe in limited government, but the federal government's first responsibility under the U.S. Constitution is the conduct of foreign policy and the defense of the country through our armed forces. Those duties cannot be delegated to the states or the private sector, though both have roles to play. Foreign aid is part of the foreign policy infrastructure of the United States government.

The White House executive order, *Reevaluating and Realigning United*

States Foreign Aid, 90-day pause in U.S. foreign development assistance, could have been a thoughtful review process. This was not a serious attempt to reform the system. Reform comes incrementally and carefully, not with a sledgehammer. If this continues, 90% of the NGO and contractor community will cease to exist within another month. NGOs, many of them faith-based, Christian organizations, will be forced to shut down programs, lay off staff (which many have already been forced to do), and ultimately close their doors, having relied on USAID funds to operate. Despite the stop work order containing caveats to not affect food aid, it did so. It took nearly a month for 500,000 metric tons of food, worth \$489 million, to get moving. Had the pause on food aid continued, these shipments would have spoiled in ports, wasting hundreds of millions of taxpayer dollars. If food aid is ever frozen again or if contracts are permitted to expire, children will go hungry, and many people will die. Families will be decimated across multiple continents. Right now there are thousands of medications sitting in warehouses with no one to distribute them. Additional reports across implementing organizations indicate that payments continue to be frozen and that food aid remains stuck in ports as a result, creating a massive risk that people will die. Without USAID to monitor and respond to disease outbreaks, many will flourish. It is a gross erosion of trust among our partners in the developing world. USAID's freeze has led to a domino effect on the entire development community. It appears the entire system is collapsing by deliberate design.

How USAID Operates

How does USAID work? USAID's mission is to protect the vital national interests of the U.S. and support our friends and allies. Very little USAID funding is ever spent through the business systems or treasuries of the receiving countries because the risk of diverting funds is an understandable concern for the U.S. Congress (regardless of party), the White House, the Inspector General's office, and career USAID officers. One public opinion poll found the public believes 50% of our aid is stolen by corrupt government officials. That is simply not true, very little of our foreign aid dollars are stolen. Foreign aid, with a few exceptions for close allies such as Egypt, Israel, and Jordan, is not transferred into the treasuries of aid recipient governments. Instead, it is spent through international and local non-governmental organizations, U.S. and local universities, for-profit development contractors, and civil society organizations. For the last decade, at least 20-25% of the budget has been spent through trusted international organizations such as the World Bank, the UN's World Food Program, UNICEF, and the United Nations High Commissioner of Refugees (UNHCR). Put simply, USAID works with recipient governments, not through them, because of the risks involved. There is no ideal mechanism for distributing this money. It is different for each country: some states may benefit more from international organizations, others from being a USAID partner. There are strengths and weaknesses to each approach.

To distribute aid, USAID's procurement system is among the most highly developed in the federal government, even though USAID is a comparatively small federal agency. The Agency's procurement process is a highly refined and sophisticated system within the constraints of the Federal Acquisition Regulation (FAR), Circular Number FAR 15.404-4(c) and other Office of Management and Budget (OMB) regulations that affect program management. Apart from those in the Agency who deal directly with USAID's procurement system, few people ever see the entire system as a whole and the choices available to the officers managing programs. The simple reason why aid officers do not implement our programs directly themselves is because there are so few of them. The USAID foreign service has 1800 officers with perhaps 1500 civil servants to spend \$40 billion dollars. As former Secretary Robert Gates has said, there are more people in the Army Band than in the USAID foreign service. We must contract the work out or it won't get done. Much of the Pentagon's work is contracted out.

USAID Goes There, so They Don't Come Here

Despite its complexity, USAID is an extraordinary instrument of U.S. national soft power. Immigration is a contentious issue right now in American politics. What many Americans may not know is that USAID worked with the Colombian and Brazilian governments to resettle over two million migrants from Venezuela into the region. When a civil war erupts, when a government collapses, or when the world's poorest people do not have economic opportunities at home, USAID works with surrounding countries and partners to help refugees and migrants relocate to find opportunities. If we do not help these people relocate, they will come to the U.S. By providing opportunities to people abroad with just 0.7% of the budget, USAID prevents mass migration to the U.S. and the costs of deportation down the road.

