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THE AGENCY FOR INTERNATIONAL DEVELOPMENT AND THE MILLENNIUM CHALLENGE CORPORATION: FISCAL YEAR 2012 BUDGET REQUESTS AND FUTURE DIRECTIONS IN FOREIGN ASSISTANCE

HEARING

BEFORE THE

COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES

ONE HUNDRED TWELFTH CONGRESS

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THE AGENCY FOR INTERNATIONAL DEVELOPMENT AND THE MILLENNIUM CHALLENGE CORPORATION: FISCAL YEAR 2012 BUDGET REQUESTS AND FUTURE DIRECTIONS IN FOREIGN ASSISTANCE

WEDNESDAY, MARCH 16, 2011

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
Washington, DC.

The committee met, pursuant to notice, at 10 o'clock a.m., in room 2172 Rayburn House Office Building, Hon. Ileana Ros-Lehtinen (chairman of the committee) presiding.

Chairman ROS-LEHTINEN. The meeting will come to order. I will recognize myself and then my good friend, the ranking member Mr. Berman for 7 minutes each for our opening statements. Then I will recognize any of our members who would like to offer an opening statement for 1 minute each.

We will then hear from our witnesses and I ask that you please summarize your prepared statements in 5 minutes each before we move to questions and answers with our members under the 5-minute rule.

Without objection the witnesses' prepared statements will be made a part of the record and members may have 5 legislative days to insert statements and questions for the record subject to the limitations of the rules.

The Chair now recognizes herself for 7 minutes.

There is little that is discussed here in the Congress these days that does not immediately run up against the issue of our Nation's fiscal situation. Today's hearing is no exception. Our Government's vast annual deficit, the rapid run-up of the public debt, the borrowing and, indeed, the outright printing of dollars to pay that deficit and debt, have become extraordinarily critical issues.

This is not simply a crisis at the Federal level, but also a crisis for state and local governments, and many individual Americans as well. On a personal note, our county mayor was recalled by 88 percent of the electorate based on this budget crisis just yesterday.

It is a crisis that appears in newspaper stories every day, with headlines like: "From California to New York, States are Facing Monstrous Deficits, and Cities in Debt Turn to States, Adding Strain."

With such stories in mind, it is easy to understand why the American people are demanding that we carefully scrutinize our

Government spending, both domestic and foreign, both large and small.

A rate of increasing our budgets, such as the 2-year increase of an estimated 57 percent in USAID's budget between Fiscal Year 2008 and Fiscal Year 2010 or the estimated 147 percent increase in USAID's budget between Fiscal Year 2001 and Fiscal Year 2010, is just not feasible in light of what is happening here at home. As I said in our hearing with Secretary Clinton this month, we must make difficult decisions in light of the unfortunate fiscal priorities facing us.

Those who complain about diminished levels of U.S. aid funding need to ask themselves: How much less would an insolvent United States be able to do? There are, in fact, freezes or cuts that can be made that would actually help us maintain our efforts to help the most impoverished people abroad who truly need our help.

We can take greater steps toward using small-scale education vouchers of just a few dollars or less to help parents in poor countries choose their children's schools. This will help them get around the wasteful, corrupt bureaucracies that tend to expend large sums while not always providing poor children with a good education.

If we cut our Development Assistance funding, we can move some of that funding to USAID's Development Credit Authority program, which has a proven track record of leveraging about $28 dollars in private funds in support of development for every dollar provided by USAID.

As we cut elsewhere, we can move more funding to USAID's Global Development Alliance program, which, again, leverages private capital in support of development, focusing on partnerships with corporations and major private donors, who can contribute large, matching sums again cutting our Government's cost.

We can freeze further increases in personnel. USAID's staffing alone has already grown by an estimated 22 percent in just the past 2 years, for example. We can require the reform of the several international development aid agencies run by the U.N., ending the waste caused by staffing and program duplication that ultimately comes out of American taxpayers' pockets.

We can insist that governments in developing countries that receive our assistance be as committed to helping their own people as we are, and end purchases of things like self-flattering monuments that fly in the face of our taxpayers efforts to help. We should not be giving aid to corrupt, unaccountable governments to begin with. The focus should be from the grassroots up.

Our hearing this morning is about the budget requests for USAID and MCC and the need to ensure maximum return on our investments. This hearing also concerns the lessons learned since USAID's creation 50 years ago, as well as the need for a new assistance concept, which led to the creation of the Millennium Challenge Corporation in the year 2004.

In that regard, concerns have been raised as to whether the MCC will remain a unique agency that focuses on economic growth and the graduation of countries from dependence on our aid, or if it will begin to fall into the trap of providing more and more assistance agreements with foreign governments, irrespective of U.S. requirements or priorities.

After more than five decades of providing aid to other countries, we know that assistance can produce dependency and corruption. Ms. Dambisa Moyo, an economist and critic of our current assistance program, made these comments in 2009:

> "The African Union estimated that corruption was costing the continent [of Africa] $150 billion a year, as international donors were apparently turning a blind eye to the simple fact that aid money was inadvertently fueling graft."

And she continues:

> "A constant stream of 'free' money is a perfect way to keep [a] bad government in power. The aid system encourages poor-country governments to pick up the phone and ask the donor agencies for [the] next capital infusion."

And she ends with this:

> "It is no wonder that across Africa, over 70 percent of the public purse comes from foreign aid."

We know that economic growth is ultimately the only way that development in impoverished countries can be sustained after our assistance programs end and, at some point, they need to end.

Today, we have before our committee two leaders of United States aid agencies who are working hard to meet the challenge of preventing cycles of aid dependency and to create the kind of economic development in those countries that will do just that, develop while helping those most in need.

At this point I would like to recognize my friend and colleague, Congressman Berman, the ranking member of this committee, for his opening statement.

[The prepared statement of Chairman Ros-Lehtinen follows:]

Remarks of the Honorable Ileana Ros-Lehtinen
Chairman, Committee on Foreign Affairs
Hearing: "The Agency for International Development and the Millennium Challenge Corporation: Fiscal Year 2012 Budget Requests and Future Directions in Foreign Assistance"
March 16, 2011

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At this point, I would like to recognize my friend and colleague, Congressman Berman, the Ranking Member of the Committee.

Mr. BERMAN. Thank you very much, Madam Chairman. I do appreciate the opportunity to review the Fiscal Year 2012 budget request for USAID and MCC, and to explore the steps each agency is taking to make our aid programs more effective and more efficient. I want to welcome both Dr. Shah and Mr. Yohannes here.

This is Mr. Yohannes' first chance to testify before the committee.

When Dr. Shah last testified before this committee, he had only been in the job for a few months. Immediately he was caught up in coordinating the U.S. Government's response to the earthquake in Haiti. Understandably much of the hearing was devoted to examining the status of those relief efforts.

At that time the administration was also in the midst of conducting its QDDR and simultaneously a review of development policy, so we did not get much of a chance to get into the specifics about his plans for reform.

Thankfully, Dr. Shah did not let the press of all this other business deter him from pursuing an overhaul of the agency. In the year since he last appeared before us, he has embarked on a very ambitious reform agenda aptly named "USAID Forward."

The aim of this effort is to change fundamentally the way the agency does business. It encompasses reforms in nearly every aspect of the agency's programming and operations. Under Dr. Shah's leadership USAID is taking aggressive steps to harness science, technology, and innovation in support of development. He is exploring new ways of partnering with the private sector to leverage resources and achieve break-throughs.

Likewise, the MCC finds itself at a pivotal juncture. Created by President George W. Bush as a new approach to development, the MCC forms partnerships with poor but well-governed countries to eliminate constraints to growth.

Given that the MCC was established by Republicans for the explicit purpose of creating a new model for development assistance, I find it astonishing that H.R. 1, the Republican CR, slashes funding for the MCC by nearly 30 percent from the Fiscal Year '10 enacted levels. Even the development credit authority—cited by my chairman as a small but effective way of leveraging dollars—is cut in H.R. 1, not expanded.

Now that the MCC's first two compacts have been completed in Honduras and Cape Verde, and final evaluations are being conducted, we have an opportunity to assess the added value of the MCC. Many aspects of the MCC's innovative model in such areas as country ownership, transparency and accountability, and managing for results are already being adopted by other foreign affairs agencies as a result of the QDDR.

Yet, the MCC has not been content to sit on its laurels. It is continually proposing new ways to improve and strengthen its effectiveness including a new initiative to expand partnerships with the private sector.

I share the view of everyone on this committee that in this difficult economic climate we have an obligation to ensure that every tax dollar is put to the best possible use and that we are receiving a meaningful return on our investments. No area of the budget should be exempt from scrutiny.

I must say that I am concerned by the unrealistic expectations, often based on misinformation, that cuts in foreign assistance will fix the deficit. A poll last fall by the Kaiser Family Foundation found that four in 10 Americans erroneously believe that foreign aid is one of the two biggest areas of spending in the Federal budget.

A December poll by the University of Maryland showed that when asked to estimate the amount of Federal budget that is devoted to foreign aid, the average American says 25 percent. When asked how much would be an appropriate percentage, the median response is 10 percent. Of course, what we actually spend is about 1 percent.

What is particularly interesting about this poll is that over the 15 years it has been conducted, the amount Americans think is spent on foreign aid has gone up from 20 to 25 percent, while the amount they think should be spent has remained steady at 10 percent. Even during this time of economic distress, people still think we should be spending about 10 times as much on foreign assistance as we actually are.

As members of this committee, I think we have a special obligation to exert leadership to help correct some of these misunderstandings. The U.S. Agency for International Development and the Millennium Challenge Corporation provide the bulk of our development assistance around the world. They use different approaches, work with a different though sometimes overlapping pool of countries, but they both seek to reduce global poverty by promoting economic growth.

Reducing global poverty is not a matter of altruism, though it would be the right thing to do even if it brought us no direct benefits. The truth is that addressing hunger, disease, and human misery abroad is a cost-effective way of making Americans safer here at home. Our foreign assistance benefits us as much as it does our local partners.

Let me offer a few examples. Anyone who had the experience of suffering the H1–N1 flu last year, which fortunately turned out to be much less deadly than we feared at first, can tell you that it is worth investing in surveillance, detection and prevention systems abroad.

For just pennies a dose, we can rid the world of polio, which was one of the most dreaded childhood diseases of the 20th Century in the United States.

More than one in every five U.S. jobs is linked to exports and imports of goods and services, and approximately half of all U.S. exports go to developing countries. If those countries are not stable enough to serve as reliable trading partners, we lose our overseas markets. And if these people don't have a way of earning income, they won't be able to afford our products.

Dramatic increases in food prices in 2007–2008 created a global crisis and led to political and economic instability around the world. If we are not helping to increase global food production, addressing the impact of climate change, and enabling couples to plan the size of their families, these problems are only going to get worse.

The recent democracy movements across North Africa and the Middle East have demonstrated not only the benefits of our security assistance, but also the importance of contingency funds for a flexible response. Countries that descend into chaos and anarchy provide breeding grounds for extremism and training grounds for terrorists. Just a small investment in supporting stable and peaceful transitions to democracy could yield far greater gains for U.S. national security than billions for developing new weapons.

Since my time has expired, even though my statement has not ended, I will ask unanimous consent to include my entire statement in the record and I will forego describing the work of our foreign aid programs in Iraq, Afghanistan, and a number of other countries as part of our national security strategy. Thank you, Madam Chair.

Chairman ROS-LEHTINEN. Without objection. Thank you, Mr. Berman.

Chairman Smith, who chairs the Africa, Global Health, and Human Rights Subcommittee, is recognized for 1 minute.

Mr. SMITH. Thank you very much, Madam Chair.

Dr. Shah, in your testimony you state that USAID supports faith-based organizations. Last week I chaired a hearing on the Democratic Republic of the Congo and Catholic Relief Services' Sexual and Gender-Based Violence Advisor Francisca Vigaud-Walsh testified that she has repeatedly seen rape survivors in the eastern Congo walk many kilometers from their displacement camp to the nearest parish for assistance.

They do so not only to avoid stigmatization by going to services available within the camp, but also because they trust the church. This scenario is played out repeatedly throughout Africa. Many people trust the churches and faith-based organizations and will seek them out even when non-FBO services are closer or readily available.

A Gallup Poll asked sub-Saharan Africans in 19 countries about their confidence in eight social and political institutions. Seventy-six percent responded they were most confident in their religious organizations in their countries.

Not only are faith-based organizations culturally important in places like Africa, often they are the primary provider of healthcare services. I am concerned and I hope, Dr. Shah, you speak to this,

that as the Global Health Initiative is unveiled and as it evolves, what is being done to ensure that grants are not discriminated against in terms of going to faith-based organizations because they——

Chairman ROS-LEHTINEN. Thank you.

Mr. SMITH [continuing]. Do not include population control?

Chairman ROS-LEHTINEN. Mr. Ackerman, the ranking member of the Subcommittee on Middle East and South Asia.

Mr. ACKERMAN. Thank you, Madam Chairman. I fear that we have forgotten how to reason. When we were kids we used to tease each other and ask silly-seeming questions like, "Do you walk to school or take your lunch?" It seems to me that is the question that has been placed before us today. As I only have 30 seconds left, I will try to unwind the puzzle when I have my 5 minutes. I yield back.

Chairman ROS-LEHTINEN. Thank you so much.

Mr. Rohrabacher, the Subcommittee on Oversight and Investigations chair.

Mr. ROHRABACHER. Thank you very much, Madam Chairman. Early this morning I was called by our U.S. Ambassador to Pakistan. He was on a plane escorting a U.S. Government employee, Raymond Davis, out of Pakistan. This is a cause for joy and happiness and we are very grateful that he has been released.

That a recipient of U.S. aid would treat our people in such a way is shocking and should suggest that we take a close look at the fundamentals of who we give our aid to and whether or not they are our friends or whether they are treating us like suckers. Thank you very much, Madam Chair.

Chairman ROS-LEHTINEN. Thank you.

Mr. Payne, the ranking member on the Subcommittee on Africa, Global Health, and Human Rights is recognized.

Mr. PAYNE. Thank you very much. I also think that we need to review how our so-called friends treat us. However, we also need to evaluate how our representatives behave in foreign countries. I think everything has to be held in balance.

Let me just say that if these cuts continue, we will certainly see an impact on not only our U.S. economy but national security, and our Nation's moral standing. These cuts, in my opinion, go too deep. We all know that we will have to tighten the belt. We all agree with that and we think we should move but I do not want to see us being a pound wise and a penny foolish.

Some of the increases in staff at USAID is because they are taking away from contractors and in the long run there will be saving of funds. Once again, thank you very much, Ms. Chair.

Chairman ROS-LEHTINEN. Thank you, Mr. Payne.

Mr. Chabot, Subcommittee on Middle East and South Asia chairman.

Mr. CHABOT. Thank you, Madam Chair. Let me just remind my colleagues on the other side of the aisle when they continue to rant against H.R. 1 and they were slashing and cutting and burning and all the rest that we are broke and that is the reason we are trying to be responsible and do the right thing.

As far as the American people not understanding exactly how much is being paid out, there are all kinds of things floating out

there that Members of Congress get free medical care and do not pay into Social Security. There are a lot of things and a lot of misinformation out there.

I have got a judiciary hearing. I probably will not be able to stick around and leadership has a jobs forum. There is a lot going on so let me just ask either during this hearing or in follow-up on questions, I am interested in funding. The USAID's political party policy explicitly states, "Assistance to non-Democratic political parties is prohibited."

The vagueness of the policy, however, raises a couple of questions. I just want to know what the policy is relative to the Muslim brotherhood in Egypt. Thank you.

Chairman ROS-LEHTINEN. Thank you, Mr. Chabot.

Mr. Meeks, the ranking member on the Subcommittee on Europe and Eurasia.

Mr. MEEKS. Thank you, Madam Chairman. Let me just say that it is vision sometimes that we have to have. Yes, we have got to tighten our belt. We have to look at what our colleagues, what our allies in Great Britain did. They tightened their belt.

They are having a fiscal crisis but yet they had vision enough to know not to cut substantially their foreign aid budget because the world is a much smaller place and we are now moving in that direction where we are working with other folks and that is what we need to do.

It is pay me now or pay me later. It is either have short-term gain or long-term pain. If we slash the way we are talking about slashing, we are going to feel the pain in the long-term. We should have some vision and understanding of the entire world that we live in because we don't live in this world by ourselves. I yield back.

Chairman ROS-LEHTINEN. Thank you.

Mr. David Rivera of Florida.

Mr. RIVERA. Thank you, Madam Chairman. I hope as we get into our question and answer period that you will address a major concern of mine which is USAID's treatment of its own subcontractors in hostile environments such as Cuba.

I think the reason Alan Gross' situation speaks to this, it is my understanding that USIAD recently or is now basically abdicating its concern for our workers who are in our service and are exercising their duties on behalf of this country by requiring the signing of waivers for NGOs and for subcontractors, waivers over their own safety of this personnel.

I think it is outrageous that we would basically wash our hands over our own people in the service of this country for USAID's development programs and democracy building programs. I hope we will address that in the hearing.

Chairman ROS-LEHTINEN. Thank you so much.

Mayor Cicilline.

Mr. CICILLINE. Thank you, Madam Chairman. Welcome to the witnesses. We heard recently from the Secretary of State about the three pillars of our foreign policy; diplomacy, development, and defense. I recognize that all three of those are important parts of it and particularly look forward to hearing about the development component today.

I think we need to all be reminded that the commitments we make and the investments we make in this area of our foreign policy are not only describe our values as a country in promoting freedom and democracy around the world, but also ultimately enhance our national security interest by creating a safer world. I look forward to your testimony and welcome you to the committee. I yield back.

Chairman ROS-LEHTINEN. Thank you.

Mr. Mike Kelly is vice chair of the Subcommittee on Asia and the Pacific.

Mr. KELLY. Thank you, Madam Chair.

Thank you for being here today. I have got to tell you, though, we are the only country in the world that gives more than anybody else, 1 percent of our budget, toward what everybody else does. If we would quit going around the world going mea culpa, mea culpa, mea maxima culpa, we just don't do enough, I think we would get a lot more accomplished.

I don't think that we are talking about not helping foreign countries. I think we are talking about doing what's prudent for the American people. I wish the people on the other side of the aisle would stop going around the world and telling everybody how terrible America is. We should be talking about how great we are. Nobody does more than we do for the world. Thank you.

Chairman ROS-LEHTINEN. Thank you.

Mr. Keating. Oh, Mr. Connolly. Sorry. Thank you.

Mr. CONNOLLY. Thank you. I want to say to my friend wearing the green tie with an Irish name who just admonished the other side of the aisle, at least I don't know Democrats who go around the world saying mea culpa, mea culpa, mea maxima culpa. I speak Latin, Mr. Kelly, so I know whereof you speak.

I will say this. If we continue to slash the foreign assistance budget irresponsibly as your side of the aisle did in H.R. 1, we are going to cripple our ability to exercise diplomacy. Then we are going to say requiescat in pace. We need a vibrant robust foreign assistance program as Secretary Gates said in the Bush administration when he was in that administration and as Secretary Clinton said just a few weeks ago before this very committee. I wish Mr. Chabot was still here because I want to respond to him, too, since he directly addressed——

Chairman ROS-LEHTINEN. Perhaps in the afterlife.

Mr. CONNOLLY [continuing]. This side of the aisle.

Chairman ROS-LEHTINEN. Right now, Mr. Mack, Subcommittee on the Western Hemisphere chairman, is recognized.

Mr. MACK. Thank you, Madam Chairman. I appreciate the hearing today because I have some big concerns when it comes to the Millennium Challenge Corporation and what messages we might be sending around the world. I would like to also just add my two cents into this back and forth. I do not speak Latin so I am not going to do any of that but I will tell you this.

