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FOREIGN ASSISTANCE REFORM: SUCCESSES, FAILURES, AND NEXT STEPS

HEARING

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT AND FOREIGN ASSISTANCE, ECONOMIC AFFAIRS, AND INTERNATIONAL ENVIRONMENTAL PROTECTION

OF THE

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FOREIGN ASSISTANCE REFORM: SUCCESSES, FAILURES, AND NEXT STEPS

TUESDAY, JUNE 12, 2007

U.S. SENATE, COMMITTEE ON FOREIGN RELATIONS, SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT AND FOREIGN ASSISTANCE, ECONOMIC AFFAIRS, AND INTERNATIONAL ENVIRONMENTAL PROTECTION,

Washington, DC.

The subcommittee met, pursuant to notice, at 2:33 p.m., in room SD–419, Dirksen Senate Office Building, Hon. Robert Menendez (chairman of the subcommittee) presiding.

Present: Senators Menendez, Feingold, Casey, Lugar, and Hagel.

OPENING STATEMENT OF HON. ROBERT MENENDEZ, U.S. SENATOR FROM NEW JERSEY

Senator MENENDEZ. This hearing will now come to order.

Let me just say, this is the first hearing of the subcommittee. We think it's a good start, and an important topic. And I look forward to working with the distinguished ranking member, Senator Hagel, in a bipartisan fashion.

I'm looking at the issues of the jurisdiction of the subcommittee, and we've gotten a good start working together, and we look forward to that continuing starting in the days ahead.

Let me say, today the subcommittee will examine U.S. foreign assistance reform. We want to welcome the Under Secretary, Henrietta Fore, the Acting Director of U.S. Foreign Assistance, and the Acting USAID Administrator. She has a lot of titles. I think you're getting one salary, though, right? [Laughter.]

I'd also like to thank our witnesses on the second panel. I would note that, at the conclusion of this subcommittee hearing, we will reconvene for a full-committee hearing on the nomination of Reuben Jeffery III to be Under Secretary of State for Economic, Energy, and Agricultural Affairs.

I know we have a busy agenda, so I want to recognize myself now for an opening statement. I normally try to keep my opening statements brief when I had the privilege of being a ranking member of the other body, but this particular issue is of such serious nature, and has a lot of detailed issues, that this may be a little bit more than we normally will do. But we thought it is important to lay out the parameters of the discussions that we want to have, and then we'll turn to the distinguished ranking member for his comments.

Secretary Fore, the foreign assistance reform process has been in place a little over a year, but I believe this new foreign assistance

process is seriously flawed, and may be in serious trouble. And this is where you come in. You have just been just nominated for this job, and made both Acting USAID Administrator and Director of U.S. Foreign Assistance. You have an ability to reassess the situation, to bring a new perspective, and, if confirmed, to make real change.

So, Secretary Fore, you have the opportunity today to take this opportunity before the committee to tell us what you believe needs to be done to fix the foreign assistance reform process, or, as it is often called, the "F process." You have the opportunity to start fresh with USAID employees, with the State Department, with the NGO community, and with Members of Congress.

But let me, for my own sake, be personally clear, if USAID and State simply move full speed ahead with this reform process, and make only minor changes around the edges, then the administration will have serious problems with Congress. I'm not saying that we may not actually agree with the ultimate goal the administration wants in this reform process; in fact, we may agree in many areas. But I am officially putting the administration on notice that you simply cannot go forward with this process in the nontransparent top-down way it has been handled in the past.

I believe, and I certainly hope, that the foreign assistance reform process was started with the best of intentions. Clearly, we need more transparency in our work. We need to know exactly how much we are spending—not only how much we are spending, but how we are spending our money, and on what. We need to eliminate overlap between programs in different areas. We need cohesion and coherence. And I certainly recognize that there are many who have worked very hard to create this new transparency and to force disparate parts of the U.S. Government to work together.

But after the first year of reform, I have serious questions about both the design and implementation of the reform. So, let's look at some of the problems we face now.

The foreign aid reform process was carried out in what I consider an exclusive, secretive manner.

People refer to the F process as a black box without any real input or consultation, except for post-facto briefings with Congress, with the NGO community, or others inside the Government.

The process was top-down and excluded valuable input from the people in the field who know the most about what is happening on the ground.

The foreign assistance reform was supposed to coordinate all of U.S. foreign assistance, but left the Millennium Challenge Account and the President's emergency plan for AIDS relief, among others, out of the F umbrella.

USAID is in the process, in my view, of being decimated as its funding role and mission are reduced. As a result, USAID faces serious morale problems and questions about its future.

The promise the administration made on MCC, I believe is false. MCC is not additive, and, instead, it appears to be taking funds away from USAID in core development. And the administration's decision to shift funds from the traditional core development assistance account into an account with much more flexibility raises seri-

ous concerns, and has, thus far, been rejected by the House appropriators.

I'd like to address a few of these issues now, and then discuss specific items in more detail during the question period.

I understand that the administration has carried out an after-action review, and I look forward to hearing how you plan to take those results and make significant changes. I'm deeply concerned that by moving decisionmaking power away from USAID to the State Department, the administration is continuing the decimation of USAID that started with the creation of the Millennium Challenge Corporation, and may end up with a new development attachés you may be creating. I, for one, do not intend to preside over the slow death of USAID.

Let me be clear, USAID is not a perfect agency, and I'm not against reform, but I am against taking money, power, control, and expertise away from one agency inside the U.S. Government that was designed with development and fighting poverty around the world as its core mission.

And I would remind everyone that our foreign policy agenda is not identical, and should not be identical, to our development agenda. Development should not be about the short-term strategic goals that the State Department is often focused on. Development is about long-term goals that don't always coincide with those who are friends, and especially friends with at the moment. For example, we're not giving $3 billion a year to Pakistan over a 5-year period because Pakistan is the country most in need of development assistance. No; we're providing those funds because the administration sees Pakistan as a key ally that is helping with central foreign policy goals, like stopping the war on terror, and we know and understand that.

I'm also deeply concerned about whether the F process is really focusing on poverty alleviation. I know that the administration included the goal of reducing widespread poverty into the foreign assistance framework only after the persistent insistence of the NGO community and Members of Congress.

I believe that reducing poverty should have been at the center of any foreign assistance reform from the beginning, and, as we move forward, I expect to see poverty alleviation front and center in the on-the-ground implementation of the reform.

And just as I will not stand by and watch the decimation of USAID, I will not stand by and watch our core development agenda and our poverty alleviation agenda be swallowed by immediate foreign policy needs.

That is why so many people are concerned about the decision to shift money from the development assistance account to the economic support fund account. This is not about semantics or a name change, in my mind. ESF funds were designed to be used in our national interest, to help our friends for strategic purposes, and to provide economic assistance. Let me quote from the language that authorized ESF. It says, "The Congress recognizes that under special economic, political, or security conditions, the national interests of the United States may require economic support for countries or in amount which could not be solely justified for standard

development purposes." These funds have always been a strategic fund used by State and the Secretary of State.

Meanwhile, our development assistance accounts have been used to fund true development for the purposes of development itself. I see no reason to change that system, and I am deeply concerned that the administration's decision to move these funds isn't simply about matching accounts to countries' needs, but is designed to subsume development goals into short-term foreign policy goals. And I find the results of the shift in these funds disturbing.

In the FY08 budget, the administration proposed shifting funds from the development assistance account to the ESF account. In addition to cutting the development assistance funding by 31 percent and shifting those funds to ESF, the budget also cuts total child survival and health by 9 percent, international disaster and famine assistance by 18 percent, while increasing funding to the MCC counternarcotics and law enforcement, among others. And, while I certainly support significant increases in good governance, rule of law, and counterterrorism, I don't believe that that justifies the proposed cuts in the administration's FY08 budget to human rights, maternal and child health, family planning, reproductive health, agriculture, and environment.

I also am disturbed by the recent trend with the Department of Defense stepping into the role that USAID or the State Department has traditionally performed. The Department of Defense's disastrous record in Iraq reconstruction certainly speaks for itself. DOD's role has dramatically increased. In 2001, it had just 7 percent of total disbursements of development assistance. In 2006, it took 20 percent.

And there are serious risks with DOD continuing to take on these tasks. As Gordon Adams said during a Senate Budget Committee hearing on Iraq, "The more we ask DOD and the military to do, the more that they become responsible for our overseas relationships. The more we expand DOD authorities and underfund State and USAID for such activities, the less State and USAID have the credibility and retain the competency to carry out policy, leadership, and program administration in these areas. This trend risk becomes a self-fulfilling prophecy."

So, I've just laid out some of the challenges we face as we move forward over the next year and a half. I also believe we need to look toward the long term. In January 2009, we will have a new President. We need to start talking about how we can work with that new President on real, long-term foreign assistance reform. I know that a number of our witnesses will suggest that we create a Cabinet-level position to head our development programs, and I look forward to discussing that idea today.

But, for right now, we have a lot to do between this time and January 2009. And, Madam Secretary, on our second panel we have three very distinguished witnesses who have dedicated countless hours of research and writing to the issue of U.S. foreign assistance. They are leaders in their field. And I hope you'll take some of their recommendations seriously.

Let me be clear, I expect the administration to make significant changes in the reform process. I expect the administration to work with Congress, both authorizers and appropriators. I expect real

transparency and inclusion in the process. In essence, I expect real change. And the administration should expect significant and detailed oversight of foreign assistance reform from this subcommittee and from Congress.

With that, let me recognize the distinguished ranking member of the committee, Senator Hagel, for any opening statement he may make.

OPENING STATEMENT OF HON. CHUCK HAGEL, U.S. SENATOR FROM NEBRASKA

Senator HAGEL. Mr. Chairman, thank you.

Welcome, Secretary Fore.

Mr. Chairman, we are grateful for your convening this hearing, this important hearing, and we look forward to Secretary Fore's comments and her analysis and the opportunity to discuss the ongoing efforts to reform and restructure U.S. foreign assistance.

Today's hearing will evaluate the results of the reforms over the last year, explore the issues and challenges that remain. And we will also consider what further changes are needed to ensure that America's foreign assistance framework is relevant to the 21st century.

Last January, Secretary Rice announced her intention to implement significant changes to how U.S. taxpayer dollars are spent on foreign assistance. As Secretary Rice said, "The current structure of America's foreign assistance risks incoherent policies and ineffective programs, and perhaps even wasted resources. In today's world, America's security is linked to the capacity of foreign governments to govern justly and effectively."

I agree with those comments, and believe that her decision to undertake these reforms was broadly supported. It is time to review the decisionmaking process in the executive branch to ensure that coherency, transparency, and effectiveness that Secretary Rice noted.

Your focus on developing country-specific strategies is a step, I believe, in the right direction. I believe, also, that it is time to review the legislative framework under the 1961 Foreign Assistance Act to consider whether further structural changes to the U.S. foreign assistance process are needed.

Since 1961, a complex, diverse, and sometimes overlapping bureaucracy has emerged to administer U.S. foreign assistance. The State Department and USAID do not control all foreign assistance, particularly with the recent growth in nonmilitary assistance projects run by the Defense Department that the chairman has already noted.

Ultimately, successfully reforming U.S. foreign assistance will require a more comprehensive approach. You need to have all of the relevant executive branch agencies involved. You need to consult closely with the dedicated professionals in your organizations. You need to consult and work closely with Congress. And you need to reach out and engage the hundreds of private organizations that actually implement assistance projects and are on the ground around the world.

Secretary Fore, I look forward to the hearing, your comments, and also, as has been noted by the chairman, the second panel of distinguished experts.

Secretary Fore, I understand your nomination to be USAID Administrator is before the committee, and that your paperwork is complete.

And, Mr. Chairman, I hope that Secretary Fore's nomination hearing will be scheduled as quickly as possible, as we know this is a critical position, and the committee should move to consider Secretary Fore's nomination as quickly as we can.

Mr. Chairman, thank you.

Secretary Fore, thank you, look forward to your comments.

Senator MENENDEZ. Well, thank you, Senator Hagel.

Let me say, Madam Secretary, we welcome you to the committee. We proceed to your opening statement. In the interest of time, we ask you to summarize your statements to about 7 minutes or so, and we'll certainly have all of your written testimony included for the record.

STATEMENT OF HON. HENRIETTA H. FORE, ACTING ADMINISTRATOR OF THE AGENCY FOR INTERNATIONAL DEVELOPMENT AND ACTING DIRECTOR OF U.S. FOREIGN ASSISTANCE, WASHINGTON, DC

Ms. FORE. Thank you very much, Mr. Chairman. And thank you very much, Ranking Member Hagel. And thank you for the opportunity to testify before the subcommittee today. I thank you for your interest in what the State Department and USAID are doing to strengthen U.S. foreign assistance, and I want to address your concerns and your interest.

As the President has said, we are a compassionate nation. When Americans see suffering, and know that our country can help stop it, they expect our Government to respond. They help—we help the least fortunate across the world, because our conscience demands it. We also recognize that helping struggling nations succeed is in our interest.

With the full support of Congress, America's deeds have matched these words. For instance, we have nearly quadrupled our foreign assistance for sub-Saharan Africa. We have helped provide food to the hungry, medicine to the sick, security in troubled regions, and education and economic opportunities to people of every creed and culture. Our programs save lives and lift individuals from poverty. But we do not want simply to achieve disconnected good outcomes, we want to lift nations and all their citizens, including the poorest, to permanent prosperity.

In America today, there is a new unity of purpose for foreign aid and a growing consensus that global development is both a moral ideal and a national interest. From community leaders to corporate leaders, from religious leaders to movie stars to college students, Americans recognize that if we, as members of the global community, are to address the most difficult challenges of our time, we must all work together.

Yet, Secretary Rice rightly noted that, as we increase the quantity of our foreign assistance, we must also work to improve its

quality. That is why she launched this broad reform of U.S. foreign assistance.

As you know, Mr. Chairman, Secretary Rice arrived at the Department 2 years ago, and she asked a basic question, "How much is the United States Government spending on democracy promotion?" This question goes to the heart of America's post-9/11 foreign policy of protecting America by encouraging good government around the world. She found it extremely difficult to get a straightforward answer. The problem is that our foreign assistance has been stovepiped. We can all agree that we have too many separate accounts overseen by multiple officials, each with different standards of measurement and different ways to judge success or failure. This left decisionmakers, including the Secretary of State and Members of Congress, without an effective way to judge tradeoffs, weigh options and priorities, or allocate money in a truly strategic way to meet America's foreign policy and development policy goals.

Some of our Ambassadors did not have a comprehensive idea of all U.S. Government programs being implemented in their countries. Our State Assistant Secretaries and USAID Assistant Administrators had no adequate way to ask what are our long-term goals in a given country, and how are we using all of our many forms of assistance to achieve them?

Funding tradeoffs were often decided by budget officials rather than by those charged with carrying out America's foreign policy and development policy. And everyone was thinking of her or his own piece of the whole—not the whole—because we did not have a mechanism to see the whole. Such a system would be considered deficient under any circumstances, but in the post-9/11 environment, as we focus on threats germinating in failed states and failing states, and work with our local partners to transform conditions within those states, Secretary Rice found the situation unacceptable, and I have no doubt that her successors will agree with that judgment.

To address the problems, Secretary Rice established the position of the Director of U.S. Foreign Assistance. By placing all State and USAID foreign assistance under one official, reporting directly to the Secretary, we can use foreign assistance far more effectively. Starting with the Ambassador and his or her team, and the Mission Director, we can create long-term plans for our countries receiving assistance, plans that effectively use all of our resources. We will be able to employ foreign assistance strategically to advance U.S. goals.

Secretary Rice's vision gives us a strong foundation for getting foreign assistance right. We are at the beginning of this important reform process, not in the middle and not at the end. We must continually work to improve our reform.

There is no question that reform and institutional change are difficult, and they take time. But I believe that if we work together, we can make significant improvements. Already, we've begun to take some key steps, such as starting to develop the tools to link foreign assistance programs across the U.S. Government to our foreign policy and development policy goals.

In the past few weeks, I've been listening to people's concerns and hopes for successful foreign assistance reform. And, at this mo-

ment, they are asking us to communicate, to collaborate, and to simplify. We need to communicate and collaborate with Congress, the people in State and USAID, the Federal Government, and our partner community. This will ensure our commitment to transparency.

Since assuming these roles 4 weeks ago, as Acting USAID Administrator and Acting Director of U.S. Foreign Assistance, I've made it one of my top commitments to enhance our communication about what we are trying to accomplish with the Secretary's transformational diplomacy agenda and foreign assistance reform, generally. I expect to be fully engaged, here in the United States and abroad, in our outreach efforts to build greater understanding of U.S. foreign assistance and the role it has played in building a more peaceful and prosperous world.

I'm committed to continuing our work with an increased spirit of consultation. I also intend to move forward immediately through more intensive collaboration with a broad and vibrant development community to reach a more unified approach.

Last week, I met with the board of the Advisory Committee for Voluntary Foreign Assistance, InterAction, and the Society for International Development and several other key development leaders. And in the coming weeks, I look forward to meeting many more.

We also need to simplify and streamline the process of foreign assistance. We need less time spent in meetings, and more focus on tapping the benefits of technology. We need to continue to break down stovepipe systems and foster flexibility. We also need to get on with the work of delivering foreign assistance effectively.

I know USAID, and I share your concern; I do not want to be present at a time when it is being decimated. I want it to grow and be healthy and strong. I have extensive management experience in both the public and private sector. As Assistant Administrator for Asia and for Private Enterprise from 1990 to 1992, my service in both regional and functional bureaus at USAID has provided me good lessons on the need for a more thorough collaboration with multiple public and private partners in the multilateral, bilateral, country, and local level to ensure effective development.

We need to begin and end our discussions on development with our extraordinary women and men who are carrying out our foreign assistance in the field. As Secretary Rice has said, "We are helping people to better their own lives, to build their own nations, and to transform their own futures."

I pledge to enhance consultation with Congress and with the development community, and I look forward to working with you. I want decisions to be made as transparently as possible and to make this very important foreign assistance reform live up to its promise.

Thank you. And I look forward to your thoughts and those of the distinguished panel which follows.

[The prepared statement of Ms. Fore follows:]

PREPARED STATEMENT OF HON. HENRIETTA H. FORE, ACTING U.S. DIRECTOR OF FOREIGN ASSISTANCE AND ACTING ADMINISTRATOR OF USAID

Thank you, Chairman Menendez and Ranking Member Hagel, for the opportunity to testify before the subcommittee today. I thank you for your interest in what the

State Department and USAID are doing to strengthen U.S. foreign assistance, and I want to address your concerns.

As President Bush has said, "We are a compassionate nation. When Americans see suffering and know that our country can help stop it, they expect our Government to respond. We help the least fortunate across the world because our conscience demands it. We also recognize that helping struggling nations succeed is in our interest."

With the full support of Congress, America's deeds have matched the President's words. For instance we have quadrupled our bilateral foreign aid for sub-Saharan Africa. Our assistance has helped provide food to the hungry, medicine to the sick, security in troubled regions, and educational and economic opportunities to people of every creed and culture.

Let me be clear, the dramatic increases in American foreign assistance in the 21st century required collaboration among all stakeholders—between Congress and the administration, both political parties, and the broad and vibrant development community, without whose partnership and support our efforts on the ground would not be possible.

In America today, old divisions between those who saw foreign aid as a tool to influence strategic partners and those who viewed it as a means of doing good in the world are giving way to a new unity of purpose. There is a growing consensus that global development is both a moral ideal and a national interest. From community leaders to corporate leaders, religious leaders to movie stars to college students, Americans recognize that if we—as members of the global community—are to address the most difficult challenges of our time, we must all work together.

But as Secretary Rice has rightly noted, as we increase the quantity of our foreign assistance, we must also work to improve its quality. That is why she launched an effort to reform U.S. foreign assistance.

Probably the greatest challenge at hand is that of getting the balance right between field expertise, overall administration objectives and congressional intent. Often this is a difficult balancing act with State and USAID staff being pulled in competing directions. We need a process that figures out a way to balance those sometimes competing perspectives.

THE CASE FOR REFORM: A NEED TO WORK TOGETHER

Mr. Chairman, when Secretary Rice arrived at the Department 2 years ago, she asked a basic question: How much is the United States Government spending on democracy promotion?

This question goes to the heart of America's post-9/11 foreign policy of protecting America by encouraging good government around the world.

Incredibly, she found it extremely difficult to get a straightforward answer.

The problem is that our foreign assistance was stove-piped into numerous separate accounts, overseen by multiple officials, each with different standards of measurement and different ways to judge success or failure.

This left decisionmakers, including the Secretary of State and members of this committee, without an effective way to judge tradeoffs, weigh priorities, or allocate money in a truly strategic way to meet America's foreign policy goals.

Our Ambassadors often only had a vague idea about some of the programs being implemented in their countries. Our State Assistant Secretaries and USAID Assistant Administrators, had no adequate way to ask what are our long-term goals in a given country and how are we using all of our many forms of assistance to achieve them. Funding tradeoffs were often decided by budget officials rather than by those charged with carrying out America's foreign policy.

Such a system would be considered deficient under any circumstances. But in the post-9/11 environment, as we focus on the threats germinating in failing states and work with our local partners to transform conditions within those states, Secretary Rice found the situation unacceptable. I have no doubt that her successors will agree with that judgment.

To address the problem, she established the position of Director of Foreign Assistance and delegated authority over most forms of State and USAID foreign assistance to that official. The goal was to build a system in which we can make strategic choices and ensure that foreign assistance is spent wisely and advances our foreign policy objectives.

We are at the beginning of this important reform process, not the end. We must continually work to improve our reform.

There is no question that reform and institutional change are difficult. They take time. But I believe that if we work together, we can make significant improvements. Already, we have begun taking some key steps—such as starting to develop the

tools to link assistance programs across the U.S. Government to our foreign policy goals.

In my acting capacity and if confirmed, I am committed to increasing consultation and communication with you and our many stakeholders as we take the next steps in this reform effort. Together, I believe we can make it work.

PROGRESS TO DATE: NEW TOOLS

As you know, I appear before you today in my capacity as Acting Director of U.S. Foreign Assistance and as Acting Administrator of the U.S. Agency for International Development, an organization for which I have long had much respect and admiration. I have been serving in this acting capacity for a little over a month and looking at what has been accomplished and what can be improved.

Consistent with the need to improve the coherence and coordination of State and USAID foreign assistance be improved, for the first time in the FY 2008 budget, the two agencies integrated their budget planning, taking into account a broader totality of U.S. Government resources—including resources provided by the President's Emergency Plan for AIDS Relief and the Millennium Challenge Corporation.

This integrated planning was based on our governmentwide commitment to a shared goal—the goal Secretary Rice has articulated as Transformational Diplomacy: "to help build and sustain democratic, well-governed states that respond to the needs of their people, reduce widespread poverty, and conduct themselves responsibly in the international system."

The goal itself has already benefited from collaboration. In response to recommendations received from many of you, our colleagues in the international development community, and our host government counterparts, that goal now expressly includes poverty reduction.

I am committed to continuing our work in an increased spirit of consultation. I also intend to move forward immediately with more intensive collaboration with the broad and vibrant development community. This past week I have met with the board of the Advisory Committee for Voluntary Foreign Assistance, Interaction, the Society for International Development, and many other development leaders.

Having served at USAID in both regional and functional bureaus, I know that effective development requires a more thorough effort at collaborating with multiple partners at the multilateral, bilateral, country, and even local level. I pledge to enhance consultation with the development community, especially as it relates to improving our aid effectiveness at the country level.

The first step in this reform effort was developing a new strategic framework for foreign assistance and beginning to agree on how we will define progress. Now that we have a framework and the beginnings of a common language around foreign assistance, we must work to ensure our activities are targeted to help countries move from a relationship defined by dependence on traditional foreign assistance to one defined by partnership.

A set of common definitions and indicators, on which we are still soliciting and accepting suggestions, will allow us to compare partner, program, and country performance across agencies and sources of funding. These new tools are being used to create detailed country-level operational plans that describe how resources are being used.

The first such plans—produced for an FY 2007 pilot by 67 fast-track country teams, including most USAID missions, and many embassies, offices, and bureaus—were approved just before I was nominated. I look forward to becoming familiar with these plans and consulting with the Congress as we implement them.

They will allow us to provide you in Congress, the American people, our partners around the world, and those we seek to assist with the means to readily access and understand foundational components of our foreign assistance initiatives, namely:

- First, across the U.S. Government, what are we trying to accomplish with our foreign assistance in a particular country;
- Second, with whom are we working—both inside and outside the USG—toward our objectives;
- Third, how much are we spending across the board; and
- Finally, what results are we achieving.

Our foreign aid programs do a lot of good in the developing world. These programs save lives and lift individuals from poverty. But, we do not want simply to achieve disconnected good outcomes; we want to lift nations and all their citizens—including the poorest—to permanent prosperity. We want to create more donor nations. We want countries to build their own schools and train their own teachers. That was the motivation that impelled the reforms.

Ultimately, our aim is to significantly improve the human condition, and to develop the tools to know if we are reaching our goal.

LOOKING AHEAD: IMPROVEMENTS FOR FY 2009

The Secretary and I are committed to continuous learning and improvement of the tools, processes, and principles of the reform. It is my strong desire to communicate, collaborate, and simplify this process. Reform itself is important—to all of us—and we are just beginning to go down this road together.

As you know, the office to manage this system only became operational last June, in the middle of the fiscal year. Staff had to be detailed from many bureaus, new procedures had to be developed, a new way of doing things had to be accommodated. To be sure, decisions were not as transparent as they will be in the future. Some decisions need to be reviewed, some procedures need to be amended and some need to be abandoned altogether. And some decisions are good building blocks for the future.

With a view toward improving the FY 2009 process, an After Action Review was conducted of the new budget formulation process. Review sessions were attended by a mix of people from State and USAID regional and functional bureaus, including both mid-level and senior-level individuals in the field and Washington.

It was especially important that the field's views were heard, therefore, at least one USAID mission and one Embassy representative were included in the After Action Review from every region of the world. Suggestions were also solicited from other USG offices and agencies, such as the Department of Defense, Department of Justice, Office of the Global AIDS Coordinator, and the Millennium Challenge Corporation. Already, as a result of this review, we have formalized and increased opportunities for the field to be involved in every stage of the budget process. We have also streamlined processes and improved how we communicate.

I pledge that in my acting capacity and if confirmed, I will continue to seek and respond to suggestions from stakeholders in Congress, in the NGO community, the university community, the USG's many other development partners, the donor community at large and of course in the USG agencies.

CONCLUSION: A COMMITMENT TO COMMUNICATION AND COLLABORATION

As Acting USAID Administrator and Acting Director of Foreign Assistance, I have made it one of my top commitments to enhance communication about what we are trying to accomplish with the Secretary's Transformational Diplomacy agenda and foreign assistance reform generally. I expect to be fully engaged here in the United States and abroad in outreach efforts to build greater understanding of U.S. foreign assistance and the role it has played in building a more peaceful, prosperous world.

This is important not just for foreign assistance but also to help build support for U.S. foreign policy around the world. There is no better diplomacy for the United States than effective development assistance, combined with effective communications about these efforts to host country audiences. I think our ability to communicate what we stand for as a nation will be improved by foreign assistance reform.

I have spent the vast majority of my time over the last few weeks listening—listening to my senior management at State and USAID as well as doing "walk throughs" to speak to all my colleagues in USAID and the Office of the Director of U.S. Foreign Assistance.

People are the most important part of an organization, and both USAID and State have remarkable and extraordinarily capable people. As Americans, we are well served by the hard work and dedication of all the fine people in these organizations. I know they can achieve foreign assistance reform and I know they can do it well. I will work equally hard to listen to your concerns, their concerns, and the community's concerns to ensure that we use best practices to achieve results.

In that same vein, I am here to listen to you. I hope to begin implementing a process moving forward that makes it easy for you to provide suggestions and receive timely answers to your questions, as well as a process which respects your opinions and ultimately makes our aid more effective.

As we move forward, we must always remember that at a time when some of the greatest threats to our people come from conflicts within states, it is not enough to have a foreign assistance program that merely cements government-to-government relations. As the Secretary has said, "Our foreign assistance needs to be an incentive for transformation, not a source of dependency." Improving the quality of our assistance is essential to transformation and we cannot improve the quality without reform.

My commitment to you is that I will always strive to consult fully with the Congress, to make decisions as transparently as possible and to make foreign assistance live up to its promise.

Senator MENENDEZ. Thank you, Madam Secretary.

And let me say that we have two panels, and, depending upon how many of our colleagues show, we'll start off with a round of 7 minutes, and then, if necessary, we'll revisit.

I'll start off with myself.