USAID is a partner for private businesses around the world.

When I was Administrator, I initiated the Global Development Alliance. It created a system of public-private partnerships to jointly fund development projects that have endured under different names until the funding pause. For example, USAID's Water and Development Alliance increased access to clean water in over 21 countries by partnering with multinational corporations, local businesses, and nonprofits. Thanks to the initiative, we constructed 10 public water taps for 23,000 Angolans, 45 wells used by 40,000 Ethiopians, and wastewater facilities for Egyptians. Corporations, foundations, and NGOs provided 75 percent of the funding while USAID provided 25 percent. A recently completed partnership with Microsoft expanded broadband internet access to remote populations. Through these programs, USAID supported the work of U.S. businesses, philanthropists, and non-profits abroad. Musk has claimed that USAID is Marxist. That claim is simply out of touch with reality. If this were true, USAID would not be so effective and mobilizing such significant private capital investments. Corporate America and private foundations have invested \$60 billion in USAID projects since 2003. Annually, about \$6 billion is invested by the private sector in USAID projects: 25% from taxpayer funds and 75% from private funds.

No government program is perfect. I believe that all human beings are fallen. As a result, all human institutions are fallen, whether they be labor unions, businesses, universities, governments, or USAID itself. Thus, the question then is how institutions can be improved, redeemed even. How does USAID compare to other federal agencies? How accountable is it? USAID has passed its audits with "no reportable noncompliance... no material weaknesses in internal control over financial reporting." Out of these years, USAID never had an issue with financial statements and was never found to be out of compliance with laws, regulations, grant, or contract agreements. In 2022, USAID ranked third out of nine federal agencies and departments when it comes to making evidence and data-driven budget, policy, and management decisions. In contrast, for the seventh consecutive year, the Department of Defense failed its audit.

We should be thanking USAID; it has helped further the U.S. national interest for decades. For example, during the peak of the Cold War in the sixties and seventies, the Agency was spending a third of its budget implementing the “Green Revolution” of Dr. Norman Borlaug. These innovations improved seed varieties used with fertilizer in Asia. USAID’s innovations doubled, and in some cases, tripled grain production while cultivating a third more land. During this time, when USAID was innovating, our adversaries were failing. The famine in Communist China, the Great Leap Forward, led 45 million to starve. Our efforts demonstrated to developing countries that the U.S. was the partner of choice. USAID helped the U.S. win the Cold War, and it will be vital in the new era of great power competition.

In 2023, USAID delivered aid to 160 countries around the world, around \$44 billion. With only 0.7% of the federal budget, USAID cultivated developing countries’ government leaders, monitored disease epidemics to prevent pandemics, built democratic institutions in fragile states, addressed vulnerabilities in the world food system, improved community health, provided de-risking investments for small businesses, and reduced mass migration by giving people opportunities at home. All of these issues benefit Americans and make our world system more secure and prosperous. Paying for these issues now will make them less expensive down the road. Many Americans may remember the 2014 Ebola epidemic. As cases rose in West Africa, it caused a great scare in the U.S. USAID’s monitoring systems are the reason the virus was caught so early and contained and why the region recovered as quickly as it did.

USAID Under Fire

In the past few weeks, USAID has come under heavy scrutiny from the American people as a result of Elon Musk’s Department of Government Efficiency (DOGE). Much of this attention has come from DEI programs that are remnants of the Obama and Biden eras. I believe it is bad policy to transfer domestic culture war politics to the developing world. It is beyond the Agency’s scope and offensive to many people whether in the Muslim world or the conservative Christian-majority nations in sub-Saharan Africa, Latin America, and elsewhere. I do not, however, believe that shutting down our entire aid program over Biden-era policies will be productive. Further, a significant portion of existing USAID projects already reviewed and formally certified that the majority, and in some cases, all their projects had no DEI elements. The fixation that USAID’s programs are “woke” is a false narrative that has been grossly exaggerated based on poor research, or a complete lack thereof, to tarnish USAID for political expediency. Every President orders officials to conduct a review of their foreign aid programs upon entering office. I conducted a review early into my tenure as Administrator, canceled sixty programs, and adjusted the Agency to suit the new administration’s agenda.