I think what I do speak is what the American people are saying is, "We are broke. We are broke. Every time we spend more money, we borrow it from somewhere else." We cannot afford to continue to do that. I will agree with my colleagues that we have a lot of

priorities but so far what I've seen on the other side of the aisle is they haven't found something yet that they would like to cut.

Every time we go to a hearing all we hear is, "We are slashing. We are slashing." But you haven't offered anything to cut and we are in this predicament because of the leadership of the other side.

Chairman ROS-LEHTINEN. Thank you.

Mr. MACK. I don't know where Latin fits into that but thank you, Madam Chair.

Chairman ROS-LEHTINEN. Thank you.

Mr. Murphy of Connecticut.

Mr. MURPHY. Thank you, Madam Chair.

I look forward to your testimony. I think part of the frustration comes from the fact that a lot of us don't understand the distinction that gets made between a scared cow, which is the Department of Defense, and the State Department and USAID budget that seems ripe for targeting.

I think every country in the industrialized world has figured out that a national security strategy involves being very strong when it comes to tanks and guns but being very strong when it comes to foreign aid as well. I think that we see a double standard that doesn't make sense with how most national security experts would describe a safe nation in the long run.

My one query as you make your comments is back to Mr. Kelly's point in part. I want to make sure that when we are putting aid into these communities, how do we make sure that we get credit for it? How do we make sure that it has an American face—to the degree that we can—so that people understand the commitment that we are making here. I know it is an ongoing conversation and something I am very interested in hearing about.

Chairman ROS-LEHTINEN. Thank you.

Ms. Buerkle of New York who is the vice chair of the Subcommittee on Terrorism, Nonproliferation, and Trade.

Ms. BUERKLE. Thank you, Madam Chair.

Good morning and thank you for being here this morning. I agree with the gentleman, Mr. Connolly, who said we need a vibrant foreign affairs policy. However, that policy needs to be one that is prudent with the American taxpayer's money when it is accountable to the American taxpayer's money and what is in the best interest of this country. I look forward to the hearing this morning. Thank you.

Chairman ROS-LEHTINEN. Thank you so much.

Judge Poe, the vice chair of the Subcommittee on Oversight and Investigations, to wrap up.

Mr. POE. Thank you, Madam Chair. In my opinion the foreign aid process is a mess. Fifty years after a Foreign Aid Authorization Act the process is still what President Kennedy called bureaucratic, fragmented, awkward, and slow. It is no surprise that our aid in real dollars is now at the highest level since 1985 and that in FY 2009 we gave twice as much money away as any other country.

We need to bring transparency and accountability back to the process. In typical Washington fashion all of our foreign aid is done at once in one bill. We either pass the bill for everybody or no one gets it. I am introducing legislation today that breaks this process

up. It changes House rules so members are able to vote on each individual country one at a time.

For every dollar handed out we will be able to ask, How does this further the interest of the United States? If a country can justify that it is critical to U.S. interest, then it will pass. If not, the bill should not pass. I think it is time we show some accountability as Members of Congress and account for the money we spent overseas. Thank you, Madam Speaker.

Chairman ROS-LEHTINEN. Just the way it is. Thank you, Judge.

The Chair is pleased to welcome our two esteemed witnesses. Dr. Shah is the Administrator of the United States Agency for International Development. He was nominated by President Obama and sworn in as the 16th USAID Administrator in December 2009.

Previously Dr. Shah served as Under Secretary for Research, Education, and Economics, and as Chief Scientist for the U.S. Department of Agriculture. He has also served as the Director of Agricultural Development in the Global Development Program at Bill and Melinda Gates' Foundation. Dr. Shah earned his medical degree from the University of Pennsylvania Medical School and a master's degree in health economics from the Wharton School of Business.

Dr. Shah, thank you for attending.

Then we will hear from Mr. Daniel Yohannes, the Chief Executive Officer of the Millennium Challenge Corporation. He was nominated for this position of CEO by President Obama in 2009. Mr. Yohannes is an active philanthrophist and a former banker previously serving as vice chair of the U.S. Bank.

Immediately prior to his confirmation Mr. Yohannes served as president of NMR Investment, a firm specializing in financial services and the renewable energy sector. From '92 to '99 Mr. Yohannes also served as president and CEO of Colorado National Bank and prior to that held numerous leadership roles at the Security Pacific Bank now called Bank of America.

It is also a pleasure to have you here, Mr. Yohannes. Please feel free to summarize your statements. Your statements in full will be made part of the record.

Thank you, Dr. Shah. We will begin with you.

STATEMENT OF RAJIV SHAH, M.D., ADMINISTRATOR, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Dr. SHAH. Thank you very much Madam Chairman, Ranking Member Berman, and members of the committee. I am honored to join you here today in support of the President's Fiscal Year 2012 Foreign Operations Budget Request.

First, I want to briefly comment on USAID's response to the devastating earthquake and subsequent tsunami that hit Japan last Friday. As we speak today, a disaster assistance response team and two urban search and rescue teams from Fairfax and LA County, the same men and women that responded so bravely and effectively to last year's tragic earthquake in Haiti, are working to save lives in Japan. I would like to thank these teams for their courage.

In the Middle East our humanitarian response experts are currently on the Tunisian border and in Egypt helping coordinate and deliver assistance to the tens of thousands of people that are flee-

ing the conflict in Libya meeting immediate needs and returning foreign workers safely to their countries of origin.

Madam Chairman, 1 year ago in this chamber, you asked me to increase our private sector engagement to harness the power of technology and to expand the use of our development credit authority to more effectively leverage private investment.

Ranking Member Berman, you emphasized the importance of ensuring that aid reaches those who need it most and that it is delivered with maximum effectiveness and efficiency. I have taken these concerns to heart. Consistent with the President's Policy Directive on Global Development and the Quadrennial Diplomacy and Development Review, we have launched a series of comprehensive reforms we call USAID Forward, designed to cut red-tape, improve accountability, and deliver better results.

We are also placing a renewed emphasis on economic growth, driven by private sector investment as demonstrated through our Feed the Future Food Security Initiative. Groundbreaking new partnerships with Pepsi-co and General Mills will deliver tens-of-millions of dollars in investment in African agriculture achieving tremendous leverage for our taxpayers and helping to create stability in places where food riots and famines are all too familiar.

Our FY 2012 budget request doubles the capacity for development credit authority and more than doubles the ceiling on loan guarantees allowing us to generate $28 of private investment for every single dollar of taxpayer funds applied.

And across our portfolio, we are seeking new ways to harness the power of technology for development. In Haiti, rather than rebuilding brick-and-mortar banks devastated by the earthquake, we are partnering with the Gates Foundation to begin a mobile banking revolution in the country.

In India we help farmers access solar powered micro-irrigation systems that are in part produced in the United States and improving food security abroad while creating jobs in Georgia and Michigan.

The FY 2012 budget includes dedicated funding for these innovative approaches to development while outlining a number of specific and significant cuts. This budget eliminates bilateral development assistance in 11 countries and shuts down USAID missions in three. It cuts development assistance in at least 20 countries by more than half. It reallocates almost $400 million in assistance and shifts more than 30 Foreign Service positions toward priority countries and initiatives designed to align with our national security and keep us safe.

This year, for the first time, the President's budget presents USAID war funding in a separate account called the Overseas Contingency Operations, or "OCO" Account. This transparent approach distinguishes between temporary one-time war costs and our enduring budget.

USAID's logo is a handshake accompanied by the motto "From the American People." Now more than ever, we are delivering benefits for the American people.

In the most volatile regions of Afghanistan and Pakistan USAID is working side by side with the military playing a critical role in stabilizing key terrain districts, building responsive local govern-

ance, improving the lives of local citizens, and ultimately paving the way for American troops to return home safely.

As General Pertaeus warned just yesterday, inadequate resourcing of our civilian partners, State and USAID, could, in fact, jeopardize the accomplishment of the overall mission.

USAID's work also strengthens America's economic security. By establishing links to consumers at the bottom of the pyramid, we can effectively position our country and our companies to sell more goods and services in the markets of tomorrow.

Best of all, we deliver these benefits for the American people for less than 1 percent of our Nation's total budget. Putting these values into action will deliver real results for the American people, making us safer and more prosperous.

I thank you and I look forward to your comments and questions.

[The prepared statement of Dr. Shah follows:]

TESTIMONY OF DR. RAJIV SHAH
Administrator
United States Agency for International Development
House Committee on Foreign Affairs
March 16, 2011
"The Agency for International Development and the Millennium Challenge Corporation: Fiscal Year 2012 Budget Requests and Future Directions in Foreign Assistance"

Thank you very much Madam Chairman, Ranking Member Berman, and members of the Committee. I'm honored to join you here today in support of the President's Fiscal Year 2012 Foreign Operations Budget Request.

First, I want to briefly comment on USAID's response to the devastating earthquake and subsequent tsunami that hit Japan last Friday. USAID has led the international crisis response, coordinating an interagency effort with the Nuclear Regulatory Commission, and the Departments of Energy, Defense and Health and Human Services.

We've dispatched a Disaster Assistance Response Team and two Urban Search and Rescue Teams. These teams—from Fairfax and Los Angeles Counties—are the same that responded so bravely and effectively to the January 2010 earthquake in Haiti. I'd like to thank these teams for their courage.

Our thoughts and prayers are with the Japanese people at this tragic time, and we will continue to work closely with the Government of Japan to respond to their requests for assistance as quickly as possible.

USAID has also led the humanitarian response to recent events in the Middle East. Even as we speak, USAID teams are positioned on the Tunisian and Egyptian borders, helping deliver assistance to refugees in dire need, while also working to aid tens-of-thousands of migrants in dire need of assistance with onward travel. Our Democracy and Governance and Middle East teams are also working with counterparts to help countries pursue a credible transition to democracy.

INNOVATIVE APPROACHES

Madam Chairman, one year ago in this chamber, you outlined a number of ways in which USAID could leverage the transformative power of innovation to make our programs more efficient and more effective for the people we serve. Specifically, you asked us to increase our private sector engagement, to harness the power of technology, and to expand the use of our Development Credit Authority to more effectively leverage private investment.

Ranking Member Berman, you emphasized the importance of ensuring that "aid reaches those who need it most" and that it is delivered with "maximum effectiveness and

efficiency."

I have taken these concerns to heart.

Consistent with the President's Policy Directive on Global Development and the Quadrennial Diplomacy and Development Review, we've launched a series of reforms we call USAID Forward, designed to cut red-tape and free our talented staff to deliver results. Both the President and Secretary Clinton have argued that development is as important to our nation's foreign policy as diplomacy and defense, and as a result have actively supported the goal of reestablishing USAID as the world's premier development Agency.

We are also placing a renewed emphasis on economic growth, driven by private sector investment. In all our work, we're relying much more on leveraging private sector investment and building public-private partnerships in countries committed to good governance and pro-business reforms.

To spur private sector growth, we are supporting Coca-Cola's initiative to promote the Haitian mango juice industry, and are about to invest $124 million in an industrial park to turn Haiti into a textile-manufacturing hub for the Western Hemisphere.

Through our Feed the Future initiative we are helping countries develop their own agricultural sectors, so they can feed themselves—an effort that began under President George W. Bush.

In East Africa, groundbreaking new partnerships with Pepsico and General Mills will lead to tens-of-millions in investment to develop future markets and help lift people out of a state of hunger and poverty.

Through Feed the Future, we will be able to help nearly 18 million people in 20 countries—most of them women—grow enough food to feed their families and break the grips of hunger and poverty. These countries were selected based on their own willingness to invest in agriculture and encourage investment from other donors, foundations and private companies, allowing us to leverage our efforts several-fold.

Our FY 2012 budget request calls for doubling the amount of "credit subsidy" for our Development Credit Authority (DCA) and for DCA to more than double the ceiling on its loan guarantees.

DCA allows us to generate $28 of private investment for every $1 of taxpayer funds—an incredible leverage ratio by any standard. Since the program's inception in 1999, we mobilized $2.3 billion dollars of credit in 64 countries at a cost of just $82 million.

We've developed a new venture capital-style investment fund—the Development

Innovation Ventures Fund—so we can support start-ups, researchers and non-profits focused on the problems of the developing world. This fund has already funded several projects, including a team at the University of California San Diego that used mobile phones to detect fraud during last year's Afghan elections.

And across our portfolio, we are seeking new ways to harness the power of mobile phones for development. In Haiti, rather than rebuilding brick-and-mortar banks devastated by the earthquake, we're partnering with the Gates Foundation to begin a mobile Banking revolution in the country. By allowing Haitians to save money and make transactions on their cell phones, we're encouraging local wealth creation and cutting back on corruption and wage-skimming.

This approach forms the foundation of a new series of grant challenge partnerships USAID introduced just last week. Rather than just spending millions to build hospitals and power plants throughout the developing world, USAID is partnering with foundations, foreign governments, inventors and engineers to generate new, low-cost innovations that can help countries skip the need for some of this physical infrastructure.

We aim to inspire inventors and entrepreneurs to help solve some of the grandest challenges in development: how we can ensure a woman will survive childbirth anywhere in the world, without a doctor by her side; how we can teach a child—who will likely never set foot inside a schoolhouse—to read; and how we can bring sustainable off-grid lighting to the millions of people who currently live in darkness.

The FY 2012 budget includes dedicated funding for these innovative approaches to development.

FROM THE AMERICAN PEOPLE, FOR THE AMERICAN PEOPLE

Delivering foreign assistance through these innovative approaches will lead to dramatic, meaningful gains in human welfare throughout the developing world.

Our assistance represents the spirit of our country's generosity; captured in USAID's motto: "From the American People."

But now more than ever, it is critical that the American people understand that our assistance also delivers real benefits *for* the American people: it keeps our country safe, develops the markets of tomorrow and expresses our collective values.

National Security

By improving global stability, our foreign assistance helps keep America safe. As Secretary of Defense Gates, Joint Chiefs Chairman Admiral Mullen, and General Petraeus have all emphasized to the Congress, we need a fully engaged and fully funded national security presence, including the core components of our nation's civilian

power: the State Department and USAID.

This year, for the first time, the President's budget designates a portion of USAID funding for Afghanistan to a separate account called the Overseas Contingency Operation Account. This transparent approach distinguishes between temporary war costs and our enduring budget in an effort to consolidate Defense, State, and USAID war costs.

In the most volatile regions of Afghanistan, USAID works side-by-side with the military, playing a critical role in stabilizing districts, building responsive local governance, improving the lives of ordinary Afghans, and—ultimately—helping to pave the way for American troops to return home.

For example, we're helping to improve agricultural yields in the Arghandab Valley. As a result, farmers shipped the first agricultural exports out of Kandahar in 40 years. We've also rebuilt the civil service in the southeast and helped fuel a 40 percent reduction in the growth of opium poppies that fund Taliban operations.

In Northwest Pakistan—the current base of operations for Al Qaeda and the Pakistani Taliban—USAID staff and partners undertake enormous personal risk administering over 1,400 small scale development projects. In the Malakand province, they've helped rebuild 150 schools so children there can become productive members of their economy, instead of turning to extremist madrassas.

Our work in promoting national security is not just limited to Afghanistan, Pakistan, and Iraq. Throughout the world, USAID is deploying development specialists today so that we do not have to deploy our troops tomorrow. As Secretary Gates has said: "Development is a lot cheaper than sending soldiers."

In Southern Sudan, the USAID mission worked with partners to design, procure and pre-position ballots and supplies months before the recent referendum on independence. That foresight helped ensure the referendum, which many predicted would never occur, proceeded peacefully and successfully, but also left us prepared in the event it would not.

Economic Growth

Beyond national security, USAID's work also strengthens America's economic security.

Today, long-time aid recipients like India, Indonesia, Poland and South Korea and other emerging economies have become America's fastest growing markets. Exports to developing countries have grown six times faster than exports to major economies and today they represent roughly half of all U.S. exports.

In 2009, we exported over half-a-trillion dollars in American goods and services to those countries, and 97% of those export revenues went to small-and-medium sized U.S. companies; that's why for every 10% increase we see in exports, there is a 7% increase in the number of jobs here at home.

We need to accelerate the economic growth of tomorrow's trade partners, ensuring those countries rise peacefully and sustainably.

But beyond these impacts, winning the future will depend on reaching the 2-3 billion people currently at the bottom of the pyramid who will come to represent a growing global middle class. By establishing links to these consumers today, we can effectively position American companies to sell them goods tomorrow.

Make no mistake: our success is intertwined with the progress of those around us.

American Values
The evidence is clear: development furthers our national and economic interests. But it also expresses our American values.

When we protect girls from sex trafficking in Latin America, stop deforestation in Latin America or help Afghan girls return to school we express American values.

When Americans see a neighbor in need, or witness suffering and injustice abroad, we respond; we mobilize; we act. We are a generous people. That fact was never clearer than when 20 million American families donated money to Haiti relief; more than watched the Super Bowl. And lest we forget, those donations came during even more difficult economic circumstances than we face today.

USAID is proud to put American values into action -- distributing antimalarial bed nets donated by school children, supporting faith based organizations that help ease suffering abroad, and engaging all Americans in solving the greatest global challenges and generating results.

BUDGET
And best of all, we can do this for less than one percent of our nation's total budget.

For just that sliver of our federal spending, we will help lift nearly 20 million people from an inescapable trap of hunger and poverty, transform AIDS from a death sentence to manageable disease for more than 4 million HIV-positive patients and prevent hundreds of millions of child deaths from preventable diseases by providing them vaccines and bed nets.

For a smaller percentage than what any other industrialized nation commits to foreign aid, we will remain the world's largest donor and continue to lead other countries in promoting development.

The President's FY 2012 budget for USAID outlines a number of significant cuts, presenting what I believe is an accurate reflection of our times: our nation's need to responsibly reduce its debt, and the ability of foreign nations to stand up on their own.

- This budget eliminates bilateral Development Assistance in 11 countries and terminates USAID missions in three.
- It cuts development assistance in at least 20 countries by more than half.
- And it reallocates almost $400 million in assistance and shifts 30 Foreign Service positions toward priority countries and initiatives.

CONCLUSION

Right now is a critical moment in our country's history. As a nation, we are making a lasting determination about the future of our country, and the future of our global leadership.

Now is the time when America must decide whether it will engage and lead the world, actively using its tools of development, diplomacy and defense to improve human welfare and freedom across the globe...

...or whether it will retract, leaving many of its poorest, most fragile global partners without assistance, and leaving other emerging global powers like China to promote alternative economic and political models.

Budgets are an expression of policy; they're an expression of priorities. But fundamentally, they are an expression of values.

Our assistance is not just a line in a budget; it is a reflection of who we are as a country. Our foreign assistance programs began under President Truman. USAID was founded by President Kennedy. And our efforts in Food Security, Global Health and child literacy are hard-earned legacies of President Bush that our Administration has tried to enhance.

The values represented in the President's FY 2012 budget are clear: compassion, determination, and a commitment to universal freedom and opportunity. They are American values, through and through, and demonstrate the best of American global leadership. Putting these values into action will deliver real results for the American people, making us safer and more prosperous.

Thank you.

Chairman ROS-LEHTINEN. Thank you so much.

Mr. Yohannes.

STATEMENT OF MR. DANIEL YOHANNES, CHIEF EXECUTIVE OFFICER, U.S. MILLENNIUM CHALLENGE CORPORATION

Mr. YOHANNES. Madam Chairman, congratulations on taking the gavel of the House Foreign Affairs Committee. We look forward to working with you and Congressman Berman, and every member of the committee to advance American interests and values and reduce poverty in developing countries around the world.

I am especially pleased to be appearing here today alongside my good friend Dr. Shah. We speak on a regular basis about how our agencies can collaborate, avoid duplication, and leverage our comparative advantages.

If there are no objections, I would like to submit my full testimony for the record and summarize it for you now.

Let me offer my view of what makes the MCC so effective and distinctive. Republicans and Democrats, including some of you, worked together to create MCC in 2004. You outlined a new vision for development, one based on accountability and a business-like approach.