I'm enthused to hear some of what you said, that this is the beginning of the F process. If that's the case, good. I'm glad to hear about the consultations and your outreach, particularly to the development community. That's good. I'm glad to hear that you're talking about transparency, and also about this—not wanting to preside over the demise of USAID. So, that's all music to my ears, and I'm glad to hear it.

Let me pursue, however, some of these things with some questions.

The administration proposed a 15-percent cut to the FY08 operating expense budget for USAID. That's the funding that runs our operations at USAID missions, and cutting it ultimately, I think, would mean closing missions. We have specifically heard that there are discussions about closing a number of missions in Latin America and Africa. Have there been any such discussions about closing missions in these regions? And, if so, exactly which ones?

Ms. FORE. I believe, Mr. Chairman, that there has been the beginning of a discussion on a number of issues that have to do with operating expense funds. USAID, as you know, has struggled to fund enough of their operating expenses to support their people, to hire enough people, and to be able to have them be well supported when they are at work in the field.

Facing tight budgets and very restricted budgets, the Agency started discussing ways that they could save operating expense money, and they have begun discussions on how they can better structure the organization.

I have just begun reading in on those discussions. I know that they are ongoing. I know the decisions have not yet been made. So, I am interested to hear of your interest in it——

Senator MENENDEZ. Well, I appreciate——

Ms. FORE [continuing]. And will follow it with interest.

Senator MENENDEZ. I appreciate—one thing you'll learn about me is, I like to get right to the point, so I'll try not to interrupt you, but—question: Within this process, have you talked about closing certain missions; yes or no?

Ms. FORE. I've received briefings in which——

Senator MENENDEZ. Have those briefings suggested closing certain missions?

Ms. FORE. They have suggested——

Senator MENENDEZ. OK.

Ms. FORE [continuing]. Closing certain missions, but I personally have not talked about closing missions.

Senator MENENDEZ. OK. And exactly which ones have been identified that should be closed?

Ms. FORE. I do not know that.

Senator MENENDEZ. They don't tell you that in the briefings.

Ms. FORE. Well, they've just begun, sir, and——

Senator MENENDEZ. OK.

Ms. FORE [continuing]. It's——

Senator MENENDEZ. So, we know that some—there is some——

Ms. FORE. There——

Senator MENENDEZ [continuing]. Suggestion of closing——

Ms. FORE. There is some discussion of it, yes.

Senator MENENDEZ. Have there been any other discussions that you've been briefed on inside of F, USAID, or State about closing other missions?

Ms. FORE. About closing other than USAID missions?

Senator MENENDEZ. No; closing other missions within USAID.

Ms. FORE. Well, there have——

Senator MENENDEZ. You mentioned that there were some that—you got a briefing on USAID. Within the overall process, have you been informed about closing other missions?

Ms. FORE. No; I've just received one briefing on this.

Senator MENENDEZ. OK.

Ms. FORE. And it was not full.

Senator MENENDEZ. Let me ask you this. What is the difficulty of the administration's decision to shift funds from the development assistance account, which focuses on long-term poverty and development goals, to the economic support funding account, which gives the State broad jurisdiction? What is about the authority within the development assistance that is a problem for the administration? Why can it not leave the funds as they are? And what's the authority that you don't have in the development assistance account that you need?

Ms. FORE. As I understand it, the thinking was that ESF would be used for restrictive or rebuilding countries; that is, countries that have been in conflict or were post-conflict. There was not a sense that ESF or DA would fund different types of projects, so that the very important health and education and government support projects that are going on in countries now using DA money could be used—could continue using ESF money. So, it was a question of structuring it within the framework.

Senator MENENDEZ. But isn't it true that ESF money largely gives the State Department a much broader jurisdiction of how it uses that money? I mentioned the example of Pakistan. We wouldn't advocate that it's the most in need of development assistance money, but we give it a very significant amount, because we have made, through the administration, a calculation that they are a very important partner in certain foreign policy objectives, and, therefore, we give them a very sizable amount of money within the context of the overall budget. Isn't it true that ESF funds gives you very broad flexibility to do what you want?

Ms. FORE. ESF does give flexibility. It's—the construct——

Senator MENENDEZ. Including the flexibility to move in a direction that is away from development assistance.

Ms. FORE. It could. But it could also give you the flexibility to do development assistance. And, at least as I have understood it, the intention was not to move away from development assistance, but, rather, to structure it in a way that was more—that was

clearer, so that countries that were in conflict or that were just coming out of conflict would receive ESF funds.

Senator MENENDEZ. But there would be no guarantee—if we move all of the funds to ESF, there would be no guarantee that development assistance would actually take place or that we'd have a defined development program as part of our poverty alleviation strategy, because, in fact, that flexibility could allow the administration to use ESF funding in a way that would do very little, if any, development assistance. Is that not true?

Ms. FORE. Well, as we look at the process the way it is now, it begins with the field, so it starts with mission strategic plans. So, if, in a mission strategic plan, they are suggesting assistance to the health sector, to the education sector, to the environment, then that funding, whether it came from DA or ESF, would be considered. So, the actual type of money would not be the determining factor for the kind of——

Senator MENENDEZ. Well, let me——

Ms. FORE [continuing]. Work that was done.

Senator MENENDEZ. Let me try once again. Right now, under the present system, ESF funds are largely discretionary by the Secretary to promote foreign policy objectives; whereas, development assistance funds are pretty clear, they're for development assistance. If you shift all of them to ESF funds, the discretion is wide, the latitude is great, but there is no guarantee for development assistance. Now, I'm not saying—you're saying that's not the administration's intention. I'm simply asking you, though, isn't it true that, if we make that change, that, in fact, we have no guarantee of development assistance, notwithstanding the administration's intention?

Ms. FORE. Well, it's a collaborative process, so I don't think, in any collaborative process, that the guarantees are very easy to come by. There are lots of interests that are traded off because there are multiple interests, as you know, Mr. Chairman.

Senator MENENDEZ. Senator Hagel.

Senator HAGEL. Thank you, Mr. Chairman.

Secretary Fore, as the Acting Director of Foreign Assistance and Acting USAID Administrator, what percentage of all the U.S. foreign assistance programs, including Department of Defense, the Millennium Challenge Corporation, and others, do you directly control, that you have authority over?

Ms. FORE. It's approximately 60 percent. It covers the USAID portfolio and the State Department portfolio. And it also includes coordination for the Millennium Challenge Account and PEPFAR, the HIV/AIDS program.

Senator HAGEL. Thank you.

Do you believe that the executive branch, in order to fulfill what Secretary Rice talked about earlier this year, can successfully develop a comprehensive foreign assistance program without any changes to the Foreign Assistance Act, 1961?

Ms. FORE. Well, I think——

Senator HAGEL. Do you believe you have all the authority required in order to make the changes without legislative changes?

Ms. FORE. I'd like to actually think about that, sir, as time progresses here. At the moment, I think we have lots that we can—

that we can do within our current authorities, but there may well be authorities that would be useful. So, if I could come back to you on that, I would appreciate it.

Senator HAGEL. Thank you. If you'd provide an answer for the record, we would appreciate it.

[The submitted written information from Ms. Fore follows:]

We are still in the early stages of the foreign assistance reforms, and our focus remains on optimizing the performance of taxpayer funds within current authorities. We understand that we must demonstrate to Congress and to the American people the value added of a more strategic and integrated approach to foreign assistance. To that end, we have already begun to make changes to the FY 2009 budget process based on the comprehensive After Action Review. Together with Secretary Rice, I plan to continue to systematically evaluate our progress and to use this evaluation to identify any further changes that might be appropriate, legislative, or otherwise. I very much look forward to working with Congress going forward to consider the appropriateness and effectiveness of the tools that are currently available to help us improve our foreign assistance.

Senator HAGEL. The 80-percent number that you noted is obviously significant. The other 20 percent, how is that coordinated with your overall efforts, being—starting with the President? You used President Bush's quote to begin your testimony. I quoted Secretary Rice. So, obviously, there is, or should be, a Presidential administrative objective within this administration, on foreign assistance. So, then, how do you coordinate the other 20 percent? I'm particularly interested in Department of Defense's control of those assets.

Ms. FORE. Well, we all fall under the national security strategy, and, as a result, diplomacy and development and defense are seen together as a whole. So, between the NSC and OMB and all of the working groups that exist that are interagency, we work hard at trying to coordinate with each other.

With the Department of Defense, we have been working hard to coordinate our assets, because, in conflict and post-conflict situations, it is important that we are there, and that we are as seamlessly working together as possible.

Senator HAGEL. So that coordination is done, essentially, through interagency——

Ms. FORE. Working groups.

Senator HAGEL [continuing]. Purpose directive working toward common interests.

Ms. FORE. Yes.

Senator HAGEL. Chairman Menendez touched on some of this in the ESF funding and some of the budget alterations, changes, shifts. Some refer to it as "cuts." And I want to focus on a particular area, the development assistance funds, primarily viewed, I think, by most as money intended to address long-term development problems in these countries, particularly poverty.

Can you explain the administration's FY 2008 budget-cut request in this funding—and I believe, by 31 percent?

Ms. FORE. This, Senator, is the issue that we were just talking about with the chairman, of placing funding in with the category of the type of country, so that countries that are restrictive and rebuilding were given ESF funding, and countries that were developing or transforming were requested to have development assistance money. The intention, as I understand it, was not to change

the actual work being done, the projects being carried out in the field, but, rather, to give a rationale for funding in these types of countries.

Senator HAGEL. Well—and I know you pursued some of this with the chairman—but where do those resources go? That—what you're saying is, that's the discretion of the administration as to where you would apply those resources in other areas, other programs?

Ms. FORE. Yes. In the request, we then requested those funds in ESF for those——

Senator HAGEL. That 31 percent was shifted——

Ms. FORE. Correct.

Senator HAGEL [continuing]. In the budget.

Ms. FORE. Correct.

Senator HAGEL. OK.

Ms. FORE. And that was because we had so many needs in countries that were in the rebuilding and restrictive categories.

Senator HAGEL. How many staff people will you have that will report to you? What kind of support staff are you going to have?

Ms. FORE. Well, we are looking at that, sir. And if I might come back to you on that, I don't have an answer.

I do know that it is important to have a very good staff, and we have some extraordinary individuals who are working there now. Most of the individuals who are in the Office of the Director of Foreign Assistance are from USAID, and I hold great respect for USAID people. And so, we will work to have the best staff, to be collaborative, and very good at communication and outreach.

[The submitted written information from Ms. Fore follows:]

To coordinate the entire gamut of activities associated with managing the approximate $25 billion foreign policy programs of the United States, I will have about 80 direct hires. I plan to have a very lean administrative staff and will rely, as much as possible, on existing State Department infrastructure for support.

Senator HAGEL. How do you intend to engage the hundreds of nongovernmental—nonprofit organizations that you work with? Any different approaches you intend to take? Any changes you intend to make?

Ms. FORE. Well, I've just begun, and I really look forward to talking to all of our partners, because they really are our partners. It is how foreign assistance is delivered around the world. And we've begun to talk about what is going right and what is due for change within the current foreign assistance reform process. We've been making some changes for the 2009 year, which, as you know, we are in the midst of. So, I think the discussions are leading to some very good suggestions and ideas. So, we are starting to put those ideas into practice.

And then, what I would hope is that our discussions would begin to turn to some of the policy issues about what we are really trying to get accomplished in development around the world, and what we are accomplishing for both foreign policy, as well as for our development assistance.

Senator HAGEL. Thank you.

Mr. Chairman, thank you.

Senator MENENDEZ. Thank you.

I'm pleased to recognize a member of the full committee, Senator Feingold.

Senator FEINGOLD. Thank you, Mr. Chairman.

Secretary Fore, thank you for your testimony today.

And I just wanted to talk a little bit about the HELP Commission and what you think those recommendations, which are, as I understand, expected no later than December 2007—what role will they play in helping to inform the foreign aid reform process, particularly given that the proverbial F process ball has already started rolling and that the Commission was—the HELP Commission—was specifically created to influence a more effective foreign aid process?

Ms. FORE. Senator, thank you for that question.

I'm really looking forward to the suggestions that come from the HELP Commission. There are some extremely expert individuals who serve on that Commission, and they have been taking some trips to see the work in the field, which I will find very valuable. So, I'm looking forward to seeing their report, to discussing with them what observations they have, and ways that we can strengthen both the U.S. Agency for International Development, as well as the Office of the Director for U.S. Foreign Assistance.

Senator FEINGOLD. So, you don't think the F process will be too far along to incorporate their good ideas.

Ms. FORE. Oh, no. I think this is the beginning of a process, and that we will be able to improve it as the years go by.

Senator FEINGOLD. Well, talk a little bit about what you see as the indicators of success envisioned by the F process. How will we know—both here in Congress and in the countries where foreign aid is so critical—what success will look like? How do we know when we've reached it?

Ms. FORE. I know when I first served in USAID, 17 years ago, I hoped that there would be a way that I would know when a country was ready to "graduate," and that it was a time that we could then begin pulling down many of the projects, and they would go on and be picked up by private partners. And, in those years, what I've seen is that much of the private development community and foundations and private corporations have really risen up with an enormous wellspring of funds and attention into the development community and the foreign assistance community.

So, I'm looking forward to really exploring the area of partnerships. I think we have enormous possibilities and opportunities there. And once we begin to see private partners coming into countries, and countries looking after their own health sectors and education sectors, I think we will begin to see when it is time to change our programs, that we will have success.

I'm very interested in looking at these indicators of success and making sure that we refine them as the months and years progress, because I think it's a very important part of our country-based strategy that countries move along, and that all of us progress in our own ways, and that none of us are perfect.

Senator FEINGOLD. Talk a little bit, if you would, about what counterterrorism funding, from a foreign assistance perspective, looks like. I noticed, in the fiscal year 2006 budget, there was a request of just over $157 million for this specific account, while the FY08 request is 18 percent higher—at more than $185 million. What programs will this fund and who will implement them? And

will this be coordinated with defense and intelligence counterterrorism programs?

Ms. FORE. I would like to get back to you for which programs that they will fund, particularly.

[The submitted written information from Ms. Fore follows:]

Much of the increase you refer to under the Counter-Terrorism Area reflects our commitment to develop programs that address the underlying conditions that feed the terrorist threat. On the training and assistance side, we have requested increases in programs that help build partner-nation capabilities in law enforcement, as well as in the judicial, prosecutorial, and regulatory fields. We are particularly focused on developing programs that build on the Regional Strategic Initiatives, or RSIs, that we have launched in a number of regions around the world that are most directly challenged by the terrorist threat. the RSIs are field-centric programs that seek to develop policies and programs to deny terrorists the freedom to operate in ungoverned or poorly governed spaces and to use those spaces to train, equip, and finance their activities as well as to launch attacks. As ungoverned spaces are most frequently found in border areas between states, regional versus bilateral approaches are often the most effective means to address the challenge.

In all of these programs, we work closely with our colleagues in the military and the intelligence community. Washington agencies, as well as the Combatant Commanders, are full participants in the Regional Strategic Initiatives. The Office of the Coordinator for Counterterrorism also chairs several interagency working groups on technical assistance and counterterrorism finance that coordinate training and assistance programs throughout the interagency.

Ms. FORE. Yes; we must coordinate them with Department of Defense and other U.S. Government agencies, because that is where we will get our strength and clarity and focus and purpose.

Senator FEINGOLD. All right. And, as you mentioned in your testimony, one of the key goals for any strategic foreign aid assistance framework is the integration and coordination of all assistance mechanisms—which includes State, USAID, MCC, PEPFAR, and even DOD, given their increasing role in U.S. foreign assistance. Taking a holistic and integrated approach to dealing with all of these tools will ultimately, obviously, help us better reach our core objectives. Accordingly, and with the President's request to reauthorize PEPFAR, I'm wondering if you could outline how the F Bureau is currently coordinating with the PEPFAR office and what kind of coordination do you expect in the future between this initiative, traditional health assistance, and broader foreign aid initiatives?

Ms. FORE. Yes; they're very interlinked. Programs with nutrition, with maternal child health care, with child survival, with PEPFAR and HIV/AIDS, and our traditional health programs, are all interwoven in the development tapestry.

The Office of the Director of Foreign Assistance does closely coordinate with Office of the Global AIDS Coordinator. These working groups that Ranking Member Hagel and I were speaking about earlier involve PEPFAR. USAID is often the implementer with implementing partners on the ground for many of the PEPFAR programs. So, we are working at ways that can be future best practices and models for the developing world, as well as the foreign assistance world, in how these can integrate with each other.

Senator FEINGOLD. Thank you, Secretary.

And thank you, Mr. Chairman.

Senator MENENDEZ. Thank you.

I think we'll have another round of 7 minutes, for those members who wish to do so. And let me start with myself.

Madam Secretary, I'm going to go back to where we—I finished off with you, which is the economic support funds and the development assistance accounts. Have there been any discussions inside of State about closing or eliminating one of these accounts?

Ms. FORE. Not that I know of.

Senator MENENDEZ. Have there been any discussions inside of State about just creating an F account and eliminating all of the accounts?

Ms. FORE. Not that I know of.

Senator MENENDEZ. OK. I—you know, if you understand that for those of us who care about poverty alleviation as one of the core missions, and saw that we had to fight to include it in the mission statement, and then see the movement toward the ESF accounts, for which there's total flexibility, you may get a sense of why some of us are concerned.

Let me ask you—Congress uses congressional directives and appropriation bills to express the intent of Congress given to it under the Constitution to direct how funds should be used. These, to be clear, are not earmarks to send the money to a particular organization, they are a directive to detail how much money should be spent in a particular country or that a certain amount of money should be spent on educational funds in a specific region, by way of example.

If you were ultimately confirmed, do you plan on honoring congressional directives?

Ms. FORE. Yes, sir.

Senator MENENDEZ. And if you believe there is a reason—that there is a compelling reason not to honor a directive, would you commit, to the members of this committee, assuming that you are confirmed, that you would come back to Congress for such consultation?

Ms. FORE. I would.

Senator MENENDEZ. All right. Let me ask you—the whole idea, in part, is to create greater transparency, a move away from stovepipes. I have a chart here that is the foreign assistance framework under the new proposal, and I'm wondering to myself how much more clear and concise and less stovepipe this all is.

Ms. FORE. Well, I did mention, sir, that we would look at ways to simplify it. In the discussions that I've had with our implementing partners, one of their requests has been to make it simpler and clearer, and it's one of the things that we will attempt to do.

Senator MENENDEZ. Well, in that respect, let me ask you this. USAID has assistant administrators who handle each area of the world. In addition, it's my understanding that the F Bureau has a person who handles each region of the world. So, who has say over the budget for the region? The F person or the USAID Assistant Administrator?

Ms. FORE. There's actually another player in this——

Senator MENENDEZ. Oh?

Ms. FORE [continuing]. Which is the State Department Assistant Secretaries. And what we are trying to do with the working groups is to bring everyone around the table, on a country-by-country basis, so that if you are a regional Assistant Secretary in State Department, or an Assistant Administrator in USAID, or if you work

that portfolio at Treasury or Commerce or Justice or DOD, that, around one table, you can talk about the interests of that country and the United States and the host-country interests.

Senator MENENDEZ. I appreciate that, but, at the end of the day, there has to be someone who makes a decision, based upon that whole collaborative process, as to who has a determination of what the budget will be for that region, who has final say over how the money expended in the region would be. In my mind, that's pretty clear right now. Now you've added another layer to it, with the assistant secretaries. So, who is responsible in this process? Who makes that final determination?

Ms. FORE. The final determination is made by the Secretary of State.

Senator MENENDEZ. Well, obviously. I—that's a poorly worded question on my behalf. [Laughter.]

I will readily admit to it. So, before it goes to the Secretary of State, who is the entity that makes that recommendation to the Secretary?

Ms. FORE. Well, the working group comes up with a recommendation that then——

Senator MENENDEZ. And who within the working group makes that determination of that that decision is, to the Secretary?

Ms. FORE. Well, it's the members of the working group. But then, that working group makes a recommendation. As I understand it, it would then come to me and to my deputies. I have not yet been through this process, but we have seen the reviews that are coming up in the next month, and that's when the Secretary will first hear what the recommendations are for each region.

Senator MENENDEZ. Well, let me just say, by creating these new positions, it seems to me that we are duplicating work, we're reducing the power of the USAID assistant administrators. And, given that USAID assistant administrators are Senate-confirmed and that F people are not, how do we justify that move, moving away from those individuals who have to go through the process of being confirmed by the Senate, as we recently had a hearing in this committee, of several USAID deputy administrators—assistant administrators?

Ms. FORE. Well, and we're very pleased that they have been confirmed and are now working strongly at USAID.

I just will reiterate that this is a collaborative process, but the final authority rests with—coming up through me to the Secretary of State.

Senator MENENDEZ. What about the—what about not just the budgeted money, but how it is expended? How does that process get determined? Because we could say, "Look, this is the budget for this region or this country," but the actual determination—who makes the determination of how it's spent?

Ms. FORE. Each country team sends in their request, and there is a country operational plan that is given. We have a first group, a pilot group, of countries that have sent in their country operational plans. Those operational plans become the basis on which money is then expended, so it goes—it is distributed through those plans.

Senator MENENDEZ. And you intend to continue that process?

Ms. FORE. Well, it's just begun, sir.

Senator MENENDEZ. When you say "a country team," is this a—the USAID country team in-country?

Ms. FORE. No; this is the country team that represents all U.S. Government agencies within a country. So, it——

Senator MENENDEZ. Isn't it important, in this setting that you just described, who's sitting there and who they represent?

Ms. FORE. Yes.

Senator MENENDEZ. Yeah. And isn't it true that some people clearly will have more weight than others in that process, as a reality?

Ms. FORE. Yes.

Senator MENENDEZ. That's different than what we do now, in terms of the USAID assistant administrators and the experience that comes from in-country to the director of that particular region, and then ultimately percolates upward. This seems to me like a much more top-down process than using the expertise and experience of people in the field as to what that country needs.

Ms. FORE. As you know, I've been an Assistant Administrator in USAID, and I remember the process, that used to exist, in which the funds would come up to an Assistant Administrator. This new process is really trying to get the country team in-country to look at the country's needs from all aspects—so, it is not just development, but it's also defense, it's also diplomacy—and that they, as a country team begin to make some assessments for what are the greatest opportunities and priorities within the country, and they then recommend a plan.

I have no intention of taking power away from the field. It is the field that we rely on to have the greatest knowledge. They are the closest to all of the projects—our implementing partners know what is actually going on in the field. It is where the process should begin, it's also where it should end once the money is ready to be distributed.

So, the field must play—has to play a very important part of this process.

Senator MENENDEZ. Senator Hagel.

Senator HAGEL. Thank you, Mr. Chairman.

Staying on this subject, Madam Secretary, I noted, in your testimony, you referenced Ambassadors having vague ideas, implying, I assume, that sometimes they don't have a very good understanding of these programs in their own country, and how they're implemented. Isn't that a rather significant problem, if that's the case, and what you say in your testimony? Then, if that is the case, what role do the Ambassadors play in the country where they are stationed? And how are you dealing with this issue?

Ms. FORE. It is a problem, in that a—an ambassador should know everything that is going on in his or her country. It is also important that the team, as a whole, have an overview of the whole, because then they can see how their part, the part that they are working in, fits in with others.

And when you are out in the field—and you can see it at posts that have many other government agencies present—when I was in Bangkok, I could see that occurring, that there is lots of synergy among various U.S. Government programs, but it's very important

that they communicate and talk with each other on the ground, in the field, and in the country.

This issue came up when a very prominent head of a nonprofit organization was speaking with one of our Ambassadors, and the Ambassador did not know all of the projects that this particular nonprofit organization had going on in-country.

It is something that we can improve on. It is something that we must improve on. This is just not good enough. We can do foreign assistance in a much more cohesive, transparent, and collaborative way.

Senator HAGEL. How much weight do you give the Ambassador's opinion on these programs when you have this collaborative effort that you described to the chairman?

Ms. FORE. A great deal. And in this—in the modifications we have been doing for the 2009 process, even more weight has been moved to the field recommendations, suggestions, and ideas.

Senator HAGEL. But that's—in the face of your testimony, that some Ambassadors—or, you say, "our Ambassadors often only have a vague idea." So, the answer, then, to the question is more involvement by the Ambassadors, more education, more information, more collaboration, so that they have a better understanding of it. Is that what you're telling me?

Ms. FORE. Yes; and that they work with their country teams and really forge that integration in the country so that there is a good sense of what our foreign assistance is to accomplish in the country.

Senator HAGEL. I want to go back to a point that Senator Feingold raised. And you spent some time answering the issue of measuring results. How do you know—as you, I think, noted in your own personal experience in a previous position—how do you know when these countries are actually developing in the way that you had hoped and what our programs are intended to do? What measurement is there, other than—at least what I heard from you, in your response to Senator Feingold, a subjective measurement—what measurement—measurements do we have? Are we going to change those measurements? Should we change them? How should we change them?

Ms. FORE. Yes; it's a very interesting question. Currently, we're using a number of indicators. There's economic prosperity, child survival rates, education, literacy, a number of indicators across the entire spectrum of human development. And all of these indicators give one a sense for how a country, a sector within a country, is progressing. And so, they become touchstones for us in seeing how a country is progressing, and thus, what type of assistance and what our relationship should be with that country and those sectors.

Senator HAGEL. But you also, I suspect, still have to use some subjective analysis, based on people and leadership and uncontrollables, and those type of dynamics.

Ms. FORE. Yes. There are times when you have opportunities, given a particular Education Minister that is interested in helping to bring more women and girls into schools, or when a particular minister is interested in looking at legal reform, or an Economics or Finance or Trade Minister is interested in looking at the regu-

latory systems, or in the customs procedures. And when those opportunities arrive, then the country teams recommend moving in those directions, because they can see real value in the chance for a real step forward in progress for that country in that sector at that time with that leadership.

Senator HAGEL. Thank you.

Mr. Chairman, thank you.

Senator MENENDEZ. Thank you.

Madam Secretary, we have several other questions. I will submit them for the record.

You also have said that you will get back to some of the members of the committee in response to questions they posed to you. We would expect that, as well, and your answers to the ones that we submit to you in writing.

I know this is not your confirmation hearing, but let me just raise some things with you while—for when we have that opportunity, of waiting upon the answer to a letter that both I and Senator Obama have sent to you, and we await, eagerly, your responses to that.

One is, I'll be asking you for a commitment that, if confirmed, you'll work to repair the morale that I get a sense, at USAID, is waning. It's an excellent group of people who do a fantastic job. And yet, you know, off the record they express some real concerns about where they're at. That doesn't mean you won't make hard decisions—of course you will—but that you will to make sure that the people that are included—that are included in the process, and that the expertise that that agency has, is valued and utilized.

I'll ask you not to close any USAID missions without intense consultations with Congress. You've already said you're going to observe congressional directives in the appropriations bill, and, if necessary, if you have a—if the Department has a deviation, you'll come and discuss it with the Congress.

We didn't get a chance to talk about mission attachés, but we have a concern about the change of that title and what it means, and the consequences thereof.

We hope that you'll run the 2009 budget process differently, in terms of real consultation on the ground with USAID mission directors and their team.

We hope that you'll change, as interaction recommends in their testimony, the current model, to "substantively implement the topline goal of poverty alleviation."

And we're going to be pursuing with you the DA-to-ESF shift to see exactly why it is so necessary, and to ensure that, in fact, development assistance continues.

I want to put that out there, so that, as we get closer to your hearing, you've been thinking about and have ample opportunity to have responses to it.

With that, on behalf of the committee, we thank you for your testimony. And we appreciate you being here with us today.

Let me call up the second panel. And let me, as the Secretary leaves——

Ms. FORE. Thank you, Mr. Chairman.

Senator MENENDEZ. Thank you.

Ms. FORE. Thank you, Mr. Ranking Member.

Senator MENENDEZ. Let me take a moment to introduce them. We want to thank all of our witnesses for joining us today: Sam Worthington, the president and CEO of InterAction; Lael Brainard, the senior fellow and vice president and director of the Brookings Institution; and Steve Radelet, senior fellow at the Center for Global Development.

We'll proceed to opening statements from all of the witnesses. In the interest of time, we ask them to keep their statements to about 7 minutes, and summarize it. We'll include all of your written statements fully in the record.

And let me start in the order that we recognized you.

Mr. Worthington.

STATEMENT OF SAM WORTHINGTON, PRESIDENT AND CEO, INTERACTION, WASHINGTON, DC

Mr. WORTHINGTON. Chairman Menendez and Ranking Member Hagel, I thank you for this opportunity to speak on a topic that's of major interest to U.S. private volunteer organizations. And I want to thank the chair and the ranking member for your interest in the current transformational diplomacy reform process and how it affects the issues that are most important to our community, including poverty, aid effectiveness, gender, and humanitarian assistance.

I have a longer written statement that I will submit for the record.