If one were to read the criticisms of USAID starting from its origins in the Marshall Plan under President Truman and all the way up through today, one would be struck by the repetition of the same charges: Critics blame USAID for failing to correct its own weaknesses. They claim it is a failed institution. They insist that development does not work and that foreign aid is a waste of money. What critics fail to recognize is that the root of the problem lies not in USAID, but in the political forces outside of its control that drive its decision-making, shape its institutional structure, and determine aid allocation. While we could speak at length on the various issues, I have chosen three for today: congressional earmarking, the counter-bureaucracy, and excessive centralization.

First, budgetary earmarks undermine sound development practices. Policymakers understandably want to ensure that foreign aid will go to important humanitarian causes. However, earmarks often take decision-making power away from aid officers in the field and recipient country leaders, and they place it in the hands of Washington policymakers unfamiliar with countries’ specific development needs. They favor spending on social services, often leaving the important work of institution building underfunded. Contrary

to some claims that USAID is a criminal agency gone rogue, I speak from my own experience as Administrator, and from my conversations with those at the Agency today, that over 90% of USAID's budget is Congressionally earmarked. I will say that again: USAID has only 10% of its budget free of constrictions. The Agency has been severely limited and is constrained by policymakers' demands for rapid, visible, and quantifiable results. These demands limit the Agency's ability to improve institutions. They shift focus to short-term humanitarian projects over long-term objectives.

Under regulatory pressures, USAID's short-term focus on humanitarian projects leaves countries heavily reliant on our services. The abrupt pause of humanitarian projects under the stop work order has left countries reeling. PEPFAR's sudden halt and lack of disbursement means that millions of Africans are without antiretrovirals. USAID's Foreign Service Officers have been sent home, and these countries do not have the infrastructure to disburse the treatments or the capacity to make more at the same level. What does this mean practically? It means that once we left, the infrastructure went with it. To borrow an old metaphor, delivering humanitarian aid is like giving others fish, while infrastructure and capacity building is like teaching others how to fish.

Second, USAID is forced to prioritize compliance with intrusive federal regulations that stifle creativity and responsiveness. The counter-bureaucracy is a complex web of U.S. departments and agencies designed to improve program performance. While performance metrics are good, over-regulation harms the mission. USAID's programs have been distorted, misdirected, and disfigured to such a degree that it is compromising U.S. national security objectives. It is challenging established principles of good development practice. The system has created an incentive structure that leads to an over-emphasis on process above program substance and, in so doing, it has produced a perverse bureaucratic nightmare. The clash of counter-bureaucracy and development shifts career staff to focus on compliance, not performance. I have analyzed these problems in an essay I wrote 13 years ago called *The Clash of the Counter-Bureaucracy and Development*.

Local officials and local aid workers know best. Centralization does not automatically make our programs better. USAID should decentralize aid programming and decision-making to the lowest possible organizational level, where officers have the greatest knowledge of what is happening on the ground. We have rigorous empirical evidence to support the decentralization imperative. One scholar examined whether, when, and how organizational autonomy affects project success. After compiling a database of over 14,000 projects conducted by nine aid agencies, he found that greater organization autonomy led to a higher rate of performance—especially in areas with high levels of unpredictability. Aid programming that is culturally and geographically removed from Washington needs dynamic operations run by people who know the local conditions best.

Who should determine USAID's direction and lead these reform efforts? Ultimately, USAID is a Congressionally authorized and appropriated federal agency, and it cannot be dissolved by executive action. Even setting that concern aside, it is essential for reform efforts to involve Congress in order to embed changes in legislation and prevent future administrations from unilaterally reversing any policies. Otherwise, fighting over USAID will continue indefinitely.