My own background is in banking. I bring a banker's perspective to my role as CEO of MCC. I have a client, the U.S. taxpayer. I have a partner, the countries receiving MCC assistance and the citizens they represent. I have a goal, to get the best return.

We focus on economic growth, sustainability, country ownership, transparency, and results. I am very pleased that the principles that MCC was founded on and have implemented for the past 7 years are central to the administration's new global development policy and to the priorities that we have heard from Congress.

In deciding where to invest, MCC measures whether a country has created a policy environment for sustained economic growth. This focus on economic growth and a transparent selection process allow us to say no to those countries that are not accountable to their people and not pursuing policies that promote markets and economic growth.

We believe that engaging with developing countries in a targeted selective way is a good way to achieve development impacts. This is fiscally responsible and it is critical for helping poor countries attract private sector investment which I believe is the only path to ending reliance on assistance.

MCC also puts a laser focus on results. All donors and host countries are interested in achieving results. What sets MCC apart is our rigorous, systematic, and transparent methods of evaluating the impact of our programs. From the beginning, our projects are subjected to a thorough analysis to ensure that there will be an economic rate of return.

From MCC's current investments we expect more than 170 million people and the poorest countries will benefit. We expect incomes to rise by over $12 billion over the life of those investments. Those projects are underway and on track.

We do have early data that is extremely promising. Let me give you an example. In Honduras preliminary data collected by program implementers of our agriculture program suggest that farm-

ers receiving assistance from MCC saw their annual net income rise 88 percent on land being cultivated with new practices from $1,880 per hectare to $3,550 per hectare.

I want to stress that this is early data and we will know much more when independent evaluations are complete. This is the kind of strong return on the U.S. taxpayer's investment that MCC is working to deliver.

Looking ahead President Obama has requested $1.125 billion to fund MCC in the next fiscal year. This amount would enable MCC to sign compacts with Indonesia, Georgia, and Ghana. These countries were selected because of their strong policy performance, their status as important emerging markets, and their strategic importance to the United States.

With that, Madam Chairman, I would like to again state my appreciation for your support and this committee's support for MCC. I look forward to our discussion. Thank you.

[The prepared statement of Mr. Yohannes follows:]

Testimony of Daniel W. Yohannes Chief Executive Officer, Millennium Challenge Corporation to the House Foreign Affairs Committee

The Agency for International Development and the Millennium Challenge Corporation: Fiscal Year 2012 Budget Requests and Future Directions in Foreign Assistance

March 16, 2011

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Madam Chairman, congratulations on taking the gavel of the House Foreign Affairs Committee. We look forward to working with you and Congressman Berman, and every member of the Committee to advance American interests and values and reduce poverty in developing countries around the world.

I am especially pleased to be appearing here today alongside my good friend, USAID Administrator Shah. We speak on a regular basis about how our agencies can collaborate, avoid duplication, and leverage our comparative advantages.

Asking the Tough Questions in a Budget-Constrained Environment

The Millennium Challenge Corporation (MCC), like other U.S. government agencies, is operating in a constrained budget environment. MCC holds itself accountable to the American people to ensure every taxpayer dollar generates the best possible return on investment. As good stewards of American taxpayer dollars, every day we ask ourselves the tough, fundamental questions about the effectiveness and efficiency of our approach to development and our operations.

Before discussing President Obama's Fiscal Year 2012 budget request for MCC, and highlighting issues of strategic importance to the agency in the coming months, I would like to address three fundamental questions about MCC. First, what makes us distinctive? Second, are we delivering results? And third, how are the American people benefitting from MCC's investments?

MCC's Selective, Targeted Approach to Development Assistance

What makes MCC distinctive? One of the most distinctive features of MCC is our broad-based, bipartisan support. The MCC approach to development—with our focus on economic growth, sustainability, country ownership, transparency and accountability—has been embraced by Democrats and Republicans in Congress; Presidents Obama and Bush; Secretaries Clinton, Rice, and Powell; and leading voices from the right and the left, from the Heritage Foundation and the American Enterprise Institute to the Brookings Institution and the Center for American Progress.

Why has MCC won the support of policymakers and analysts across the political spectrum? Because of our innovative, reform-minded mission and business model. MCC's mission is to reduce poverty through economic growth in a select number of well-governed countries. MCC selects country partners carefully to ensure the highest returns on our investments and creates strong incentives to advance democratic, market-based principles—not just in MCC countries but in emerging markets across the developing world.

Part of MCC's accountability model is the ability and willingness to say "no"—no to countries that do not meet MCC's high standards for eligibility, and no to proposed investments that do not have promising returns for economic growth and poverty reduction.

In determining eligibility for funding, MCC evaluates whether a country has created a policy environment for sustained economic growth through 17 independent, transparent policy indicators that measure a country's commitment to ruling justly, economic freedom, and investing in its own people. We believe that engaging with developing countries in a selective, targeted way is not only fiscally responsible in the short-term, but also is critical to poor countries attracting private investment and ending their reliance on aid.

Good governance is critical for economic growth. We look for opportunities for reform in areas that will ensure the sustainability of our investments. These reforms have included changes to national policies, laws, regulations, or even the traditional ways of doing business by government institutions. For example, before investing in Lesotho, we worked with the government to change a law that treated adult women as minors so that they could be full participants in the economy. In most cases, these reforms, and the domestic capacity that MCC's country-led programs build, not only help unlock the full potential of U.S. taxpayer dollars, but also help improve the broader conditions for continued growth and investment in our partner countries.

Signing up to work with the MCC means a country is committing itself to tackle the tough policy reforms necessary to create an environment in which the private sector can thrive, citizens can hold their governments accountable, and U.S. taxpayers can see they are getting a good return investment. Our goal is not only to help poor countries rise out of poverty and achieve self-sufficiency, but to create stable trading and investment partners for the United States, which will strengthen the American economy and make our nation more secure.

MCC is Delivering Results

Are we delivering results? MCC's focus on economic growth, sustainability, country ownership, transparency, and accountability is working. All development partners, both donors and host countries, are interested in achieving results. What distinguishes MCC is our commitment to technically rigorous, systematic, and transparent methods of projecting, tracking, and evaluating the impact of our programs. MCC's results exist along a continuum—from policy changes countries make to become compact eligible ("the MCC Effect"), to interim outputs and outcomes as compacts mature, to our ultimate goal: income increases over the long term.

We expect MCC's current investments to benefit more than 170 million people in the poorest countries around the world—and we expect incomes to rise by over $12 billion over the life of those investments.

Even before these income gains are achieved, MCC and our country partners have tangible results to show. To date, MCC investments in new or improved irrigation and technical assistance have facilitated the adoption of new agricultural practices on 82,510 hectares of land. Our programs have trained over 150,000 farmers in techniques that help them produce higher-quality, higher-value crops. We have provided $66 million in agricultural loans, and have assisted over 3,800 private enterprises involved in agriculture related business. We have supported construction of more than 890 kilometers of roads that link markets and encourage trade, and have another 2,400 kilometers under construction. These interventions aim to increase incomes though market-driven agriculture. MCC tracks these results closely because they are the drivers of the income gains we and our partners aim to achieve.

While these results are important indicators of success, they do not tell the whole story. We are pleased that our program outputs are on track, but we hold ourselves to a higher standard: are MCC investments increasing incomes? That is why we are so excited about preliminary, very promising data that is coming from our first completed program in Honduras.

In Honduras, we have preliminary data from our agriculture program implementer showing that farmers who received assistance from MCC saw their annual net income rise 88 percent, from 1,880 dollars per hectare of land cultivated using new practices to 3,550 dollars per hectare.

I want to stress that this is preliminary data, and we will know much more when the work of our independent evaluators is completed. But it is consistent with the output- and policy-based results we have seen and the personal stories I have heard directly from farmers and entrepreneurs with whom I have visited in those countries.

MCC's Investments Are Helping to Build the Next Generation of Emerging Markets and Make Americans More Secure

How are the American people benefitting from MCC's investments? President Obama's new development policy is building on the best ideas of the Bush Administration and calling on U.S. development agencies to help build the next generation of emerging economies. By doing so, we are investing in a better future that offers opportunities not only to poor people in MCC partner countries but to American businesses and our own citizens.

In a speech last month, Bill Gates noted that fully half of current U.S. exports—more than half a trillion dollars—go to developing markets. Looking forward, leading economists expect the developing world to become the growth engine of the global economy.

MCC investments look to remove constraints to growth so that the private sector will invest and flourish. These investments are helping to build a foundation for U.S. exports and increased business activity, which will mean increased growth and job opportunities here at home.

MCC is funding more public-private approaches that can leverage our effort and bring in the private sector from the beginning. We are focusing on policy reforms, such as an initiative in Jordan that has attracted $90 million in private investment in the water sector.

Our approach creates strong incentives for policies that are business friendly. In Cape Verde, for example, the time to register a business dropped from 54 days to one hour. Those are the kinds of changes that convert foreign assistance from a well-intentioned contribution into a productive investment.

MCC is also helping to make Americans safer and more secure by promoting stability and developing strong partners in key regions around the world. Defense Secretary Robert Gates has been one of the most persuasive advocates for financing development work. In recent remarks, Secretary Gates stated:

"...[I]n military planning, what we call phase zero is, how do you prevent conflict? How do you create conditions so we don't have to send soldiers? And the way you do that is through development. Development contributes to stability. It contributes to better governance. And if you are able to do those things and you're able to do them in a focused and sustainable way, then it may be unnecessary for you to send soldiers...Development is a lot cheaper than sending soldiers."

That is one reason why President Obama, like President Bush, has made development—together with defense and diplomacy—a critical pillar of our national security.

The President's Fiscal Year 2012 Budget Request for MCC

President Obama's budget request for MCC for Fiscal Year 2012 is $1.125 billion. This amount would enable us to sign compacts with Georgia and Ghana, as well as fully fund a compact with Indonesia.

MCC's estimated budget requirements for these compacts are based on several factors, including policy performance on MCC's indicators, total population, population living below national poverty lines, absorptive capacity, and, in the case of Ghana and Georgia, performance in previous compact implementation. Final compact amounts will be based on funding availability and on the scope of agreed upon projects.

MCC requests $912 million of the total Fiscal Year 2012 request for compact programs, divided between a second tranche of funding for Indonesia and subsequent compacts for Georgia (est. $100-150 million) and Ghana (est. $350-400 million). Because of its proposed size, the Indonesian compact would be funded over Fiscal Years 2011 and 2012 for a total compact range of $700-770 million.

Indonesia is the fourth most populous country and the largest Muslim-majority country in the world, with more than 100 million of its 250 million people living on less than $2 per day. Given Indonesia's strategic importance to the United States, its economic potential, and the high number of people living in poverty, an MCC compact would be a smart investment for the American people.

Both Ghana and Georgia were selected by the MCC Board of Directors as eligible to develop subsequent compacts. These countries were selected because of their continued strong policy performance, their status as important emerging markets, their strategic importance both globally and regionally, and their successful implementation of their first compact.

The Republic of Ghana consistently performs well on MCC's indicator criteria and is generally viewed as one of Africa's most stable policy performers. Since 2004, Ghana has scored among the top Lower Income Countries on the Control of Corruption indicator. In a region where constitutional transfers of power are often disputed, Ghana has a record of peaceful democratic elections and the transfer of power to opposition parties. In 2009, Ghana ranked better than almost two-thirds of all countries on Transparency International's Corruption Perceptions Index, and is preparing for transparent management of potential oil revenues.

Georgia is recognized globally as one of the best investment climate reformers, even though 30 percent of its population still lives on less than $2 a day. Over the last five years, its scores on the World Bank's Doing Business assessment have improved more than any other country in the index. The country has also made significant strides to privatize state-owned industries and improve its Transparency International rank on the corruption perception index. This good economic policy performance is reflected by the fact that Georgia has seen a 55 percent increase in new businesses registered.

MCC's Subsequent Compacts Will Focus on Constraints to Investments

Entering our seventh year, MCC is beginning a new phase of innovation and partnership. As first compacts strengthen the foundation for economic growth, subsequent compacts—new MCC investments with countries that have successfully concluded their first compacts—are expected to target constraints to private investment. MCC aims to help countries, like newly-selected Georgia and Ghana, solidify an economic growth path that attracts private investment, reducing the need for aid.

MCC's engagement with partner countries is not open-ended. MCC carefully considers the appropriate nature and duration of each country partnership based on the country's policy and implementation performance, as well as the opportunities for impact on growth and poverty reduction. A defining characteristic of MCC's model of aid effectiveness is selectivity, both in the countries we work with and the investments we make. MCC's evolving business model emphasizes selectivity and our mandate to partner with countries where investments will have the greatest potential returns in terms of poverty reduction and economic growth, and where U.S. taxpayer resources can be used most efficiently and effectively.

While a single compact alone cannot address all binding constraints to a country's growth, or transform an entire economy, a subsequent compact in a country that continues to perform well has the potential to help countries change their growth path away from aid dependence and toward greater reliance on private sector investment and internally-generated revenue. For the poorest countries, even the ones with the right policies in place, it may take decades of sustained growth to lift citizens out of poverty. For low-income countries like Tanzania or Ghana that have annual per capita incomes of $500 and $700 respectively, economists estimate that it could take over 20 years to double per capita income even if they sustain annual per capita growth of four percent (a historically high rate).

This does not mean, however, that MCC engagement should last anywhere near that long. On the contrary, MCC's role is targeted and selective, and only the best performers will be eligible for continued, limited engagement. MCC's Board is particularly discerning when determining eligibility for follow-on partnerships. In addition to good policy performance, countries must show meaningful progress toward achieving first compact results before being considered for a subsequent compact. Of the seven countries that will conclude first compacts by the end of 2011 (Armenia, Benin, Cape Verde, Honduras, Georgia, Nicaragua, and Vanuatu), MCC's Board has only selected three as eligible for a subsequent compact. Cape Verde was selected in Fiscal Year 2010 and Georgia and Ghana in Fiscal Year 2011.

In our approach to subsequent compact design, MCC focuses increasingly on specific constraints to investment and private sector engagement, with an emphasis on creating opportunities for expanded U.S. participation in emerging markets and opportunities to benefit from trade. This is in line with the

President's Global Development Policy directive to foster the next generation of emerging markets by encouraging broad-based economic growth and democratic governance.

MCC supports this effort by reaching out to the private sector, by grounding our investment choices in a constraints analysis which identifies specific obstacles to private sector-led growth, by introducing financial instruments designed to enhance access to capital, and by promoting innovative project content in areas of potential growth such as alternative energy, applied technology, and financial inclusiveness.

Potential to leverage MCC funding with a direct impact on investment growth serves as one of the screens for evaluation of second compact programming, in addition to MCC's mandate to promote poverty reduction through economic growth. By helping these countries solidify the progress they have made and become better integrated in the global market system, the United States is opening new investment opportunities for American firms as well.

MCC Believes Corruption Erodes Private Sector Growth

I would like to discuss another critical topic, which is how MCC deals with corruption in potential or current partner countries. Because corruption has the power to completely undermine private sector growth, and any investment MCC or other donors make in developing countries, we take this issue extremely seriously.

MCC's approach to fighting corruption begins before we even choose a country for eligibility. MCC's corruption indicator is a key part of country eligibility decisions.

Earlier in my testimony, I spoke of the strong results we are seeing from our partnership with Honduras. Honduras, however, did not pass MCC's control of corruption indicator at the time of country selection for Fiscal Year 2012. Not selecting Honduras for a second compact was a difficult decision for MCC's Board, given Honduras's strong performance in implementing its first compact, but the decision was a principled one based on the importance we place on anti-corruption efforts.

I know Honduras is of particular interest to the Chairman and many other members of the Committee. While the State Department remains the lead on working with the Government to address human rights and political issues, MCC has been engaged in very constructive conversations with the Government of Honduras to improve performance on accountable governance, enhanced management of public resources, and fiscal transparency. The Honduran government has initiated a set of reforms to improve budget management and transparency, increase civic participation in budget preparation and reporting, upgrade legislative oversight, and strengthen internal and external audit functions.

Our scrutiny does not stop after selection. Corruption is closely monitored as a country begins to develop a compact and proceeds into compact implementation. MCC has a publicly available anti-fraud and corruption policy that outlines precautions that MCC takes and describes ways of responding to any instances of corruption in a compact. We are currently training our local MCA accountable entities on how to apply this policy and develop risk assessments for their own work.

In addition to protecting against corruption in our compacts and assessing individual cases of corruption, MCC assesses broader patterns of government actions that undermine institutions of accountability: courts, anti-corruption commissions, auditors, and the media. Governmental actions that undermine these institutions of accountability make individual instances of corruption more likely, enable corruption to flourish, and cultivate a culture of impunity. By placing an emphasis on the institutional response, MCC incentivizes governments to take greater responsibility for rooting out corruption.

For example, we and several other donors made clear to the Government of Senegal that recent changes to their procurement code and implementing agency, in part due to legitimate national security concerns, were an accountability concern to us. In response, the Government has been in discussion with donors, including MCC specifically, to address our concerns as they further revise the procurement code. Consequently, they have taken steps, which we are currently studying, to amend the changes that would have weakened procurement procedures.

Working with some of the poorest countries in the world means working with countries that struggle with policy performance including corruption. MCC's challenge is to find the right way to pursue poverty reduction while staying true to our model of selectivity and accountability, and this is particularly true in the case of corruption.

MCC's Proposed Legislative Changes Would Strengthen an Already Strong Model

We hope to work with you again this year, Madam Chairman and the other members of the Committee, on passage of a package of legislative changes to MCC's current authorities, including allowing for concurrent compact authority and longer compacts in certain circumstances.

The proposed changes are based on lessons learned since MCC's creation in 2004 and will provide the flexibility needed to maximize the impact of MCC programs through more innovative approaches to development assistance.

Concurrent compact authority would allow MCC to sign separate compacts with a country based on the specific timing requirements of individual projects rather than as part of a package driven on a single timeline. Concurrent compacts would improve MCC's ability to manage our compact pipeline with greater predictability and serve as an added incentive for policy reforms in partner countries.

With concurrent compacts, the agency could move forward with projects that are investment-ready, instead of putting several projects at various stages of readiness into a single compact or delaying compact signing for a promising but less-developed project. As part of a larger, cohesive framework, concurrent compacts will allow for smaller, staggered agreements; speed implementation; improve project management by allowing countries to focus on managing fewer projects at a time; build management capacity with early projects; ease the current burden of managing large, complex compact programs; and foster innovation by allowing MCC to pursue new approaches and partnerships that could otherwise slow down the compact development process.

Additionally, while having definite time frames for MCC compacts is an important best practice for effective foreign assistance, in some cases projects face implementation challenges that mean they cannot be completed within the mandated five-year period, particularly given MCC's emphasis on country-led implementation and MCC's high accountability standards. In these cases, MCC's options for responding to implementation challenges are limited by the five year time frame. Allowing MCC, in exceptional circumstances, to extend the duration of our five-year compact period for up to two additional years would allow MCC and our partner countries to pursue a fuller set of options for managing challenges and achieving compact objectives.

MCC also has sought legislative changes aimed at ensuring that changes in countries' income categories do not prevent the agency from working with the best policy performing countries that also have populations living in extreme poverty. Each year, countries abruptly graduate from one income category to another with no transition period. Sudden shifts in income category, due in part to changes in exchange rates, pose serious issues for MCC. This impacts whether they can be candidates for MCC assistance at all, and changes both the policy performance standards against which they are measured and the levels of funding they can receive.

Conclusion

With that, Madam Chairman, I would like to state my appreciation for your support of MCC as well as this Committee's bipartisan history of support for effective, results-oriented foreign aid.

Honduras

MCC and MCA-Honduras identified low agricultural productivity and high transportation costs as key barriers to economic growth and poverty reduction. The program, therefore, sought to improve small farmer productivity and investment in transportation. The $205 million compact was signed in September 29, 2005 and finished in September 29, 2010.