Senator MENENDEZ. Without objection.

Mr. WORTHINGTON. InterAction is the largest coalition of U.S.-based international development and humanitarian organizations, or we'll call them "U.S. NGOs." With over 165 U.S. NGOs operating in every developing country around the world, we work to overcome poverty, exclusion, and suffering by advancing human dignity for all.

Our members include service delivery and advocacy organizations, faith-based and secular organizations who work to help the world's poorest and most vulnerable people.

Let me also say that if Under Secretary Fore is confirmed as the Administrator of the U.S. Agency for International Development, or as the Director of U.S. Foreign Assistance, we hope that we can work closely with her to monitor and provide counsel on the long-term effectiveness of these reforms.

What I want to talk to you about today is about partnerships, the partnership between InterAction and the U.S. Government, and the partnership between the American people and the world's poor.

InterAction members, collectively, leverage some $5 billion annually from donations from the American people for a wide range of both humanitarian and poverty-focused programs. These programs help countries around the world try to achieve and meet the millennium development goals. The field activities supported by these programs enable programs to work alongside with USAID-funded programs, mutually reinforcing them.

The programs represent a partnership of the American people with the people of the rest of the world, a partnership that allows individuals and communities to articulate their needs, to identify results and to improve their lives.

Our community tries to meet the needs of individuals, families, and communities halfway. We partner with local groups, NGOs, religious institutions, civil society, government, and many other actors, to help them meet the most basic rights and needs.

InterAction has always argued that sustainable development and poverty alleviation will lead to a more secure world, but we feel that the needs of people who are plagued by chronic instability, and that the act of lifting people out of poverty is, in and of itself, a laudable goal, regardless of the strategic impact.

The pursuit of these goals will have a direct impact on the image of the American people in the poorest parts of the world, thereby advancing our country's national best interest.

As we address the diplomatic and security challenge we face as a nation, we must continue to make the proper investments in areas that mitigate the decivilization of poverty, ignorance, and hopelessness, items that foster militant ideologies and conflict.

To achieve some form of complementarity between the three pillars of American foreign policy—of defense, diplomacy, and development—there must be a greater degree of parity between them and a respect for development's need to operate free from undue influence by diplomatic or security objectives.

Our concern with regard to the current framework for foreign assistance reform is that it appears that either development goals are in competition with security goals, or, perhaps more troubling, subservient to them. Long-term development does support long-term security goals, but U.S. Government development agencies need the space to set their own priorities and agendas, and be informed by the technical expertise and on-the-ground experience of USAID staff, working with civil society organizations and our members, American NGOs.

I'd like to share some select examples in the current transformational diplomacy budget that highlight some of these challenges.

As noted in the earlier comments, we are troubled by the shift in the administration's budget for development assistance accounts to economic support funds account, or ESF. We recognize that there are no legal safeguards in place that could ensure that ESF funds, which traditionally, as you noted, are flexible and managed by the State Department, would not be funneled to short-term needs or driven by political agendas, either in this administration or a future one.

In the area of basic education, we've seen dramatic shifts away from programs in Africa and India, and toward strategic allies. For example, in India, a country that has one-third of the world's illiterate population with 4.6 million children who have no access to schools, the program is being zeroed out. Strategic allies need major investment in basic education, but those investments should not be at the expense of poor individuals in other countries.

Also, in terms of the budget, the administration has proposed significant cuts to health and development programs that you noted earlier, especially in countries where there have been large infusions of PEPFAR/MCC funding. These laudable Presidential initiatives were never set up to displace effective child survival, literacy, or civil society programs. For example, in Côte d'Ivoire, PEPFAR

funds have nearly tripled, but basic maternal and child health are entirely zeroed out.

In Latin America, the administration proposes cuts of core poverty programs by 25 to 40 percent in certain countries, with five of seven MCC-eligible countries facing significant cuts in child survival, health, particularly in family planning, reproductive health funding.

We also express concern at the administration's FY08 budget for USAID's operational expenses, which are 15 percent lower, and recognize that, between 1992 to 2006, USAID workforce has been reduced by 29 percent. This is a significant reduction in technical expertise, and has led to a large bundling of contracts that shift the management burden to a few large contractors and grantees, and away from career professionals.

Another area of note that came up in the earlier testimony is our concern with the level of transparency and consultation. The F Bureau did not hold its first information meeting with the NGO community until a full 7 months after Secretary Rice's announcement of transformational diplomacy reform. And, while the level of dialog has significantly increased in recent months, the NGO community would certainly like to see a greater degree of true consultation.

The goals of U.S. development and humanitarian assistance can only be achieved if we have a more efficient, more coherent, and more accountable foreign aid system. Reforms need to account for not only where moneys are being invested, but also for what purpose, and, equally important, to determine whether or how they have helped make a change in someone's life.

For us, the key elements of any successful reform are the following: The need for coherence across all civilian U.S. foreign assistance programs; a focus on the well-being of the world's poor; the space for the type of partnership we need to shape effective long-term and partial programs; and programs that enhance local capacity to meet mutually defined results.

Now, to this end, we would like to see the creation of something new: A strong Cabinet-level foreign assistance agency. And we recognize that this may take a while, and that bipartisan congressional authorization would be needed. And it would build on, but need to go much further than, the current reforms.

In the meanwhile, we will do our best and work as effectively as possible with the current U.S. assistance reform processes throughout the coming months.

I have talked a lot about partnership with the world's poor, partnership with the American people, with the Department of State and USAID, but we have a special partnership also with Congress, and I would like to thank you for your support and oversight of the U.S. foreign assistance program, and I look forward to your questions.

Thank you.

[The prepared statement of Mr. Worthington follows:]

PREPARED STATEMENT OF SAMUEL A. WORTHINGTON, PRESIDENT AND CEO, INTERACTION, WASHINGTON, DC

Chairman Menendez, Senator Hagel, and other members of the subcommittee, I welcome the opportunity to testify before this subcommittee on a topic of major interest to U.S.-based international nongovernmental organizations. I also want to

thank you, Chairman Menendez and Ranking Member Hagel, for your interest in foreign assistance reform and how it affects the issues that are most important to our community, including poverty, aid effectiveness, gender, and humanitarian assistance.

U.S. foreign assistance operates in an increasingly complex environment of global development donors and recipients—national and international NGOs, multilateral institutions, governments, local NGOs, foundations. To ensure the effectiveness of overall foreign assistance in any country, collaboration becomes crucial among these varied actors.

InterAction is the largest coalition of U.S.-based international development and humanitarian nongovernmental organizations (NGOs). With more than 165 member NGOs operating in every developing country, we work to overcome poverty, exclusion and suffering by advancing basic dignity for all. Our members include service delivery and advocacy organizations, focusing on health, hunger, economic development, children, refugee crises, the environment, and humanitarian emergencies. InterAction convenes and coordinates its members, so they can influence policy and debate on issues affecting millions of people. InterAction members collectively leverage more than $5 billion annually from the American people for a wide range of humanitarian relief and poverty-focused programs overseas. These programs help countries around the world further advance national commitments to reach all of their Millennium Development Goals.

I am here today to tell you about our community's perspective on the role of international development assistance in U.S. foreign policy, how the foreign assistance reorganization and the President's 2008 budget proposal to Congress reflects or contrasts with our perspective, and to make specific recommendations for the future direction of foreign aid reform.

If Undersecretary Fore is confirmed as Administrator for the U.S. Agency for International Development and Director of Foreign Assistance, we hope to work closely with her to monitor and provide counsel on a process of reform that we hope will bring greater long-term effectiveness and impact to the ways our country promotes transformational development around the world. InterAction members have a long history of partnering with USAID, we look forward to strengthening that partnership.

Why Foreign Assistance

I'd like to relate at this point, if I may, a short story that captures the essence of the work we do in partnering around the world. Five years ago, as the CEO of Plan USA, an InterAction member organization that raised millions from the U.S. public, I met Michael, a young man who lives near Lake Victoria. He was an orphan at 15 and by 17 had organized a group of orphaned children to provide sewing services for their village. He had lost his father and mother to HIV/AIDS and within a 2-year period, without any external assistance, he had organized 103 orphaned children in an activity that provided them with food each day. He came to us, a group of U.S. nonprofits, including Save the Children, CARE, World Vision, and Religions for Peace for some resources that would bring access to education to the village's orphaned children. These InterAction members, who had raised tens of millions of dollars of support, provided help; we also tapped funding from the President's Emergency Plan for AIDS Relief (PEPFAR).

Our community of U.S. NGOs meets the Michaels of this world half way. We partner with local community groups, NGO's, religious institutions, civil society, governments and many other local actors to help them meet their most basic needs and rights—their rights to a gainful livelihood and to participate fully in their societies, their rights to a healthier life, to be free from extreme poverty or abuse based on gender, ethnicity, or religion. Any effective U.S. foreign assistance reform must be able to both meet the Michaels of this world halfway as well as partner with the U.S. international NGOs operating on the ground.

We have many decades of field experience, working directly with national governments, local communities and individuals, or partnering with USAID and the Department of State. We know that by focusing on vulnerable populations, promoting the ability of states to govern justly and invest in their people, and providing individuals and societies the means to help themselves, U.S. foreign assistance can help the world's poor while advancing U.S. strategic interests. Saving lives and alleviating poverty reflects Americans' deeply rooted humanitarian values, thereby furthering a positive U.S. image abroad.

Our experience shows that an effective reform of U.S. foreign assistance must incorporate the following principles:

- In order to encourage self-sufficiency foreign assistance programs must include local ownership of programs and partnerships with stakeholders.

- Sustainable development is long-term and requires commitments that should not be compromised for the sake of short- or long-term political goals.
- U.S. foreign assistance programs need to be coherent, not fragmented.
- The goals of the United States, recipient countries and multilateral institutions like the United Nations must as much as possible be in harmony and reinforce each other. A prominent example are the Millennium Development Goals, endorsed by President Bush and adopted by donor and recipient countries around the world.
- Humanitarian initiatives must be impartial and not be dictated by the strategic or political significance of any nation.
- Gender equality must be placed at the heart of program strategies.

As I noted, foreign assistance can serve a dual purpose. Some foreign assistance has been, and will continue to be, a tool to further U.S. strategic interests. On the other hand, it is also clear to us that long-term foreign assistance comprises the development component of the administration's "three Ds" strategy (defense, development, and diplomacy), as outlined in the 2002 National Security Strategy. We view development as part of this three-legged stool; the development "leg" must be equal to—not subsumed under—the other two legs of the stool. The development component, which is based upon partnerships, should not be dictated by the strategic or political significance of any nation.

Designing an Effective Development Aid Structure and Process

The goals of U.S. development and humanitarian programs can best be achieved through a more efficient, coherent, and accountable foreign aid system. Getting more bang for our buck is best assured when foreign assistance programs operate under one coherent system and can account for not only where moneys are being invested and for what purpose, but equally whether and how we have helped improve peoples' lives, e.g., by increasing literacy rates, decreasing infant deaths, sustaining communities' natural resources, etc.

The keys to the success of any reform are:

- Coherence across all civilian U.S. foreign assistance programs;
- A focus on improving the well-being of the poor;
- The space for partnership to shape effective and long-term programs;
- Programs that enhance local capacity and work to meet mutually agreed upon results.

Together they point to the need for an important institutional step: The creation of a Cabinet-level agency for international relief and development alongside the Secretaries of State and Defense. We recognize that the creation of a new strong foreign assistance agency may unfold over a number of years, that bipartisan congressional support will be needed, and that it must build on and exceed the current reforms. We also recognize that InterAction's desire to create a Cabinet-level department may place us at odds with efforts to make permanent the recent incorporation of a new foreign assistance structure within the Department of State. In the meantime we believe that the current arrangement—with the Director of Foreign Assistance reporting to the Secretary of State—has significant limitations and can hinder some of the principles of effective foreign assistance stated above. In the meantime, we are committed to work to create more effective U.S. foreign assistance within the current reform process.

Commentary on the Restructuring Process by the Office of Foreign Assistance

We support a number of steps taken by the Office of U.S. Foreign Assistance (F Bureau) through its reform process:

- At InterAction's urging last year the Office of the Director of the F Bureau added the words "reducing widespread poverty" in the top-line goal of foreign assistance.
- We support building systems for accountability and measurement.
- We support developing an approach to track how U.S. foreign assistance dollars are being spent.
- We welcome the F Bureau agreeing in the last year to increase its sharing of information with our community on some of its internal processes and decisions. Previous to that, the F Bureau shared little such information.

We continue, however, to oppose and be concerned about other aspects of the restructuring process. First, the goal of widespread poverty alleviation has yet to be truly integrated into operational practice. For example, we have seen only limited indications that reducing widespread poverty has been integrated into operational practices within the F Bureau. The Department of State has repeatedly referred to reducing widespread poverty only in the context of building democracies and

strengthening national security. The preparation of Country Operational Plans and FY08 budget allocations were heavily directed by USAID and the Department of State in the Washington bureaus, and there were insufficient opportunities for mission staff to weigh in before significant decisions had already been made.

Second, we find that the foreign assistance structure is still fragmented. The F Bureau's attempt to streamline and consolidate foreign assistance structures falls substantially short of its goal. Omitted from this "reformed" consolidation are major programs such as PEPFAR and the Millennium Challenge Corporation (MCC). Our urging for consolidation should be viewed in the larger context that the current restructuring undermines in our view the essential principles to effective development assistance. Ultimately U.S. foreign assistance must be organized in an altogether different structure that shields it from dominance by the Department of State.

Third, the establishment of the new Office of the Director of U.S. Foreign Assistance and the current restructuring of foreign assistance are provisional and have no legislative basis, making them subject to the arbitrary changes by current and future administrations. New authorizing legislation would address this concern as well as legally ensure a system that truly consolidates the myriad institutions that administer foreign assistance. We realize this could be a long-term process involving Congress, the administration, our community, and other pertinent parties.

Fourth, determining program strategies by using the U.S. Foreign Assistance Framework's 5X6 matrix (6 categories of recipient countries and 5 objectives for foreign assistance) reflects at times a lack of understanding of development realities within a particular country with very different levels of affluence, and a downplaying of the need for local-level authority.

Fifth, certain budget cuts to regional and country programs have undermined the importance of local input and participation. This is counterproductive to ensuring that recipient countries will become self-sufficient.

Finally, consultation with the NGO community on foreign assistance reform continues to be mixed. Despite providing more information and initial senior-level meetings, the F Bureau has yet, prior to the nomination of Acting Director and Acting Administrator Fore, to adequately address our concerns or questions or respond adequately to our appeals for regular two-way consultation. As a result, the relationship is marked by some suspicion and distrust. We look forward to working with the next director of U.S. Foreign Assistance and USAID Administrator to rectify these problems and urge for a more collaborative and transparent communication process.

Commentary on the Impact of the Restructuring on the 2008 Budget Proposal

InterAction supports the allocation of the critical resources Congress provides for foreign assistance, which constitutes .9 percent of the entire Federal budget. We are equally concerned with how these moneys are being spent, for what priorities, and for what results. The administration's FY08 budget proposals confirm our overriding concern: That poverty is in the topline goal but funding for basic needs appear to be sacrificed for funding of strategically sensitive countries and regions of the world. Drawing on our member's analyses and our own, I make a number of observations:

The bulk of the foreign assistance is proposed to be allocated to many countries of strategic interests, who do have real needs, rather than those countries who are simply poor or facing a humanitarian crisis: The top nine FY08 U.S. foreign aid recipients are (in descending order of amount) Israel, Egypt, Afghanistan, Pakistan, Sudan, South Africa, Kenya, Nigeria, and Jordan. These countries' per capita income range from $17,000 in Israel to $230. Need does not appear to be a key factor in this funding distribution.

In the area of Basic Education, the biggest recipients are Egypt, Jordan, Indonesia, Afghanistan, and Pakistan. Egypt, Jordan, and Pakistan need major investments in basic education but those investments should not be made at the expense of other very poor countries. Of the 25 countries in Africa with basic education programs, 13 are proposed for cuts or zeroed out. One program in Madagascar to be zeroed out seeks to strengthen teacher training, to increase local support for elementary schools and planning for teacher professional development. Basic education programs are proposed to be zeroed out in four non-African countries—East Timor, India, Mexico, Nepal.

The substantial increase in poverty-focused development assistance is primarily due to funding for MCC and PEPFAR. Without funding for these two programs, development assistance to many countries actually diminishes, particularly in African and Latin American countries. PEPFAR and MCC funding appears to be in competition with other core poverty programs, which violates the original understanding that the two programs' funds were to be in addition to core development assistance. In Uganda, PEPFAR funds have been nearly doubled, while Maternal and Child

Health funds have been cut by half. This is troubling because it ignores an important lesson that our members have learned in their decades of experience: An integrated, multisectoral approach is the only way to successfully tackle the huge global health challenges that we are currently facing. Programs like PEPFAR that provide urgently needed medicine are certainly welcome, but without taking a comprehensive approach that improves nutrition and food security, access to clean water, and the strength of local health systems, we risk compromising the efficacy of our intervention overall. In Latin America, cuts in core poverty programs range from 25–40 percent, in countries such as El Salvador, Nicaragua, Honduras all of which have an MCC presence.

Under Transformational Diplomacy, the administration's FY08 budget proposed that much of the funding for traditional development assistance accounts be transferred from Development Assistance (DA) funds to Economic Support Funds (ESF); an account that is statutorily intended to support national security interests. There are no legal safeguards in place to prevent a scenario of arbitrarily putting development assistance activities under the Secretary of State. We are encouraged, however, by the recent decision of the House Foreign Operations Appropriations Subcommittee to reverse the administration's proposed shift of DA funds to the ESF account.

The administration's FY08 budget request for USAID Operating Expenses, is 15 percent lower the FY06 actual budget. This would continue a long and disturbing trend in the diminution of technical expertise at that agency. USAID has been put in the unfortunate position of managing more and more foreign assistance dollars with less and less human and financial resources, to the detriment of aid effectiveness. This has led to a second problem, the bundling of large umbrella contracts that shift the management burden to a few large contractors and grantees and away from career professionals. This trend also extends to the area of monitoring and evaluation. As USAID's technical capacity to do M&E declines, the agency is forced to outsource this work to contractors, thus leading to a loss of institutional knowledge about important lessons learned and best practices in the field.

The recent proposed cuts in operating expenses were rumored to have been related to the notional closings of some USAID missions, which means projects could be abruptly terminated. In Namibia, a country whose mission is targeted for closing, a $3 million successful education program in its final phase will be closed prematurely. The "Living in a Finite Environment" (LIFE) program in Namibia, a highly successful program is also targeted for early closure. The LIFE program, a multiyear USAID investment, has placed 13 percent of Namibia's land under 44 community-managed conservancies and engaged some 185,000 community members in natural resource management activities. The benefits to the Namibian economy were an estimated $21 million.

Given the F Bureau's restructuring process on largely a country-by-country basis, there is concern that natural resource management and biodiversity conservation, which transcend political boundaries, will fall between the cracks. There is also evidence of country-based environmental needs being ignored. The Government of Madagascar, one of the world's biologically richest countries, has identified the environment as a critical sector of the country's social and economic development. Yet USAID has proposed reducing environment funding for Madagascar by 40 percent.

Recommendations to the Administration

If she is confirmed in her new role, we look forward to working with Under Secretary Fore on pursuing a number of issues outlined below. For some of those issues stated above, the F Bureau has made steps in the right direction, and we would encourage further movement:

- Amend the current Transformational Diplomacy restructure of foreign assistance in a manner that substantively implements the topline goal of poverty alleviation. This would include:
  - Developing indicators that track the steps to achieve the goal of poverty alleviation and local involvement
  - Developing country plans whose content is more driven by the technical expertise of missions' professionals on the ground.
- Take further steps to improve the coordination, coherence, and accountability of the foreign assistance reform. This would include widening the purview of foreign assistance consolidation to include MCC, PEPFAR, and other entities that administer foreign assistance funds.
- Establish more substantial consultation and transparency with the NGO community, including:
  - Establish a meaningful two-way dialog with the U.S. NGO community;

- Inform and consult the NGO community regarding followup implementation plans for the outcome of the F Bureau's After Action Review of the administration's FY08 budget development process.

Impact of the Current Reforms on Field Operations

We recently received anecdotal information from some of our members on the impact of the foreign assistance restructuring on their field operations. We surveyed some members with substantial USAID grant portfolios, asking whether the restructuring had affected their activities in the field, namely in terms of:

- The availability of new USAID proposals to manage or design on-the-ground activities;
- The timeframes for deciding pending awards of proposals and/or funding continuity for ongoing awards.

Of the members surveyed, virtually all noted a significant slowdown in 2007, compared to 2006, in available new USAID proposals. Some also expressed concern for the longer time lapse in which USAID notified the awardees. As a result of these funding delays and/or fewer opportunities to take on new projects, these members reported:

- Difficulty in future planning for ongoing programs;
- Higher risks of closing down the program or cutting back staff;
- Risks of scaling down programs' activities;
- Difficulty leveraging other sources of funding.

Many of these NGO members had been informed directly or indirectly by USAID that following the approval of country operating plans in April 2007, there would be a significant resurgence of available proposed new project activities. To date, some of these members have noted a minor increase, but no substantial changes.

In addition, a few of the affected member organizations observed a definite trend in the funding mechanism for projects: Increase use of funding conditions that don't allow for local involvement in design and implementation and decreased use funding parameters that encourage strong local input.

InterAction's Ongoing Monitoring and Analysis of Transformational Diplomacy

In order to better understand the impact of the restructuring process at country mission level around the world, InterAction has undertaken recently a research project in designated recipient countries. The research will examine the types of future programs to be funded, the allocation of funding, and the nature of northern and southern civil society engagement in drafting USAID's Country Operational plans. We look forward to sharing our findings with Congress, Under Secretary Fore, the Secretary of State, and other interested members of the administration.

We also welcome the research program initiated by Committee on Foreign Relations Ranking Member Senator Lugar, which seeks to examine the current impact of the foreign assistance restructuring. We also welcome the important oversight by this subcommittee under the leadership of Chairman Menendez and of Ranking Member Senator Hagel.

Conclusion and Recommendations to Congress

We urge a more collaborative process among Congress, the Office of U.S. Foreign Assistance, and our community. Accordingly in the next year and a half, we urge Congress to:

- Urge Under Secretary Fore to ensure a plan that begins restoring the authority of USAID in Washington, and the field-based technical capacity of USAID, including such actions as restoring cuts in operating expenses. USAID was long recognized as a global leader in effective development assistance. The shrinking of the agency's cadre of experience experts has substantially contributed to not only the loss of USAID's stature, but also the loss opportunity of valuable lessons that we can learn today in the future direction of development assistance.
- Restore cuts in funding programs that pursue the poverty alleviation goal;
- Oppose concentration of resources in 10 strategic countries;
- Oppose shifts from DA to ESF accounts (the House Foreign Operations Subcommittee recently rejected this proposed shift of funds);
- Work with Under Secretary Fore to reverse efforts toward complete institutionalization of U.S. foreign assistance within the Department of State;
- Work with Under Secretary Fore and NGOs to develop and pursue political and diplomatic goals that do not compromise but rather encourage the delivery of long-term development programs or the space for effective humanitarian action;
- Oppose efforts that shift the rules for USAID implementation mechanisms traditionally used by the InterAction community away from a partnership and toward contracts. Under contracts, a more time-effective delivery of services, there

can be substantial loss of local involvement, technical expertise, and long-term commitment to program operations.

InterAction offers an expanded vision for the future of U.S development assistance and we hope to promote a new dialog on the evolution of foreign assistance. We look forward to our vision being properly considered and vetted as part of a fully bipartisan reform of foreign assistance.

I am inspired to quote Bill Gates who spoke at Harvard University's graduation ceremonies last week. He noted that ". . . reducing inequity is the highest human achievement," and that this goal is one of the major challenges of our time—but a doable one. I could not agree more. Our community looks forward to collaborating with Congress and the administration to successfully take on this challenge.

Senator MENENDEZ. Thank you very much.

Dr. Brainard.

STATEMENT OF DR. LAEL BRAINARD, VICE PRESIDENT AND DIRECTOR, GLOBAL ECONOMY AND DEVELOPMENT AND BERNARD L. SCHWARTZ CHAIR IN INTERNATIONAL ECONOMICS, BROOKINGS INSTITUTION, WASHINGTON, DC

Dr. BRAINARD. Chairman Menendez, Ranking Member Hagel, and Senator Casey, thank you for the opportunity to testify today. I hope that this will be one of several hearings that really take a strong look at this area.

Let me just touch briefly on four areas: Why I think this is a particularly critical juncture for U.S. foreign assistance reform; the problems that need to be addressed; a set of principles that might be used to assess current reforms; and a roadmap toward more fundamental reform.

I believe that, today, foreign assistance is particularly important as a critical instrument of American soft power and a key determinant of the face that the poorest people around the world see of America. Recent polls show that this is true abroad, and it's also true here at home. There's a poll that shows, in the wake of the earthquake in Pakistan and the earlier Indian Ocean tsunami, that perceptions of America were markedly improved, and that that was sustained over a long period of time. Similarly, a recent poll here at home found that fully 57 percent of the American people favor building goodwill toward the United States by providing food and medical assistance to people in poor countries. So, when designed and executed well, foreign assistance is not just soft power, it can be smart power, working to advance not just national security, but also national interests, and, importantly, national values.

Unfortunately, I don't think that's the case today. I will refer you to a chart, which is also in the testimony. This is what the Government looks like right now, doing foreign assistance. There is a striking quote that our foreign assistance structure is a haphazard and irrational structure covering at least four departments and several other agencies. That was actually John F. Kennedy in 1961. Unfortunately, that rings true again today. The last 6 years have seen foreign assistance rise at a faster rate than at any time since the cold war, and, unfortunately, new global challenges have been met by the administration by creating new institutional arrangements that sit alongside the existing ones. The result is more than 50 separate units, pursuing more than 50 objectives, many of them overlapping with each other, the result of which is, we're not getting as much bang for our buck.

So, 18 months ago the State Department started down the track of creating a coordination function overlaying these multiple entities. The nomination of Henrietta Fore provides a nice opportunity to take a breath and look at the process so far.

We ran a bipartisan "Task Force, on Transforming Foreign Assistance for the 21st Century," that developed a set of reform principles that are very relevant for assessing the process to date.

State/F deserves credit for the very significant progress it has made in answering the Secretary's basic question: You now can figure out exactly what is being spent against what country and what objective. And that, in itself, was a herculean task, because, surprising as it may seem, USAID and the State Department kept completely separate accounts that didn't talk to each other.

But on four other principles, I'm afraid the State/F process doesn't look so good.

First, let me talk about stakeholder ownership. One of the few things we know about foreign assistance is that it works best when it supports priorities that are embraced locally, where recipients are invested, themselves, in achieving success. If you look at stakeholder ownership, it really doesn't show up anywhere in the State/F process. I don't think that there was sufficient consultation. It was a top-down, Washington-out process. It has had no recipient-country input.

As this hearing is pointing out, a much broader lack of stakeholder engagement seems to be the central weakness. Interaction with key Members of Congress, with NGOs in the field and in Washington, and field staff have been perceived as one-way informational briefings rather than true consultations. As a result, I think there's very little buy-in outside of the narrow confines of the State/F process.

The second principle is transparency. Transparency is critical for achieving aid effectiveness. Why? It diminishes the scope for short-term political considerations to overwhelm longer term investment priorities, and it provides very clear incentives for the recipients themselves to make reforms in priority areas. This was a clear rationale for the strong and transparent eligibility criteria that were set out in the MCC; in contrast, it's very hard to tell exactly how the five categories that were established by the State/F were decided. It was done in an opaque manner, using terminology unfamiliar to most of us. And the process for determining budget allocations was similarly opaque, providing ample scope for short-term political expediency, and very little inducement for policy reform.

Obviously, the most conspicuous outcome has been the request to reduce the DA account by about $468 million, while requesting a $703 million increase to the Economic Support Funds. Although it is driven by the recategorization of countries into the rebuilding category, if you don't support the categories, it's very hard to understand or support that. Moreover, it also happens to be associated with a lot more flexibility for the State Department.

It's also worth noting that, if you look on a per-capita aid allocation basis, some of the same patterns are very evident. Egypt gets about $24 in foreign assistance per capita; in comparison, Ecuador gets about a $1.50. That won't change.

Third, it's absolutely critical to elevate the development mission. Many applauded when the President put development into the 2002 national security strategy alongside defense and diplomacy. Many of the same people are now worrying that the Director of Foreign Assistance process is subordinating development to diplomacy.

Development and diplomacy are fundamentally different. Indeed, the development mission itself sometimes involves working around and outside governments with groups on the ground, especially in the area of democratization. So it is beneficial to the entire enterprise to separate them. It also allows better management of the tension between the short-term political goals and the longer term agenda.