Finally, the argument that USAID is a rogue agency out of sync with American foreign policy is nonsense. The State Department through the F Office, OMB and the Congressional oversight committee approve line by line every dollar spent by USAID. They micromanage USAID to an extraordinary degree. I witnessed this for the nearly nine years I worked at USAID under two Presidents, and it has gotten much worse since I left. USAID does exactly what the White House, State Department, and US Congress want it to do.

Conclusions

USAID should not be merged with the State Department. USAID is a project management organization; the State Department is a policy making institution, which is not operational. Where the State Department hires generalists and policy analysts, USAID hires specialists and program managers. There have been calls for USAID to merge with the State Department before. Secretary Albright, then-Senator Joe Biden, the Hart-Rudman Commission, and Secretary Tillerson have recommended that USAID be merged with the State Department in the past. Notably, not one of these people had a career in development; not one is a former administrator of USAID. Many within the State Department view USAID as a tool of foreign policy goals, a carrot and stick approach to solving foreign conflicts. While using foreign aid as a bargaining chip can sometimes be effective, it is not the end-all-be-all. Sometimes it can backfire. Combined with the work culture issues mentioned above, the State Department is not filled with people who have years of experience managing multi-million dollar projects. The United Kingdom's foreign aid program was gutted by Prime Minister Boris Johnson for similar arguments made today. It used to be one of the world's premier foreign aid agencies; it is not anymore. Budgetary balance to save Americans money is admirable, but not at the expense of our foreign policy and national security.

There have been a plethora of statistics and data flying around online about the Obama and Biden-era DEI-esque policies within our foreign aid program. Some claim this means the Agency itself has "gone woke" and is therefore beyond repair. The Agency itself has not gone woke; a handful of ill-advised programs, out of hundreds of others, do not reflect the broader good the Agency does. Furthermore, some of the claims levied against the "Agency's" DEI programs were not funded by the Agency at all. This committee has reported the \$70,884 DEI musical in Ireland, the \$47,020 transgender opera in Columbia, and the \$32,000 LGBTQ comic in Peru were all State Department programs. Should we abolish the State Department? Should we abolish the Department of Defense for its DEI training and its offering of a gender studies minor to servicemembers at West Point? Of course not. We roll back these programs, as is the case with the new objectives under new administrations. But to suggest that the entire foreign aid program should be merged with the State Department and to gut a workforce of nearly 10,000 employees who focus on governance building, education, health, and other development objectives for a handful of programs is counterproductive.

Other programs have been misconstrued or exaggerated. Some claims are downright absurd. Some allege that USAID bought \$50 million worth of condoms for Hamas. There is absolutely no evidence of this. Simple math disproves this. A condom costs about \$0.04 to produce. That would mean USAID delivered over 1.25 billion condoms. Instead, the program in question was for medical and trauma services for Palestinians. In fact, because of this program, the INGO that implemented this program operated two field hospitals, treated 383,000 civilians, and performed 11,000 life-saving surgeries. Further, this example appeared to confuse Gaza in the Middle East with an anti-AIDS programming in the Gaza Province of Mozambique, demonstrating the very low quality, or complete lack, of thoughtful research that led to this false conclusion.

Our foreign policy needs to adapt to the changing tides of the international environment. A new era of Great Power competition is upon us. To adapt to this new era, we should be making an incremental shift in the location and concentration of USAID Missions. A 2017 study by the think-tank Chatham House identified 14 maritime chokepoints through which much of the global supply of fertilizer for agriculture and 50 percent of commercial food is shipped. To put it bluntly, if, during a conflict, several of these choke points were to close at once, the global food system could collapse or at least be severely compromised. To mitigate this, the U.S. should establish permanent aid missions along these chokepoints.

Culture war politics have no place in our foreign aid programs, but neither do partisan politics. Foreign aid is critical to U.S. national interests. It protects Americans, strengthens our allies, and promotes global

stability. I predict within five years we will either recreate USAID and it will not be part of the State Department or we will cease to be a great power. We will rue the day that we destroyed USAID.