Policy Reforms	• **Increasing access to credit through a moveable property registry:** Through the newly-enacted Secured Transaction Law and establishment of a movable property registry system enabling credit seekers to use an entirely new category of moveable, non-real estate property—such as shop inventory, future crops, tractors, supply contracts, and sewing machines—as collateral. • **Enabling responsible resettlement:** The Honduran government passed a special decree fully authorizing MCA-Honduras to carry out a comprehensive resettlement program that provided affected parties with timely and fair market-value compensation beyond current legislative allowances, managed resettlement activities effectively, cleared the right of way, and started and completed road construction more quickly than other projects investing in the same highway and facing similar resettlement needs. • **Ensuring road sustainability:** Both a weight control system and a road maintenance fund are necessary for sustainability. Although MCC terminated assistance for the weight control system, the Honduran government and other donors are stepping in to construct and operate the system designed by MCC. Also, at MCC's request, Honduras progressively increased its road maintenance budget from less than $40 million in 2005 to $64 million in 2010.
Outputs	• More than **7,000 farmers** received technical training in better crop management, irrigation techniques, business skills, marketing, and post-harvest handling. • More than **10,000 loans** have been extended to **5,800** farmers, agribusinesses and other producers, giving them the means to buy equipment, seeds and tools to help them expand their production and increase their profits. • A total of **611 kilometers of roads** have been rehabilitated, including sections of the **CA-5 Highway** as well as rural and secondary roads, reducing transportation costs and time to national, regional and global markets.
Preliminary Outcomes	• Of the farmers trained, **6,029** increased their production of high-value horticultural crops to earn **$2,000** or more per hectare, demonstrating their effective adoption of the new techniques. • Farmers have reported that with more income, they are improving their farms and homes, purchasing vehicles to transport their produce to market and investing in the education of their children.
Preliminary Income Gains	• An analysis by MCC using preliminary data from the implementer of the agriculture training program in Honduras shows that farmers assisted by the compact have seen their annual net income per hectare rise from approximately **$1,880** at the baseline to **$3,550** on average after 2 years of assistance, a gain of 88 percent, which is much faster than the approximately **7 to 11 percent growth** that would have been expected in the absence of the program. This initial estimate will be refined as MCC completes the rigorous third-party evaluation of the program that is currently underway.
Impact Evaluation	• Though MCC can point to real change in Honduras now, MCC's stringent standards for measuring and reporting results require independent evaluations to verify the immediate and long-term impact of our partnership. These evaluations, which are expected by September 2011, will measure the gains in income attributable to MCC investments. • Over the next 20 years, MCC's investment in Honduras is expected to benefit more than **1.7 million** Hondurans and increase incomes by about **$240 million**.

Cape Verde Low-income households engaged in subsistence farming have limited opportunities to adopt new practices to raise incomes, MCC and MCA-Cape Verde sought to increase agricultural productivity, build vital infrastructure and develop a robust private sector to transform agriculture into a productive, competitive business sector. The $110.1 million compact entered into force on October 17, 2005 and finished in October 17, 2010.	
Policy Reforms	• **Decree Lifting Embargo:** Cape Verde issued a national decree lifting 20-year embargo on agricultural exports from the island of Santo Antão put in place because of a millipede infestation, contingent upon the construction/operation of the MCC-funded post-harvest inspection center. This now gives Santo Antão farmers an outlet for income-generating trade. • **Road Maintenance Fund:** In response to the compact, the government established a Road Maintenance Fund that is financed by a levy on road users for maximum sustainability of the road improvements. • **Citizens' House (*Casa do Cidadão*):** The Citizens' House electronic system improves access to government services and the MCC Compact contributed to this e-government service through a Cape Verdean agency by investing in equipment, software and technical assistance valued at more than $3 million. In 2007, it took 52 days to start a business in Cape Verde. By 2010, Cape Verde had reduced both the cost and time to start a business to an hour; • **Microfinance Legislation:** As a condition precedent to providing technical assistance to micro-finance institutions, Cape Verde enacted a micro-finance law that, among other improvements, authorized MFI collection of savings.
Outputs	• To increase agricultural productivity in targeted rural watershed areas, **28 reservoirs** (100 percent of the target) have been completed, **549 farmers** have been trained in new technologies and four participating microfinance institutions have issued **$617,000 in rural agricultural loans** to **209 farmers or agribusinesses.** • Three rural roads, totaling **40.6 kilometers**, have been upgraded from cobblestone to asphalt pavement connecting coastal and inland villages with larger population centers and markets. In addition, all **four bridges** have been completed, reducing the average annual number of days riverbeds were impassable from eight to zero during the heavy rainy seasons and contributing to the overall improvement of Cape Verde's rural transport network. • The **Port of Praia's efficiency increased** with the completion of the first phase of work, including the construction of a cargo village and access road and the rehabilitation of quay 2. • To increase financial intermediation and competition in the government securities market and develop the private sector, MCA-Cape Verde provided **eight microfinance institutions with technical assistance**, building capacity through training on best practices in accounting, credit appraisal, delivery, collection, human resources management, and marketing. Cape Verde also is launching the first **private credit bureau.**
Preliminary Outcomes	• Reduced road roughness because of rehabilitated roads is expected to result in shorter travel time, increased mobility, reduced operating costs and improved access to employment opportunities, markets, educational and health care facilities, and other social services. The improved benefits stream will be measured as part of an initial ex-post *Economic Rate of Return Analysis* on road investments as well as an impact evaluation. • As farmers increase their agricultural productivity, they will also increase their household income from farm profits and wages. A rigorous post-compact impact evaluation will confirm the impact on household income.

Cape Verde Low-income households engaged in subsistence farming have limited opportunities to adopt new practices to raise incomes, MCC and MCA-Cape Verde sought to increase agricultural productivity, build vital infrastructure and develop a robust private sector to transform agriculture into a productive, competitive business sector. The $110.1 million compact entered into force on October 17, 2005 and finished in October 17, 2010.	
Preliminary Income Gains	• In Cape Verde, preliminary findings of the Agricultural Support Project show significant results for farmers who received MCC assistance. After a year of very bad rains, farmers not receiving MCC assistance experienced a decrease in income of 88 percent, while incomes declined by only 18 percent for those farmers receiving MCC assistance. This improvement was seen in less than one harvest period. MCC's combination of agricultural credit and training in soil and water management techniques are associated with a significant difference in the income of Cape Verdean farmers. These results, which are from an income survey of the first warm season agricultural cycle, will be refined as MCC completes the rigorous third-party evaluation of the program that is currently underway.
Impact Evaluation	• Project evaluations are expected beginning in November 2011 through June 2014 and will measure the gains in income attributable to MCC investments. • MCC's investment in Cape Verde is expected to benefit nearly 385,000 Cape Verdeans and increase incomes by over $149 million over the next 20 years.

Long-Term Program Impacts

At present, MCC funds are projected to benefit 171,729,564 people and lead to approximately $12.3 billion in increased income. For most projects, MCC expects estimated income gains will be realized within a 20 year horizon after the compact enters into force. The table below shows the number of expected beneficiaries by country.

Compact	Estimated Number of Beneficiaries	Estimated Long-Term Income Gain Over the Life of the Project (NPV of Benefits)
Armenia	427,623	$424,862,716
Benin	13,421,086	$409,568,812
Burkina Faso	384,765	$149,471,371
Cape Verde	794,811	$366,707,505
El Salvador	344,244	$301,305,834
Georgia	1,217,133	$683,253,724
Honduras	1,704,553	$237,274,575
Jordan	TBD	$800,300,000
Lesotho	1,041,422	$376,048,666
Madagascar	480,347	$123,202,505
Malawi	5,900,000	$2,300,000,000
Mali	2,836,578	$457,098,832
Moldova	414,000	$259,940,491
Mongolia	2,897,985	$306,921,751
Morocco	845, 415	$860,408,732
Mozambique	4,565,136	$632,655,761
Namibia	1,063,413	$240,500,000
Nicaragua	107,832	$113,395,397
Senegal	1,662,129	$862,900,000
Philippines	125,000,000	$666,226,989
Tanzania	5,425,013	$1,474,290,895
Vanuatu	14,783	$54,000,000
Total for All Compacts[1]	171,729, 564	$12,287,206,834

(Footnotes)

1 These estimates do not include beneficiaries of projects or activities terminated, suspended or on hold in Madagascar, Honduras, Nicaragua, and Armenia. Madagascar's estimates account for that compact's early termination. Net present value (NPV) of benefits is the present value of the benefit stream calculated as the sum of all projected benefits accruing within the first 20 years of the project lifespan, evaluated at a 10% discount rate. NPV of all benefits is reported in millions of US$ in the year that the ERR was completed. "TBD" beneficiary estimates for the Jordan compact will be finalized when the compact enters into force.

Chairman ROS-LEHTINEN. Thank you very much for excellent testimony and they will be made part of the record.

I wanted to ask some questions. I don't think we will have time for answers but would love to have them in writing later if I could and we will provide those for you.

On Honduras, thank you for mentioning that country. While I was disappointed that the Honduran Government was unable to qualify for a second compact due to the wrongdoings of its predecessor government headed by Manuel Zelaya, I recognize the principal decision of MCC. I commend MCC's commitment to working with the current Government of Honduras to advance its efforts in support of accountable governance, enhanced management of public resources and fiscal transparency.

However, our State Department is continuing to impose pressure tactics and unjust visa policies against those who defended the sanity of the Honduran constitution and the rule of law against Zelaya's attacks more than a year after President Lobo took office.

So our State Department that is harassing those who uphold the rule of law in Honduras are really undermining the very investments that MCC and USAID have made, are making, and plan to make. One is punishing and the other one is trying to help. So what steps is MCC taking to compensate for the time lag under its corruption indicator for future determinations?

My second question is for Dr. Shah and that is about the announcement of a U.S. enterprise fund for Egypt. Yesterday Secretary Clinton said in Cairo that she will seek a quick congressional approval of an enterprise fund for Egypt funded at $60 million. Monies from such funds come out of AID's budget as a rule.

Our committee has not been consulted but was only told informally yesterday when we inquired there are serious issues involving some of our earlier enterprise funds. In one case the executives of the funds were allowed to set up a stock option plan and when they closed down the fund's operations, the CEO reportedly gave himself $22 million, the chief financial officer was awarded $9 million, the managing director reportedly got over $8 million, and other executives got between $1 million and $4 million each.

Meanwhile, $200 million of that fund's cash was transferred to a legacy foundation. The taxpayers got back a grand total of $27.5 million. The oversight of this legacy foundation's set-up by enterprise funds as they have closed down operations have been questionable to say the least. Why would we do this again now in Egypt given these issues?

Lastly, and you can get back to me in writing, on Afghanistan. In early 2010 the Washington Post reported that the Kabul bank with its ties to the Karzai family and sometimes questionable practices played a part in what they say is, "Crony capitalism that enriches politically connected insiders and dismays the Afghan populous."

I wanted to ask if the accounting firm Deloitte or any other USAID contractors reported incidences of malfeasance at the bank, what was the damage estimate conducted as a result of the run on the bank, and did USAID conduct a performance review or audit of the Deloitte contract?

In my opening statement I pointed out that times are tough and I want all of our agencies who appear before us, our agency heads, to know that some of us are very serious about cutting the budget. I had mentioned that the mayor of Miami Dade County and a county commissioner—Miami Dade is a very large county—was recalled by 88 percent of the electorate yesterday, an amazing turn of events due in large part for approving a bloated county budget that increased property taxes.

There were no problems of raft or corruption or ethical issues involved in these two officials at all. Voters want fiscal sanity. I would hope that all of our agencies when they present their budgets keep that in mind and that this is a serious issue and perhaps serious differences between some of our parties.

Thank you, gentlemen, and look forward to getting your questions later.

I now would like to turn to my ranking member, Mr. Berman, for his questions.

Mr. BERMAN. Thank you very much, Madam Chairman. I'm going to ask, for me anyway, a relatively short question. Not completely short, but relatively short, to give both of you a chance to take the remaining hopefully 4 minutes or so to answer it.

Assume H.R. 1 was enacted into law, the House Republican CR. In USAID's case there would be a 50-percent cut in disaster assistance. The catastrophic damage in Japan serves as a reminder of how important it is to have a flexible funding ready and available to use in emergency. If this were in a poor country how could we have responded in such a situation?

In MCC's case a nearly 30-percent cut in your budget would mean reducing, delaying, or scrapping any number of compacts that you spent years preparing for. How would that affect your ability to leverage tough economic and political reforms?

I might point out in this case these cuts are totally disproportionate, even if one were to accept the overall reductions contained in the Fiscal Year '11 budget proposed by the majority party here.

Dr. Shah first.

Dr. SHAH. Thank you. The cuts to the humanitarian account and the cuts in H.R. 1 overall for USAID would be absolutely devastating. The humanitarian account allowed us to support the recovery in Haiti. Just in the last few weeks it allowed us to run three different humanitarian operations and respond quickly and efficiently, transmitting our values and protecting our national security and preventing the need to send in our military. The option of using the military as the first line of defense as opposed to civilian humanitarian response is very, very costly and a far less effective way to address these concerns.

I would also add that those cuts also would affect our food security program, essentially shutting down Feed the Future, which is a private sector-oriented program based on the principles of selectivity and accountability and designed to focus on precisely those countries and communities where the link between food and security, food riots, and famines is very, very strong.

It would reverse progress in malaria which, for example, has seen a 30-percent reduction in all-cause child mortality as a result of a program President Bush created and we have continued. That

would be reversed significantly and would undermine our ability to conduct our procurement reforms which allow us to reign in contractors and better manage resources. The meta-story is, over a 15-year period, USAID staffing has been cut by more than 40 percent.

The Agency is significantly diminished because of it and we have outsourced at great cost to American taxpayers and large inefficiencies some of the functions that absolutely need to be conducted by U.S. direct hire staff. All of these reform priorities, including our priorities in Afghanistan, Pakistan, Iraq, Sudan, and Haiti would be significantly undermined.

Mr. BERMAN. Mr. Yohannes.

Mr. YOHANNES. Thank you, Congressman Berman. We have been working with Zambia, Indonesia, and Cape Verde. The proposed cut would have a significant impact in Indonesia as Indonesia, of course, is the most populous country in the world and the largest Muslim country in the world. We have been working with them primarily and it relates to the embarkment projects. This would have measured consequences in terms of not getting those projects complete if, in fact, the 30-percent cut is made permanent. Thanks.

Mr. BERMAN. Thank you, Madam Chairman.

Chairman ROS-LEHTINEN. Thank you very much.

Mr. Smith.

Mr. SMITH. Thank you very much, Madam Chair.

Gentlemen, thank you for your testimony and for your service to the country. Let me ask, or make a very brief statement and then ask a few questions.

Secretary of State Hilary Clinton did, in my opinion, a grave disservice in the struggle to reduce maternal mortality worldwide when on March 1st before this committee testified that 529,000 women die from complications in childbirth each year.

Obviously any woman who loses her life in childbirth, or for any reason, is a numbing loss, especially to her family. I would respectfully submit that conveying false information, misleading and inflated numbers, may have shock value but in accuracy in assessing efforts to mitigate maternal mortality and engaging in hyperbole is wrong.

The Secretary of State failed at first to acknowledge the massive study on maternal mortality financed by the Gate Foundation published in the Lancet last may that found significant progress. It had dropped to 342,000. And if deaths attributable to the HIV/AIDS pandemic were excluded, it drops to 281,000. Still unconscionably high but not 529,000.

On September 15, 2010, WHO and several other U.N. agencies announced that maternal deaths worldwide had dropped by a third. That was the headline, dropped by a third. There estimate is about 358,000.

Obviously still unconscionably high but, again, I would respectfully submit false numbers expressed by Mrs. Clinton to this committee undermines the initiatives that are working, especially skilled birth attendants, safe blood, adequate nutrition which I know, Dr. Shah, you have been a champion of, as has the Secretary of State, and maternal health. We need to be accurate in our numbers to the greatest extent possible. Two major studies last year couldn't have been more clear that we are indeed making progress.

Secondly, let me just say briefly that in late February Dr. Bernard Nathanson, the founder of NARAL Pro-Choice America, back in 1969 passed away. I would, again, respectfully submit to this administration that a reappraisal, and I won't hold my breath. It may not happen, but a reappraisal at least, about the child in the womb and the inherent bigotry and prejudice against that child in the womb that is inherent in the abortion culture and the promotion of abortion worldwide by this administration at least be taken a second look at.

What caused Dr. Nathanson to change his mind and go from being the leading abortionist in the United States of America to a leading pro-life advocate? He started doing prenatal interventions, blood transfusions. He began to recognize, especially working at St. Luke's Hospital in New York, that the child in the womb ought to be regarded as a patient who if that patient has a disability or a disease is in need of a lifesaving intervention to enhance or to even save their life.

He saw the gross inconsistency of dismembering or chemically poisoning a baby in one hospital room or clinic room while helping that child with a medical intervention in the other and he became a very strong prolifer. I would hope the administration would take a second look at its embrace of abortion globally because it really does undermine Millennium Goal 4 which calls for mitigating child mortality.

Let's face it, abortion is child mortality and there are at least 113 studies that show a significant association between abortion and subsequent premature births. So even for the babies who are born later there is an increase or risk of 36 percent of preterm birth after just one abortion and a staggering 93 percent increased risk of prematurity after two.

Disability is attributable to some extent, a very large extent, to that kind of prematurity or low birth weight. In a developing world we promote abortion. Not only do those children die, those mothers are wounded, there is also a significant problem of disability that will be the deleterious consequence to those children.

I'm closely out of time. Also, Dr. Shah, I asked you in the beginning of my open statement about faith-based organizations. We are very concerned, many of us, not everyone, that faith-based organizations will be excluded because of their lack or unwillingness to provide certain types of population control and that whole integration effort, which I know is underway, could preclude them from doing what they do best and that is helping mothers and children and families in the developing world.

Chairman ROS-LEHTINEN. Thank you, Mr. Smith.

Mr. Ackerman, the ranking member on the Subcommittee on Middle East and South Asia.

Mr. ACKERMAN. Thank you, Madam Chairman.

I wish we could all be that passionate about people who are already born as we are about people who are yet to be born. I don't know if I am more frustrated or amused when some of our colleagues imagine things that aren't necessarily true and then just rail against them. We seem to have a lot of that going on lately.

I don't know anybody on our side of the aisle who goes around the world disparaging our country but if you want to imagine that

and make it up, that is fine. If you would like to name names, that is fine, too. For every Democratic name you give us, or me, I will give you five Republican names who go around disparaging our President and our administration. But to the question of the day, whatever that might be, I think it is, "Do you walk to school or take your lunch?" That is really the question I want to ask.

If you are mad about whatever it was your county commissioner did or doesn't do, do you deny U.S. assistance to people in another part of the world? I mean, what does one thing have to do with the other? I am not entirely sure. I think we have forgotten how to ask the questions or what the policy implications of those questions might be.

Maybe it is that we are more afraid of our voters than we are of international disasters or international terrorists, but we have to approach these issues, which are big issues, with a lot more intelligence than we seem to be prepared to do and that is all of us.

I have heard a couple of people, at least, bemoan the imagined fact that we are broke. We are not broke. We are the richest nation in the world. We are the world's strongest economy. We are doing pretty well. One of the reasons that we are doing well is because we've done the right things. Not always. We make mistakes.

The market went down. The market will come back up. We have to figure out what the wrong things are and what the right things are so that we can do the right things more consistently and not do the wrong things at all if that is possible. If there is one lesson we should have learned on 9/11 is that if we don't visit bad neighborhoods, they will visit us.

How do you justify this disengaging from the world and its problems, especially at a time when such change is coming to so much of the world? Where we could have a major influence to get things right to make ourselves safe or more secure, wealthier if that is your goal, but enriched certainly, then we have to continue with the kinds of programs that Dr. Shah and Mr. Yohannes are talking about today, or hopefully talking about today.