The sense of mission has to be restored in order to elevate the stature and the morale of the development enterprise, and to attract and retain the most talented professionals, who are not now going to USAID. For example, the MCC was recently ranked among the top five as one of the best small government agencies in which to work. The USAID was ranked among the bottom 10. This State/F process is not going to improve that.

The fourth principle is policy coherence. Foreign assistance is now only one of many tools. Trade, debt relief, and investment all lie outside the State/F process. There has to be a mechanism for coordinating our policies toward developing countries more broadly, and there have to be incentives and organizational structures to make that happen. State/F cannot do that.

And, finally, the mark of a successful reform ultimately will be a reduction in the number of players and elimination of overlapping jurisdictions. The current reforms superimpose another player into the mix, without eliminating any offices. In response to an earlier question posed by Senator Hagel, I think only about 55 percent of ODA, maybe a little bit more, is actually under the jurisdiction of State/F, when you take out things like DOD spending, MCC, PEPFAR. And so, it's going to require much more extensive effort. I don't see how you do that without Congress.

Successful foreign assistance reform is going to require a little bit more patience, a lot more vision, and a lot more congressional involvement. Instead of the 50 separate offices, ultimately we probably should have one, maybe two; instead of the 50-odd objectives, we probably should have about five.

We looked, in the task force, at episodes of successful reform, both within the United States and outside. I'll mention a few lessons.

From the United Kingdom, I think we have a very strong instance where elevating the development mission empowered it and made U.K. foreign assistance both more effective and also a stronger voice in the international community.

If you look at the seven major reform efforts that have taken place in the United States since the 1960s, there are about two that have succeeded.

It is critical to have congressional involvement from the outset. Timing is also critical. Big reforms tend to take place at the start of new administrations.

And if you look at the Goldwater-Nichols process, the clock has started ticking, since it took about 2 years for the congressional process to develop a consensus on that legislation.

In conclusion, last week, was the 60th anniversary of the Marshall Plan. Our friends and partners abroad are looking to America to show a more compassionate and cooperative face. The time to act is now.

Thank you.

[The prepared statement of Dr. Brainard follows:]

PREPARED STATEMENT OF DR. LAEL BRAINARD, SENIOR FELLOW AND VICE PRESIDENT AND DIRECTOR, GLOBAL ECONOMY AND DEVELOPMENT AND BERNARD L. SCHWARTZ CHAIR IN INTERNATIONAL ECONOMICS, BROOKINGS INSTITUTION, WASHINGTON, DC

Chairman Menendez, Senator Hagel, distinguished members of the subcommittee, I appreciate the opportunity to testify today on the subject of Foreign Assistance Reform: Successes, Failures, and Next Steps. I hope this hearing will be the first of several by this subcommittee that call attention to the critical importance of strengthening the Nation's foreign assistance.

SMART POWER

In a world transformed by globalization and challenged by terrorism, foreign aid deserves attention as a critical instrument of American soft power and a key determinant of the face of America seen by poor people around the world. With hard power assets stretched thin and facing 21st century threats from global poverty, pandemics, and terrorism, the United States must deploy its soft power more effectively. But America's weak aid infrastructure hampers our ability to do so.

Recent polls underscore the importance of getting this right. Abroad, Terror Free Tomorrow found that foreign aid dramatically improved public perceptions of the United States in Pakistan, Bangladesh, and Indonesia, for a sustained period following U.S. generosity in the wake of the tsunami and the Pakistan earthquake. Here at home, a majority of Americans appreciate that linkage: The Program on International Policy Attitudes/Knowledge Networks found that fully 57 percent of Americans favor "building goodwill toward the United States by providing food and medical assistance to people in poor countries."

When designed and executed well, foreign assistance is not just soft power but smart power, working to advance national security, national interests and national values. It works best when there is clarity about the objectives it is designed to serve and well aligned with the other instruments of American engagement. Unfortunately, at present clarity and alignment are the exception rather than the rule.

A HAPHAZARD AND IRRATIONAL STRUCTURE

America's foreign assistance structure has been criticized as "a haphazard and irrational structure covering at least four departments and several other agencies." That was the assessment of John F. Kennedy in 1961, when he proposed the creation of USAID. More than four decades later, his words again ring true.

The urgent demands of post-conflict reconstruction in Iraq and Afghanistan and humanitarian disasters have led to a faster rate of expansion of foreign assistance dollars in the last 6 years than at any point since the cold war. The administration has responded to each new global challenge by creating new institutional arrangements alongside existing ones, most notably the President's Emergency Plan for AIDS Relief (PEPFAR) and the Millennium Challenge Corporation (MCC).

As shown in the chart below, dozens upon dozens of separate units share responsibility for aid planning and delivery in the executive branch, with a dizzying array of objectives ranging from narcotics eradication to biodiversity preservation. Different agencies pursue overlapping objectives with poor communication and coordination. At best, the lack of integration means that the United States fails to take advantage of potential synergies; at worst, these disparate efforts work at cross purposes. As a result, the impact of American foreign assistance falls far short of the value of aid dollars expended—which remains unmatched among bilateral donors.

[EDITOR'S NOTE.—The chart mentioned above was not reproducible in this printing. It will be retained in the permanent record of the committee.]

The Secretary of State in January 2006 designated a Director of Foreign Assistance with the rank of Deputy Secretary of State as the Administrator of USAID with the mandate to provide strategic direction, coordination, and guidance over for-

eign assistance. Last month, Under Secretary Henrietta Holsman Fore was nominated to serve as Administrator of USAID and appointed to concurrently serve as Director of Foreign Assistance. This change in leadership provides a welcome opportunity to reflect upon the direction and scope of the current foreign assistance reforms.

Despite the creation of the State/F Bureau and the energetic efforts of Ambassador Tobias and his staff, lack of coherence is still a significant problem for overall U.S. foreign assistance and development policy. Little progress has been made in addressing the confusion demonstrated by the chart because the reforms to date are piecemeal and have not incorporated a truly consultative process across the legislative and executive branches of government or with outside stakeholders, which will be critical to building support for the statutory changes necessary for fundamental reform.

FOREIGN ASSISTANCE REFORM: SUCCESSES AND FAILURES

The bipartisan Task Force on Transforming Foreign Assistance for the 21st century recommended a number of principles for effective foreign assistance reform that provide useful benchmarks to assess progress to date.[1] According to this assessment framework, the State/F process has been successful on one important criterion but has not made progress on several others:

1. Track resources against objectives by country

State/F deserves great credit for the significant progress it has made in a short time in developing a consistent system for categorizing and tracking resources for programmatic activities from a number of different foreign assistance budget accounts. In recent years, strategic, development, and humanitarian funds have been intermingled, with individual projects often in receipt of money from several types of accounts. This process was further complicated because the State Department and USAID budget offices tracked funding with two different systems that could not easily be cross-referenced.

The new Office of the Director of Foreign Assistance was created in part to streamline this process within the confines of the current budget accounts. One result is an information management system with a standardized lexicon. The new reforms incorporate a computerized accounting system (the Foreign Assistance Coordination and Tracking System or FACTS) that includes funding levels, objectives, indicators, and outcomes, albeit for State and USAID only. This facilitates a basic set of management tools and enables successful queries regarding funding levels by year across regions, countries, program objectives and program elements. It is astonishing that such a system did not exist earlier.

2. Stakeholder ownership

Aid works best when it supports priorities determined locally and recipients are invested in achieving success. Just 2 years ago, Congress made the principle of country ownership one of the central tenets of the design of the MCC.[2] Obviously, the extent of U.S. oversight and control of aid implementation should vary with the quality of local governance, with poorly governed countries less likely to formulate national strategies based on the priorities of poor communities and thus requiring greater oversight in the aid process. But the principle of stakeholder ownership applies to the entire aid enterprise—even if it requires different mechanisms of implementation depending on circumstances on the ground.

To date, the State/F reform process has ignored this important design principle. Programming decisions are made from a playbook put together by State/F known as the "Standardized Program Structure and Definitions." The State/F process has provided no formal mechanism for recipient country input—let alone soliciting proposals or reflecting national priorities. This contravenes considerable research and experience.

Indeed, the lack of stakeholder engagement seems to be the central weakness of the State effort overall. Not only are potential beneficiaries in the dark about what the reforms might mean for their ability to meet the needs of their constituents, but State/F interactions with key Members of Congress, delivery NGOs, and field staff have been perceived as informational briefings rather than truly consultative in nature. As a result, there is little sense of buy-in outside the narrow confines of State/F.

3. Practice transparency

Transparency is critical for achieving aid effectiveness. Transparency about the criteria by which countries are classified into different eligibility groups and resources are allocated has two virtues: It diminishes the scope for short-term political

considerations in what should be a long-term investment process, and it provides clear incentives to potential recipients to improve policies in priority areas (such as investing in health or education). For these reasons, the administration and Congress put a high priority on transparency in the design of the MCC eligibility criteria.

In contravention of transparency, teams established by the State/F Bureau assigned countries to five categories based on new and poorly explained terminology in an opaque manner with no outside consultations. For instance, a country classified as a "rebuilding state" might justifiably be confused regarding the point at which its status might change to a "developing state," and how that change would affect U.S. assistance.

The State/F process allocates budget resources among countries in a similarly opaque manner that provides ample scope for short-term political expediency and scarce inducement for policy reform on the part of beneficiaries. The process involves a complicated combination of country team input via Mission Strategic Plans, functional roundtables, a computational "budget model," regional assistance working groups, Washington-based country core teams, country team feedback and senior reviews. Perhaps the most conspicuous outcome of this process has been the request to reduce the Development Assistance (DA) account by $468 million while correspondingly requesting a $703 million increase to the Economic Support Funds (ESF) account, which coincidentally provides greater flexibility and discretion to the Secretary of State. This request is driven by the assignment of ESF to the Rebuilding and Restrictive Countries categories, but it will be hard to obtain support for the request as long as the country categorizations are not well understood or supported.

4. Elevate the development mission

Many applauded when the President's 2002 National Security Strategy recognized development alongside defense and diplomacy as a third critical and independent pillar of national security.[3] Many now worry that the 2006 decision to bring the Director of Foreign Assistance formally within the State Department structure subordinates development to diplomacy.[4] Indeed, early versions of the State/F framework were marked by the conspicuous absence references to "poverty," and there is still an overwhelming focus on the capacity of states and little reference to the well being of the poorest.

Development and diplomacy are fundamentally different; it is important not to confuse them through such terms as "transformational diplomacy." The primary function of diplomacy is state-to-state relations, whereas development and democratization often require working around foreign governments and sometimes with groups opposed to them. Development seeks not only to develop state capacity—the overarching objective of the State/F process—but to ensure that poor communities have the tools and resources they need to lift up their lives. Moreover, maintaining the integrity of independent diplomatic and development functions makes it far easier to manage the frequent tension between short-term political objectives—which often requires working with undemocratic regimes—and longer term economic and political reform objectives.

If there is one principle that applies above all others to the revitalization of the U.S. foreign assistance enterprise, it is that the development mission—construed to include security and democratization—must be elevated to coequal status with defense and diplomacy not just in principle but also in practice. The sense of mission—vital to America's interests as well as to global peace and prosperity—must be restored in order to elevate the stature and morale of the enterprise and to attract and retain the most talented professionals in the field. One of the most compelling reasons for standing up the MCC independently was to create a strong organization that would attract top talent and instill a culture of delivering results in innovative ways. The MCC was recently rated among the top 5 in a ranking of the best small government agencies to work, while USAID was ranked among the bottom 10, a troubling trend.

5. Achieve policy coherence

At a time when the international community has identified policy coherence as a core principle for aid effectiveness, the United States too often stovepipes decisions on the key policy instruments affecting nations it seeks to support.[5] Foreign assistance is but one of several tools to support development. Other instruments such as trade provisions, investment agreements, financial stabilization policies, debt relief, and economic sanctions are now more important than aid for many developing countries.

The United States could wield greater influence per aid dollar spent than any other nation simply by deploying its influence in world trade, investment, debt, and financial policies in a deliberate manner as a force multiplier. Regularized mechanisms for policy integration are vital either by coordinating across agencies or assigning authority to a single empowered agency. Integration across agencies is just as important at the level of planning and operations, as illustrated by recent post conflict experiences. Achieving integration requires removing disincentives and creating positive incentives, such as reserving special budgetary funds to reward effective interagency collaboration on priority goals—as is done in the United Kingdom—and tying career advancement to interagency rotations and participation in joint operations.

6. Rationalize agencies and clarify missions

Ultimately, the mark of a successful reform will be a reduction in the number of players within the executive branch and elimination of overlapping jurisdictions. The current reforms superimpose another player into the mix—the new State/F Bureau—without eliminating any of the offices or criss-crossing lines shown in the chart. The mandate of the Director of Foreign Assistance is expansive, but the office's actual power is more limited. It does not have jurisdiction even over PEPFAR within State, let alone foreign assistance administered by the MCC and the Departments of Treasury, Agriculture, and Defense. A more extensive effort will be required that reaches across the entire executive branch—possibly through White House coordination. This will require much greater congressional involvement and the expenditure of political capital.

NEXT STEPS

Successful foreign assistance reform will require vision, patience, and congressional involvement. Instead of the 50 separate offices that currently manage U.S. aid programs, we should have one integrated agency. Instead of the 50-odd objectives these offices currently pursue, we should have no more than five strategic aid priorities. The ultimate goal should be to create a unified framework that fuses America's objectives—supporting sustained development, democratization, and poverty alleviation and countering security, humanitarian, and transnational threats with differentiation based on the governance and economic capacities of recipients. This requires integrating the national security perspective of foreign assistance as a soft power tool with that of a development tool allocated according to impact and human needs.

Lessons for fundamental reform

The Task Force on Transforming Foreign Assistance for the 21st Century identified several episodes of reform that offer important lessons to guide these efforts. Outside the United States, the United Kingdom reforms of the 1990s are widely credited with boosting the impact of U.K. foreign assistance programs and Britain's influence in the international aid community. The U.K. reforms demonstrated that according development equal standing and independent status can yield an enormous payoff.

In the United States, there have been seven major foreign aid reform efforts since 1960. Two of these were successful: The Kennedy reforms and passage of the New Directions legislation in 1973. These hold important lessons for successful reform today. The conditions for fundamental reform include an emergent political consensus surrounding the urgency of the mission, strong support from key groups outside government, and personal commitment on the part of the President or key congressional champions. Any successful reform process must engage all stakeholders—across branches of the government, across agencies, and outside government.

Congress has an integral role in shaping the organization and delivery of U.S. foreign assistance by holding hearings such as this, mandating independent analysis of the current structure and operations, and requesting expert input on alternative organizational structures. The process leading to the Goldwater-Nichols Defense Reorganization Act of 1986 can serve as a model.

Finally, timing is critical: Successful instances of transformation both here and in the United Kingdom have been initiated early in the course of a new administration. At the outset of the Goldwater-Nichols process, there was broad agreement on the problems confronting the military, but it took more than 2 years for key lawmakers and administration officials to build consensus on a road map for reform. If America is to develop an effective soft power response to new global challenges in this decade, the clock has already started ticking.

Quick fixes for the current foreign aid coordination process

While broader reforms are being contemplated, foreign assistance planning and implementation can be improved in immediate ways. First, true consultation and greatly improved transparency should be built into the evolving system of foreign aid coordination immediately even as more fundamental changes are contemplated. Second, it is critical to improve morale at USAID or risk further erosion on recruitment and retention. Third, the process of formulating and requesting budgets must take given constraints into account. The process of planning budgets and operations for specific countries without taking into account the realities of stringent budget accounts, congressional earmarks, and other initiatives can waste time and demoralize the valuable Foreign Service officers and other public servants working to get U.S. foreign aid right in the field. Finally, the State/F process to date has been overly Washington-centric. Whereas Washington is an appropriate focus for discussions on strategic vision and objectives, the specifics of country programs are best developed by the country teams who are implementing in the field.

ACHIEVING SUCCESS

The challenge of strengthening the planning and delivery of foreign aid is neither partisan nor short term. To achieve success, a patient effort will be required that involves Congress centrally at the outset and reaches across the entire executive branch. The development mission must be enhanced, stakeholder ownership strengthened, transparency instituted, and the number of players within the executive branch rationalized in order to achieve greater impact from foreign assistance dollars.

These steps would go a long way in making U.S. foreign aid more strategic and effective during a time of intense global need and would also help showcase America's true spirit. On this 60th anniversary of the Marshall Plan, when our friends and partners abroad are looking to America to show a more compassionate and cooperative face, the time to act is now.

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[1] This testimony draws upon the work of the bipartisan task force, Transforming Foreign Assistance for the 21st Century, which I codirected. The task force included representation from staff of both Houses of Congress and all committees of jurisdiction, current and former members of relevant executive branch agencies, practitioners from the NGO community, a senior U.K. foreign assistance official, and outside experts. The task force met nearly 20 times, benefited from presentations by administration officials, congressional staff and leading practitioners, and invited outside experts to critique all of the recommendations. The findings were published by Brookings in "Security by Other Means: Foreign Assistance, Global Poverty and American Leadership" (http://www.brookings.edu/press/books/securitybyothermeans.htm).

[2] For detailed analysis of the design of the MCC, see Lael Brainard, Carol Graham, Nigel Purvis, Steve Radelet, and Gayle Smith, "The Other War: Global Poverty and the Millennium Challenge Account," Brookings Press, 2004.

[3] White House, "The National Security Strategy of the United States of America," September 17, 2002 (www.whitehouse.gov/nsc/nssall.html).

[4] Carol Lancaster, "Bush's Foreign Aid Reforms Do Not Go Far Enough," Financial Times, January 19, 2006.

[5] For example, determinations on investments in rural infrastructure and agricultural extension in cotton-growing parts of Africa are made by USAID, subsidies for American cotton farmers are made by the Department of Agriculture and Congress, and cotton trade barriers are made by the Office of the U.S. Trade Representative (USTR).

Senator MENENDEZ. Thank you.

Dr. Radelet.

STATEMENT OF DR. STEVE RADELET, SENIOR FELLOW, CENTER FOR GLOBAL DEVELOPMENT, WASHINGTON, DC

Dr. RADELET. Thank you, Chairman Menendez, Ranking Member Hagel, Senator Lugar, Senator Casey. I'm honored that you've invited me to offer some perspectives on this process.

I want to make three points today. First, the reform of our foreign assistance programs is long overdue. Second, as designed, the current reform programs are only partial, and don't go far enough to substantially strengthen our foreign assistance programs to meet our important foreign policy goals. And, third, while the reform process includes some positive elements, the process, so far, has not

been implemented particularly well. Some important changes will be necessary over the coming months to strengthen the process.

On the first point, the reforms are long overdue, and we've talked—many of us have talked already today about some of the problems that we're trying to address about the fragmentation, the heavy bureaucracy and the little accountability in achieving results. And the reforms are overdue. But they must be seen in a larger context, I think, of the U.S. role in the world.

The United States needs, today, a bold new vision for its foreign assistance programs, and, more broadly, about how it engages with the rest of the world. We face a variety of changes, from security threats to spreading disease to deep poverty, and, most importantly, in many parts of the world, as I travel around the world, we've lost our moral leadership, and it's been slowly replaced by a growing resentment of the United States from people who see us as the problem, rather than the solution.

We can do better, and we must do better. We must use our ideas, our ingenuity, and our creativity to lead the world to greater openness, greater prosperity, greater security, and greater democracy. But to do so is going to require greater use of all of our tools of what we might call "smart power," including diplomacy, defense, trade, investment, intelligence, and foreign assistance. Our foreign assistance strategy can no longer be a weak sister if we are going to be successful in the world.

My second point is, while—is that, while some of these reforms are steps in the right direction, much deeper and more fundamental reforms are going to be necessary to achieve the goals to bring our foreign assistance programs into the 21st century.

We need five things. We need a better strategy, we need the right organizational structure, we need the right legislation, we need a unified budget, and we need a monitoring and evaluation program that will let us know whether we're achieving our goals. And we're only part way on each of those. We've talked about some of them already today. Let me just highlight two.

Organizationally, as the others—my other colleagues have mentioned, I believe that we do need one unified Cabinet-level agency to bring together all of our foreign assistance programs. Certainly, we need much more unity than we've got today.

A second alternative—recognizing that a Cabinet agency might be difficult—would be a Cabinet-level coordinator that incorporates all of our programs, not just the ones that are here today.

With respect to the legislation, Senator Hagel, I believe, is absolutely correct that many of these problems cannot be done with minor fixes, and that much of it does have to do with the Foreign Assistant Act of 1961, which served its purposes during the cold war, but it was for a different time in a different era. If you print that act out today, it's over 2,000 pages long, which I think tells you enough about its clarity and its usefulness today. We really do need to think again, in today's day and age, about what we're going to do.

The current reforms only partly deal with these issues. The Director of the Foreign Assistance Office claims that it covers 80 percent. It's very hard to come up with that figure. The Congressional

Research Service has estimated that it covers 55 percent of our foreign assistance programs, and I think we must do better than that.

My third broad point is, while the new process includes some steps in the right direction, they haven't been implemented as well as they could be. And so, let me talk more specifically about the reforms.

There are some things that the administration deserves credit for:

First of all, they deserve credit for initiating this process. It is long overdue. It should have been done earlier. They missed two opportunities. It should have been done when the Millennium Challenge Corporation was established. But, instead, we went around and established a new organization. It could have been done when PEPFAR started. But it is starting now. Better late than never. But it—they do deserve credit for taking on this issue.

Second, they deserve credit—the naming of the Director of Foreign Assistance is a first step toward greater coherence, and it is good that we've got much more discussion now between State and USAID, and the beginnings of a dialog more broadly than that, although we must do better.

Third, the strategic framework introduced last year, I believe, is a solid step forward. I think the country-based approach makes a lot of sense, from a development perspective and from a U.S. strategic-interest perspective. Rather than thinking about things from a sector approach, to look at the needs of particular countries, and build up from there. I have been calling for a change like that since 2003, and I am pleased to see the initial steps in this direction.

But I have several concerns:

First, as we mentioned, the approach is too narrow. We need to be bolder if this is going to be successful.

Second, as has been mentioned, this cannot be done in a closed-door process with just the executive branch, there must be greater consultation with Congress and others to get the broad consensus necessary. The administration has already run directly up against this with its attempts to do country-based budgeting. They come directly in conflict with the congressional authorities that are based on sector approaches. And you can't have it both ways. So, if they're going to move toward a country-based approach, going to have to consult more with Congress to work out the differences in this approach.

Third, as has been mentioned, the whole process has been too closed. There must be much greater openness, which has started in the last few months, about incorporating other people in the field and in the Washington area, and in other agencies in this process.

Fourth, and perhaps most importantly—this reflects the chairman's remarks—I'm quite concerned about this being under the direction of the State Department, and the possible politicization of our foreign assistance programs. I think there's a need for this tool to be coordinated with our foreign policy, but it needs to separate from the State Department approach. Our other foreign assistance tools, like our defense, like our intelligence, like our foreign trade, like our international financial policy, are independent from State, and I believe that our foreign assistance programs need to be coordinated with State, but independent from them. And I do believe

there is a great risk that these programs may become more politicized over time.

So, going forward, let me suggest several more concrete steps, over the next couple of months, that could help strengthen this process.

No. 1, strengthen communication and build a stronger constituency for this reform. This process has now started, in the last couple of months, where it's a little bit more open, but there has to be greater consultation with people within the AID, within the field missions, within other executive branch agencies, up on the Hill, and with other interested people in Washington. There's been a lot of misunderstanding and a lot of miscommunication. And if you talk to different people, they'll tell you very different things. And who's right and who's wrong and what's going on is very hard to understand, so there needs to be much greater outreach and communication. That's going to take time and be hard, but it's necessary to do.

Second, they need to build a much stronger team at USAID. Some of the people that have been—had senior positions in this process have been rather young and rather inexperienced, and, I think, in many ways, it has shown. USAID needs to have its core competencies and technical skills rebuilt, and they need to bring more experienced people into this process.

Third, you need to strengthen the process for these country operational plans. This first attempt over the last year was late, in terms of guidance going out to the countries. It was not well understood. That's to be understood, to some extent, the first year through this, but the process was very rough, and, I think, this next year, coming up, they need to do a better job at bringing in the technical expertise into these country operational plans.

Fourth, we need a much stronger strategy for monitoring and evaluation. We have only talked a little bit today about how we ensure results. And I am not at all confident that the reforms have incorporated a fundamental new way, and strong way, to monitor what we're doing and how we're achieving different outputs, outcomes, and impact along the way. The process has introduced many new indicators, but I think there are too many, and I think they may not be focused on the right things. We need to have much better independent evaluation so we can tell what we're doing right, what we're doing wrong, what's working, and what's not working. I'm not sure that that's been incorporated.

And then, finally, over the next few months I'd like to see how this process builds into the longer, more fundamental reform. Secretary Fore did say that this was the beginning of the process. Well, where does it go? And how does it map to these longer and more fundamental reforms of a broader organizational structure, of fixing up the budget issues, of dealing with the legislation? If it's the beginning of the process, where is this process going? And I think that needs to be laid out more clearly in the next couple of months.

Thank you very much for your interest, and I look forward to your questions.

[The prepared statement of Dr. Radelet follows:]

PREPARED STATEMENT OF STEVEN RADELET, SENIOR FELLOW, CENTER FOR GLOBAL DEVELOPMENT, WASHINGTON, DC

Thank you, Chairman Menendez, Ranking Member Hagel, and other members of the subcommittee. I am honored that you have invited me to offer some perspectives on the process of reform in U.S. foreign assistance programs.

I. INTRODUCTION AND OVERVIEW

Today the United States and its partners face many complex global challenges, including new security threats, the spread of virulent diseases, the opportunities and potential pitfalls of globalization, climate change, and fallout from the war in Iraq. Meeting these challenges requires a bold new vision of American leadership. America must lead with the strength of its core values, ideas, and ingenuity. Today's challenges require an integrated foreign policy that promotes our values, enhances our security, helps create economic and political opportunities for people around the world, and restores America's faltering image abroad. To achieve these goals the United States must make greater use of "smart power" by integrating all the tools of statecraft, including diplomacy, defense, trade, investment, intelligence, and—the subject of our discussion today—a strong and effective foreign assistance strategy.

I wish to make three key points in my testimony today. First, the process of reform of our foreign assistance programs is long overdue. While many of our programs are effective in achieving development outcomes, there is little doubt they can be improved. The administration deserves credit for initiating this process, however belatedly.

Second, unfortunately, as designed, the reforms are only partial and do not go far enough to substantially strengthen our foreign assistance programs and to meet today's most important foreign policy challenges. Deeper reforms are necessary that incorporate a larger share of assistance programs, involve Congress in changing existing legislation, more deeply change executive branch administrative structures, and guard against the possibility of the politicization of foreign assistance programs.

Third, while the reform process so far includes some important positive elements, the process has not been implemented as well as it could have been. A relatively closed deliberations process and poor communication has led to misunderstandings within the agencies involved, with other agencies, with Capitol Hill, and with key actors outside the government. A reinvigorated approach with greater consultations and some changes in strategy is needed to move the process forward in the coming months. Key next steps include strengthening communication and building constituencies for reform, bringing in a more experienced team as part of the effort, strengthening the process for developing country plans, further refining the budget process, and developing a stronger approach for monitoring and evaluation.

II. WHAT ARE WE TRYING TO FIX?

Strong foreign assistance programs are vital to strengthening our foreign policy and restoring U.S. global leadership. However, we significantly underinvest in foreign assistance programs, and we have structured these programs in ways that weaken, rather than strengthen, their impact.

U.S. foreign assistance programs have been long criticized as being ineffective. However, it is important to recognize that often the criticisms are overblown and miss the fact that many programs have been successful. U.S. foreign assistance was central to supporting the Green Revolution that provided the foundation for Asia's economic miracle; for eliminating small pox and substantially reducing polio, river blindness, maternal mortality, and childhood diarrheal diseases; for helping to secure peace in countries such as Liberia and Sierra Leone; and for supporting sustained economic growth in Korea, Taiwan, Botswana, and more recently Mozambique, Tanzania, Ghana, and several other countries. U.S. foreign assistance deserves more credit than it usually receives.

Nevertheless, there is wide agreement that our programs can be significantly strengthened. U.S. foreign assistance programs continue to be a hodge-podge of uncoordinated initiatives from multiple institutions without a coherent guiding strategy. Many of the structures and guiding principles of our programs have their roots in the cold war, and they are not well-suited to meet today's global challenges. Programs are highly fragmented with little coordination across the 20 or so executive branch agencies that administer foreign aid programs. Sometimes these agencies work at cross purposes with each other with different objectives and techniques. Other times they are aiming to achieve the same goals, but duplicating each other's efforts without realizing it. Each agency has their own different processes, rules and

procedures, which can put significant strain on countries. Recipients sometimes need to ask: Does this program need to conform to USAID procedures, PEPFAR procedures, MCC procedures, or Defense Department procedures?