I think we seem to be here today mostly for our own entertainment and you have not had a chance to say as much as you thought you were going to say. Let me just ask the question. Do you walk to school or do you take your lunch and what does one thing have to do with the other?

Dr. SHAH. May I respond to that, Madam Chairman?

Sir, I think we need to walk to school and take our lunch. At the end of the day I just want to clarify that USAID does not fund abortion abroad. No U.S. tax dollars go to that purpose. Maternal mortality is a great example of where being results-oriented, as Daniel has discussed, we are achieving real impacts on the ground.

We have launched new partnerships with private sector partners to leverage our money five-fold in that specific area as the chairman has asked us to consider. At the end of the day, when a woman is more likely to die in Southern Sudan in childbirth than she is to complete grade school, that is not in our national interest.

If we even once have to send our military into that type of environment, it will cost more than decades of modest goal-oriented, results-oriented investments that can be made with partners, made with the private sector, achieve real results, and be done account-

ably. We recognize the need to reform and are committed to that. Now is our chance to realize some of these important gains and results.

Chairman ROS-LEHTINEN. Thank you very much.

Mr. Rohrabacher, Subcommittee on Oversight and Investigations.

Mr. ROHRABACHER. Thank you very much, Madam Chairman.

Let me just note that Mr. Smith, who has a passion on this issue of the unborn, is one of the most compassionate Members of Congress for children who are born as well. I find that the little comment insinuating that he is not, to be not only inaccurate but unfair, grossly unfair——

Mr. ACKERMAN. Would the gentleman yield?

Mr. ROHRABACHER. I just have 5 minutes. As long as it is 15 seconds to apologize, I will yield.

Mr. ACKERMAN. I want to apologize that you misunderstood everything that I said. I did not say Mr. Smith. I said us, you and me.

Mr. ROHRABACHER. Well, I didn't hear the us part but I didn't hear Mr. Smith either and I think that many of us took it that you were attacking Mr. Smith so thank you. I don't think that criticism applies to any of us.

Frankly, for those of us who think we are doing pretty well I think that the American people will try to figure that out whether they think we are doing pretty well. We are having to borrow 40 cents on every dollar that we spend. For a third year in a row this administration has proposed about $1.5 trillion more in spending than we are taking in.

With that type of policy our currency will collapse within a short period of time. We are not doing pretty well. We have set America on a course for the destruction of the well being and quality of life of the American people. Unless we make some very serious reforms and change the direction of our country, all of our people will suffer. We are not doing pretty well.

Certainly all of us would like to be generous beyond our means because Americans love to be benevolent toward other people because we are free and we understand how when people are struggling, because most of us come from families that were poor at one point, but we can't give away money that we don't have.

If we have to borrow it from China and we saddle future American children with paying the interest on this debt, we are doing a huge disservice to them. We need to reexamine everything including defense and I think that is a legitimate criticism of many Republicans that were unwilling to try to find savings in defense while we are willing to cut other things.

We need to reexamine all of the spending and especially in terms of what we are taking from the American people and giving to someone else. That is what foreign policy and that is what foreign aid is all about. We are taking from the American people resources and wealth and giving it to other people. It better be structured in the right way so it is efficient and we better damn well know that there is a payback.

We end up with countries like Honduras. Madam Chairman, we have American citizens whose property has been expropriated in Honduras. They expect us to give them assistance and treat them

well while they expropriate the property of American citizens and do not take the steps to make that whole and make those Americans whole again.

I will be trying my best to see that Honduras doesn't get one penny until it deals with the property expropriations of Americans in Honduras. There is a big difference between emergency aid and development aid. A huge difference. Indonesia is grateful to us because we went there and helped them after the tsunami. We should make sure we give emergency aid to those people who are in crisis around the world. Development aid is a whole different thing.

Mr. BERMAN. Would the gentleman yield?

Mr. ROHRABACHER. You know what? I need to finish this because I have a couple more seconds. Let me just note that I don't see any reason why development aid can't be made in a way that they are paid back. In recent days I have been trying to get in touch with the freedom fighters in Libya who are fighting the Gaddafi regime.

I have been informed by their representatives that any money that the United States Government expends to help them win their freedom they will repay that debt back to the people of the United States of America. There is no reason in the world why we shouldn't be working with other countries in that same way.

If we are going to help them raise their standard of living or win their freedom, let us get a payback so that the children of this country aren't saddled with paying the interest on this debt for the rest of their lives. I have used all but 4 seconds and you are certainly welcome to comment for those 4 seconds.

Chairman ROS-LEHTINEN. Thank you, Mr. Rohrabacher.

Mr. Payne, the ranking member on the Subcommittee on Africa, Global Health, and Human Rights is recognized.

Mr. PAYNE. Mr. Berman, did you want a second or two? I will yield.

Mr. BERMAN. I thank the gentleman for yielding. Even if one accepts the premise of my friend from California, Mr. Rohrabacher, it doesn't explain why we cut disaster assistance in H.R. 1. I am not talking about traditional development assistance; the Republican CR cuts disaster assistance by 50 percent, 50 percent that helps us do what we did in Indonesia and in Haiti and in these places.

Mr. PAYNE. Thank you very much. It is certainly clear that the world is interdependent. What has happened in Japan is going to have an impact on us. Even tourism that would go to our State of Hawaii will be reduced significantly because Japanese will not be traveling as they will mourn for years and years. If anyone doesn't see that the world is interdependent, what has happened in Bahrain and Libya in oil? I just think that we need to relook.

Let me just also talk about Secretary Clinton that my friend Mr. Smith raised. The 529,000 number came from an outdated fact book that the World Bank issued in 2006. Of course, our programs are working and because the world is paying closer attention, this number is now estimated at 360,000, 1,000 per day, which is still unacceptable but I would like to get that information to Mr. Smith.

Let me just quickly——

Mr. SMITH. Would the gentleman yield?

Mr. PAYNE. Yes.

Mr. SMITH. The point was the Secretary presented to this committee—I was not in the room at the time or I would have raised it directly with her—that was the information as of now.

Mr. PAYNE. She used outdated information.

Mr. SMITH. Thank you.

Mr. PAYNE. Let me just quickly mention that—we could talk about so many issues but the whole question of elections and I would just like to say that in Africa there will be 16 elections coming up. I wonder what USAID is going to be able to do as it relates to elections. We have the problem in Cote d'Ivoire and I think we need to put more pressure on Gbagbo to step down. We have elections coming up in Nigeria and other parts of the country, DRC, and I am not sure that the preparedness is there.

Also, let me mention that as we talk about being broke, we are spending over $1 trillion a year in Afghanistan. We spend hundreds of millions of dollars in Iraq and no one talks about that. It makes no sense at all when we talk about spending less than 1 percent of our GDP on trying to help people live. We spend trillions of dollars on killing people. We are going in the wrong direction. I think the morality of our national direction needs to be questioned about the election, sir.

Dr. SHAH. Thank you. I just want to say that across Africa supporting democratic governance and effective elections is one of our top priorities. I think what we were able to do in Southern Sudan is a good example of how, when we coordinate with the international community, coordinate with the efforts of diplomacy, do joint planning with our military and, frankly, be aggressive about prepositioning certain capabilities, voting booths, ballots, even pencils and the mechanisms required to conduct a successful, in this case, referendum, we can make a difference.

Our team was able to successfully see that through. That is the model of what we are trying to replicate throughout the continent. Our investments in Africa matter a great deal. We are seeing right now that we are being outstripped in our investments in Africa by the Chinese on a regular basis. On a year-on-year basis they are increasing their investments.

We have tried to present a budget between USAID, MCC, OPIC and the other development partners in the Federal Government that will reprioritize smart strategic investments in Africa and do it in a way that holds leaders and governments and governance systems accountable for real results.

One example of that is our Feed the Future Program, where borrowing an MCC practice that is an absolute best practice, we have limited the program to those governments that are willing to double their own investment in agriculture and be accountable for seeing that through. I will ask if Daniel wants to add to that.

Mr. YOHANNES. Approximately about 70 percent of our investments are in the continent of Africa, about $5.2 billion, and 60 percent of the funds are being utilized in agriculture and infrastructure. This is an area that is key and vital for trade investment opportunities. Ghana is one role model in the region just to give you an example of how successful we were in Ghana alone. The MCC-trained farmers for the first time sold $300,000 of crops to the

World Food Program. Not only are we helping this country to become——

Chairman ROS-LEHTINEN. Thank you.

Mr. YOHANNES. Thank you, Madam Chair.

Chairman ROS-LEHTINEN. Thank you.

Mr. Rivera.

Mr. RIVERA. Thank you, Madam Chair. In light of the situation with Alan Gross, U.S. citizen, which I believe is being held hostage by the Castro dictatorship and recently received a 15-year sentence for exercising democracy-building programs in Cuba, what is the status of the Section 109 democracy programs with respect to Cuba?

Dr. SHAH. Thank you. First, let me say with respect to Mr. Gross that we have been in contact with and continue to work aggressively, primarily through the State Department, to ensure an effective outcome of that situation. I believe the Secretary and others have spoken to that point specifically.

With respect to our Cuba program, we will be sending the congressional notification up before the end of the month. As you know, we have requested $20 million for the program. We believe it aligns strongly against the congressional directions that are offered. We intend to see that through and implement it in a manner that allows for real transparency and results with respect to how that program is implemented.

There has been a lot of work that has gone into it. Our team is happy to offer a much more detailed briefing on the specifics of the program going forward but our goals will be to accelerate implementation, get that done in a timely way, get the congressional notification up, and align all of the investments with the basic objective of supporting civil society and democratic space in that environment. Thank you.

Mr. RIVERA. Thank you. What is the status of USAID's effort to require liability waivers from NGOs involved in Cuba democracy promotion programs?

Dr. SHAH. I will have to come back to you with the specific answer to that question. I will say in general we invest a great deal of management effort. I personally engage directly with our implementing partners around the world on issues with respect to the safety of their staff. It is well known to this committee that USAID officers, USAID Foreign Service Nationals who are locally employed staff, and USAID implementing partners, all take tremendous personal risks.

Every day I walk through my office there is a plaque on the wall in our lobby that puts the names and the years of people we have lost in service. That is also true for all of our implementing partners. How we manage their security, our efforts to design programs that allow for them to be safe and effective, and our efforts to reach out and engage with our community are very robust and have grown stronger through our experiences in places like Afghanistan and Pakistan.

Mr. RIVERA. Are we pursuing these liability waivers for NGOs with any other country on the planet?

Dr. SHAH. I will have to come back to you on liability waivers specifically, sir.

Mr. RIVERA. Are there any efforts? Are you familiar with any efforts recently on liability waivers for NGOs on Cuba?

Dr. SHAH. I don't know the specific answer to that so I will come back in a letter with a very detailed response.

[The information referred to follows:]

Administrator Rajiv Shah
March 16, 2011
Page 59, Line 1280-1285

USAID
FROM THE AMERICAN PEOPLE

The Administrator

April 12, 2011

The Honorable David Rivera
Committee on Foreign Affairs
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Rivera:

During the House Foreign Affairs Committee hearing on March 16, 2011, I committed to sending you a letter with a detailed response to your question regarding organizations working in Cuba. I have included a response below, and I am happy to provide any additional information that may be helpful.

In 1996, the U.S. Agency for International Development (USAID) started incorporating a notice of risk clause into agreements with organizations implementing programs in Cuba. The clause, included in the Special Provisions section, stated:

"Given the nature of the Cuban regime and the political sensitivity of the USAID Program, USAID cannot be held responsible for any injury or inconvenience suffered by individuals traveling to the island under USAID grant funding."

Immediately after the detention of USAID subcontractor Alan Gross, we consulted with organizations currently operating in Cuba with USAID funds, and agreed on revised language highlighting the unique challenges and dangers of working in Cuba:

"Given the nature of the regime in the country of operations and the political sensitivities of the USAID program, USAID cannot be held responsible for any injury or inconvenience suffered by individuals traveling or operating in the country under USAID funding. Except as otherwise provided in the agreement, the Recipient accepts the risks associated with required recipient performance in such operations."

All USAID grantees have signed the modification, and it will replace the original Special Provision in all future grants and contracts issued by the USAID Cuba Programs Office.

During the hearing, you asked if similar language exists in agreements awarded under other country programs. Given the unique operating environment and many challenges to carrying out programs in Cuba, we felt compelled to include this special provision for Cuba. To date, we have not had to include similar language in awards under other programs.

U.S. Agency for International Development
1300 Pennsylvania Avenue, NW
Washington, DC 20523
www.usaid.gov

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USAID will not abandon our partners working to advance democracy and human rights in Cuba, and we will continue to work with them to find ways to help ensure their safety.

I look forward to continuing to work with you on these programs or any other efforts at USAID.

Sincerely,

Rajiv Shah

Mr. RIVERA. Okay. Thank you very much.

I will waive my time.

Chairman ROS-LEHTINEN. Thank you very much, Mr. Rivera.

Mr. Meeks, the ranking member, the Subcommittee on Europe and Eurasia.

Mr. MEEKS. Thank you, Madam Chairman.

I didn't want to get into this but I just hope that folks don't forget the baton they passed to us after 8 years of a Republican administration, 6 years of a Republican majority in both the House and the Senate, and a Republican President. What was inherited we have got to fix and that is what we are trying to do here. I hope we don't go back to foreign policies.

We heard before that Iraq was going to—it was not going to cost the American people no money. They were going to pay us all this back. We heard that before and we are hearing that again that somebody is going to pay us back money. We haven't gotten anything.

It is still costing us billions of dollars in Iraq. I hope we don't go to the kind of diplomacy where we begin to change names from such trivial things of French Fries to Freedom Fries insulting our allies, calling them old Europe. I mean, those are the kinds of policies that put us in a problem dealing with the rest of the world.

I'm hoping that we don't ever go back to that kind of policy to talking that way where we are alienating out allies. We should be doing the kinds of things that you are doing, bringing our allies together working together on this place that we call Earth trying to save folks, not cutting about 67 percent from international disaster assistance, 45 percent from migration and refugee assistance, and 41 percent from global food relief. I mean, we are all human beings no matter what country we come from and no matter where we are we should be working together.

Now, I am going to try to leave that alone. I do want to know from you because I want to give you a chance to ask because I really wanted to come here and ask to get an update on Haiti. There are elections there. We have talked about we wanted to build it better. Can you tell us where we are with Haiti? They are having elections. My colleague, Mr. Payne, talked about some important elections that are coming up and we need to do that also in Haiti.

Let me just pause for a second and ask you, where are we with Haiti?

Dr. SHAH. Thank you for that question. As you know, we have been very committed to putting in place a more innovative, more forward-looking development program and reconstruction program in Haiti. There are a number of examples where we have tried to build back better. We are building a mobile money platform that already has three times as many participants in it actively saving money and being part of a formal economy than existed in the previous more traditional banking sector.

In agriculture we are making large scale supportive investments to bring private investors including companies like Coca-Cola that are now creating the Haiti Hope Product to really help create well-managed value chains and supply chains that can reach back to Haitian farmers and restart the Haitian agricultural economy.

In housing we are down from 1.5 million people just a few months ago in temporary housing down to 810,000. We are seeing the slope of that curve continue to get steep. We think we are being successful there.

In rubble removal we have removed more than 20 percent of the rubble that was there from the earthquake and we have done it at a pace that is roughly twice as fast as the pace from which rubble was removed in the Aceh earthquake. In all of those examples the United States leadership of the international community, our focus and rigor around real results and our efforts to work with local partners like in the construction sector in particular, where we are literally training local construction firms to build back to a higher earthquake standard, use rebar from local materials to get wall strength up to a higher level than what the traditional construction methods were, are all having real affects.

I think the Haiti program should be judged over a multi-year effort but we have tried to use that program to showcase a more private sector-oriented, a more robust, and a more efficient effort to reinvest in our neighbors.

Mr. MEEKS. I'm going to throw a couple of questions out there. You probably won't get a chance to answer them but on the staffing needs I would just like to know whether or not it makes some sense to make sure that you have decentralized in a sense so that more people are on the ground who knows what is going on. For example, there is a situation where in Chad if you invest through the government it cost more to build a school than by using, say, an NGO.

Whereas in Afghanistan the opposite might be true. Only people on the ground would know that so are we utilizing the individuals on the ground so that we can make those kinds of decisions as opposed to just saying we are going to use an NGO?

Further, I would like to know whether or not the proposed continuing resolutions H.R. 1 whether or not you will be able to continue your mandate of objectives in Afghanistan and Pakistan if it goes through. Whether or not you will be able to help support the democratic movements in Belarus or for the needs of displaced African Latinos and indigenous populations in Ecuador and Columbia.

Chairman ROS-LEHTINEN. Thank you.

Mr. Kelly, the vice chair of the Subcommittee on Asia and the Pacific.

Mr. KELLY. Thank you, Madam Chair. Not to continue to kick a dead horse but I have got to tell you, I am trying to understand because there is an old adage out there that charity begins at home. I would say this: There is not one person in America who does not have a passion to helping those who are in need but we are in denial.

As Dana pointed out, when you are borrowing 40 cents on every dollar you spend, understand that once you spend the dollar, the dollar has been spent. Whether it is spent at home or abroad or any place else the dollar is gone. Once it is gone it is gone.

Now, I am looking over these figures and while we continue to talk it is only 1 percent of our budget. Let me just point this out. Maybe I am just not getting it because I just have a bad habit of doing that being in business for yourself where you have got to have your own skin in the game and every dollar you give is your dollar.

In 2008 for USAID $5.9 billion. In 2009 $6.31 billion. In 2010 $8.03 billion. Now, I would hardly say that America is being cheap. I think what the American people are asking us to do is please, we don't want to stop helping other people around the world but at what point do we come to the realization that we are truly broke? We are in denial.

This country is not seeing what we need to see. We need fiscal responsibility. Now, I am not saying stop being philanthropic. I'm just saying when you spend a dollar, spend it smart. Let us just spend it smart.

Let me ask you, Dr. Shah, I am looking over your testimony. I am looking at some things here. Countries such as China which has over $2.6 trillion in foreign cash reserves, yet has received nearly $1 billion in assistance from the Global Fund in the United States to finance its response to AIDS, malaria, and TB. They should finance their own health programs.

How do we justify the $4 million request for China under USAID's apportionment of the global health and child survival account when China can and should finance its own health? I mean, it is like me asking Bill Gates if he needs a loan. Where are we going with this? Where does the common sense come in to what we have to do to get through this crisis we are in?

If you could please help me out because I am so confused right now as to what it is we are trying to do with those dollars we spend. Listen, I will tell you right now. Everybody wants to help. It is just when you are broke, you are broke. I am asking if we are going to spend a dollar, let us spend it really, really smart because this money does not belong to me or to this Congress or to this government.

This is all taxpayer money. It is nice to be benevolent with somebody else's money. I have done that out of my own wallet so it is nice to give somebody else's money away. If you could just help me. How do we justify giving China $4 million? You know, we are going to borrow it from them and then give it back to them. That does not make any sense to me.

Dr. SHAH. Thank you, sir. I will say that the fiscal responsibility point is something we are introducing in all of our work at every level and let me give you an example starting with China.

The $4 million is targeting XDR and MDR tuberculosis. That is multi-drug resistant tuberculosis and a new strain of tuberculosis called XDR TB that literally we do not as a global community have a solution for that is efficient and effective in terms of both the diagnosis and the treatment.

That effort is to try and identify new diagnostic mechanisms and a new treatment methodology so that we can essentially bring the cost down on how we treat TB patients all around the world. The reason we have to do it there is that is where these strains are and that is where the more innovative solutions for diagnostics are.

If we were successful with that program, we would be able to reduce the unit cost of treating TB by 30 or 40 percent on a panel of millions of patients around the world. The truth is the global community is currently not winning the fight against global tuberculosis because of these new strains and because of the lack of effective tools. The diagnostic technology we use is almost 100 years old.

As others have pointed out, we don't do that in any other area of fighting so we need new technologies and new approaches. That is what that is about. I will also say on the fiscal responsibility point that we are trying to look at this from a macro perspective.

For the overseas contingency operation account, for example, we have determined a $4 billion investment in that capability allows for a reduction in DOD's OCO account by $41 billion. That is the kind of tradeoff that we think can allow for real fiscal responsibility and stability while achieving the objectives of keeping our troops safe and ensuring stability in areas where we have vital national interest.

Mr. KELLY. Okay. I understand that. Do we have any indication of anybody around the world that is sending money to the United States to help us with our problems?

Dr. SHAH. Well, a number of the programs that we do are global research programs that do, in fact, attract resources and put those investments in U.S. universities, U.S. corporations, U.S. institutions. One good example is partnerships with other countries——

Chairman ROS-LEHTINEN. Thank you.

Mr. Connolly of Virginia is recognized.

Mr. CONNOLLY. Thank you, Madam Chairman.

By the way, I think we did get some foreign assistance from some countries during the Katrina crisis in the Gulf. There are examples. I guess I am troubled by this line of questioning that says, "We are broke," whatever that means, as a great country. Therefore, apparently we are supposed to conclude we can't afford to do any of these investments. Any of them.

We can afford to continue to deny ourselves oil royalties so we can give a break to the oil companies. The estimate of our subcommittee was that total amount is $53 billion. If we can afford to do that, we can afford to continue to provide $1 trillion a year in tax expenditures, tax breaks to a lot of corporations that do business overseas, privileged groups economically in the United States.

If you want to be consistent, we can't afford that. Maybe it was a good thing once. We can't afford it.

The idea that the world's surviving superpower cannot afford to back up its diplomatic efforts is to me a reckless thought, an unacceptable thought. Frankly, provides the American people with a false Hobson's choice, one I think the Foreign Affairs Committee, of all committees, ought to reject.

Dr. Shah, the continuing resolution that was passed by the House majority a few weeks ago proposed a 19-percent cut to the 2011 requested levels of development assistance. Could that impair your ability to do your job from your perspective?

Dr. SHAH. Yes, sir. That would.

Mr. CONNOLLY. I can't hear you.

Dr. SHAH. Yes, sir. That would. I believe that would undermine our ability to invest in our procurement reforms and reign in and better manage our contracts and grants programs around the world. I think it will undermine some important new initiatives like our accountable assistance for Afghanistan program that does require greater management resources in order to get out and evaluate projects.

We have just launched a new evaluation policy that I think, borrowing from MCC, will be the best in the world. It insist that every single project we do gets an independent third party evaluation and that evaluation is made public at 3 months within the completion of that program but it will take some investments and our capabilities in order to implement that policy around the world.

Perhaps most critically it will reduce significantly our ability to run the Feed the Future program which will reach 18 million people in 5 years, moving them out of poverty and hunger in precisely those places where poverty and hunger leads to food riots, famines, and threatens our sense of stability and our natural security.

Mr. CONNOLLY. But you are the head of AID. What about this compelling argument we just can't afford it? Those might be nice things to do but we just can't afford it. What is your answer?

Dr. SHAH. Well, sir, I believe it is far more costly for us to deal with the instability and the riots that result. It is even more costly frankly for us to give away food to starving people than it is to invest——

Mr. CONNOLLY. So what you are contending is that sometimes when we don't make relatively modest investments up front we can pay huge cost down the line having forgone that opportunity. Is that what you're arguing?

Dr. SHAH. Yes, sir. I will give you one example. Before I got to USAID programs that should have been done as fixed cost contracts but it requires more up-front contracting capacity to write a fixed-cost contract were done as cost reimbursement contracts where you don't have the ability to essentially control cost.

You can lose in a single poorly managed contract hundreds of millions of dollars and you can frankly with that same investment in doing it more efficiently, more effectively with more business like approach up front, save those resources and generate better results for American taxpayers.

Mr. CONNOLLY. By the way, that same CR cut humanitarian assistance 42 percent. Does humanitarian assistance affect what is going on in Libya or even the tragedy in Japan?

Dr. SHAH. Yes. The humanitarian account is supporting all of the relief efforts. In Japan it's a good example. It is also supporting our ability to get members of the Nuclear Regulatory Commission and other technical agencies out there to provide support and engage with our partners. Those are the types of things we put at risk.

Mr. CONNOLLY. Thank you. My time is up, Madam Chairman.

Chairman ROS-LEHTINEN. Thank you so much.

Mr. Mack, the chairman on the Subcommittee on the Western Hemisphere is recognized.

Mr. MACK. Thank you, Madam Chairman. Again, thank you for this hearing.

First of all, I have some questions about Honduras. So we have heard that we are doing pretty good. I think the elections were pretty clear this last election that the American people don't think we are doing pretty good. Then we hear that we are not broke.

All you have to do is look at this graph and if we continue with the current policy that was pushed by the Democrats, we are talking about close to 800 percent debt, over 800 percent held by the public as a percentage of the GDP. I don't know where some people are coming from. Too bad they left but we are broke and we are not doing pretty good and we have got to be serious about where we spend our dollars.

I would also like to say this. I agree that we need to stand up for U.S. businesses throughout the world. The case of a U.S. business in Honduras has been going on for over 7 years and needs to be solved. The Honduran Embassy in the U.S. has been engaged in my office on this issue that they inherited with the Lobo administration. I would just suggest to those that it is time to get together to solve that problem.

I am very concerned about the current state of affairs in Honduras. President Obama, his administration, and the State Department have been applying enormous pressure on Honduras. Why Honduras? Because Honduras decided to stand up for what they believe in, stand up for their constitution and they did the right thing by removing Zelaya. For some reason our Government has decided they shouldn't do what is right for their country but they should do what we tell them to do.

Specifically the State Department has been doing everything in its power to force Honduras to succumb to the U.S. demands revoking visas, cutting off critical defense support, suspending MCC funds. My question is this: Isn't it true that this is nothing more than punishing a small country that we aren't happy with?

Mr. YOHANNES. Mr. Congressman, a couple of things. Number one, the MCC funds were not suspended by the State Department. In fact, Honduras did an outstanding job in getting the first compact completed. The only reason why they did not get the second compact is because they did not qualify. They did not pass the corruption indicators which——

Mr. MACK. Let me say this. The corruption indicators are perception based. Correct?

Mr. YOHANNES. They are perception based but having said that I have had——

Mr. MACK. Weren't they in the margin of error?

Mr. YOHANNES. That is absolutely correct but let me say this. I have had conversations with President Lobo and his administration. They recognize——

Mr. MACK. I am sorry. Was not this corruption that is perception based, that you acknowledge is perception based, and it was in the margin of error, isn't it true that this corruption occurred under Zelaya and the very person that the administration tried to bring back to power after its country said we are not going to continue with the corruption?

Mr. YOHANNES. Again, corruption is corruption. It does not matter which government——

Mr. MACK. Isn't it true that the new government in Honduras has been making large strides in reducing corruption?

Mr. YOHANNES. In fact, they are and they understand what has happened in the last couple years and——

Mr. MACK. So the message—sorry but I have a little bit of time here. So the message we are sending is that if you do the right thing, if you stand up for your constitution, if you believe in the rule of law, if you do those right things we are going to punish you.

But if a country like Nicaragua who invaded Costa Rica, we are going to continue to allow you to have funds. Doesn't this send a message to people in Latin American countries and Latin America that there is not a consistent way that our foreign policy is being delivered in Latin America?

Mr. YOHANNES. We are working with the Lobo administration. They have set aside a 2-year program to strengthen the anti-corruption areas primarily by strengthening the audits and primarily management of public resources so we are continuing to get engaged with them.

Mr. MACK. If it was in the margin of error and all that Honduras had done to try to eliminate the corruption that was under the former President who this administration tried to bring back to power, wouldn't it be the right thing to do to continue with the MCC compact?

Mr. YOHANNES. We have a very limited source of funding.

Chairman ROS-LEHTINEN. Thank you very much.

Mr. YOHANNES. We have a lot of countries that are competing for it so——

Chairman ROS-LEHTINEN. Thank you.

Mr. YOHANNES [continuing]. At the end of the day we have to make the best decision.

Chairman ROS-LEHTINEN. Thank you.

Mr. Cicilline of Rhode Island is recognized.

Mr. CICILLINE. Thank you, Madam Chairman.

Mr. Yohannes, thank you for being here today to talk about the important work of the Millennium Challenge Corporation. I really would like to acknowledge the excellent work of the MCC and the work that it is doing really to incentivize policy or reform in good government in a number of countries all around the world.

I want to express here my deep concern about the cuts that are being proposed for funding for the MCC. The MCC has made stra-

tegic investments in countries like El Salvador and Honduras by improving infrastructure, strengthening property rights, enhancing access to markets and assisting in business development. These are investments that really are contributing to the long-term sustainability in these countries.

I would also like to acknowledge the excellent work that has been done through the MCC in Cape Verde. You might know my district is home to a very vibrant and wonderful Cape Verdean community and I am very proud that Cape Verde may well be the first nation to receive a second compact with the MCC. They have made incredible progress with the help of the MCC and I just want to acknowledge that.

My question really is what can we do, what steps are being taken, what can we do to ensure that countries like El Salvador and Honduras who have made substantial progress in reforming policies and strengthening their markets, improving their governments, what can we do to help them continue on that path so that they, too, might be eligible for a second compact and what procedure is in place to continue that kind of support that is both in their interest, obviously in their national interest, but also in the interest of our country?

Mr. YOHANNES. Thank you, sir. As you know, it is extremely competitive to get to our program. We select countries that are well governed, those that have accepted market principles, and those countries that have made a tremendous commitment to investing in their people. Those are the major criteria.

We are very selective. We only work with about 22 different countries out of about a 100. We work with the best of the best. This is primarily with the goal that we want to make sure that this country is on a path to replace aid dollars with dollars from the investment community.

Many of the investments we make in those countries are not only used to improve the infrastructures and so forth but the key is the policy reform which is extremely critical to create the conditions and the environment for private sectors to flourish.

Having said that, El Salvador has done an outstanding job. In fact, I was there last year. I met with many of the beneficiaries that have benefitted from our program, both men and women. Also have seen the road that has been built which will connect the north and the south that has been the dream of the El Salvadoran people for the last 50 years.

I have been to Honduras. I have seen the benefits that have been provided to both men and women in that country. In addition, in Honduras we built 510 kilometers of road so that the farmers could have access to markets. Having said that, they also made a tremendous investment. They have set aside an additional $30 million to maintain the roads.

They also passed a major legislation primarily in the financial sector to make sure that people who do not own land also have access to credit. There has been a lot of accomplishments both in El Salvador and in Honduras. Again, Honduras was not eligible this time but we are engaged with them and would hope that if they continue to implement what President Lobo and his administration

have planned, there is no reason why they should not be considered for a second compact.

Mr. CICILLINE. I yield back, Madam Chairman.

Chairman ROS-LEHTINEN. Thank you very much.

Ms. Buerkle, the vice chair of the Subcommittee on Terrorism, Nonproliferation, and Trade, is recognized.

Ms. BUERKLE. Thank you, Madam Chairman.

I would like to just begin my comments by Representative Mack referred to a chart, and we have it over here on our right, regarding the tidal wave of debt that we will continue to incur if we continue on the path that we are on.

The first thing I do want to say is in defense of my very good friend from New Jersey, Representative Smith, he is not only a champion of the unborn, he is a champion for human rights for all people, born and unborn, so I want to make sure that is in the record loud and clear. Thank you.

I come from New York State and I represent upstate New York. New York along with 43 other states is facing terrible deficits and issues. There is no question they will be forced to make a decision about whether or not they are going to be able to pay their debt or pay their employees. Many states in this country are just in dire straits when it comes to spending and debt and whether or not they can keep their state alive. We are all aware of that. We see articles regarding this all the time.

My question to you is, and this piggybacks on Mr. Kelly's question, Americans have suffered 20 months of 9 percent unemployment and greater. We are facing fiscal crisis. As was pointed out we are borrowing 40 cents on every dollar. We need justification.

How do we go to the American people? American people many of them are losing their homes. They are unemployed. How do we justify spending this money in other countries and not having it available for the American people?

Mr. YOHANNES. Thank you, Madam Congresswoman. This is about our future. This is about our security. This is about our prosperity. This is building the next set of emerging economies. This is about trade investment opportunities for American businesses. This is about job creation here in America. We are working to put these countries on the path to become self-sufficient so they will never have to depend on foreign aid again.

Having said that, if we leave these countries alone then, in effect, we are giving these countries to our competitors. Keep in mind after the war we had the Marshall Plan. We helped a lot of countries. Today 75 percent of our trade is with those countries that we supported. I really believe that the countries we work with are poised to do the same in the next 10 years.

Ms. BUERKLE. Thank you. Let me ask, and this question is for both of you. Is there an end game with some of the aid that is going to some of these countries? Will this aid end or does it just go on indefinitely?

Dr. SHAH. Let me address that in the context of our food security programs or in our health programs. Our goal is to basically put ourselves out of business by supporting a vibrant civil society, a real vibrant private sector, or effective public investments that are made locally that can carry out these goals.

In malaria, for example, in sub-Saharan Africa, just 5 or 6 years ago we were all talking about how 1 million children under the age of 5 died. Hospitals were overwhelmed.

Through a very smart program put in place by the Bush administration and picked up and supported by our administration, we have essentially gotten insecticide treated bed nets to kids through schools, community centers, hospitals. It is keeping them out of hospitals so the hospitals are now able to see other types of patients.

As a result we have seen about a third of all those kids who die under the age of five in sub-Saharan Africa are now living. What that does is that allows families to invest in their education. It allows people to invest in human capital, and it is the pathway for growth that allows exactly what Daniel said, countries to stand on their own two feet.

The thing I worry about is in the way that some of the cost reductions are applied, in this case we would have to take 5 million of those kids and stop providing insecticide treated nets to those kids. This is a $4 intervention. Unwinding some of the more effective programs that lay the basis of sustainable growth and real development will over time result in the need for us to have a different approach, mostly military, to areas that are insecure and unsafe.

Ms. BUERKLE. Thank you. I have 15 seconds left. I want to just end by saying that the American people are a generous people and they want to help but we here in this Congress have an ultimate responsibility of holding all agencies accountable for how we spend the taxpayer's money and we have to be prudent and we have to put their needs first. Thank you very much.

Dr. SHAH. Thank you.

Chairman ROS-LEHTINEN. Thank you.

Mr. Manzullo, the Subcommittee on Asia and the Pacific chairman is recognized.

Mr. MANZULLO. Thank you very much. Mr. Shah, in your testimony at the end of page two and the beginning of page three, you mentioned a new venture capital investment fund called the Development Innovation Ventures Fund, DIV. On the USAID Web page describing the fund it lists the E-Bike as one of the fund's first grantees. The E-Bike, according to the Web site, is a "practical, scalable, pollution-free form of mobile transportation."

The Web site further says,

> "USAID, borrowing from the private venture capital model, will seek through a competitive process to invest resources in promising, high-risk, high-return projects that breakthrough innovations often require that are often difficult to undertake using traditional agency structures."

Furthermore, according to Grants.gov, the Federal Government's official Web site for announcing grants, it states that the purpose of the fund is to, "Institutionalize further in USAID the serendipitous process by which great ideas are conceptualized, developed, and refined to be real world operational challenges."

This is a venture fund, right, that the taxpayer could end up losing money on?

Dr. SHAH. Well, sir, it is a grant program that is operating with principles that are modeled after a venture fund so that we can get a higher return on our investment.

Mr. MANZULLO. So it is a giveaway program? It is a grant?

Dr. SHAH. Yes. We have——

Mr. MANZULLO. And there is no basis for repayment?

Dr. SHAH. No, we do not——

Mr. MANZULLO. Alright. Then tell me about this E-Bike. Who makes this E-Bike?

Dr. SHAH. Well, all of the grantees of this program are small entrepreneurs——

Mr. MANZULLO. I asked, who makes the E-Bike?

Dr. SHAH. I am not sure of the specific——

Mr. MANZULLO. I think you should know that. This is the first grantee.

Dr. SHAH. There was a wave of grantees. We got thousands of applications——

Mr. MANZULLO. I understand that. So somebody is going to take this solar-powered bicycle paid for by U.S. taxpayers' funds and give it somewhere in the world and that is going to help save the world?

Dr. SHAH. No, that is not it, sir. We are investing in developing new technologies that can be sold——

Mr. MANZULLO. Oh, come on, please.

Dr. SHAH [continuing]. In developing countries. One example is the——

Mr. MANZULLO. Where is this E-Bike going with U.S. taxpayers' dollars? Where is it going?

Dr. SHAH. Well, if it is developed and if it is a viable business model, then a small U.S. entrepreneur could sell that product in developing countries around the world just like——

Mr. MANZULLO. And the U.S. taxpayer is supposed to pay for that?

Dr. SHAH. We are investing in the development of some of those technologies.

Mr. MANZULLO. The U.S. taxpayer is paying to buy E-Bicycles, solar-powered bicycles, to give away to other countries.

Dr. SHAH. No, sir. We don't buy and give away any bicycles.

Mr. MANZULLO. Where is the money going?

Dr. SHAH. The investment goes into technology development.

Mr. MANZULLO. Oh, come on. This bicycle was already developed by the time your program started.

Dr. SHAH. No, they have to be refined. They have to be built into a business model and sold——

Mr. MANZULLO. Then why are the U.S. taxpayers buying a solar-powered bicycle? How is that going to help out the world?

Dr. SHAH. Sir, U.S. taxpayers are not buying solar-powered bicycles.

Mr. MANZULLO. Wait a second. Just a second, Mr. Shah. You said that it is a grant. Is that correct?

Dr. SHAH. A grant to the entrepreneur to develop a business model

Mr. MANZULLO. And the grant money comes from the U.S. taxpayer?

Dr. SHAH. Correct.

Mr. MANZULLO. So the U.S. taxpayer is buying an E-Bicycle. Isn't that correct?

Dr. SHAH. The U.S. taxpayers investing in business——

Mr. MANZULLO. Will you answer the question, please? Don't use the word "investment." Use the word "spend" or "paid."

Mr. BERMAN. Madam Chairman, I think the gentleman should be able to answer the questions in the words he choses.

Chairman ROS-LEHTINEN. Thank you, Mr. Berman.

Mr. MANZULLO. I understand. Are U.S. taxpayers' dollars being used to buy this E-Bicycle? Yes or no?

Dr. SHAH. No, we are not buying and giving away E-Bicycles.

Mr. MANZULLO. So where is the money going?

Dr. SHAH. To U.S. entrepreneurs——

Mr. MANZULLO. So they can develop——

Dr. SHAH. I can give you a number of examples. Another partner we are working——

Mr. MANZULLO. No, I am just asking about the bicycle. Okay? U.S. taxpayers' dollars are being given to somebody to develop this bicycle.

Dr. SHAH. To develop a business to sell bicycles wherever they can.

Mr. MANZULLO. I understand. Does the taxpayer get reimbursed on the sales of these bicycles?

Dr. SHAH. No, these are small up-front grants that are providing seed capital to develop businesses that can be scaled through——

Mr. MANZULLO. I understand, but this is the problem. This is why the U.S. taxpayers are really upset. I don't know any Americans that can afford to buy a solar-powered bicycle themselves. Now the American taxpayers are buying solar-powered bicycles and essentially giving them away to countries around the world. This is a waste of taxpayers' dollars. The sooner you guys wake up and understand that, the better off you are going to be and take limited resources and use them for better purposes.

Dr. SHAH. Sir, the development innovation program is focusing on those interventions that can reduce the cost of achieving——

Chairman ROS-LEHTINEN. Thank you, Dr. Shah.

Dr. SHAH [continuing]. And we are seeing that work in a number of——

Chairman ROS-LEHTINEN. Judge Poe, the vice chair of the Subcommittee on Oversight and Investigations is recognized.