Many programs are subject to heavy bureaucracy that ensures that some funds never get close to its intended recipients. Aid flows are heavily earmarked and subject to myriad directives, procedural rules, and restrictions that add significantly to administrative costs and slow the delivery process. In addition, much aid is wasted on countries with governments that are not serious about development and that cannot use it well.

Moreover, there is little accountability for achieving results. Monitoring and evaluation systems are weak and tend to focus on whether funds are spent where they were supposed to be, rather than whether programs achieved important strategic or development objectives.

To some extent these problems can be traced to the structures and procedures of USAID and other agencies that administer our assistance. But much of the problem lies with the elaborate web of legislation and directives from Congress that lie at the foundation of our foreign assistance programs. The Foreign Assistance Act of 1961, as amended, is an outdated piece of legislation dating to the early days of the cold war. The act specifies a remarkable 33 different goals, 75 priority areas, and 247 directives. These multiple goals are more than just an administrative burden: They make it very difficult for the United States to achieve clear development results.

III. THE REFORM AGENDA: THE BIG PICTURE

Thus, the reform process is long overdue, and the administration deserves credit for beginning to wrestle with these issues, even if belatedly. However, the process underway is too narrow in its scope and breadth. Partial reforms will not solve the problems of a diffuse and segmented apparatus with outdated legislation that was built during the cold war. Making our aid programs more effective requires a bold, ambitious vision for updating these programs for the 21st century and strengthening America's role in the world. Although the focus of our discussion today is the current reform process, these steps should be seen in the context of the bigger picture of the deeper reforms necessary to put our foreign assistance programs on a stronger footing, including the following.

1. *Develop a National Foreign Assistance Strategic Framework.* The most important first step is to reach broad agreement amongst all key actors—across the full range of executive branch agencies and with Congress—on the principal objectives and basic framework for foreign assistance as part of our broader policies for engaging with the world. The new Director of Foreign Assistance (DFA) released a Strategic Framework in 2006 that went part way toward achieving this goal, but since it did not include all agencies and did not fully incorporate the views of Congress it was incomplete. Going forward, a broader framework should be developed with wider participation that lays out key objectives and priorities, describes the key programs that will be used to meet these objectives, and details strategies for coordinating and communicating across agencies. The Strategic Framework must go beyond USAID and State and include Defense, Treasury, Agriculture, Energy, the MCC, and other agencies and organizations.

2. Rewrite the Foreign Assistance Act (FAA). The FAA of 1961 is badly out of date. The current amended version of the act is nearly 2,000 pages long and includes a complex web of rules, regulations, multiple objectives and directives. A new FAA is central to clarifying the central objectives and methods of foreign assistance to meet U.S. foreign policy goals in the 21st century. Rewriting the FAA would allow a fundamental redesign of the morass of personnel and procurement regulations and other rules that undermine the effectiveness of USAID and other agencies. It would reduce the extensive amount of earmarking and "tied aid"—much of it well-intentioned—but which severely cripples the ability of agencies to effectively allocate funds to the highest priority areas. The new reform process has come squarely up against existing legislation: The administration cannot easily implement a country-based strategy—however wise that might be—when existing authorities are based on sector accounts rather than countries. Rewriting the act will not be simple, and concern over the inherent difficulties is a prime reason for the piecemeal approach. But it is becoming clearer that fundamental change is not possible without reexamining the basic legislation.

3. *Strengthen Coordination Across Agencies.* U.S. foreign assistance cannot be fully effective when it is spread among nearly 20 different agencies with different objectives and implementing procedures. This problem cannot be solved through commitments for stronger interagency processes. And (according to an estimate by

the Congressional Research Service), the current reform process only includes about 55 percent of the foreign assistance budget. There are at least two bolder possibilities:

- *Create a new Department for International Development* that would bring under the direction of one Cabinet official all U.S. foreign aid programs. This step would streamline the bureaucracy, reduce duplication, and strengthen our ability to align major programs with our key objectives. The United Kingdom took this step several years ago, and its foreign aid programs are now considered among the best of the bilateral donors.
- *Name a Cabinet-Level Coordinator* reporting to the President, to be responsible for all aid programs. This approach would build on the Bush administration's initial step of naming a DFA, but would widen it to include all agencies providing foreign assistance and would elevate to a Cabinet-level position.

4. *Clarify the Budget.* The budget should be at the center of designing clear priorities and tradeoffs. However, foreign assistance activities are scattered throughout several accounts in the budget. It is very difficult to look through the budget and determine where and how we are spending our assistance dollars. The current reform process has tried to begin to tackle this problem, but there is far to go. As mentioned, it will not be possible to design a budget based on country priorities when current budget rules are based on a sector approach.

5. *Strengthen Monitoring and Evaluation.* With only a few exceptions, monitoring and evaluation of U.S. foreign aid programs focuses on ensuring that funds are spent according to plan, rather than on their contribution to development or to achieving other objectives. We need strong monitoring and evaluation processes aimed at keeping funded programs on track to meet their goals, guiding the allocation of resources toward successful activities and away from failures; and ensuring that the lessons learned—from both successes and failures—inform the design of new programs. Monitoring and evaluation should be incorporated into projects from the outset, not added on as an afterthought halfway through the process.

IV. INITIAL STEPS AND MISSED OPPORTUNITIES FOR FUNDAMENTAL REFORM

The administration deserves credit for some initial steps toward elevating the importance of foreign assistance in our overall foreign policy. Its National Security Strategy calls for strengthening approaches for development alongside defense and diplomacy. It introduced the Millennium Challenge Account as a way to provide significant support to a small number of low-income countries with good governance and a commitment to strong development policies. It established the Emergency Plan for AIDS Relief to substantially expand resources to fight this killer disease. It has significantly increased total spending on foreign assistance, although much of the increase has been focused on a relatively small number of countries.

However, the administration has had three opportunities to tackle the broader challenges of restructuring and strengthening our foreign assistance organizations and structures, and in each case it has failed to do so. It has shied away from the bold, visionary changes needed to meet today's global challenges, and instead has opted for partial changes that have left the process incomplete and the future uncertain.

Its first opportunity came with the introduction of the MCA. There was significant debate throughout 2002 about where to house and how to structure the MCA. The administration clearly believed that existing structures were not effective enough to take on this new initiative, but instead of addressing head-on the weaknesses of existing programs, it avoided the problem and decided to establish a new institution to implement the program.

The second opportunity came with the Emergency Plan for AIDS Relief. The new initiative came with a problem: International HIV/AIDS programs were administered by many different agencies with different approaches and mechanisms. These institutional divides and bureaucratic duplication were symptomatic of broader problems in our foreign assistance programs. But again the administration opted for a partial fix: It established a new office to coordinate programs across multiple agencies. While this approach might have satisfied the immediate goal of quickly establishing new HIV/AIDS programs, it separated the HIV/AIDS initiative from other health and development programs, and only added to the broader problem of multiple agencies implementing different programs without a clear and coherent strategy.

The third opportunity came with the current reform process itself. To their credit, the early proponents of the process recognized the deeper structural problems and attempted to deal with them more directly. But a key flaw in the approach is that it is partial and narrow: It only deals with programs under the direct control of the

State Department, including the Department itself, USAID, and to a lesser extent PEPFAR and the MCC. It does not include programs run by more than a dozen other executive branch agencies, including the Departments of Agriculture, Treasury, Defense, Labor, and others. The Congressional Research Service has estimated (based on the FY05 budget) that the DFA will manage just 55 percent of the foreign assistance budget, with the Department of Defense controlling 19 percent and other agencies managing 26 percent. In short, the scope of the reforms was limited to what the State Department could carry on its own without coordinating with other executive branch agencies or Congress. As a result the best it possibly can achieve are incomplete and partial reforms.

V. INITIAL PROGRESS IN THE CURRENT REFORM PROCESS

The current reform process has several positive elements. First, a reform process is long overdue, and the overall objectives of the broadly were the right ones. The designers deserve credit for trying to provide greater coherence to assistance programs, better align programs with objectives, focus first on countries rather than sectors, and to begin to rationalize the budget process.

Second, the naming of a DFA clearly was aimed at bringing greater coherence across significant parts of U.S. assistance programs. The "dual-hatted" nature of the appointment as both DFA and Administrator of USAID should lead to stronger communication and coordination across programs, and hopefully the beginnings of less fragmentation in assistance programs. Observers state that interagency coordination and communication has improved, although it still has a long way to go.

Third, the Strategic Framework introduced in May 2006 is a solid initial step toward articulating clear goals and steps toward achieving those goals. The document describes five distinct goals for foreign assistance programs. It then groups all recipient countries into one of five categories, (Rebuilding, Developing, Transforming, Sustaining Partnerships, or Restrictive), reflecting current assessments of those countries' circumstances. I strongly support differentiating across countries as a first step toward more clearly identifying appropriate goals and designing more effective implementation strategies (indeed I called for a categorization of countries along these lines in congressional testimony in 2004), and in the idea of building budgets based primarily on country needs and priorities.

Fourth, reorienting the budget to be more in line with these goals and with country needs is a sensible step. The first budget process revealed several significant concerns in how it was carried out and whether appropriate authorities exist, but a rationalization of budget accounts to better align them with strategic priorities is a welcome step forward.

VI. SOME KEY CONCERNS

However, while the reform process has several positive elements, it represents only a partial reform process. It is too narrow and incomplete, and does not add up to a coherent and comprehensive strategy for foreign assistance designed to meet our major foreign policy goals in the post-September 11 world. There are several major concerns.

First, the reforms omit large parts of our assistance programs. The DFA will have control over USAID and at least most State Department programs, but will only give "guidance" to MCC and PEPFAR programs, and will have at best only indirect influence over programs administered by other agencies.

Second, by not including Congress in the deliberations, the reforms missed the opportunity to build greater consensus on the path forward and to redress some of the weaknesses in the Foreign Assistance Act. In the absence of agreement with Congress on major objectives, earmarks, procurement and personnel rules, and key strategies, the reforms will fall short of what is needed. Most importantly, as mentioned, the reform process came up squarely against existing legislation through the budget process. The reforms envisage a country-based budgeting process, while existing authorities provide for sector-based allocations. It is not possible to do both simultaneously in an effective manner. Moving forward with country-based budgeting will require much stronger buy-in from Congress, and probably new or amended legislation.

Third, while the process has been ongoing for over a year, much of the discussion has been restricted to a small number of people, especially during the early months. Substantial confusion and misunderstanding remain about the process, objectives, and steps to date. Discussions with senior people in the process, staff at USAID, officials in other departments, and knowledgeable persons outside the government reveal widely different perceptions and lack of information about what is happening. Many people feel marginalized from, and uninformed about, the process. While some

of this is to be expected in any reform effort, the process to date has been characterized by poor communication, which has undermined morale and potential support.

Fourth, while appointing a DFA to coordinate across programs is welcome, putting that person under the direct control of the Secretary of State raises concerns. There is a danger that foreign assistance allocations will change quickly to address short-range and rapidly changing diplomatic and strategic concerns, sometimes to the detriment of achieving long-term development or institutional changes in recipient countries. While the new strategic framework calls for funding to support democracies and countries with strong governance, a large share of current funding goes to strategic partners with weak governance systems. The history of U.S. assistance to such countries—the Philippines under Marcos, Zaire under Mobutu, and Haiti under the Duvaliers—suggests that achieving development results or strengthening governance systems often takes a back seat to short-term political expediency.

Ensuring that foreign assistance is properly aligned with U.S. foreign policy does not necessarily mean that it should come under the direct authority of the State Department. U.S. policies in defense, international finance, trade, and intelligence are all aimed to be consistent with major foreign policy goals, but they purposively are established independently from (albeit coordinated with) the State Department. Achieving long-term success in supporting development and good governance systems in recipient countries demands programs that are coordinated across agencies and consistent with our foreign policy goals, and yet independent of direct control by the State Department.

VII. SOME NEXT STEPS

The reform process is at a crucial juncture as a result of the political calendar and the nomination of a new DFA. Actions taken in the next few weeks and months will determine the ultimate success or failure of the effort. The most important next steps include the following:

1. *Strengthen communication and build a constituency for reforms.* Senior officials must make much stronger efforts to communicate more clearly within State and USAID, with other departments, with Congress, and with key nongovernment agencies. For the reforms to succeed in the long run, they will need much stronger support than they currently enjoy. Building this support will require substantial time and effort, and will be all the harder with the change in the DFA. But it is crucial for success.

2. *Build a strong and experienced team.* A widely held complaint is that key persons in the reform effort lacked significant technical expertise and experience in development and in program implementation, which weakened their understanding of the issues and of options. There is no substitute in development for significant experience living and working in developing countries. The new DFA should move quickly to build a team with strong experience that balances an understanding of the need for fundamental reform with an understanding of what works and does not work on the ground.

3. *Strengthen the process for developing country-level operational plans.* Many participants complain that coordination between the center and country offices in the budget process was not sufficient. Guidance for developing country operational plans came late and was often unclear. While the DFA office claims that the process has been decentralized with more authority given to individual country offices, many country offices state that there is more direction from the center on how to use the funds. To some extent, misunderstandings and lack of clarity should be expected in the first year of major reforms where people comfortable with old systems resist changes to new ones. Nevertheless, for FY09 the process must start sooner and include greater consultations and communications to be more effective.

4. *Further refine the budgeting process.* For FY08 the DFA office provided budget requests consistent with its new Strategic Framework. By many accounts, given the tight timeframes and unclear guidance, budgets using the old framework were retrofitted into the new framework with various activities simply renamed to fit the new categories. At an aggregate level, the new presentation failed to recognize the sector-based budget accounts required under existing authorities. Reports suggest that the budget presentation did not meet requirements for many key areas of expenditure under existing legislation. As mentioned earlier, there remains a huge unresolved tension between the vision of country-based budgets and existing sector-based authorities.

5. *Develop a clearer strategy for monitoring and evaluation.* One of the central objectives of the reform process is to make U.S. foreign assistance more effective. But at the core of increasing effectiveness is a strong monitoring and evaluation process that includes independent monitoring, regular review, and an assessment of results

and impact. But the reform process appears to have made little progress in this area, and may have even stepped backward. The DFA office has introduced a large number of new indicators to track progress. However, there appear to be far too many indicators, and most of these emphasize immediate outcomes rather than output or actual impact. As of yet there is no independent process to verify results and to evaluate the connection between short- and medium-term results and impact. One key step would be for the United States to support and ultimately join the International Initiative for Impact Evaluation, which would join together foreign assistance providers from around the world to provide professional, independent evaluations of the impact of their initiatives.

6. *Begin to move to deeper and more fundamental reforms.* The current reform process has made some positive steps forward, but its limited scope and its location within the State Department will undermine its ultimate effectiveness. It is critical to use these earlier steps to launch a broader discussion among all key parties on making our foreign assistance programs more effective to meet today's foreign policy goals.

Senator MENENDEZ. Well, thank you all for your testimony. It was very insightful.

We'll have a series of 7-minute rounds, and I'll start by recognizing myself.

One of the criticisms coming from merging USAID's decision-making into the State Department has been the fear that long-term development goals, which USAID has traditionally focused on, will be sacrificed for short-term strategic goals, which the State Department has traditionally focused on. And I'm wondering, from any of you who wish to answer, is that a legitimate concern? And what are the consequences that flow from that?

Sam—Mr. Worthington.

Mr. WORTHINGTON. InterAction is currently involved in a process of research in five countries to look at the different aspects of the framework, to look specifically at this question. We should have results later this year. Right now we have indications of this, but we are actually researching the question in-country, looking at it, how it applies to both the development of programs and the implementation of programs. So, we'll be able to get back to you on that.

Senator MENENDEZ. Anyone else?

Dr. Radelet.

Dr. RADELET. I am concerned about that, and I think we have a long record in the United States of providing significant foreign assistance to short—to meet short-term political expediency goals. Those have their role in U.S. foreign policy. Our assistance to Mr. Marcos, and our assistance to the Duvaliers, and, more recently, to others, have their role at their time, but it's very separate, and I think it can undermine development assistance. And I'm quite concerned that, with some programs, where we need to be there for the long haul, building health systems, building education systems, that, as those countries where we're doing that work begin to fall off the radar screen because they are not an immediate emergency or crisis, that funding might be cut for those in favor of whatever is today's more immediate crisis.

Senator MENENDEZ. Dr. Brainard.

Dr. BRAINARD. The example that you raised, of Pakistan, is a good one. There's no question that the Government of Pakistan has not used the many, many dollars we've given it well for development purposes, but we have strategic interests there that justify some of our funding.

The State Department needs to work with governments frequently for strategic interests. That's what diplomacy is all about. But, from a development and democratization point of view, in countries where you have autocratic regimes, you need to work around governments to make sure that money is actually going to the poorest populations, and to make sure that organizations on the ground who are promoting democratization, accountability, good governance, have the wherewithal to build the bottom-up demand for change. It's more effective to manage those development and democracy objectives if there is a very strong Cabinet-level entity in the U.S. Government making the case on the development side, and ensuring implementation. In these instances it's actually helpful for the State Department, to say, "Look, I can't affect that money, and foreign assistance is being decided in a separate process." Sometimes it's actually useful for the person responsible for diplomacy to be able to say, "I didn't have control over that foreign aid decision."

Senator MENENDEZ. Can we collectively agree that development assistance is one of the important tools that we can use, which is in the national interests of the United States? Does anyone disagree with that?

[No response.]

Senator MENENDEZ. In view of that, then one of the concerns I raise—I'm sure you've heard it—is the significant shift in funds between the development assistance account and the economic support fund accounts in the FY08 request. On the House committee, before I came to the Senate—a total 15 years in the House—the traditional objectives of ESF have been to strengthen markets, improve economic growth, develop democratic institutions, and they have traditionally been used for—and they're more vulnerable to diversions for political or strategic purposes. And we recognize that. But if that is the case—and we've had some—I've had my examples, you've had yours—some of them are not more shining in our history, but, nonetheless, they have been used in that regard—what's your opinion of the shifting of these funds, in terms of, you know, conserving the development assistance aspect of our foreign policy?

Mr. Worthington.

Mr. WORTHINGTON. We worked very hard to have three words added to the top-line goal of U.S. foreign assistance, and that was "reducing widespread poverty." If we had a clear set of indicators that looked at the relative investments, in terms of poverty throughout U.S. development assistance, compared to security interests or other interests, we'd have a much better sense of actually where resources are going. In the absence of that, we need to rely on congressional directives that do a much better job of steering resources, because, at this point in time, it really comes down to an act of faith of where these resources will go, and, because there aren't the indicators that give us a sense of the degree to which this broad goal of reducing widespread poverty lies at the core of the investment. We then ask Congress to go back to the more traditional frame that enables it to ensure that these resources do have that intent.

Senator MENENDEZ. Anyone else?

Dr. RADELET. I share your concern. I understand the point that Secretary Fore was making, that it doesn't necessarily mean that the funds won't be used for development assistance. I spend a lot of my time in Liberia. I just came back. And they are a recipient of economic support funds, at the moment, and much of that is going toward strong development processes. So, it is quite possible that the ESF funds could be used for the right kind of development purposes, but we don't know.

I'm not so much concerned about the increase in ESF funds, given today's world and the number of strategic partners that we work with. The issue for me is less the shift than the decline in development assistance. And if we need more funds in the ESF account, that's fine, but those should not come out of the development assistance account.

Senator MENENDEZ. I appreciate that.

Dr. Brainard.

Dr. BRAINARD. One of the things that's most important in foreign assistance is being clear about our goals. I don't think you can measure results unless you know what you were trying to achieve in the first place. There's always going to be a category of assistance that's primarily strategic in nature. We should be very clear about that, and we should measure the outcomes there, not in development terms, but in strategic terms. To some extent, this big shift between DA and ESF, is a symptom of lack of clarity. I think it was a huge tactical misstep on the part of the administration, in the sense that I don't think they have buy-in for their new country categories to begin with, and this shift is driven by these categories that are not so obvious to begin with.

But it strikes me that development assistance should be used to promote development, and we should measure the outcome accordingly. And because I care a great deal about development, I think it's a very troubling shift.

Senator MENENDEZ. Thank you.

Let me turn to the distinguished ranking member of the full committee, Senator Lugar.

Senator LUGAR. Well, thank you very much, Mr. Chairman.

Let me ask this question as a practical political consideration. In the past, we have tried to determine, through the foreign assistance budgets or the State Department budget, or a combination of that, for interest in development in foreign countries. Sometimes interest in a country's development is driven by strategic purposes. One proposition suggested by members of this panel of professionals is to elevate the head of U.S. foreign assistance to a Cabinet-level position, so that there would be a Secretary of Defense, a Secretary of State, Secretary of Development, or whatever the proper nomenclature. And the hope would be that the interests of the United States would be manifest to whoever was the Executive in the administration, or Members of Congress, so that they would support the three objectives of defense, diplomacy, and development.

Now, as part of the work of this committee and others has been to discover why, in certain instances recently, the Department of Defense appears to have taken roles that historically would have been taken abroad by the Department of State or our Ambassador,

whoever it might be. One pragmatic reason why this is so is that the Department of Defense had money, it had resources, and it had supplemental appropriation ability. So, as affairs arose, you can make the case that the Ambassador and other development authorities were not always included in the activities of the Defense Department—but, nevertheless, maybe some good things happened and American taxpayer money was the same in any event. However, the politics of the situation were not equal with regard to the two departments.

Now, if we were to have the three departments, just as a practical matter, how do we develop a constituency in this country for development in other countries? There is clearly that constituency with many people in religious communities, in many NGOs, others who organize from goodwill, those who have had an international understanding. From your own experience in this field, as a practical matter, how do we develop, once we have the organization, the support, the budget? And what would be the criteria, then, for determining the countries as recipients? Would it be as the Millennium Challenge, in which we now take a look and say we want to encourage human rights, the right of women, democracy-building, and so forth, and there's an idea of reward, of movement of resources if countries seem to adopt those policies. Maybe that's the ethos. Would any of the three of you comment on your views of these general questions?

Mr. Worthington.

Mr. WORTHINGTON. Just a comment on a few InterAction members. The ONE Campaign, which is an InterAction member, just launched a campaign that will go out to all the Presidential candidates. The Campaign has a broad membership across the country. Today we can witness, for example, 20,000 ONE supporters in both New Hampshire and Ohio. ONE has 2.4 million members committed to our work across the country, and that is just through that one InterAction member. Later this week, I'll be traveling to Little Rock to meet with InterAction member, Heifer International, to meet with their board. They have about 500,000 donors across the United States who give to Heifer. The shift that we've seen in the last 10 years is the strong interest of many of these donors to get involved in advocacy around issues outside the United States, and issues of poverty, because individuals in our country, across campuses, church groups, and others, are seeing a direct link between the United States being a good neighbor and the security and the well-being of our Nation and our children. So, we see a rise of Americans' interest in this issue. We're actively investing resources in channeling this interest as it goes forward.

With regard to the point you make as to, you know, which countries to invest in, I think development requires multiple tools. One of the tools is the MCC approach that enables us to get a sense of investment based on good governance. There are other investments that simply need to be made on the basis of need and the ability to deliver well-designed child survival other types of programs. Other investments are more geared toward security. If we're able to break down these different types of investments we're making, I believe that the American people will respond. And one way that our institutions have seen that response is a shift, close to a $1 bil-

lion increase, of giving of the American people to our institutions. And this is broadly based within the faith groups and others around the country. So, we're seeing a shift in public opinion, and our challenge is to see that shift reflected up here in Congress.

Senator LUGAR. Thank you.

Dr. BRAINARD. I believe there is now a strong public constituency for poverty reduction and development in this country. We have seen an enormous shift, in just 10 years, in public involvement in these issues. If you look at polling inside the Beltway, national security is the rationale; outside the Beltway, in the Heartland, Americans respond on the basis of moral values and humanitarian impulses. You can also see enormous public support in the vast flows of private generosity, which, in the case of humanitarian disasters, greatly exceeds our official assistance funding. You can also see growing public interest in an explosion of volunteering overseas. There's a nice bill that's making its way around now that provides government support for this increased interest in voluntary service abroad. And we also see it in the fact that we now get missives from Angelina Jolie and Brad Pitt and Bono on these issues. And so, there's just tremendous interest.

In terms of criteria, there will remain a limited number of different types of countries receiving funding according to different criteria. One of the criteria, obviously, is transformation, but another one is need, humanitarian need; HIV/AIDS is another compelling criterion. There is always going to be a strategic category. There is always going to be, unfortunately, the conflict prevention and post-conflict reconstruction category. And each one will require a separate set of eligibility criteria.

Senator LUGAR. Thank you.

Dr. RADELET. I think it's an excellent question, or set of questions, Senator.

In terms of how to develop the constituency, this month's cover story in Vanity Fair magazine is all about foreign assistance. So, if we've made it to Vanity Fair, I think we're making some progress here.

I share my colleagues' view that, over the last 10 years, this has changed dramatically. It started with debt relief, and the "drop the debt" campaign in Jubilee, and accelerated with the attention to HIV/AIDS and other things that brought in a much broader constituency, and, after September 11, for different reasons, widened that constituency.

So, I think the support is beginning to grow. But what the American people demand, and deserve, is to know that this money is spent well. And I think, at the core, that brings us back to the need for better organizational structure and, I think, stronger legislation that puts together all of these different pieces into a coherent whole, with a clear mission, at a more professional nature, instead of decimating and undermining the professionals that we have at USAID and other organizations, to put them together and give a stronger mandate, where we can recruit and retain the best talent in the world for this, give them a voice at more senior levels, at the executive—in the executive branch, and provide some independence from State and Defense and intelligence services, and our many different tools of foreign assistance that need—our many dif-

ferent tools of foreign policy that need to be coordinated, but have some independence from each other. So, I think building that constituency goes hand-in-hand with making these things much more effective.

I think Sam is also right in terms of the need for multiple tools across different sets of countries. And I've been arguing this for many years, and I think the new approach of a country-based approach, looking at the characteristics of countries, makes a lot of sense. Some countries, like the MCC countries, are on the right path, they've got a good government; we ought to give them more funding and more flexibility in what they do. But there are lots of other countries where we need to provide less money, with tighter strings, perhaps a lot of it through NGOs, rather than through governments, when we don't trust the governments, and we need different approaches in different kinds of countries. We're beginning to move in that direction, but we need to move more.

Senator LUGAR. Mr. Chairman—I thank the witnesses—I'd like to ask permission to insert in the record, at the appropriate spot, a statement welcoming Under Secretary Fore, who was a witness earlier on.

Senator MENENDEZ. Without objection.

Senator LUGAR. I thank the Chair.

[The prepared statement of Senator Lugar follows:]

PREPARED STATEMENT OF HON. RICHARD G. LUGAR, U.S. SENATOR FROM INDIANA

I join in welcoming Undersecretary Fore. I appreciate the cooperation she has shown to the committee during her tenure at the State Department. I look forward to her insights related to her new role as the Director of U.S. Foreign Assistance and as the President's nominee to head the United States Agency for International Development.

The Director of U.S. Foreign Assistance is a new position at the Department. It was created by Secretary Rice to oversee and coordinate our Government's multifaceted outreach to countries where poverty, disease, displacement, and other challenges create both a humanitarian imperative and a security risk. Americans have long supported their Government's work to save lives and alleviate human misery. Since September 11, 2001, we have acquired new insights into how failing states can provide fertile ground for terrorism.

The Bush administration has expanded U.S. commitments to international economic development. It has increased foreign aid spending and created new funding mechanisms. It has boosted America's focus on crises—such as the HIV/AIDs epidemic—that can undermine the fabric of developing societies. And it has sought to promote good government, sound economic policies, and strong social programs focused on human development in poor nations around the world.

Secretary Rice's instinct to seek greater coordination and clarity in the new firmament of foreign assistance is well founded. We should prioritize our goals and design our strategies in ways that are transparent to aid recipients and U.S. taxpayers, alike. We must ensure that we are able to measure the impact of our assistance. Every dollar of foreign assistance should count toward the realization of a more peaceful and prosperous world.

Our witness today is taking over the crucial task of foreign aid coordination that Secretary Rice initiated a little more than a year ago. We will be looking for leadership that strikes the appropriate balance between the need to maintain focus on policy priorities, while at the same time allowing for the flexibility required to address unique challenges in each recipient country.