Mr. POE. Madam Chair, I am waiting for a poster. I would yield to Mr. Fortenberry if that is agreeable to the chair.

Chairman ROS-LEHTINEN. Absolutely.

Mr. Fortenberry first and then we will go to Judge Poe.

Mr. FORTENBERRY. Thank you, Madam Chair, for holding the hearing.

Thank you, gentlemen, for coming today. Let me touch upon a subject that was brought up earlier. It is sensitive but, nonetheless, I think it needs to be unpacked further.

You are correct in stating that the United States does not directly subsidize the procurement of abortion in our overseas program. However, the United States does subsidize and underwrite organizations that are directly involved in the provision of abortion.

That is a new position, a new policy of this administration which is frankly troubling to me.

I think our development goals, our foreign policy initiatives, should be built upon the consensus of values in this country. My goodness, we have enough to do with meeting basic humanitarian needs that we shouldn't be exporting our own philosophical and cultural divides and imposing them on other people. I would submit that for your consideration.

I think what you do is important. I think that it is intimately related to national security, economic well being, as well as what is the call really in the hearts of most Americans to try to do something to help those who are in vulnerable situations.

As we do that we develop relationships. We develop trust and that helps with communication. That breaks down barriers and that prevents the potential for conflict and it opens up the possibility for economic well being between different peoples. With that said, what works? What works best? What doesn't work?

Dr. SHAH. Thank you. We have restructured a number of our major strategies to focus on exactly that question. We want to invest in those things that work and move resources away from those things that don't. We have just unveiled a new education policy, for example, that is targeting 100 million children and ensuring that they get improved learning outcomes.

For decades a lot of the investment and spending that has gone into development assistance and education has been somewhat effective but has not measured the educational attainment of the kids. By measuring that attainment and focusing and investing in those strategies whether it is teacher training or getting kids access to better material and curricula that work, we can demonstrate and document that we are getting better outcomes.

That is one example. Across our health portfolio we are reinvesting our resources in things like vaccines and immunization, malaria prevention, HIV prevention, new TB diagnostic technologies that can bring down the cost of treatment and diagnosis because those things are, frankly, an order of magnitude more efficient in achieving the outcomes than the traditional way of doing business.

A lot of the innovations we are trying to pursue across all of these areas are looking at what is more expensive and can we find new ways to provide services and help achieve the same outcomes at much lower cost.

Just last week we launched a partnership with the Gates Foundation, Norway, the World Bank, and Canada where we leverage our dollars. For every dollar we put in we raised four from them. It is called Saving Lives at Birth and it focuses on developing new innovations that allow community health workers who are not paid.

They are trained but not paid to in people's homes and in communities really help save lives in that critical 48 hours of birth and immediate life. Those are the kinds of innovations that we think can reduce the cost and get us better outcomes.

Mr. FORTENBERRY. Which become all the more important in light of the fundamental purpose of this hearing to talk about constraints in the budget which are very, very real and we are all hav-

ing to make very difficult decisions about priorities and how we are going to tighten the belt. It is unsustainable the pathway that we are on so we all have to embrace this reality and do what we can with limited resources. What doesn't work?

Dr. SHAH. Well, I would say there are some things that don't work. We have done, I think, far too much teacher training without measuring outcomes so we are reducing our investment in that area and focusing more on learning attainment. When we do things like try to provide health services through only hospitals, that is a very costly way to provide health services in the lower-income parts of the world and we should be looking for community-based solutions that are cheaper so we are shifting resources from hospitals to communities.

Mr. FORTENBERRY. I am running out of time so I need to cut you off. So in that regard as well, do we make an attempt? Perhaps it has to be subtle at points and sensitive that this is a gift of the United States Government?

Dr. SHAH. We try to be aggressive in pointing out that these investments are from the American people. That is our tagline. The logo goes on everything we do and we demand real results. I think MCC——

Mr. FORTENBERRY. Let us turn to Millennium Challenge right quick if you could answer the question as to what has worked and what hasn't worked because it is a new framework—I have 10 seconds. It is a new framework for accountability and it is very fascinating. I think we are starting to get evidence.

Mr. YOHANNES. What makes MCC distinctive, so different from any other development agency that our approach to development is like a business? We do a very thorough——

Chairman ROS-LEHTINEN. Thank you. Thank you very much.

Mr. Royce, the chairman on Subcommittee on Terrorism, Nonproliferation, and Trade is recognized.

Mr. ROYCE. Thank you, Mr. Yohannes. Let me raise an issue on Millennium Challenge that I have been concerned about for some time and that is the $240 million contract with Senegal. I will give you just one of many of the issues that I have raised repeatedly with your agency and that is the fact that you have a 160-foot tall North Korean-built statue being shipped in by the 83-year-old President.

The cost, I would guess, is around $50 million and he gets 35 percent of that as a kickback. We are talking about the President of the country gets 35 percent of that as a kickback to a personal foundation. This is a guy who created a special ministry for his son in order to pay his son. We have a European diplomat who was given a gift of about $200,000 walking out of the country before a loan came in the other direction.

I just wonder. It is not just that our aid dollars freed up Senegalese funds to be used for a statue taller than the Statue of Liberty, taller than the Redeemer statue in Brazil. This thing is a colossus, North Korean art, sitting there. It is the fact that the North Korean regime got the money. Our U.S. taxpayers put money into Senegal and that frees up money for this kind of an operation.

Frankly, you strip away everything else and we are essentially rewarding a guy who is helping fund the regime in North Korea,

besides just the corruption that is going on there. I have written repeatedly, raised this issue with the Secretary of State, tried to get everybody to reevaluate the $540 million over in Senegal. I know we say we are bringing up these issues with him but he has extended his term to 7 years in office.

Come on. Could you give me your take on what we are doing right now with President Wade in Senegal?, which is certainly moving in the wrong direction. I have been to Senegal. I was there back when it was moving the right direction. Right now we are doubling down on somebody who is back peddling as fast as humanly possible in terms of the rule of law.

Mr. YOHANNES. Thank you very much, Mr. Congressman. You know, in terms of the statue, I mean, those things happen. We are not happy about it but some of the poorest countries they seem to be doing something like that which is stupid but, nevertheless, that goes on.

In terms of looking at the country as a whole, when you consider Senegal with other countries, primarily in the area of corruption, in the area of good governance, in the area of freedom of the press and economic policies and investment in people, they do score extremely well.

Having said that, you know, a number of issues have come to us in the last couple months. In fact, there was an incident that happened a couple of months ago where President Wade exempted a couple of the ministries from procurement processes and we responded back and we worked in conjunction with the State Department, the World Bank, and others.

We sent a message that if you decide to remove those exemptions that will suspend or terminate our compact and they reversed after they heard our complaint. It appears to be sometimes a problem but we are responding to it. We are making some changes. They are responding to us. After all, you know, they have about $500 million. They don't want to do that.

Mr. ROYCE. I understand that but think on this, all right? As I said, once they were moving in the right direction. They had think tanks that were promulgating the right ideals. You brought out these facts. The facts I look at is how Transparency International sees it. They say that Senegal has fallen from No. 71 in '07 to 105 out of 178 countries, 105 from the list in their corruption ranking.

In other words, they are not moving in the right direction. They are slipping about as fast as a country can slip. I would argue that at some point in time you have to send a message and you have got to send a message to other countries that you are serious.

If Senegal isn't it, and if cutting this deal with the North Koreans to bring in a statue taller than the Statue of Liberty which 35 percent of the money gets kicked back to a personal foundation of President Wade, if he has a relationship with what he is doing with his son, if that isn't the red light, I don't know what is. I would really suggest to you what I have suggested in numerous blogs and letters——

Chairman ROS-LEHTINEN. Thank you.

Mr. ROYCE [continuing]. And in meetings with the Secretary of State please reverse this action. Thank you.

Chairman ROS-LEHTINEN. Thank you.

Judge Poe, the vice chair of the Subcommittee on Oversight and Investigations is recognized.

Mr. POE. Thank you, Madam Chair. Thank you both for being here. I want to make it clear that in your operation you are doing what Congress has commissioned you to do. I have a chart here that is furnished to us by the Department of Defense and the State Department. It is off their Web site. A very simple chart. All of the red represents countries that receive aid from the United States whether it be foreign aid and maybe military aid.

The green represents those countries in the world that receive military aid from the United States. And those few countries that are in blue they receive no aid from the United States. As you can see, it is most of the countries in the world. There are 192 countries in the world give or take those last two who sometimes are countries and sometimes they are not countries but we give aid to most of those countries.

I understand the reason. It is to promote humanitarian goals in the interest of the United States and some of those noble things. But it concerns me that we give aid to our "friends" Chavez in Venezuela; that we give aid to Cuba, that we give aid to Russia and, of all things, we give aid to China, the country that controls most of our debt. And the other countries throughout the world receive some type of aid.

Many of these, I would guess most of these countries, they don't even like us. They vote against our interest in the United Nations. As my friend Louie Gohmert says we don't need to pay people to hate us. They will do it on their own. Maybe there is some truth to that. It seems to me that maybe we should rethink the way that when we are talking about the budget and foreign affairs and the State Department that we allocate money.

Maybe each of these countries should stand or fall on their own. As you know, we vote for foreign aid appropriations all the countries together in one piece of legislation whether it is Israel or whether it is some other country. I am a big supporter of Israel. I think that most Members of Congress are. I can't speak for them but I think most Members of Congress would want to appropriate aid to Israel.

If we want to give aid to Israel, we have got to give it to all of these other countries as well. So maybe the time has some to let each of these countries stand or fall yearly on their own with an up or down vote. Each country in the State Department presents to us the arguments for, and maybe against, continuing aid for each country one at a time. Maybe that is our responsibility to rein in spending.

Foreign aid, you mention that. If I mention that in my congressional district in Southeast Texas, people really just get irritated about that. I understand the percentage of it from the budget but people are concerned about foreign aid.

Dr. Shah mentioned that we are helping educate people throughout the world. Well, we are at a time where many states are cutting back education so why are we giving money to countries to educate their kids when we are losing money, don't have as much money to educate our own? It is questions like that that I constantly get.

Dr. Shah, I don't want to commit you but what do you think about that philosophy? Should we just let each country stand or fall on its own or should we continue the same process?

Dr. SHAH. Well, I would suggest and believe strongly that our assistance is part of our national security strategy. When you look at it in aggregate it is a very, very small investment that yields relatively higher returns. In education in Pakistan, for example, when we are able to get hundreds of thousands of kids in FATA and Waziristan and other dangerous parts of the countries in schools where they have an alternative to madrassas, that is an outcome that is good for our national security.

Mr. POE. But isn't it true that in Pakistan we have now issues with the Pakistan Government about giving safe haven to the Taliban and maybe some of the money that we are giving them is turning up in the hands of the bad guys? Doesn't that outweigh educating the kids in Pakistan?

Dr. SHAH. We have robust vetting and monitoring systems in our Pakistan program and in other programs around the world so that we can track where our resources have gone. I guess that is the second point which is we are not just writing checks to governments. A lot of this work, depending on where and under which circumstances, supports civil society, often supports democratic governance initiatives, supports the types——

Mr. POE. Excuse me, Dr. Shah. I want to reclaim my time with 16 seconds. Do you have an opinion about whether we should put it all in one big massive bill or split them up country for country regardless of what kind of aid it is?

Dr. SHAH. I think we should be focused on reform and results and think of this as part of our national security strategy and based on that, make relative tradeoffs across the entire portfolio.

Chairman ROS-LEHTINEN. Thank you.

Mr. POE. You cannot answer my question, or won't. Thank you, Madam Speaker.

Chairman ROS-LEHTINEN. Thank you. Thank you so much and I want to thank first our members for excellent, thought-provoking questions. Thank you to our two wonderful panelists. We thank you for the time and we will move ahead and see where we can meet each other between the fiscal realities that confront us and the needs of our world. Thank you so much and the meeting is adjourned.

[Whereupon, at 12:10 p.m., the Committee was adjourned.]

APPENDIX

Material Submitted for the Hearing Record

FULL COMMITTEE HEARING NOTICE
COMMITTEE ON FOREIGN AFFAIRS
U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515-0128

Ileana Ros-Lehtinen (R-FL), Chairman

March 3, 2011

You are respectfully requested to attend an OPEN hearing of the Committee on Foreign Affairs, to be held in **Room 2172 of the Rayburn House Office Building (and available live, via the WEBCAST link on the Committee website at http://www.hcfa.house.gov):**

DATE: March 16, 2011

TIME: 10:00 a.m.

SUBJECT: The Agency for International Development and the Millennium Challenge Corporation: Fiscal Year 2012 Budget Requests and Future Directions in Foreign Assistance

WITNESSES: Mr. Daniel Yohannes
Chief Executive Officer
U.S. Millennium Challenge Corporation

Dr. Rajiv Shah
Administrator
U.S. Agency for International Development

By Direction of the Chairman

The Committee on Foreign Affairs seeks to make its facilities accessible to persons with disabilities. If you are in need of special accommodations, please call 202/225-5021 at least four business days in advance of the event, whenever practicable. Questions with regard to special accommodations in general (including availability of Committee materials in alternative formats and assistive listening devices) may be directed to the Committee.

COMMITTEE ON FOREIGN AFFAIRS

MINUTES OF FULL COMMITTEE HEARING

Day *Wednesday* Date *March 16, 2011* Room *2170 Rayburn*

Starting Time *10:03 a.m.* Ending Time *12:10 p.m.*

Recesses [ ] (____to ____) (____to ____) (____to ____) (____to ____) (____to ____) (____to ____)

Presiding Member(s)

Chairman Ros-Lehtinen

Check all of the following that apply:

Open Session [✓]
Executive (closed) Session [ ]
Televised [✓]
Electronically Recorded (taped) [✓]
Stenographic Record [✓]

TITLE OF HEARING:

The Agency for International Development and the Millennium Challenge Corporation: Fiscal Year 2012 Budget Requests and Future Directions in Foreign Assistance

COMMITTEE MEMBERS PRESENT:

Attendance Attached

NON-COMMITTEE MEMBERS PRESENT:

HEARING WITNESSES: Same as meeting notice attached? Yes [✓] **No** [ ]
(If "no", please list below and include title, agency, department, or organization.)

STATEMENTS FOR THE RECORD: *(List any statements submitted for the record.)*

Chairman Ros-Lehtinen QFRs (Shah & Yohannes)
Rep. Bilirakis QFR (Shah)
Rep. Rohrabacher QFR & Letter (Yohannes)
Rep. Sires QFR (Shah)
Rep. Payne QFR (Shah & Yohannes)
Rep. Duncan QFR (Shah & Yohannes)

TIME SCHEDULED TO RECONVENE _____
or
TIME ADJOURNED *12:10 p.m.*

Mark Gage, Deputy Staff Director

Hearing/Briefing Title: The Agency for International Development and the Millennium Challenge Corporation: Fiscal Year 2012 Budget Requests and Future Directions in Foreign Assistance

Date: March 16, 2011

Present	Member
X	Ileana Ros-Lehtinen, FL
X	Christopher Smith, NJ
	Dan Burton, IN
X	Elton Gallegly, CA
X	Dana Rohrabacher, CA
X	Donald Manzullo, IL
X	Edward R. Royce, CA
X	Steve Chabot, OH
	Ron Paul, TX
	Mike Pence, IN
	Joe Wilson, SC
X	Connie Mack, FL
X	Jeff Fortenberry, NE
	Michael McCaul, TX
X	Ted Poe, TX
X	Gus M. Bilirakis, FL
	Jean Schmidt, OH
	Bill Johnson, OH
X	David Rivera, FL
X	Mike Kelly, PA
	Tim Griffin, AK
X	Tom Marino, PA
	Jeff Duncan, SC
X	Ann Marie Buerkle, NY
	Renee Ellmers, NC

Present	Member
X	Howard L. Berman, CA
X	Gary L. Ackerman, NY
	Eni F.H. Faleomavaega, AS
X	Donald M. Payne, NJ
	Brad Sherman, CA
	Eliot Engel, NY
X	Gregory Meeks, NY
X	Russ Carnahan, MO
	Albio Sires, NJ
X	Gerry Connolly, VA
X	Ted Deutch, FL
	Dennis Cardoza, CA
X	Ben Chandler, KY
	Brian Higgins, NY
	Allyson Schwartz, PA
X	Chris Murphy, CT
	Frederica Wilson, FL
	Karen Bass, CA
X	William Keating, MA
X	David Cicilline, RI

Questions of the Honorable Ileana Ros-Lehtinen
Chairman, Committee on Foreign Affairs
Hearing: "The Agency for International Development and the Millennium Challenge Corporation: Fiscal Year 2012 Budget Requests and Future Directions in Foreign Assistance"
March 16, 2011

Honduras

While I was disappointed the Honduran government was unable to qualify for a second compact due to the wrongdoings of its predecessor government headed by Manuel Zelaya, I recognize MCC's principled decision. I commend the MCC's commitment to working with the current Government of Honduras to advance its efforts in support of accountable governance, enhanced management of public resources, and fiscal transparency.

However, the State Department is continuing to impose pressure tactics and unjust visa policies against those who defended the sanctity of the Honduran constitution and rule of law against Zelaya's attacks—more than a year after President Lobo took office.

Our State Department harasses those who uphold the rule of law in Honduras and this undermines the very investments the MCC and USAID have made.

- **What steps is MCC taking to compensate for the time lag under its corruption indicator for future determinations?**

In order to mitigate the impact of indicator lags, MCC takes into account supplementary information. When it comes to monitoring corruption, MCC considers expert narratives from organizations like Freedom House and Global Integrity, as well as rankings on the Bertelsmann Transformation Index and Transparency International Corruption Perceptions Index. MCC also looks to reporting from other donors and other agencies within the USG (particularly State). In some cases, MCC is able to consider feedback and information collected through policy dialogue and policy improvement programs with partner and potential partner countries.

- **Do you believe that the MCC is successful because it is free from the many restrictions and regulations that are imposed on the Agency for International Development?**

There are many reasons for MCC's success, but certainly have a focused mandate, multiple-year funding, open international competitive bidding and country-led development are key elements. MCC has a focused mandate – to support long-term investments in poverty reduction through economic growth in poor countries committed to their own development. MCC has a unique model with a practical emphasis on sound policy, country-led development and implementation, transparency, and accountability for results. Part of the success of the MCC model is that it has

authorities particularly tailored to support its approach. These authorities allow MCC to commit funding for long-term investments, partner with a select group of countries and therefore create incentives for policy reform (no country earmarks), be responsive to countries' priorities for poverty reduction and economic growth, and make investments where the returns will be greatest. These aspects of MCC's model and related authorities are fundamental to MCC's accountability for results, cost-effective investments, and good governance.

- One of the unique aspects of the MCC is that there are no requirements to buy U.S. goods and services when delivering aid. In other words, MCC provides "untied" aid. **What are the advantages to this aspect of the MCC's operations?**

Untied aid is recognized as international best practice in development effectiveness and has several advantages. "Untied" aid allows for competitive pricing. As a result, a larger pool of technically qualified companies is interested in bidding on compact funded infrastructure, services and goods procurements. In addition, with a focus on country ownership, MCC compact countries are able to procure the required goods and services using the MCC Program Procurement Guidelines that are based on proven World Bank procurement guidelines. Tying the aid and conducting the procurements using the Federal Acquisition Regulation would require that MCC itself conduct the procurements, which would require a significant increase in the staffing of the MCC contracts division, seriously jeopardizing our ability to complete the projects within the five-year compact timeframe. Conducting procurements in this way would also defeat many of the objectives set forth in MCC's governing statute that established a lean oversight organization relying on host country management of the compact projects. Untied aid also sets the environment for U.S. companies to compete on a level playing field for other projects not funded by the USG. While recognizing the advantages of untied aid, the MCC does not tolerate conditions where state-owned enterprises (SOEs) benefit from an un-level playing field. For that reason, the MCC has a policy that prohibits SOEs from bidding on MCC-funded projects, except for essential services needed to carry out compact program operations, like electricity, water, communication services, newspaper advertisements, radio/TV, laws and other government publications, rented office space, and rented hall space.