Because of the importance of this topic to the success of U.S. foreign policy, I have directed the Republican staff of the Senate Foreign Relations Committee to undertake a field-based study of our foreign assistance efforts. Now ongoing, we are examining assistance funded by the State Department, USAID, the Defense Department and other agencies in more than 20 countries in Africa, Asia, Eastern Europe, and Latin America. We are paying particular attention to the new coordination process to see whether and how it is mirrored in the field. We are looking at USAID pro-

grams, section 1206 security assistance, the Millennium Challenge Corporation, the Middle East Partnership Initiative, and the President's Emergency Plan for AIDS Relief. We are also studying how programs run by other U.S. Government departments, such as Agriculture, Treasury, and Homeland Security, are coordinated at the embassy level.

In 2006, the committee staff produced a report entitled "Embassies as Command Posts in the Campaign Against Terror." The report recommended that all security assistance, including section 1206 funding, be included under the Secretary of State's authority in the new coordination process for rationalizing and prioritizing foreign assistance. I am particularly interested in knowing how Under Secretary Fore views her own role in making certain that our security assistance is properly coordinated and supported by both civilian and military agencies.

Senator MENENDEZ. Thank you, Senator Lugar.

Let me ask you just two other quick questions before we go to the hearing on our next nominee.

Mr. Worthington, you, in your testimony, said that without MCC and PEPFAR, development assistance to many country actually diminishes, particularly in Africa and in Latin American countries, two continents that perhaps need it the most, yet these two Presidential initiatives were supposed to be added to the regular assistance—and I stress the "additive" part. I have a particular interest in this. How do you see the F process hurting Latin America in this process?

Mr. WORTHINGTON. I think the process, again, focuses on the topline goal—when one should really focus on need. We could take Brazil as an example. In the northeast region of Brazil, which has massive amounts of poverty, you could then categorize Brazil as a country that is transforming itself. And, because of that categorization, you miss the complexity of the realities in-country, and, in essence, reduce programs that you should not be reducing.

So, I think that it, again, comes down to need—there is tremendous need in Latin America, there's tremendous capacity to support a democratization process and other efforts, but because the security lens, or strategic lens, seems to dominate, we see this reduction, that I mentioned above, of up to 40 percent of resources.

Senator MENENDEZ. Dr. Brainard, let me ask you one other question.

You were codirector of the Brookings CSIS Task Force that put out "Transforming Foreign Assistance in the 21st Century." And it resulted in the publication of "Security By Other Means," which I found interesting. Let me ask you—in it, you have a chapter entitled "Organizing U.S. Foreign Assistance to Meet 21st-Century Challenges." How do you view U.S. foreign assistance having to change, in the long term, to meet those 21st-century challenges?

Dr. BRAINARD. First of all, there are a lot more instruments that are now of great relevance to countries that are developing. In Latin America, for instance, trade agreements and investment agreements are just as relevant as foreign assistance. For many countries, the key issue is not even primarily about foreign assistance anymore. And we do a particularly bad job as a government, of bringing the development perspective to the table when we talk about trade or we talk about investment.

Over time, I think foreign assistance needs to be much more effective, monitored, as Steve was talking about, in a way that connects the moneys actually to impact. Right now, there's a lot of assessment of inputs, rather than outcomes.

And perhaps most immediately, we have an unwieldy cold-war structure that no longer fits the realities that we're trying to address as a nation. It needs to be fundamentally overhauled, streamlined, and elevated.

Senator MENENDEZ. Great. Well, thank you very much.

Senator Lugar, do you have anything else?

With that, let me thank all of our witnesses.

Before I close, I'd like to ask unanimous consent to have a report, by Freedom House, which details cuts to democracy and human rights funding, entitled, "Supporting Freedom's Advocates," and written testimony by the American Foreign Service Association, be added to the record. And, without objection, it so will be added.

[EDITOR'S NOTE.—The report referred to above was too voluminous to include in this hearing. It will be retained in the permanent record of the committee.]

Senator MENENDEZ. I want to thank all of the witnesses for testifying today. The record will be open for an additional day so that committee members may submit additional questions to the witnesses, and we certainly would ask you to respond expeditiously, should there be some questions to you.

Senator MENENDEZ. Thank you very much for your insight to today's hearing.

And, with that, this part of the hearing is closed.

[Whereupon, at 4:25 p.m., the hearing was adjourned.]

ADDITIONAL STATEMENT AND QUESTIONS AND ANSWERS SUBMITTED FOR THE RECORD

PREPARED STATEMENT OF HON. J. ANTHONY HOLMES, PRESIDENT, AMERICAN FOREIGN SERVICE ASSOCIATION, WASHINGTON, DC

The American Foreign Service Association (AFSA), as the exclusive representative of the Foreign Service employees of the U.S. Agency for International Development (USAID) has been following closely the changes to U.S. foreign assistance administration, allocation, and policy adopted since the position of Director of Foreign Assistance (F) was created in early 2006. While recognizing that some reforms were needed in our foreign aid allocation system, AFSA has several serious concerns with the wholesale changes made by F over the past year.

The nature and process of delivering foreign assistance has dramatically changed through the adoption of the "Transformational Diplomacy" initiative which is now being implemented at the State Department by F. Basically, "development" has now been subordinated to political concerns and decisionmaking and control shifted to the State Department. The upshot is that foreign assistance has been largely transformed from what was a partnership with developing countries to a more paternalistic relationship. Countries are classified using a Foreign Assistance Framework into five simplistic categories and a global category. The goal seems to be to have Washington, through a highly centralized decisionmaking process based on approved country-by-country Operational Plans, attempt to "fix" countries.

The dominance of State—through F—in managing development priorities and directing our assistance programs will have negative, long-term results, and the USG capacity to deliver development assistance will atrophy, just as our ability to communicate effectively with external audiences withered after State's absorption of USIA.

AFSA sees many flaws in this "reform" program, particularly given the way it has been implemented so far. Therefore, AFSA does not support the continuation of F as it is currently configured. Below are some of the issues we have identified that hurts our Nation's foreign affairs efforts that support our point of view:

1. The centralization of decisionmaking has been taken too far. By trying to rein in and then reshape the scattered foreign assistance programs of State and USAID, F has created unacceptable delays. In theory this centralization is needed at the

start and thus is a short-term problem. But a plan for delegating appropriately back out to the field or the technical bureaus where development knowledge and expertise reside is still not in place. The whole process serves to marginalize the embassies and USAID missions overseas and imposes a level of central control that is antithetical to the Agency's traditional reliance on field staff to engage the host country and the embassy country team and design and implement activities and interventions to address country-specific development issues within broad guidelines established by Department of State, USAID, and Congress.

2. Development expertise is being ignored, either by design or by fiat. Either way, U.S. objectives are ill-served. The highly centralized planning and decisionmaking has demoralized the experienced, technically qualified, and competent people in the field. Their role has been marginalized to being implementers of Washington decisions. Rather than building leadership, this has disempowered people. It also brought in an arbitrariness that has had a very negative impact on important programs.

3. The Strategic Framework promulgated by F is not strategic. This framework is merely a tracking system. State and especially USAID need to think and plan assistance programs strategically over the long term. Nothing that F has produced assists with this, and the existence of this "framework" seems to excuse State and USAID from such thinking, planning and analysis, and it must not. And as mentioned above, the process of development is no longer collaborative but instead has become paternalistic.

4. Long-term development is increasingly subordinated to short-term foreign policy goals. With F in place, the trend will only accelerate. F is doing a minimally acceptable job of laying out budgets for the Secretary of State. But neither the Secretary nor Deputy Secretary should be determining minutiae of budgets for foreign assistance as F and State's very hierarchical bureaucratic culture encourages. Development will never outweigh U.S. foreign or defense policy any serious way, even if the USAID Administrator is "at the table." And bringing development into State has almost no hope of making foreign policymakers take a long-term view. While an actual merger of USAID into State might be preferable to the current "merger by stealth," AFSA has serious misgivings about such an approach. A more independent and strengthened cabinet-level development assistance organization would be the optimal approach for the USG.

5. Development policy has been divorced, from implementation. In the fluid and technically complex area of development, this is crippling. In addition, USAID has disbanded its policy function, thus abdicating this critical function to State, oftentimes regional bureaus. These State regional bureaus do not have the capacity to evaluate and set development policy. State regional bureaus are the appropriate home of foreign policymaking and implementation and are configured around this important task, not development assistance. Based on the findings from the Paris Declaration monitoring survey, the Operational Plan misses entirely what is found to be the key to successful development, i.e., engagement with the host government. If budget categories, levels, and activities are set by Washington, how can we get our host country to have ownership, alignment, harmonization, or mutual accountability?

6. Roles and responsibilities between State and USAID are more and more confused. To add to the problem, the organizational structure which now exists is irrational and confusing, making it hard to determine which office has responsibility for which program. It does not help that F is located at the State Department far away from the USAID headquarters. Morale is low and plummeting even further as this process unfolds, and USG development expertise is eroding at a drastic rate and will take many years to rebuild. This and previous administrations' paltry requests for USAID Operating Expenses belie the rhetoric that development is an important part of the U.S. role in the world. The FY07 Operational Plan process lacked sufficient involvement of the Ambassadors and USAID Mission Directors in budget allocation decisions. The missions were only provided planning levels for preparation of the Operational Plan without prior consultations.

7. Noninclusion of the PEPFAR funds in FY07 Operational Plan led to much confusion and does not reflect the whole workforce level for the country, since the workforce funded by PEPFAR funds gets reflected only in the PEPFAR Country Operational Plans.

8. The FACTS system, which is a monitoring tool, is not very user-friendly and gives a lot of problems in data entry. There were frequent outages. However, this centralized database, which makes budget and programmatic information about the entirety of State and USAID funding and programs, may be useful if further developed. A key feature of this database is the list of standardized program definitions and indicators, which rationalizes the descriptive aspect of foreign assistance and

allows for cross-country comparison and aggregation. Some criticize these indicators as mere outputs or as encouraging stovepiping. These valid criticisms point out a fundamental limitation of the system. The advantages of having this system must not be turned into a straitjacket, which is a serious risk. The system cannot and should not replace strategic planning and good development thinking and analysis.

AFSA believes it is important and timely for Congress, the public, this administration, and the next to learn from this experience and move forward using an improved approach. The United States is a generous nation and should be represented by the best people and programs the field of international development can produce. By trying to rationalize foreign assistance, F's early experience has shown how horribly bungled the U.S. foreign assistance system is and how a piecemeal effort to improve it is insufficient and in fact counterproductive. A comprehensive vision, political will, or considerably more time are needed to completely overhaul it. By embarking on radical process reforms without the necessary intellectual groundwork, and given the early and continuing flaws and significant failures of the effort so far, the present effort has proven that an even more dramatic reform/rethinking is essential. Piecemeal adjustments are nowhere near sufficient. Therefore, AFSA recommends a different approach which will elevate Development to be truly on par with Defense and Diplomacy, even if getting it involves creating a cabinet-level development agency.

RESPONSES OF UNDER SECRETARY FORE TO QUESTIONS SUBMITTED BY THE FOLLOWING SENATORS

QUESTIONS SUBMITTED BY SENATOR BIDEN

Question. You indicated there were plans underway to modify and simplify the Foreign Assistance Framework. Please describe in more detail what this simplification would entail. Would certain categories of countries be merged? Would some of the existing objectives change or disappear? Will she have the authority to do accomplish those changes? What will be the process for approving and implementing them?

Answer. As I noted in my opening remarks to the hearing, the Secretary believes that as we increase the quantity of our foreign assistance, which is critically important, we must also work to improve its quality. This is a driving factor behind her foreign assistance reform initiative. In my role as Acting Director of U.S. Foreign Assistance, I am charged with helping the Secretary to identify and realize new means to constantly improve our foreign assistance programs and activities. Having assumed this role but a few weeks ago, one of the first things I am doing is to listen to people's concerns and to consult with stakeholders about what we might improve. I will take all the ideas and suggestions I have received under advisement and continue to gather more as I think about the best ways to move forward. I am especially interested in any thoughts and suggestions you might have about the reforms, to include the processes and tools, and I would seek an opportunity to consult with you before making any significant changes thereto.

Question. Near the end of Ambassador Tobias' tenure, he initiated a comprehensive review of USAID's core focus and alignment, beginning with the proposal that USAID should realign its focus toward the very poorest, most fragile countries, and away from activities related to investing in people, economic growth and democratic governance. Is this review and the lead working group in operation? How far along is the process and what is the timeline? Are final decisions being made to structurally realign the Agency's focus?

Answer. The working group is developing recommendations for me, as Acting Administrator, regarding adjustments to overseas staffing levels, and the associated operating expenses. Currently, there is considerable variation in the number of USAID staff (direct hire and total staff) managing similar-sized portfolios in countries at comparable stages of development. Adjustments to respond to the need to establish or increase USAID's presence in countries with growing programs and more limited indigenous capacity to manage their development process do not imply a shift away from programs in Economic Growth, Governing Justly and Democratically, and Investing in People.

As Acting Administrator I will consult with Members of Congress before making any decisions about restructuring. The working group's recommendations, if approved, will be incorporated in the FY 2009 budget request and the 2009 Foreign Service assignment cycle.

Question. If USAID were to change its core mandate and focus only on fragile states and least developed countries, which USG agencies will fill the gap and continue to implement critical social sector programs—such as education and health activities—in threshold and lower middle-income countries? How will the F process assure adequate funding for those responsibilities? Does USAID plan to fund these new priorities through shifting funds from the DA account to the ESF account?

Answer. I am reviewing all of these options. We are at the very beginning of the process of looking at whether USAID's mandate is appropriately focused and if any changes are necessary. I have not made any decisions and I assure you that, if confirmed, I will look forward to substantive engagement with the Congress, and all stakeholders before any final decisions are made with regard to USAID's mandate. I want USAID to be healthy and strong. I am committed to supporting our extraordinary women and men who are carrying out our development and humanitarian assistance activities all over the world.

It is simply too early in the process to fully answer your questions, but if confirmed, I look forward to working with you as we move forward to ensure USAID's place as the premier development U.S. Government agency.

Question. Describe the role and expected function of "development attachés"? How will they interact with mission chiefs? What gap are they expected to fill? What is their value add? Will development attachés be staffed by career foreign service or outside contractors? If the former, will this thin out an already overextended foreign service corps?

Answer. The concept of a development attaché, or development counselor, as we are now calling it, is inspired by the catalytic role that USAID officers play in bringing together host country government, private sector, and other public or private donor interests to address a development issue.

We believe that this is a valuable form of assistance that USAID can provide in countries that are generally capable of financing and managing their own development process but that may not yet have the capacity or experience to put together these kinds of partnerships. USAID officers often leverage the U.S. Government's investment through innovative public/private partnerships and other arrangements.

The development counselor position would give the U.S. Government (USG) an authoritative voice in a country's development dialog even as direct development assistance becomes less necessary.

While we are still refining and discussing the concept, and welcome your input, we envision the development counselor as the U.S. Ambassador's principal advisor on development issues and coordinator of development-related activities of all USG agencies in a country on behalf of the Ambassador. The development counselor would provide guidance to any USAID activities in a country but operational management would be provided by a regional platform. It is envisioned that the development counselor would be an experienced USAID Foreign Service Officer with requisite technical expertise, and entrepreneurial skills. S/he would have a very small staff, perhaps 2–4 people, depending on the nature of USAID's role in a country. We will have to increase recruitment and enhance career development and training programs to have sufficient officers with the necessary skills and experience for this position.

Question. As Acting Administrator of USAID, do you have plans to restore the technical capacity that has been lost at that agency over recent years? If yes, specify.

Answer. Yes. When I first served at USAID, our technical capacity was much more robust. Since that time, significant downsizing has left us far less reliant on our core permanent workforce, in favor of a U.S. nondirect hire workforce. It is my strong belief that USAID needs to increase its in-house technical capability through the world. If confirmed, I plan to do this in a systematic, thoughtful manner.

We need to both revitalize our Foreign Service Officer Corps and place those with the needed technical oversight skills in the positions where they will ensure an efficient and effective delivery of development services.

Over the past several years, our Office of Human Resources has developed a workforce planning model (WPM) that projects the need for technical staff based mainly on the amount of funding in a program. It is clear from the model that USAID needs to increase its permanent core technical staff as well as other staff, both Civil Service and Foreign Service.

In order to do this we have to increase our recruitment and career development programs and our supervisory training and absorptive capacity. This is the only way we can reach our increased mandates with rebuilding our capacity, both technical and other, as rapidly as possible.

Question. It is our understanding that your predecessor proposed significant reductions to USAID funding for research and capacity-building in the developing world. This important research, which USAID has supported successfully for many years, is vital to making sure that treatments and preventive technologies like vaccines and microbicides reach and serve the needs of people suffering from disease in developing countries. Do you plan to support this important function at USAID in the future?

Answer. I assure you that I have made no decisions outside of the President's FY 2008 budget request regarding any change in the important research and capacity-building activities that USAID supports. I am committed to USAID carrying out the necessary research to make sure that health treatment and preventive technologies reach those most in need. I will rely on the expertise of my staff at USAID to advise on the best use of funds and the correct mix of assessment, development, and introduction research as well as of capacity-building.

With the necessary funding support from Congress and the President, USAID will maintain its commitment to achieving its 5-year research strategy as outlined in the May 2006 Report to Congress, "Health-Related Research and Development Activities," and specifically to its projected FY07 obligations for health research as reported to Congress (attached).

HEALTH RESEARCH REPORT TO CONGRESS: UPDATE CORE FUNDING FOR TARGETED HEALTH ISSUE STRATEGIES [1]

Health issue and product	Projected FY 2006 funding	FY 2006 obligated funds	Projected FY 2007 funding
HIV/AIDS:			
Vaccines	$29,000,000	$28,710,000	$28,710,000
Microbicides	39,600,000	39,600,000	39,600,000
Global Leadership in HIV/AIDS applied Research and Public Health Evaluation [2]	N/A	1,750,000	3,250,000
Total	68,600,000	70,060,000	71,560,000
Malaria:			
Vaccines	6,200,000	6,200,000	6,000,000
New Drugs, Formulations, and Approaches	3,800,000	3,200,000	3,200,000
Total	10,600,000	8,400,000	9,200,000
Tuberculosis:			
New Drugs	2,300,000	2,400,000	3,000,000
Improving Performance of and Access to DOTS [3]	1,400,000	2,790,000	2,790,000
Total	3,700,000	5,190,000	5,790,000
Reproductive Health:			
Contraceptive Technologies	10,500,000	10,500,000	10,500,000
Improved Use and Services Delivery	14,000,000	14,000,000	14,000,000
Total	24,500,000	24,500,000	24,500,000
Maternal and Newborn Health:			
Healthy Pregnancy and Birth Care Outcomes	1,985,000	1,283,000	1,860,915
Maternal Mortality Measurement Tools	[4] 0	130,000	130,000
New Pregnancy and Birth Interventions and Introduction	3,725,000	4,065,000	3,545,000
Neonatal Research and Newborn Care Practices	1,600,000	1,600,000	2,200,000
Total	7,310,000	7,078,000	7,735,915
Micronutrient Deficiencies:			
Vitamin A Deficiency Prevention and Control [5]	700,000	759,000	200,000
Zinc—Diarrhea Therapy and Prevention [6]	884,000	755,000	150,000
Iron—Anemia Prevention/Rx Packages [7]	1,100,000	376,600	380,810
Community Therapeutic Care	1,100,000	1,100,000	1,200,000
Antenatal Multiple Micronutrient Supplementation [8]	0	180,000	1,000,000

HEALTH RESEARCH REPORT TO CONGRESS: UPDATE CORE FUNDING FOR TARGETED HEALTH ISSUE STRATEGIES [1]—Continued

Health issue and product	Projected FY 2006 funding	FY 2006 obligated funds	Projected FY 2007 funding
Total	3,784,000	3,170,600	2,930,810
Acute Respiratory Infections:			
Community—Based Pneumonia Treatment	550,000	650,000	630,000
Reducing Exposure to Indoor Air Pollution	100,000	70,000	70,000
Total	650,000	720,000	700,000
Health Systems:			
Performance Assessment and Financing [9]	380,000	695,000	100,000
Pharmaceutical Management	125,000	150,000	75,000
Quality Assurance	325,000	342,000	290,000
Total	830,000	1,187,000	465,000
FY 2006 Funding [1]	$119,374,000	$121,305,600	$122,881,725

[1] This report highlights approximately 80 percent of the total health-related research at USAID in FY 2006.
[2] Interagency/OGAC strategy launched February 2007.
[3] Reclassification of the category of research based on the new OP documentation process.
[4] FY 2006 activities are based on prior-year investments.
[5] As described in the May 2006 Health Research Report to Congress, research findings are currently being introduced into programs.
[6] As described in the May 2006 Health Research Report to Congress, research findings are currently being introduced into programs.
[7] The full complement of planned FY06 projects were dependent on the outcomes of a data analysis consultation, which have not yet been finalized.
[8] A planned, new research study will begin mid FY07.
[9] Reclassification of the category of research based on the new OP documentation process.

Question. How will the change in leadership at the F Bureau impact the plans that Ambassador Tobias put in motion? Do you plan to follow the timelines he laid out? If not, how will they differ?

Answer. My team and I immediately turned to review the FY 2007 Operational Plan process so that we can learn how to improve the FY 2008 process. What I hope to do is capitalize on, and reinforce, what appears to be working and make changes to those elements which are not proving useful. I am particularly interested in simplifying the process.

Of course, within all of these changes and evaluations, I will ensure that the Department of State and USAID are able to deliver the FY 2009 Congressional Budget Justification to Congress on time.

Question. Many have commented that the reform process has been one in which foreign assistance has been viewed solely through a lens of national security. Do you feel that national security concerns are the primary factor that determines how and where we spend our foreign assistance dollars?

Answer. National security concerns are certainly considered in determining the allocation of our foreign assistance resources, as are development concerns. By acknowledging that an appropriate balance must be struck between the two, the Secretary of State has clearly articulated our overarching transformational diplomacy goal as: "helping to build and sustain democratic, well-governed states that respond to the needs of their people, reduce widespread poverty, and conduct themselves responsibly in the international system."

Our Nation's security depends on the stability of other nations. The locus of threats has shifted to the developing world, where poverty, injustice, and indifference are exploited by our foes to provide a haven for criminals and terrorists. Foreign assistance and the development it supports are a key part of our national security architecture and the war on terror.

In the past there was a perception that development policy and foreign policy objectives were entirely separate and typically at odds. Poverty reduction, good governance, and capacity-building for sustainable long-term success are long-held development goals. Foreign policy goals also now recognize that lasting peace and prosperity cannot be achieved unless we expand opportunities for all citizens of the global community to live hopeful and prosperous lives. As evidence of the Secretary's commitment to long-term development, you will find that in the FY 2008 request, 51 percent of Department of State and USAID program assistance resources are concentrated in rebuilding and developing countries. These are the countries that

are farthest away from sustaining partnership status, as measured by instability, poverty, human capacity, life expectancy, governance, and barriers to economic growth—all critical barriers to regional stability and success in the war on terror.

Question. To avoid being compromised in both their effectiveness and perceived intent, development initiatives may sometimes require distance from diplomats and security officials. Has the Office of the Director of Foreign Assistance taken this reality into consideration as it moves to combine U.S. diplomacy, security, and development under the same policy and implementation rubric?

Answer. Yes; but I think we can improve in the years to come. The new coordinated processes we have put in place are intended to maximize the involvement and expertise of our development, diplomacy, and security professionals at the point of planning and budgeting against broad strategic objectives and priorities for individual countries and global initiatives. In addition, operational plans provide a coordinated and comprehensive picture of how fiscal year funds will be used and what results will be achieved. With respect to the implementation of programs, however, we seek to empower our experts in the field to identify the best implementation strategy based on country circumstances and objectives to be achieved. This practice should allow the people who have the on-the-ground perspective to make the appropriate choices about implementation. This on-the-ground perspective will ensure that as in the past, where necessary, the appropriate distance is preserved.

Question. Are there any plans to incorporate environmental considerations and activities into USAID's overall strategy going forward? Will a greater emphasis on sustainable environmental activities be reflected in the Foreign Assistance Framework (currently there is only one mention of the environment in the entire chart)?

Answer. The framework and transformational diplomacy goal acknowledge that an appropriate balance must be struck among development objectives in order to bring about lasting change in countries. Our strategy as it relates to environmental activities is to link healthy ecosystems to sustainable economies, good governance, and equitable and just societies. We recognize that ecological stability is necessary for sustainable social and economic progress.

Through the new Strategic Framework, foreign assistance is focused on five objectives (e.g., economic growth) designed to further the transformational diplomacy goal, and, in each country, to address the specific gaps and obstacles countries face in achieving the goal. In doing so, USAID's environmental compliance regulations and procedures help ensure that the environment and the natural resources are managed in ways that sustain productivity and growth as well as a healthy population.

To that end, environment is present throughout the framework, and is explicitly recognized under the economic growth objective. Programs and activities consistent with this area include the management, policy, and governance of natural resources and biodiversity. USAID programs and activities focus on establishing and sustaining a clean productive environment, balancing the needs of present and future generations. These are highly synergistic with other components of the economic growth objective—e.g., energy and agriculture, and our global health objective; e.g., by improving the quality and cleanliness of air and water. Clean productive environment activities also address climate change, such as by reducing greenhouse gas emissions.

Question. Describe the comparative benefit of adopting a country-focused approach as opposed to the broad sectoral approaches used in the past. What have been some specific advantages of this shift? Where have there been problems and how will these be addressed? Is there value in keeping centrally funded programs, such as those promoting democracy, labor, and the environment? Does the agency plan to continue funding sectoral programs to some degree?

Answer. The intent in adopting a country-focused approach is to maximize country progress with our programs supporting these goals. With sectoral approaches, we find that while we may be doing good work within discrete sectors—e.g., HIV/AIDS, malaria, family planning, etc.—we may not be making the investments necessary to sustain the success of these investments and ensure that countries can sustain further progress on their own. In addition, with various sector-based strategies at play, country programs tended to be a patchwork of disconnected or loosely connected programs. Our programs thus tend to be "patches of green" instead of comprehensive, long-term country-based development strategies targeted to sustained development progress. The FY 2008 request reflects a focus on the specific gaps and obstacles countries face in moving along a development trajectory. The ultimate intent is to support recipient country efforts to move from a relationship de-

fined by dependence on traditional foreign assistance to one defined by full sustaining partnership status.

In prior budget years, funds were allocated first by account, then by sector, and last, by country. Much of the budget was built by determining so much for family planning, so much for basic education, so much for security assistance, and so on. It is not that these sectors are not critical to a country's development strategy—clearly they are, and USAID and the State Department continues to evaluate resources by sector, ensure appropriate targeting, and incorporate best practices. It's a matter of what should drive the country's development program—country prioritized need or a set global amount for a sector. The Secretary feels that we must tailor programs to the unique needs of each recipient country in reaching the transformational diplomacy goal.

Focusing resources in this way has its tradeoffs. When one area goes up, unless there is an abundance of new resources, other areas go down. While the FY 2008 budget increased by $2.2 billion over FY 2006 enacted levels, we squeezed far more in the budget. The budget includes important increases for HIV/AIDS, malaria, and humanitarian assistance; and for countnes in which there are new requirements and opportunities such as in Kosovo, Iran, and Cuba. The FY 2008 budget also reflects efforts to continue to shift program funding, where requirements are predictable, from supplemental requests for Iraq, Afghanistan, Sudan, and avian influenza into the base budget. Country teams prioritized interventions that would help a country's institutions to build the capacity to take on challenges in the longer term.

In order to ensure a coordinated response and effective and sustainable impact, the reform process sought to maximize all resources implemented at the country level within country budgets. In identifying resources within global or regional budgets which were actually allocated to specific countries, we sought to bring transparency to the process as well as to ensure that what were in truth country resources were maximized and coordinated within country level budgets.

Previously, ambassadors and mission directors often did not have a full picture of the resources being implemented in their countries, because some activities were planned and implemented from Washington. Consequently, they did not exercise full oversight over these programs, and doing so from Washington was costly and time-consuming. To empower our mission directors, ambassadors, and country teams, the reform process maximized resources implemented at the country level into country-level budgets.

However, the FY 2008 budget also includes substantial funding in the centrally funded programs. We fully recognize that not all foreign assistance is, or should be, implemented on a country basis, and that many issues are best addressed as part of a global or regional strategy. Accordingly, the Foreign Assistance Framework includes a separate category to highlight global and regional initiatives, defined as those activities that transcend a single country's borders. Such activities may include trade capacity-building, emergency humanitarian assistance, support to regional institutions or multilateral organizations or research. Certainly, issues such as trafficking and labor issues have a place in specific country programs as well as on a global basis. The framework allows for both these types of programs to take place within the goal of transformational diplomacy.

QUESTIONS SUBMITTED BY SENATOR LUGAR

Questions. In FY08, basic education funds were reduced in Latin America and "zeroed out" in East Timor, Guinea, India, Madagascar, Mexico, Nepal, and South Africa.

- (a) What criteria are being used to determine the allocation of education funding to various countries? What are the targets?
- (b) If we are targeting our education funding where there is the greatest health/HIV need, why cut education funding to South Africa?
- (c) If we are targeting our education funding where there is the greatest illiteracy problem, why cut education funding to India?

Answer (a). A collective decisionmaking process was used to determine the FY 2008 funding request for basic education involving country teams in both Washington and the field. These teams are knowledgeable about each country's mix of donors and what U.S. Government (USG) assistance is required to stimulate and sustain transformational development and country progress, including whether support for basic education is the most strategic use for USG funds. These teams used several sets of criteria to determine the allocation of education funding to countries.

The first set of criteria was a set of index scores. The index scores provided a common yardstick of objective data for all countries, focusing on education access, coun-

try context, quality and performance, and education need. The second criterion was the strategic importance of countries to the broader transformation diplomacy goals.

There are different levels of targets. At the highest level, the USG supports the six goals of Education for All (EFA) as these represent a global consensus on education targets. At the individual country level, the USG supports the Paris Declaration and the goal of donor harmonization around the specific targets set forth in individual country education plans. Below this are the targets that are within the manageable interest of USG-funded projects and that are articulated in monitoring and evaluation plans.

Answer (b). Senator, it is not USAID policy to target education funding to countries with the greatest health/HIV needs. USAID is prioritizing basic education funding for countries other than South Africa because South Africa is generally capable of financing and managing its own development process in the basic education sector.

Answer (c). This is precisely the type of difficult question that we have focused on in designing our foreign assistance reforms and in trying to make the most strategic use of limited resources. We recognize that India does have significant education needs. Because of the large population size, limited foreign assistance resources, and extreme and growing needs in health, we determined that focusing the majority of U.S. foreign assistance in the health sector will have a greater impact reducing poverty and transforming India than spreading limited resources across many sectors. According to the Millennium Challenge Corporation indicators, India has improved in education this year, while health indicators have declined. Therefore, over 90 percent of the FY 2008 request for India will be used to integrate health services and nutrition to improve survival of children and their mothers, stem global disease threats, and help India manage the growth of its rapidly increasing population.

Question. What is the focus, strategy, and structure for the President's Education Initiative? Will it be housed at USAID? If not, why not? What is the process in determining the lead agency/house for the Education Initiative?

Answer. Education is an important driver for poverty reduction, social empowerment, and gender equality, and the administration has made significant strides in expanding the amount of foreign assistance resources devoted to basic education programs in particular, and targeting these resources effectively. In FY 2008, the President's budget requested $535 million for basic education programs, up from $126 million in FY 2001. In FY 2006, the United States provided $521 million.

Currently, most of USAID's basic education programs support teacher training, scholarships, textbook distribution, and policy reforms. These metric-focused efforts have helped to address financial obstacles to schooling and availability of quality instruction. Empirical evidence illustrates that school enrollment, performance, and the development of employable skills are tied to a range of factors. This demands a more comprehensive approach. The United States will build upon existing efforts with a bold and innovative plan to: (1) Provide an additional 4 million children with accountable and quality basic education; (2) deliver technical training for 100,000 at-risk youth; and (3) coordinate with child health programs that impact educational attainment.

The initiative would provide approximately $525 million over 5 years—roughly $425 million for additional basic education activities and $100 million for a new Communities of Opportunity program that will provide after-school language and skills training for at-risk youth in the 8–14 age group. The basic education component would begin in 2008 with a modest amount of funding to develop partnerships with target countries and support capacity-building. The effort would then scale up between 2009 through 2013 to help partner countries meet concrete needs identified through the Fast Track Initiative process. Funding and startup of Communities of Opportunity will begin in 2009 and the commitment runs through 2011. These centers will provide at-risk youth with training in English, computer skills, science, math and finance, and critical thinking.

The initiative largely will be housed at USAID. The administration will establish a new high-profile Education Coordinator—located at the U.S. Agency for International Development—for international basic education programs. The Secretary of State, in consultation with the Secretary of Education, would appoint the Coordinator. The Communities of Opportunity program will be managed by the Bureau of Educational and Cultural Affairs at the Department of State, under the authority of the Under Secretary for Public Diplomacy and Public Affairs.

Question. What specific criteria are being used to determine whether to close or reduce the size of USAID missions?

Answer. The key considerations are program size, program complexity (including foreign policy visibility), security constraints and countries' capacity to manage their own development. The latter includes the capacity of the host government, civil society, and the private sector. USAID's clear preference is to maintain presence in a country when the level and complexity of development and humanitarian assistance justifies it. However, the rising cost of overseas operations makes this a challenge. I would like to review these options as Acting Administrator, and if confirmed, I will seek the views of the Congress on the difficult tradeoff between reducing presence in some countries and increasing presence in others.

QUESTIONS SUBMITTED BY SENATOR MENENDEZ

Question. One of the stated objectives of Transformational Diplomacy was to provide more flexibility to the executive branch in constructing the foreign assistance budget. The FY 2008 President's budget request, produced using the new strategic framework, directs a disproportionate amount of the funding to a handful of U.S. allies in the "global war on terror" and ignores congressional country, regional, and sectoral priorities. Can you provide assurances that the process that you will use in assembling the FY 2009 budget will better reflect congressional priorities and provide a more balanced country allocation based on need and U.S. comparative advantages in providing long-term development assistance?

Answer. I support the checks and balances system of our Government that allows the executive branch to present a budget to Congress and for Congress to use its best judgment to direct how that money should be spent. One of my personal goals for the FY 2009 budget is to work very closely with the Congress, and I fully intend to consult with you and other members of our oversight committees about your priorities so that they might be appropriately reflected in the FY 2009 budget process.

In the past there was a perception that development policy and foreign policy objectives were entirely separate and typically at odds. Poverty reduction, good governance, and capacity-building for sustainable long-term success are long-held development goals. Foreign policy goals also now recognize that lasting peace and prosperity cannot be achieved unless we expand opportunities for all citizens of the global community to live hopeful and prosperous lives. A driving purpose behind the establishment of the Office of the Director of U.S. Foreign Assistance is to strengthen the U.S. commitment to long-term development. To that end, the Office of the Director of U.S. Foreign Assistance has worked to replace fragmented programming with coherent, comprehensive planning, and focusing our foreign assistance on promoting greater ownership and responsibility on the part of host nations and citizens. As evidence of the Secretary's commitment to long-term development, you will find that in the FY 2008 request, 51 percent of Department of State and USAID program assistance resources are concentrated in rebuilding and developing countries. These are the countries that are farthest away from sustaining partnership status, as measured by instability, poverty, human capacity, life expectancy, governance, and barriers to economic growth—all critical barriers to regional stability and success in the global war on terror.

The President's FY 2008 budget request was built collaboratively by USAID and State. USAID and State country and regional teams identified the critical gaps and obstacles that recipient countries faced in trying to advance in a sustainable manner and requested funding allocations in accordance with those assessments. The result of this collaboration was a budget in which half of all resources were invested in rebuilding and developing states—those states in greatest need in terms of such critical barriers as poverty and governance.

Following the completion of this first integrated budget, we set out to determine how we could improve the process for FY 2009. An after-action review was launched whereby scores of State and USAID regional and functional participants, both at the working and senior levels, were consulted, along with special consultation sessions in the field. While the field had significant input in the FY 2008 budget build, we wanted to bolster and better institutionalize these suggestions. Two of the key changes for FY 2009 are that the field will weigh in before the Secretary sets the initial control numbers, and the field will allocate funds to the program element level, specifically defining the activities in-country. We intend to maintain consultations with the field to ensure these changes prove useful and effective and to determine if further changes might be necessary.

Question. I understand that the F Bureau intends to notify Congress of how USAID intends to spend its FY07 funds using a new notification format based upon the recently approved Operational Plans. What is the status of preparing this new

congressional notification and when do you expect to submit it? What information has the F Bureau provided to Congress about how this new notification will differ from the congressional budget justification? Has USAID's withholding of funds for operating units until the notification is submitted caused any adverse impact on its operations on the ground?

Answer. Funds have not been withheld on account of proposed changes to the CN format. The Department of State and USAID have been judicious in releasing funds, not to include urgent circumstances which are of course funded as quickly as possible, while discussions with the Appropriations Committees on the FY 2007 allocations are still taking place. We hope to bring these discussions to conclusion in short order.

With respect to new formats for congressional notifications over the years, Congress has expressed concerns about how difficult it is to get a true picture of what is being done with our foreign assistance dollars. Both USAID and the Department of State are working closely with their oversight committees on a congressional notification (CN) format which addresses this concern—one that provides all the information that the committees require and reflects the Secretary's reforms. While the Department of State will wait until FY 2008 to make changes to its CN format, USAID is talking to the committees about getting a head start, especially since its operating systems, including its financial systems, already reflect the new foreign assistance framework.

What is innovative about the framework format is that it allows for cross-agency comparisons and assessments. For example, in the past, we were unable to determine what funding and activities related to vulnerable children across agencies and accounts. This year, we are able to create this comprehensive picture of activities and to identify funding levels ($265 million in FY 2007).

Again, our goal is to make sure that Congress receives all the information it needs in a timely and user friendly format, and we believe that moving toward a framework-based congressional notification is a significant step in that direction.

Question. To what extent will transparency be an important element in moving forward with budgeting and strategic planning processes as the foreign assistance reform process matures? For example, approved Country Operational Plans contain the essence of how U.S. Government aid will be used to achieve critical reform goals on a country-by-country basis. But these key documents are not available to the public as of yet. When will these documents, or declassified versions of them, be made available so that recipients, partners, and other donors can coordinate their assistance and activities with those of the USG?

Answer. I am committed to providing as much information on our foreign assistance activities as possible to our oversight committees and congressional partners. We are currently looking at ways to make the information obtained from the FY 2007 Operational Plans as user friendly and available as we can. We are likewise exploring formats for future years' Operational Plans with an eye toward the same goal. In the meantime, if there is particular FY 2007 country or other information that you would like to discuss, we would be happy to meet with you.

Question. How will the F Bureau ensure that missions include consultations with a diverse group of civil society organizations, including women's groups, and meaningfully consider the input for program development and implementation? How will you ensure that gender analysis will be incorporated throughout all stages of country program planning, project implementation, and monitoring and evaluation?

Answer. Promoting a stronger and more productive role for women in development is a priority which demands a broad and flexible approach. The Office of the Director of U.S. Foreign Assistance has taken a number of steps to ensure that gender is considered at each stage of the assistance process. Prior to the country planning stage, staff consulted with gender-based advocacy groups in the NGO community about the appropriate integration of gender considerations into our planning and practices. The Foreign Assistance Framework definitions, used to account for and evaluate programs and activities, correspondingly highlight women and girls distinctively where possible and appropriate. For example, one program element on justice systems addresses whether innovations toward equitable access to the justice system are specifically in place for women. With regard to monitoring and evaluation overall, people-level indicators are being disaggregated, to the extent possible, by sex to best track the inclusion of women and girls in foreign assistance programs. In all, the contributions that women make to the economic, social, and political lives of their nations, communities, families and the next generation make them key actors in effective development, and we are committed to recognizing and encouraging

their inclusion in our assistance activities. I am personally interested in encouraging this area.

Question. As Acting Administrator of USAID, do you have plans to restore the technical capacity that has been lost at that agency over recent years?

Answer. Yes. When I first served at USAID, our technical capacity was much more robust. Since that time, significant downsizing has left us far less reliant on our core permanent workforce, in favor of a U.S. nondirect-hire workforce. It is my strong belief that USAID needs to increase its in-house technical capability through the world. If confirmed, I plan to do this in a systematic, thoughtful manner.

We need to both revitalize our Foreign Service Officer Corps and place those with the needed technical oversight skills in the positions where they will ensure an efficient and effective delivery of development services.

Over the past several years, our Office of Human Resources has developed a workforce planning model (WPM) that projects the need for technical staff based mainly on the amount of funding in a program. It is clear from the model that USAID needs to increase its permanent core technical staff as well as other staff, both Civil Service and Foreign Service.

In order to do this we have to increase our recruitment and career development programs and our supervisory training and absorptive capacity. This is the only way we can reach our increased mandates with rebuilding our capacity, both technical and other, as rapidly as possible.

Question. Some NGO's have expressed concern about the indicators that have been developed to measure the success of U.S.-funded programs. For example, many of the indicators measure outputs rather than outcomes, the latter of which we believe to be the ultimate goal of USAID projects. Additionally, there is concern that the disease- or project-specific nature of the indicators may inhibit—and perhaps be detrimental to—critical efforts to integrate services and strengthen systems. Are you planning to address some of these shortcomings of the current indicators?

Answer. Yes; as part of the review during this pilot year of the reform effort the Office of the Director of Foreign Assistance has begun to review the purpose and use of the indicators in the Operational Plans. We plan to consult with our development partners over the summer and fall, and will focus both on refinements to the Standard Program Definitions, as well as the indicators.

The initial set of standard indicators includes measures at the activity, sector, and strategic levels for each foreign assistance objective. Indicators were developed to track and report on the way that foreign assistance money was being spent by each implementing partner. Missions and headquarter offices were asked to classify each program according to the standard program definitions; and to select indicators that measured the annual outputs and outcomes which were directly attributable to the U.S. Government's (USG) programs, projects, and activities.

The standard indicators do not replace the critical performance management systems of the individual posts which measure the results over time of USG programs. These systems recognize the multisectoral nature of USG development programs and assess over time the integrated nature of the results being achieved, including for critical system strengthening.

The Office of the Director of Foreign Assistance also measures progress at the country and sector levels. At the strategic level, indicators capture the impact of foreign and host-government efforts for the five objectives in the Foreign Assistance Framework, such as investing in people or economic growth. Area level indicators measure a country's performance within subsectors of the five functional objectives (such as health and education within the investing in people objective). These indicators necessarily measure results beyond what could be achieved solely by the USG (USG, host country, and other donors' activities combined). The data are collected from secondary sources, such as the World Bank, the United Nations Development Program, and Freedom House by staff in Washington. Our intent was to develop a system that would allow us to identify and account for the specific results of USG-funded programs (often necessarily at the output level) as well as evaluate the impact of programs overall.

Question. What are the main reasons for the dearth of Requests for Applications and Requests for Proposals (RFAs and RFPs) in FY07 and will USAID have a normal procurement season in FY08?

Answer. Due to the continuing resolution, the on-going negotiations to finalize FY 2007 allocations, coupled with the newness of the Operational Plan process, the release of funds this fiscal year has been slow. In an effort to counter the effects of these complicating factors, the Office of Director of Foreign Assistance and the USAID Procurement Executive have been encouraging operating units to issue draft

solicitations in appropriate circumstances to permit firms and organizations to begin planning proposals. USAID is also trying to arrange for early availability of FY07/08 funds in FY08 to mitigate end-of-fiscal-year pressures on USAID and potential offerors. We expect FY 2008 to have a more normal procurement season based on anticipated adjustments to the programming process; however, the FY 2008 appropriation will also play a role in availability of funds.

Question. Seven countries' basic education funds have been "zeroed out" in FY08 (East Timor, Guinea, India, Madagascar, Mexico, Nepal, and South Africa). If we walk away from our current investments in these countries, we run the real risk of wasting that money when our programs have not yet created self-sustaining educational systems. Do you agree that walking away from our current investments in basic education in these seven countries could be detrimental to lasting transformational change?

Answer. Funding for basic education has increased more than five-fold since FY 2000, from less than $100 million to more than $500 million. As a founding member of the Education for All—Fast Track Initiative and as a signatory to the DAC Agreement on Aid Effectiveness, the United States is committed to aligning its assistance with that of other donors in support of country-driven education strategies. A collective decisionmaking process was used to determine the FY 2008 funding request for basic education involving country teams in Washington and the field. These teams are knowledgeable about each country's mix of donors and what USG assistance is required to stimulate and sustain transformational development, including whether support for basic education is the best decision for the USG.

The possible negative consequences of discontinuing our investments in the seven countries mentioned above must be balanced by the intended positive consequences of providing new or additional investments elsewhere. Basic education funds have been spread too thin in some cases; better and more strategic results may be achieved by supporting more robust programming in fewer countries. This will allow us to focus our technical attention on fewer countries while also having larger resources to leverage host country commitment to change.

Overall, USAID feels that our requested FY 2008 budget will not be detrimental to lasting transformational change in these seven countries, and in each case there was a sound rationale for the decision. We certainly want to maximize our investments to date, and we will actively work toward this in each of these countries.

Question. Why does the administration's FY08 request eliminate basic education funds to India, which is home to over one-third of the world's illiterate people, and a country where 4.6 million children do not have access to school?

Answer. This is precisely the type of difficult question that the Secretary has focused on in designing our foreign assistance reforms. On the one hand, India does have significant remaining education needs. On the other hand, the USAID budget for basic education in India in FY 2006 was less than $4 million, a miniscule part of the funds spent on education by the government and the people of a country as enormous as India. Moreover, India's economy is presently growing at over 8 percent a year, making it one of the world's best-performing economies for a quarter century. India has also emerged as a significant donor in its own right, notably in Afghanistan where it has contributed over $50 million to rebuilding the country. Thus, despite the need, it is difficult to justify providing donor assistance for basic needs to a country that is devoting far larger shares of its own resources to assist other countries. Reflecting these trends and programmatic successes, the FY 2008 USG foreign assistance budget request level for India has declined by 35 percent from the FY 2006 level ($124.9 million to $81 million).

An objective of the foreign assistance we provide to India is to diminish the conditions that permit and/or promote extremism by focusing on the most underserved and poorest segments of the population. Over 90 percent of the request is accordingly in health, where funds will be used to integrate health services and nutrition to improve survival of children and their mothers, stem global disease threats, and help India manage the growth of its rapidly increasing population. The U.S. Government will also focus FY 2008 assistance on energy and agriculture—interventions that the country team believed to be appropriate to continue India's progress.

The Secretary's foreign assistance reforms are about making the most strategic use of taxpayer dollars. In many instances, such as with India, this means making tough decisions to ensure that our resources are used to leverage host country resources and a commitment to change in order to obtain maximum results.

QUESTIONS SUBMITTED BY SENATOR HAGEL

Question. Do you believe that the executive branch can successfully develop a comprehensive, effective, transparent, and efficient country-focused foreign assistance framework without changing the 1961 Foreign Assistance Act? If so, please describe how a "reformed" U.S. foreign assistance process would operate. If not, what legislative changes will you seek?

Answer. The reforms that have been proposed so far—including the creation of the Director of U.S. Foreign Assistance—are an attempt to ensure that we make every effort within current statutory authorities to fulfill our responsibilities to maximize U.S. foreign assistance activities. With the reform process still in the early stages, we are taking time to review carefully, with input from a wide range of participants and stakeholders, what has been accomplished to date and how we might strengthen or adjust our processes. If as part of these ongoing assessments, we determine that successful reforms will require legislative changes, we will consult with you and other members of our authorizing committees to work together toward necessary change.

Question. What will be the staffing structure and size of the Director of Foreign Assistance Office? Will you bring in new staff into the F bureau? Who will be your key advisors on foreign assistance reform?

Answer. To coordinate the entire gamut of activities associated with managing the approximate $25 billion foreign policy programs of the United States, I will have about 80 direct hires. I plan to have a very lean administrative support mechanism and will rely as much as possible on existing State Department support mechanisms to manage my office.

I am pleased to inform you that Richard Greene will act as my Deputy in the Director's office. He is experienced and committed, and I believe you will find him to be very responsive. At USAID, Jim Kunder will be acting as my Deputy, and I am confident that you are familiar with his excellent work. In addition, my key advisors will be USAID Assistant Administrators, State Under Secretaries and Assistant Secretaries, and I will actively seek suggestions from colleagues at the Millennium Challenge Corporation (MCC), the President's Emergency Plan for AIDS Relief (PEPFAR), the National Security Council (NSC), the Office of Management and Budget (OMB), and, of course, Congress and the nongovernmental organization (NGO) community.

Question. In response to my question, you stated that 80 percent of U.S. foreign assistance is under the direct control of the Director of Foreign Assistance. However, Dr. Radelet testified on the second panel that only 55 percent of U.S. foreign assistance is controlled by State or USAID. Please provide a breakdown of the amounts and percentages of U.S. foreign assistance that are under the direct control of State and/or USAID, under "policy guidance" of State and/or USAID, and not under any type of control of State and/or USAID. How much U.S. foreign assistance is controlled by the Defense Department?

Answer. Attached please find a summary chart of the FY 2008 International Affairs Request, which appears in the Congressional Budget Justification on pages 12 and 13. Section 1 of the chart, "Department of State and USAID Bilateral Economic Assistance," lists the accounts and programs under the approval authority of the Secretary of State, which amount to approximately 80 percent of the entire foreign operations request. The Director of U.S. Foreign Assistance and USAID Administrator has direct approval authority over roughly 60 percent of all foreign assistance in the Foreign Operations request, and has robust coordinating authority over assistance provided under the Global HIV/AIDS (GHAI) and Millennium Challenge Corporation accounts (at which corporation the Administrator serves on the board).

The Department of Defense is an important implementing partner of the Department of State, implementing both Foreign Military Financing and International Military Education and Training programs. The Department of Defense also implements programs with foreign partners that are authorized under Defense authorization acts using funds appropriated in the Defense appropriations acts. Some of those programs provide training and equipment for foreign forces, similar to that provided under the Department of State's foreign assistance authorities. Thus, for example, the Iraq Security Forces Fund and the Afghan Security Forces Fund are used to provide training and equipping to a range of security forces in those countries. Both of these authorities must be exercised with the concurrence of the Secretary of State. In addition, pursuant to section 1206 of the National Defense Authorization Act, the President is authorized to direct the Departments of Defense and State to jointly develop programs to build the capacity of foreign military forces to be funded

from Department of Defense appropriations in an amount up to $300 million in this fiscal year. Likewise, pursuant to section 1207 of the same act, the Departments of State and Defense may concur on the provision of reconstruction and stabilization assistance to be funded through DOD appropriations up to $100 million per fiscal year. These authorities have proved effective in addressing rapidly evolving security situations. DOD has certain other authorities that they rely upon in specific circumstances to provide assistance to foreign countries in support of their mission, e.g., the Commanders Emergency Response Fund and authorities to respond to humanitarian emergencies.

FY 2008 INTERNATIONAL AFFAIRS REQUEST

[Dollars in thousands]

	FY 2006 actual	FY 2007 estimate	FY 2008 request
Department of State, USAID and Foreign Operations (International Affairs)	**$31,389,613**	**$29,916,040**	**$36,186,518**
I. Department of State and USAID Bilateral Economic Assistance	**18,074,969**	**17,713,444**	**20,266,913**
Andean Counterdrug Initiative (ACI)	727,155	569,350	442,812
Assistance for Eastern Europe and the Baltic States (AEEB)	357,390	269,200	289,322
Assistance for the Independent States of the Former Soviet Union (FSA)	508,860	435,480	351,585
Child Survival and Health Programs Fund (CSH)	1,591,425	1,518,359	1,564,279
Global Fund to Fight AIDS, Tuberculosis, and Malaria	[247,500]	[247,500]	[0]
Development Assistance (DA)	1,508,760	1,508,000	1,041,248
Development Credit Authority—Subsidy (DCA)	[21,000]	[0]	[21,000]
Economic Support Fund (ESF)	2,616,075	2,603,540	3,319,567
U.S. Emergency Refugee and Migration Assistance (ERMA)	29,700	30,000	55,000
Foreign Military Financing (FMF)	4,464,900	4,454,900	4,536,000
Global HIV/AIDS Initiative (GHAI)	1,975,050	1,852,525	4,150,000
Global Fund to Fight AIDS, Tuberculosis and Malaria	[198,000]	[198,000]	[0]
International Disaster and Famine Assistance (IDFA)	361,350	348,800	297,300
International Military Education and Training (IMET)	85,877	85,237	89,500
International Narcotics Control and Law Enforcement (INCLE)	472,428	703,600	634,600
Migration and Refugee Assistance (MRA)	783,090	750,206	773,500
Nonproliferation, Anti-Terrorism, Demining (NADR)	405,999	392,821	464,000
Peacekeeping Operations (PKO)	173,250	170,000	221,200
P.L. 480 Title II	1,138,500	1,223,100	1,219,400
Transition Initiatives (TI)	39,600	40,000	37,200
USAID Operating Expenses (OE)	623,700	641,000	609,000
Foreign Service Retirement and Disability Fund [Mandatory]	[42,000]	[38,700]	[36,400]
USAID Capital Investment Fund (CIF)	69,300	75,942	126,000
USAID Inspector General Operating Expenses	35,640	37,915	38,000
Development Credit Authority—Administrative Expenses	7,920	3,469	7,400
Democracy Fund	94,050	—	—
Iraq Relief and Reconstruction Fund (IRRF)	4,950	—	—
II. Independent Department and Agencies Bilateral Assistance	**3,012,408**	**2,354,024**	**4,373,509**
African Development Foundation (ADF)	22,770	22,225	30,000
Broadcasting Board of Governors:			
International Broadcasting Operations	633,257	636,060	618,777
Broadcasting to Cuba	—	—	38,700
Broadcasting Capital Improvements	10,754	7,624	10,748
Subtotal, Broadcasting Board of Governors	644,011	643,684	668,225
Department of Agriculture:			
McGovern-Dole International Food for Education	99,000	98,260	100,000
Department of the Treasury:			
Treasury Technical Assistance	19,800	23,700	24,800
Debt Restructuring	64,350	20,000	207,300

FY 2008 INTERNATIONAL AFFAIRS REQUEST—Continued

[Dollars in thousands]

	FY 2006 actual	FY 2007 estimate	FY 2008 request
Subtotal, Department of the Treasury	84,150	43,700	232,100
Export-Import Bank:			
Loan Subsidy	74,000	26,382	68,000
Administrative Expenses	72,468	69,234	78,000
Inspector General	990	—	1,000
Direct Loans, Negative Subsidy	−50,000	−45,000	—
Offsetting Collections	—	—	−146,000
Subtotal, Export-Import Bank	97,458	50,616	1,000
Foreign Claims Settlement Commission	1,303	1,417	1,684
Inter-American Foundation (IAF)	19,305	19,268	19,000
International Trade Commission (ITC)	61,951	62,575	67,100
Millennium Challenge Corporation (MCC)	1,752,300	1,135,000	3,000,000
Overseas Private Investment Corporation (OPIC):			
Administrative Expenses	41,851	41,856	47,500
Net Offsetting Collections	−223,000	−175,279	−236,000
Credit Subsidy	20,073	9,423	29,000
Net Negative Budget Authority, OPIC	−161,076	−124,000	−159,500
Peace Corps	318,780	324,000	333,500
Trade and Development Agency (TDA)	50,391	50,300	50,400
United States Institute of Peace	22,065	26,979	30,000
III. Multilateral Economic Assistance	**1,581,124**	**1,392,361**	**1,788,350**
International Financial Institutions	1,277,236	1,066,198	1,498,950
Global Environment Facility	79,200	56,250	106,763
International Development Association	940,500	752,400	1,060,000
Multilateral Investment Guarantee Agency	1,287	1,288	1,082
Asian Development Fund	99,000	99,000	133,906
African Development Fund	134,343	134,343	140,584
African Development Bank	3,602	3,613	2,037
European Bank for Reconstruction and Development	1,006	1,006	10
Enterprise for the Americas Multilateral Investment Fund	1,724	1,724	29,232
Inter-American Investment Corporation	1,724	1,724	7,264
International Fund for Agricultural Development	14,850	14,850	18,072
Arrears	[5,453]	[4,018]	[175,000]
International Organizations and Programs (IOandP)	303,888	326,163	289,400
IV. Department of State Operations and Related Programs	**8,721,112**	**8,456,211**	**9,757,746**
State Administration of Foreign Affairs	6,434,123	6,238,058	7,194,596
State Programs	4,421,359	4,561,170	5,013,443
Diplomatic and Consular Programs	4,294,734	4,460,084	4,942,700
Ongoing Operations	3,614,018	3,664,914	3,977,940
Worldwide Security Upgrades	680,716	795,170	964,760
Capital Investment Fund	58,143	34,319	70,743
Centralized IT Modernization Program	68,482	66,767	—

Question. Also in your testimony, you highlight "detailed country-level operations plans that describe how resources are being used" and that such plans have been developed for 67 countries already. Will you make these plans available to this committee? Will these plans be available to the public?

Answer. I am committed to providing as much information on our foreign assistance activities as possible to our oversight committees and congressional partners. We are currently looking at ways to make the information obtained from the FY

2007 Operational Plans as user friendly and available as we can. We are likewise exploring formats for future years' Operational Plans with an eye toward the same goal. In the meantime, if there is particular FY 2007 country or other information that you would like to discuss, we would be happy to meet with you.

RESPONSE OF DR. BRAINARD TO QUESTION SUBMITTED BY SENATOR LUGAR

Question. Why were new institutions created, such as the Millennium Challenge Corporation and the President's Emergency Plan for AIDS Relief, to address global challenges rather than utilizing the U.S. Agency for International Development? Are those concerns still relevant?

Answer. In the case of the Millennium Challenge Corporation (MCC) and the President's Emergency Plan for AIDS Relief (PEPFAR), the administration decided, after extensive internal deliberations, to create new institutions rather than making such initiatives part of the U.S. Agency for International Development.

The rationale underlying the decision to create the MCC as an independent agency governed by its own board was based on the sense that the delivery of Millennium Challenge Account (MCA) funds should be "freed from bureaucratic inertia, should be sufficiently independent from political interference that funds are invested in meritorious recipients and not on the basis of foreign policy considerations, and should be allowed sufficient flexibility by Congress to operate expeditiously."[1] While at the time we agreed strongly with these objectives, a group of experts and I concluded that "the existence of two U.S. Government agencies devoted to providing development assistance would appear to violate all the tenets of efficient, effective government (and common sense)."[2] We instead recommended that the MCC be placed within USAID and that the overall entity be given greater independence and stature. We noted that the integration of MCA with USAID would reduce costs and boost effectiveness because it would prompt the sharing of infrastructure and professional expertise while also leading to greater coherence across the spectrum of development programming. This integrated alternative was also attractive because it would strengthen rather than weaken U.S. capability to speak with one voice to development partners. The potential existed to integrate the MCA with USAID while legislatively ensuring independence, flexibility, and an innovative approach. Under this alternative, the Chief Executive Officer of the MCC would serve as a Deputy Administrator at USAID and lessons learned from mainstreaming best practices into the MCC endeavor would more easily and directly translate to improvements at USAID.

The decision to have a U.S. global AIDS coordinator run PEPFAR out of a newly created bureau at the State Department was based on a desire for domestic and international audiences to view the program as a bold appendage of U.S. foreign policy and a notion that this position would allow the coordinator to be a broker between USAID and the Department of Health and Human Services. This approach stemmed from the perspective that the larger post-9/11 context of U.S. projection of power required a balance to military initiatives, but it did not take into account the weaknesses of the State Department as an operational agency.[3] The fact that the Office of the Global AIDS Coordinator (OGAC) was created apart from our primary agency for international development and its global health infrastructure served to highlight the difference in approach between OGAC's treatment oriented programming and the overwhelmingly prevention oriented programs already under implementation by USAID and Centers for Disease Control. Several of the same problems posed by the placement of the MCC—incoherence, the challenges of transferring innovation-based lessons learned, and a weakened U.S. capability to speak with one voice on development issues—were further compounded by the establishment of OGAC at the State Department.

The administration intentionally set MCC apart, heeding concerns that MCA funds should be provided on the basis of performance and not political calculus, but it tied PEPFAR to the established U.S. foreign policy structure. The original concerns about maintaining development assistance independent from political interference and shorter term foreign policy considerations are still valid. Such concerns

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[1] Lael Brainard, Carol Graham, Nigel Purvis, Steve Radelet, and Gayle Smith, "The Other War: Global Poverty and the Millennium Challenge Account," Brookings Press, 2003, p. 128.

[2] IBID.

[3] In his chapter, "What Role for U.S. Assistance in the Fight Against Global HIV/AIDS?" in Lael Brainard, ed. "Security by Other Means: Foreign Assistance, Global Poverty, and American Leadership" (Brookings, 2007), J. Stephen Morrison makes these arguments and notes that PEPFAR's institutional home failed to deliver some anticipated advantages.

justify a separation from direct State Department control for both MCC and USAID. This argument further compels us to reconsider the institutional placement of OGAC. Also still relevant are the concerns about the cumbersome and outmoded bureaucracy of USAID, with its excessive regulations and requirements, which led to an aversion to integrate new initiatives within an agency that would otherwise be best-suited for the job. Although such concerns are still relevant, they should lead to a different path. The administration avoided the considerable investment necessary to fundamentally reform our development assistance capabilities—a daunting task our government must now confront. In the short-term such a fragmented approach may have resulted in more rapid programmatic change, but it has served to further weaken our overall foreign assistance infrastructure and posture.

RESPONSES OF SAM WORTHINGTON TO QUESTIONS SUBMITTED BY SENATOR LUGAR

Question. Could you provide, for the record, a chart of the level of USAID operating expenses over the past 25 years?

Answer. I've enclosed a spreadsheet that charts USAID Operating Expense (OE) levels for the last 25 years, USAID's total budget authority for that period, and OE as a percentage of USAID's budget authority. You'll also find a graph (Table 1 below) which demonstrates the downward trend in OE funding relative to total budget authority from 1982 to 2007, and a graph (Table 2 below) that adjusts the numbers for inflation.[1]

The budget numbers in the attached spreadsheet clearly demonstrate an alarming downward trend in USAID Operating Expenses relative to total budget authority over the past 25 years, but the problem is even more serious than is apparent from looking at the top-line OE numbers. Over the last 15 years, larger and larger portions of Operating Expenses have been consumed by costs that were not as substantial in the 1980s when OE was generally funded at its highest levels. For instance, computers and other technology that were not as widespread 20 years ago have become critical to doing business in the modern era, and their costs are funded by USAID's Operating Expenses. The agency's rent also consumes a greater proportion of the OE budget than it once did: USAID's rent costs increased by more than 10 percent between 1995 and 2003.[2] These increasing costs, when combined with decreasing appropriations for Operating Expenses, have forced the agency to operate with an ever-smaller workforce, which in turn compromises program effectiveness.

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[1] OMB Public Budget Database.
[2] GAO–03–1152R USAID Operating Expenses.

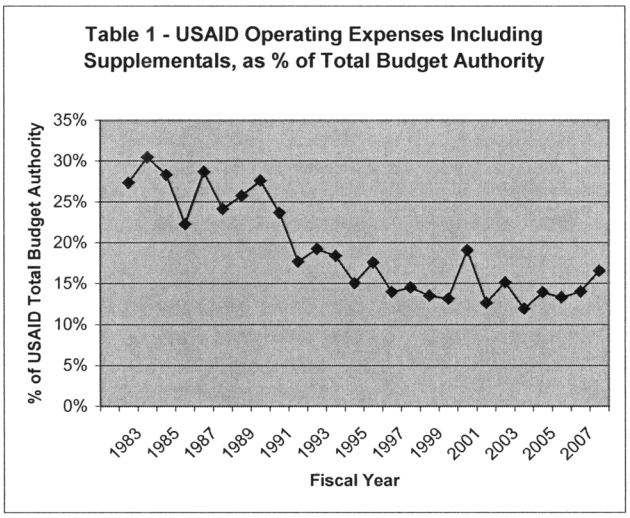
Table 1 - USAID Operating Expenses Including Supplementals, as % of Total Budget Authority
% of USAID Total Budget Authority
35%
30%
25%
20%
15%
10%
5%
0%
1983
1985
1987
1989
1991
1993
1995
1997
1999
2001
2003
2005
2007
Fiscal Year

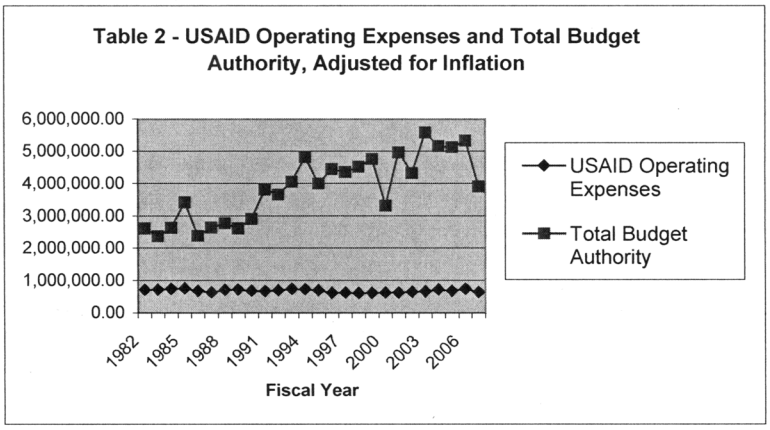
Table 2 - USAID Operating Expenses and Total Budget Authority, Adjusted for Inflation
6,000,000.00
5,000,000.00
4,000,000.00
3,000,000.00
2,000,000.00
1,000,000.00
0.00
1982
1985
1988
1991
1994
1997
2000
2003
2006
Fiscal Year
USAID Operating Expenses
Total Budget Authority

[Dollars in thousands—actual amounts]

Account	1982	1983	1984	1985	1986	1987	1988	1989	1990
Agency for International Development									
USAID Operating expenses	331,000	346,438	372,512	394,033	360,167	348,263	406,000	429,500	431,894
Total Budget Authority	1,210,901	1,137,019	1,315,947	1,770,642	1,256,299	1,444,600	1,576,388	1,556,383	1,825,588
OE as % of Total Authority	27.34%	30.47%	28.31%	22.25%	28.67%	24.11%	25.76%	27.60%	23.66%
Adjusted for Inflation									
USAID Operating expenses	713,275.84	723,307.59	745,558.21	761,512.72	683,361.02	637,508.30	713,671.12	720,274.96	687,160.87
Total Budget Authority	2,609,385	2,373,915.30	2,633,781.16	3,421,963.13	2,383,632.49	2,644,393.71	2,770,991.62	2,610,066.84	2,904,584.54
OE as % of Total Authority	27.34%	30.47%	28.31%	22.25%	28.67%	24.11%	25.76%	27.60%	23.66%

Account	1991	1992	1993	1994	1995	1996	1997	1998	1999
Agency for International Development									
USAID Operating expenses	441,000	474,122	518,035	518,697	514,000	469,000	488,000	479,000	501,000
Total Budget Authority	2,493,729	2,465,613	2,817,219	3,439,772	2,927,000	3,359,000	3,360,000	3,539,000	3,809,000
OE as % of Total Authority	17.68%	29.23%	18.39%	15.08%	17.56%	13.96%	14.52%	13.53%	13.15%
Adjusted for Inflation									
USAID Operating expenses	673,315.04	702,731.26	745,500.76	727,817.29	701,350.30	621,593.89	632,268.61	611,089.39	625,344.83
Total Budget Authority	3,807,404.20	3,654,467.27	4,054,241.34	4,826,556.45	3,993,876.14	4,451,884.58	4,353,324.86	4,514,917.25	4,754,368.19
OE as % of Total Authority	17.68%	19.23%	18.39%	15.08%	17.56%	13.96%	14.52%	13.53%	13.15%

Account	2000	2001	2002	2003	2004	2005	2006	2007
Agency for International Development								
USAID Operating expenses	523,000	534,00	567,000	589,000	653,000	640,000	725,000	647,000
Total Budget Authority	2,742,000	4,226,000	3,742,000	4,941,000	4,682,000	4,813,000	5,169,000	3,900,000
OE as % of Total Authority	19.07%	12.64%	15.15%	11.92%	13.95%	13.30%	14.03%	16.59%
Adjusted for Inflation								
USAID Operating expenses	631,575.65	627,017.31	655,403.46	665,662.83	718,849.64	681,450.90	747,823.47	647,000
Total Budget Authority	3,311,243.66	4,962,125.77	4,325,431.67	5,584,108.74	5,154,140.91	5,124,723.69	5,331,787.60	3,900,000
OE as % of Total Authority	19.07%	12.64%	15.15%	11.92%	13.95%	13.30%	14.03%	16.59%

Sources: OMB Public Budget Deatabase and Consumer Price Index Calculator.

Question. Could you describe, in more detail, the impact on the USAID organization of operating expense constraints?

Answer. Operating expense constraints, among other things, have resulted in the hypercentralization of USAID planning and program design, and in the months since Secretary Rice's announcement of Transformational Diplomacy in January 2006, that hypercentralization has even manifested itself in the suggestion that some missions should close in certain "nonstrategic" countries around the globe. In a memo that former Director of Foreign Assistance Randall Tobias sent to all USAID field staff on April 12, he described a process by which: "[USAID] will need to shift resources away from some functions, including those nations where USAID's full-scale mission platforms are not critical to delivering U.S. assistance effectively . . . Specifically, I will propose the deployment of USAID 'development attachés' to assist U.S. chiefs of mission and countries teams in such nations."

It would seem that, in a time when the White House has acknowledged the importance of development relative to defense and diplomacy, the administration would be looking for ways to expand USAID's presence in the developing world. Rather, the administration requested a total OE number that was 15 percent lower than the FY 2006 actual budget for OE. The administration's request, when viewed in the context of the quotation above, was troubling to say the least. Budgetary and management decisions such as these will lead to the overcentralization of USAID's strategic planning and program management processes and compromise aid effectiveness by moving strategic decision points from the field to headquarters. For example, a 2005 study conducted by the USAID mission in Senegal found that the ability of a donor organization to achieve program objectives is closely linked to the ability to make key program implementation decisions in-country, rather than at the donor's headquarters. The results of the study, which compared eight different donor organizations operating in Senegal at the time, indicate that donors with few management decisions delegated from their headquarters had very low disbursement rates (10–15 percent of funds available in the beginning of fiscal years were spent by the end of that year), while USAID, which delegated the most decisions from headquarters, had the highest disbursement rates.[3]

Disbursement rates are a prerequisite for achieving results and thus are a good broad measure of a key aspect of performance that can be compared across donors and program types. Adequate funding disbursement is critical to USAID's program effectiveness, and it is one of many factors that risks being compromised if the agency lacks the top-notch human resources to make important decisions in the field, rather than here in Washington, DC. According to data compiled by USAID's Office of Policy and Program Coordination (PPC)—before it was folded into the State/F Bureau in 2006—the number of USAID direct hires working abroad dropped by 29 percent between 1992 and 2005, from 1,173 to 833.[4] A 15-percent cut in Operating Expenses would certainly have exacerbated this alarming trend, and we are very heartened that both the House and Senate State, Foreign Operations Appropriations Subcommittees increased funding for USAID's Operating Expenses substantially, by $17 million and $36 million above the administration's FY 2008 request, respectively.

Question. How does the alleged loss of institutional knowledge impact the effectiveness of USAID programs?

Answer. The number of USAID Foreign Service Officers (FSOs) has decreased substantially over the last 15 years, which has led to the troubling loss of technical expertise at the agency. In the 1990s, for instance, 37 percent of the agency's workforce (including direct hires and FSOs) left without being replaced, or was laid off in the 1995 reduction-in-force (RIF), and the current attrition rate is outpacing new hires by more than two-to-one.[5] In 2006, 65 FSOs retired while only 29 were hired, and about half of all FSOs have been recruited in the last 6 or 7 years. Even when new officers are hired, it takes 2 years to fully train them for entry-level jobs.[6] The result is that the workforce increasingly lacks the institutional memory and technical knowledge that make USAID widely recognized as a leading bilateral development agency among other donor governments and in the developing world.

Because of the ever-constricting size of USAID's workforce, the agency has been forced to manage an increasingly large portfolio with fewer and fewer human re-

[3] "Senegal MCA Jumpstart Exercise Completion Report," January 2005, USAID Senegal (submitted to GAO March 2005).

[4] "USAID 13-Year Workforce Levels."

[5] Zeller, Shawn, "On the Workforce Roller Coaster at USAID." The Foreign Service Journal, April 2004.

[6] Source: American Foreign Service Association.

sources. As Jim Kunder, USAID's Acting Deputy Administrator, noted at a recent Advisory Council on Voluntary Foreign Assistance (ACVFA) meeting, "Federal guidelines indicate that the average [U.S. Government] contracting officer should manage around $10 million in contracts per year; in USAID each contracting officer oversees an average of $57 million in contracts. At some point the system's management and oversight capabilities are simply overstressed."[7] USAID's Foreign Service Officers are our country's first line of defense in many fragile states and countries in conflict, and it is extremely disconcerting that they have been asked by our government to do so much with so little.

There are several problems that are directly attributable to the long-term reduction in USAID's human resources and the extraordinary management burden being carried by its remaining workforce. First, the shrinking size of the agency's direct-hire workforce has meant that most Foreign Service officers work as Cognizant Technical Officers (CTOs), managing programs rather than designing them. Accordingly, the technical aspects of program development have been outsourced to contractors, and the result is that much of the technical expertise that once resided within the agency has been lost. A secondary problem that results from this outsourcing of technical expertise, as well as the high attrition rates at USAID generally, is that many important development projects are being managed by unseasoned Foreign Service officers who lack the experience to do so effectively. Whereas in the 1970s and 1980s a USAID development program would likely have been managed by agricultural or public health specialists, for example, those experts have since become contractors and have yet to be replaced at the agency.[8]

Second, the management burden that has been placed on USAID's contracts officers, noted by Acting Deputy Director Kunder at the ACVFA meeting, has contributed to a troubling "bundling" phenomenon, in which giant umbrella contracts are being awarded to very large contractors or consortia of contractors. While these bundled contracts often provide many subgrants and subcontracts to smaller organizations, they are by their very nature biased to large institutions, which have the capacity to successfully manage them. This favoring of very large contractors not only reduces competition, and therefore the purchasing power of American tax dollars, but it also stifles the innovation of smaller indigenous nongovernmental organizations, which are often best able to ascertain and address the needs of communities throughout the developing world. These contracts, which shift the management burden away from U.S. Government personnel, discourage competition, and fail to stimulate innovation, seriously compromise aid effectiveness and are a direct result of the shrinking corps of Foreign Service officers at USAID.

The reduction of personnel at USAID has also disrupted what was once a valuable method of sharing lessons learned and best practices around the globe, namely the rotation of FSOs between different missions and regions. As the contingent of FSOs serving overseas continues to shrink, there are fewer and fewer opportunities to transfer technical expertise from one country program to another. Again, this speaks to the negative impact on program effectiveness which is directly related to the loss of technical expertise at USAID. The failure to capture lessons learned also extends to USAID's ability to effectively monitor and evaluate its programs, as many of those functions have been shifted away from the agency to the State/F Bureau or to contractors. In either case, the technical capacity of USAID is significantly reduced, to the detriment of aid effectiveness.

The Operating Expense constraints at USAID have also led to a proliferation of personnel systems at the Agency. According to former Administrator Andrew Natsios, there were 13 different personnel systems in place when he led the Agency from 2001 to 2005, many of them designed to circumvent OE and human resources restrictions.[9] In order to implement its programs, USAID has even been forced to outsource jobs that require technical expertise to other U.S. Government agencies like the Department of Health and Human Services and the Department of Agriculture. This is problematic, according to Natsios, because the USAID Administrator lacks direct control over his own workforce, even when it comes to employees of the United States Government.

Saving lives and alleviating the suffering of the world's poorest people is a noble goal, and I'd like to close by thanking you again for your committee's leadership on this issue, and for your own personal leadership on behalf of humanitarian and international development causes. When I spoke before the committee on June 12, I discussed the longstanding partnership between InterAction, Congress, USAID, and the world's poor, and I see this effort to improve technical capacity at USAID

[7] ACVFA Public Meeting, May 23, 2007.
[8] Andrew Natsios, personal interview, June 29, 2007.
[9] Andrew Natsios, personal interview, June 29, 2007.

as an excellent example of that partnership. In working with Congress and career Foreign Service officers to improve the agency's ability to implement effective development programs around the globe, we are all working to lift the world's poorest people out of extreme poverty. Thanks again for this opportunity.

RESPONSES OF STEVEN RADELET TO QUESTIONS SUBMITTED BY SENATOR LUGAR

FOREIGN ASSISTANCE ACT

Questions. You assert that the Foreign Assistance Act of 1961 "is badly out of date" and that a new act "is central to clarifying the central objectives and methods of foreign assistance to meet U.S. foreign policy goals in the 21st century."

- 1. What are the major components of such reform?
- 2. What would you recommend as to how we can stem earmarking?
- 3. Would you change the human rights and other restrictions contained in the current law?

Answer to 1. The Foreign Assistance Act of 1961 and the major U.S. Government institutions charged with implementing foreign assistance programs were designed for the cold war for a set of threats that no longer apply. The act has been amended many times and is now over 2,000 pages long and contains at least 33 different goals, 75 priority areas, and 247 directives. The act leads to conflicting objectives, heavy administrative burdens, and weak results. Our current foreign assistance apparatus consists of at least 20 separate government agencies operating without an overarching national mission and sometimes at cross-purposes. The executive branch and Congress should work together to reach consensus on several key reform elements as part of a new FAA, including the following:

- Clarifying objectives: Identify a small number (say around five) of key objectives and purposes for foreign assistance.
- Rationalize and strengthen organizational structure: Ideally fold all assistance programs into one Cabinet-level agency, or name one person to coordinate all major aid programs, and significantly strengthen the capacity of USAID.
- Clarify the principles for guiding policies and programs (such as local ownership, coordination and harmonization with other donors, transparency, use of budget support, etc.) and how these mechanisms would differ across countries.
- Strengthen monitoring and impact evaluation so that we can better learn what works, what doesn't, and why.
- Review all earmarks and restrictions (including tied aid) and maintain only those that are of critical importance.
- Strengthen the budget and reporting processes, including reviewing the option of moving toward a 4-year strategic plan, and moving toward primarily regional or country-based budget lines rather than sector-based approaches.

One option to move forward would be for Congress to create a commission specifically mandated to review and redraft the FAA, a job that is not being tackled by Congressman Wolf's HELP Commission. Members could include congressional, executive branch, independent experts, and representatives from other donors and recipient governments.

Answer to 2. Earmarks are an inherent tension in the struggle between the Congress and the executive branch to assert their respective roles in foreign policy and spending priorities. Earmarks are not necessarily bad in and of themselves at an individual level, but problems arise when there are too many earmarks, they conflict with each other and with major goals, and they add to costs and reduce the benefits of our assistance. The FAA has too many conflicting earmarks, so a major rationalization is required. Some key steps toward doing so include:

- Build consensus on overall goals and objectives. The process of building a new consensus around the critical goals and objectives of foreign assistance should help bring the priorities of the Congress and the executive branch into closer alignment and will thereby reduce the pressure for earmarks. The MCA legislation has no earmarks, partly because there was strong agreement on the key goals. If the goals are not clear, than everything seems reasonable, and earmarks proliferate.
- Expand the budget consultation process. The annual process of building the President's next year budget is a closed, internal executive branch affair. As part of a new FAA the executive branch and Congress should agree on new ground rules that will open the budget process to greater consultation with the Congress. The executive branch should consult with key congressional actors

during the process of building the budget, take into consideration their priorities, and give them a little ownership, all of which can contribute to the greater likelihood that congressional leaders are able to accept and defend the President's budget.

- Rationalize institutional and reporting lines. The plethora of aid agencies leads to confusion and poor communication with Congress, and therefore to more earmarks. A more rational structure would lead to clearer lines of authority and reporting, and stronger communication with Congress, which would reduce pressure for earmarks.

Answer to 3. There are two key issues on restrictions (similar to earmarks): First, all restrictions should be reviewed. Second, some should be retained, and in my judgment the human rights restrictions should remain.

The process of developing consensus and writing a new FAA should encompass a review and justification of all of the restrictions which, over time, have been added through amendments without reviewing those that already exist. The review should aim to:

- Remove out-of-date restrictions.
- Justify the retention of restrictions and grouping them into several categories by intent and purpose, with common structures developed for each category relating them to broader objectives. There should be only a few, clear, common standards for applying waivers—(i) who is the decisionmaker (when the President, when the Secretary, when the senior program officer, etc)—and common standards and definitions for the basis of a waiver (national interest, national foreign policy interest, national security—get agreement on one or two terms; and the basis of an administrative waiver might be program efficiency or some other standard).
- Place all restrictions in a single section of the act.

This kind of review would lead to a streamlining of current restrictions, and the retention of some of the most important. I would support retaining the current restrictions on U.S. foreign aid to countries with human rights violations, along with restrictions related to child labor and human trafficking.

IMPACT EVALUATION

Your testimony suggests that the U.S. should support and join the International Initiative for Impact Evaluation which joins foreign assistance providers from around the world to provide independent evaluations.

- 1. What is your assessment of the costs and benefits evaluations?
- 2. Why has there been reluctance to implement these evaluations?
- 3. How would the evaluations help ensure that U.S. development dollars were not misused?

Answer to 1. The costs of rigorous impact evaluations vary widely, depending on methods, context, and the duration of time between baseline and end-of-program period. As a rough guide, a small- to moderate-sized impact evaluation might cost about $250,000 on average; a large impact evaluation might cost about $750,000. Depending on the design, it is possible for much of this cost to be included in the implementation of the program. For example, it is often reasonable to include a portion of the baseline data collection costs in program budgets because the information is needed for establishing beneficiary needs, targeting benefits, and other program-related activities. In addition, activities typically included in the program implementation to provide information to managers can, in some cases, be modified to provide much (rarely all) of the data required for end-of-project evaluation. However, evaluation is a specialized activity requiring extensive data collection and analysis; good evaluation isn't cheap.

Although impact evaluations are generally more costly than monitoring of outputs and/or process evaluations, the knowledge generated by impact evaluations can have extremely large benefits relative to its costs if findings are relevant and acted upon. For example, Mexico undertook a rigorous impact evaluation of a new conditional cash transfer program beginning in 1997. Without the study, it is likely that the program would have been eliminated under a subsequent administration and alternative uses of the program funds would probably not have been as effective. Thus, by preserving the program, the US$2 million spent on evaluating the intervention can be conservatively estimated to have led to an additional 275,000 children making the transition to secondary school schooling and 400,000 children aged 12 to 36 months, at risk of stunting, experiencing incremental growth of 8 percent—a rather substantial benefit/cost ratio.

Other examples demonstrate similarly high returns to rigorous impact evaluations. In Mexico and Bangladesh, studies found that important nutritional programs were having lower than expected impact on children's growth. The studies led to important reformulations of strategies and food supplements to improve the return from these large national public expenditures. In Kenya, a study of agricultural extension services aimed at improving rural productivity and incomes found that it had only been effective in areas with low productivity and that the information, messages, and approaches to outreach needed to be updated and adapted to changes that had occurred in farming communities.

Moreover, the benefits of good evaluation can be multiplied many times over when the knowledge is used by decisionmakers elsewhere facing similar policy and program decisions. So, for example, information about the response of families to a girls' secondary school scholarship program in Bangladesh can inform design of programs to enhance girls education in Pakistan and India—and even in Senegal. This is the global public good aspect of the knowledge generated through impact evaluation.

Beyond the strategic value of the knowledge generated is the badly needed reputational benefit to the development community when rigorous, credible evaluations are undertaken. As Senator Lugar said, "If development projects are transparent, productive, and efficiently run, I believe they will enjoy broad support. If they are not, they are likely to fare poorly when placed in competition with domestic priorities or more tangible security-related expenditures."

Answer to 2. In addition to the inherent reluctance of most bureaucracies to risk exposing failure, there are two core incentive problems that have led to a situation of persistent underinvestment in impact evaluation:

- A portion of the knowledge generated through impact evaluation is a public good. Those who benefit from the knowledge include—but go far beyond—the ones directly involved in a program and its funding. But because the cost-benefit calculation by any particular agency might not include those benefits, an impact evaluation appears to be costlier than appears to be justified by the returns.
- Development institutions typically are "doing" organizations, which reward timely implementation rather than learning or "building evidence." Although those who are designing and implementing programs recognize the value of having a strong evidence base to draw upon, faced with the choice to invest in evaluation or move implementation ahead, they will opt for implementation. Development professionals find it extremely difficult to protect the funding for good evaluation, or to delay the initiation of a program to design the evaluation and conduct a baseline study. Time and again, resources initially earmarked for evaluation are redirected toward project implementation, perpetuating the cycle.

Answer to 3. Global progress depends on the success of programs to improve health, literacy and learning, and household economic conditions—and year after year governments, NGOs, and private actors dedicate resources to design and implement promising and innovative approaches to achieve those goals. Yet after decades in which U.S.-funded donor agencies have disbursed billions of dollars for development programs, and developing country governments and NGOs have spent hundreds of billions more, it is disappointing to recognize that we know relatively little about the net impact of many important approaches. Instead, the focus has been on how much money has been disbursed and how many outputs have been generated. Addressing this gap in knowledge—systematically building more evidence about what works in development programs—would make it possible to improve the effectiveness of domestic spending and development assistance in low- and middle-income countries, and to sustain support for such expenditures over the long term. Moreover, the simple act of considering evaluation design at the inception of a program forces the appropriate discussion of what relevant and measurable change is being sought, and how. Finally, undertaking rigorous evaluation helps to signal to key constituencies, including the American taxpayer, that good stewardship is being exercised over precious public dollars that are intended to improve the lives of families in poor countries.

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