- **Please explain the steps that the MCC takes in order to determine the suspension or termination of a compact.**

The Millennium Challenge Act of 2003, as amended, establishes MCC's right to suspend or terminate assistance to a country in the event that the country demonstrates a pattern of actions that is inconsistent with the criteria MCC uses to determine eligibility for compact assistance. MCC's *Policy on Suspension and Termination* states that a "pattern of actions" could be evidenced either by an "actual decline in performance on the indicators used to determine eligibility" or through "actions by the country which are determined to be contrary to sound performance in the areas assessed for eligibility."

In cases where MCC determines that a country has demonstrated a pattern of actions that is inconsistent with the MCC eligibility criteria, the CEO makes a recommendation to the Board of Directors. The Board subsequently makes a decision about suspension or termination.

Given the lag time between when policy decisions are implemented and when such decisions are reflected in the data, a policy reversal or pattern of actions inconsistent with the eligibility criteria need not be reflected in the indicators for a country to be warned, suspended or terminated. At the same time, if a compact eligible country does not meet the formal criteria in a given year, this does not necessarily indicate a significant policy reversal or pattern of actions inconsistent with the eligibility criteria.

MCC's *Policy on Suspension and Termination* is publicly available at www.mcc.gov.

- Recently there were concerns over MCC contracts being implemented by Chinese government-owned firms, leading MCC to change its procurement policies and methods to establish that no state-owned enterprises would be eligible for contracts. **Are there exceptions to this policy?**

There are exceptions to this policy. MCC has issued waivers to permit the Millennium Challenge Accounts (MCAs) to procure certain goods, works and services that are funded in whole or in part, directly or indirectly, with MCC funding from host country government-owned enterprises. In each case, the goods, works or services are essential services needed to carry out compact program operations. Examples of these types of services are: electricity, water, communication services, newspaper advertisements, radio/TV, laws and other government publications, rented office space, and rented hall space.

- **How are MCC procurement methods determined?**

Procurements conducted by MCC headquarters in support of MCC operations are conducted under the Federal Acquisition Regulation. Procurements conducted by the Millennium Challenge Account entities in the compact countries are conducted using the MCC Program Procurement Guidelines, which are based on the World Bank's procurement guidelines.

- **And what other procurement reforms have been made, if any?**

MCC's Program Procurement Guidelines and Standard Bidding Documents are continuously reviewed and updated to reflect lessons learned. A significant recent change was the addition of Trafficking in Persons clauses to the Standard Bidding Documents.

- In 2009, the threshold program was suspended and reviewed due to growing concerns over its effectiveness leading the MCC to conduct a review of the program. **Can you please explain the results of that review and how the newly revamped program would be more effective in moving assisted countries towards eligibility? If the new program places less emphasis on the performance indicators in threshold countries, then by what measurements is progress evaluated? Overall, what value-added does the threshold program bring?**

MCC did not suspend the threshold program; but rather, MCC conducted a review while simultaneously continuing to implement existing programs. In the review, MCC concluded that the Threshold Program has been a useful tool in strengthening the U.S. Government's dialogue with threshold country partners and supporting country-driven institutional reforms using the incentive of potential compact eligibility. The program has also been valuable in providing information to MCC's Board of Directors regarding a country's commitment to reform and the prospects of partnership through an MCC Compact. Using the program to improve performance on MCC's eligibility indicators within a narrow time frame, however, was not effective in most cases.

Future threshold programs will assist countries in becoming compact-eligible by focusing on country-specific policy reforms that address impediments to growth. Progress will be assessed against measurable objectives that partner governments can act upon within specified time frames. The successful implementation of a threshold program will serve to strengthen the logic underpinning the Threshold Program and to more closely align it with MCC's goal of creating policy environments conducive to reducing poverty through growth.

A country's approach to the implementation of a threshold program will serve as a useful gauge of its commitment to making critical policy reforms, which is an important factor in assessing MCC's opportunity to reduce poverty and stimulate long-term growth through a compact investment in that country. This in turn will help make these countries more attractive candidates for a compact investment.

- The MCC threshold program is administered by the United States Agency for International Development (USAID). However, previously there had been concerns that threshold programs were becoming too similar in content to USAID technical assistance programs. **What steps has the MCC taken to ensure that threshold programs are not implemented in ways that are similar to USAID program implementation?**

MCC's Threshold Program brings together the relative strengths of MCC, USAID, and other U.S. Government (USG) counterparts in a strong USG partnership. Future programs will reflect more prominent MCC leadership and oversight, as well as increased country ownership. Additionally, MCC's most recent country threshold programs are benefiting from an increased focus on actionable and measurable results, and strong monitoring and evaluation -- all hallmarks of MCC's model. These programs also benefit from USAID's development expertise and country knowledge and presence.

In addition to MCC's review of the Threshold Program, MCC has also completed independent program evaluations of the Threshold Programs in Malawi, Tanzania, and Zambia, and an impact evaluation of the program in Burkina Faso. Findings from MCC's review and these evaluations contributed to the development of a body of Threshold Program "lessons learned" that will be applied to all future MCC Threshold Programs. Some of the lessons highlighted in this document are: 1) the need for increased MCC oversight and monitoring and evaluation of projects; 2) focus on more actionable and measurable results; and 3) improved diagnostic and feasibility work during program design.

- In addition, the threshold program was partly designed to create a degree of coordination between USAID and MCC. **If the threshold program is terminated, are there other ways in which these two assistance agencies could coordinate?**

MCC's Threshold Program is an important area of collaboration between MCC and USAID, but coordination goes beyond this program and is reflected at all levels of MCC's work. This coordination is critical to ensuring the effectiveness of our development investments.

MCC is actively coordinating with USAID in several ways. The first is through the USAID presence on the MCC Board. USAID experts are frequently consulted for peer review during compact development. In addition, MCC has funded some compact activities that are complementary to a USAID program and has supported the expansion of programs that USAID has piloted. MCC and USAID are both committed to coordinating our programs more closely and seeking new opportunities to leverage each agency's specific mandate and model toward complementary aims. A recent example of this is the Feed the Future (FTF) initiative, where MCC and USAID are identifying opportunities for new FTF programs to leverage and build on existing MCC food security investments.

- MCC strongly emphasizes anticorruption measures, basing its corruption indicator on a pass/fail performance, instead of the numerical values that determine other performance indicators. However, there have been several countries that have become eligible for compacts, such as Bolivia, that have failed the corruption indicator. **Could you expand on this perceived discrepancy, and what other considerations may be taken into account by the Board if a country does become eligible for compact assistance, but fails the corruption indicator?**

Corruption is often a major impediment to economic growth and government effectiveness, especially in the world's poorest countries, which is why MCC places a heavy emphasis on countries' anti-corruption framework.

The Control of Corruption indicator is the only "hard hurdle" to MCC eligibility; countries must be in the top half of their income group on that indicator to have a passing corruption score. This is a commitment MCC takes seriously. Since its initial selection round in 2004, MCC's Board has not chosen a country that did not perform above the median on the Control of Corruption indicator at the time of selection.

Sometimes countries that passed the Control of Corruption indicator when they were initially selected as compact eligible do not continue to pass in subsequent years. There are many factors that can contribute to downward movement on the indicator score besides policy performance, including changes in the relative performance of other countries, changes in the low income country (LIC) or lower middle income (LMIC) cohort, and changes in the methodology of the Worldwide Governance Indicators from year to year.

Along with monitoring the Control of Corruption indicator, MCC considers supplemental information, including expert narratives from organizations like Freedom House and Bertelsmann Transformation Index, rankings on the Transparency International Corruption Perceptions Index, and interagency information and reporting.

- MCC performance indicators, correlated by independent, non-U.S. Government agencies have come under some scrutiny due to the lag between the time that data is collected and compiled for MCC performance indicators, and the events and reforms that may be taking place in compact eligible countries or compact countries themselves. **Could you expand on this so-called time lag, and how it impacts the consideration of performance indicators?**

As MCC's scorecards are released on an annual basis, there is some predictable, consistent time lag present in the indicators used. In order to mitigate the impact of these indicator time lags, MCC takes into account supplementary information to provide more current information and to help MCC better understand the policy environment of candidate countries. The types of supplementary information MCC may consider include expert assessments on democratic practices, past or current conflicts, corruption, constraints to growth, and quality of education or health systems. MCC may also consider supplemental data on composition of GDP, credit ranking, breadth and depth of poverty, and other information pertinent to the policy areas measured by the indicator criteria. Third-party sources include organizations such as the World Bank, the IMF, UNESCO, and UNICEF, as well as interagency information and reporting.

- MCC has recently completed its first two compacts with Cape Verde and Honduras, and has had a chance to evaluate the impact of those compacts. **What were the results of those evaluations? What lessons were gained that can be applied to future compacts?** *(please see tables and text that follow)*

Cape Verde Implementation Results: Low-income households engaged in subsistence farming have limited opportunities to adopt new practices to raise incomes. MCC and MCA-Cape Verde sought to increase agricultural productivity, build vital infrastructure and develop a robust private sector to transform agriculture into a productive, competitive business sector. The $110.1 million compact entered into force on October 17, 2005 and finished in October 17, 2010.

Policy Reforms	• **Decree Lifting Embargo:** Cape Verde issued a national decree lifting 20-year embargo on agricultural exports from the island of Santo Antão put in place because of a millipede infestation, contingent upon the construction/operation of the MCC-funded post-harvest inspection center. This now gives Santo Antão farmers an outlet for income-generating trade. • **Road Maintenance Fund:** In response to the compact, the government established a Road Maintenance Fund that is financed by a levy on road users for maximum sustainability of the road improvements. • **Citizens' House (*Casa do Cidadão*):** The Citizens' House electronic system improves access to government services and the MCC Compact contributed to this e-government service through a Cape Verdean agency by investing in equipment, software and technical assistance valued at more than $3 million. In 2007, it took 52 days to start a business in Cape Verde. By 2010, Cape Verde had reduced both the cost and time to start a business to an hour; • **Microfinance Legislation:** As a condition precedent to providing technical assistance to micro-finance institutions, Cape Verde enacted a micro-finance law that, among other improvements, authorized MFI collection of savings.
Outputs	• To increase agricultural productivity in targeted rural watershed areas, **28 reservoirs** (100 percent of the target) have been completed, **549 farmers** have been trained in new technologies and four participating microfinance institutions have issued **$617,000 in rural agricultural loans** to **209 farmers or agribusinesses**. • Three rural roads, totaling **40.6 kilometers**, have been upgraded from cobblestone to asphalt pavement connecting coastal and inland villages with larger population centers and markets. In addition, all **four bridges** have been completed, reducing the average annual number of days riverbeds were impassable from eight to zero during the heavy rainy seasons and contributing to the overall improvement of Cape Verde's rural transport network. • The **Port of Praia's efficiency increased** with the completion of the first phase of work, including the construction of a cargo village and access road and the rehabilitation of quay 2. • To increase financial intermediation and competition in the government securities market and develop the private sector, MCA-Cape Verde provided **eight microfinance institutions with technical assistance**, building capacity through training on best practices in accounting, credit appraisal, delivery, collection, human resources management, and marketing. Cape Verde also is launching the first **private credit bureau.**
Preliminary Outcomes	• Reduced road roughness because of rehabilitated roads is expected to result in shorter travel time, increased mobility, reduced operating costs and improved access to employment opportunities, markets, educational and health care facilities, and other social services. The improved benefits stream will be measured as part of an initial ex-post *Economic Rate of Return Analysis* on road investments as well as an impact evaluation. • As farmers increase their agricultural productivity, they will also increase their household income from farm profits and wages. A rigorous post-compact impact evaluation will confirm the impact on household income.
Preliminary Income Gains	• In Cape Verde, preliminary findings of the Agricultural Support Project show significant results for farmers who received MCC assistance. After a year of very bad rains, farmers not receiving MCC assistance experienced a decrease in income of 88 percent, while incomes declined by only 18 percent for those farmers receiving MCC assistance. This improvement was seen in less than one

	harvest period. MCC's combination of agricultural credit and training in soil and water management techniques are associated with a significant difference in the income of Cape Verdean farmers. These results, which are from an income survey of the first warm season agricultural cycle, will be refined as MCC completes the rigorous third-party evaluation of the program that is currently underway.
Impact Evaluation	• Project evaluations are expected beginning in November 2011 through June 2014 and will measure the gains in income attributable to MCC investments. • MCC's investment in Cape Verde is expected to benefit nearly 385,000 Cape Verdeans and increase incomes by over $149 million over the next 20 years.

Honduras Implementation Results: MCC and MCA-Honduras identified low agricultural productivity and high transportation costs as key barriers to economic growth and poverty reduction. The program, therefore, sought to improve small farmer productivity and investment in transportation. The $205 million compact was signed in September 29, 2005 and finished in September 29, 2010.

Policy Reforms	• **Increasing access to credit through a moveable property registry**: Through the newly-enacted Secured Transaction Law and establishment of a movable property registry system enabling credit seekers to use an entirely new category of moveable, non-real estate property—such as shop inventory, future crops, tractors, supply contracts, and sewing machines—as collateral. • **Enabling responsible resettlement:** The Honduran government passed a special decree fully authorizing MCA-Honduras to carry out a comprehensive resettlement program that provided affected parties with timely and fair market-value compensation beyond current legislative allowances, managed resettlement activities effectively, cleared the right of way, and started and completed road construction more quickly than other projects investing in the same highway and facing similar resettlement needs. • **Ensuring road sustainability:** Both a weight control system and a road maintenance fund are necessary for sustainability. Although MCC terminated assistance for the weight control system, the Honduran government and other donors are stepping in to construct and operate the system designed by MCC. Also, at MCC's request, Honduras progressively increased its road maintenance budget from less than $40 million in 2005 to $64 million in 2010.
Outputs	• More than **7,000 farmers** received technical training in better crop management, irrigation techniques, business skills, marketing, and post-harvest handling. • More than **10,000 loans** have been extended to **5,800** farmers, agribusinesses and other producers, giving them the means to buy equipment, seeds and tools to help them expand their production and increase their profits. • A total of **611 kilometers of roads** have been rehabilitated, including sections of the *CA-5 Highway* as well as rural and secondary roads, reducing transportation costs and time to national, regional and global markets.

Preliminary Outcomes	• Of the farmers trained, **6,029** increased their production of high-value horticultural crops to earn **$2,000** or more per hectare, demonstrating their effective adoption of the new techniques. • Farmers have reported that with more income, they are improving their farms and homes, purchasing vehicles to transport their produce to market and investing in the education of their children.
Preliminary Income Gains	• An analysis by MCC using preliminary data from the implementer of the agriculture training program in Honduras shows that farmers assisted by the compact have seen their annual net income per hectare rise from approximately **$1,880** at the baseline to **$3,550** on average after 2 years of assistance, a gain of 88 percent, which is much faster than the approximately **7 to 11 percent growth** that would have been expected in the absence of the program. This initial estimate will be refined as MCC completes the rigorous third-party evaluation of the program that is currently underway.
Impact Evaluation	• Though MCC can point to real change in Honduras now, MCC's stringent standards for measuring and reporting results require independent evaluations to verify the immediate and long-term impact of our partnership. These evaluations, which are expected by September 2011, will measure the gains in income attributable to MCC investments. • Over the next 20 years, MCC's investment in Honduras is expected to benefit more than **1.7 million** Hondurans and increase incomes by about **$240 million**.

Lessons Learned:

On preparatory work: For major infrastructure or civil works, as were conducted in Honduras and Cape Verde, it is important to complete as much of the preparatory work upfront as possible, before entering into specific financing commitments. This includes feasibility and environmental studies, staffing of the local MCA and other start-up actions. While this does not preclude the reality of external factors producing challenges during implementation, it makes it possible to use more of the compact timeline on implementation rather than preparation, and it introduces a comprehensive risk-based management approach from the beginning of implementation.

Focused programs: Earlier programs included a broader range of projects and activities in different sectors, which was challenging for the MCAs from an implementation perspective, particularly in the early phases as the MCA capacity was being strengthened. Through the introduction of the constraints analysis process, the new compact development process focuses on earlier identification of core constraints to growth and focuses the compact projects and activities on addressing in depth one or two core issues.

On the importance of results: It is important to focus on results throughout the compact's life. In the beginning, targets help us and our partners set our sights on the results that matter. During implementation, monitoring results helps us identify trends that can leads us to make mid-course corrections, and at the end they helps us be accountable to our taxpayers and other stakeholders. Not all the results will be positive, but communicating even these is fundamental part of MCC's commitment to transparency and learning.

On strengthening government systems: Our compacts create opportunities for policy reforms which have an impact well beyond the MCC program. In Honduras, the legislation passed for the resettlement along the MCC-funded roads set a new standard for fair compensation and demonstrated the value it can have in furthering timely construction. The Government of Honduras is considering how to employ similar processes on other road construction projects. In Cape Verde, based on the MCA monitoring and evaluation model, the government is piloting an integrated financial system that will enable ministries and public agencies to plan, monitor and evaluate investments based on a management for results framework.

- **Also, Cape Verde has already been granted a second compact, before the MCC post-evaluation of the first compact. Could you comment on this?**

Cape Verde's Eligibility for a Second Compact:

Cape Verde was selected by the MCC Board as eligible for a second compact in December 2009. We have made it clear to all current partner countries that eligibility for a second compact is not automatic, and depends on policy performance as well as strong compact implementation performance.

Cape Verde's performance on MCC's eligibility indicators has been impressive. The country is the top performer for all lower and lower-middle income countries in Africa on control of corruption. To become eligible for a second compact following a graduation from low to lower-middle income status, the country aggressively took on additional necessary data reporting and

policy reforms, such as working with World Health Organization to collect better national data on immunization rates, and reducing the time to start a business from 52 days to as little as one hour.

While Cape Verde has made and continues to make policy progress, it still has 40% of its population living on less than $2/day and will greatly benefit from continued MCC investment.

- MCC has been criticized for a reported slow disbursement of funds and agreements on compacts. **Can you address those criticisms? What factors call for a slow implementation of programs?**

MCC has improved the compact development process to achieve quality investments by ensuring most feasibility studies are completed before compact signature. This means that projects are more fully developed at the time of compact signing and there is higher certainty on cost factors and disbursement in the early years of the compact. These steps are particularly critical in large infrastructure projects that require substantial preparatory work prior to construction. When these preparatory studies are completed prior to compact signing, construction can commence more quickly. In addition, the implementation structure is prioritized up-front so that the accountable entity, the in-country entity in charge of managing and implementing the compact, is established in terms of office start-up and staffing.

MCC continuously monitors progress on all compact activities against key milestones, financial projections and conduct quarterly portfolio reviews to focus on performance measurement and address any potential problems. To date, despite initial start-up issues, MCC has successfully closed-out three compacts, with all works, as restructured, completed on time.

- **Other than the MCC's threshold assistance program, implemented in coordination with A.I.D., how does the MCC coordinate with other U.S. Government agencies? What steps are taken to avoid duplicative assistance programming, if that is necessary?**

MCC continues to make significant contributions to President Obama's foreign policy priorities, including promoting global stability through elevating development and supporting new aid initiatives such as food security and fiscal transparency. Lessons learned from MCC over the last seven years made important contributions to the 2010 Presidential Policy Directive (PPD) on Global Development Policy, and MCC will be an integral part of implementing the PPD's focus on economic growth, selectivity, country-led planning, transparency, and accountability for results.

The Administration's PPD recognizes that growth is the foundation for reducing poverty and attracting investment to create jobs and economic opportunity in countries. MCC is at the center of the U.S. Government's commitment to long-term investments in global economic growth. President Obama regularly emphasizes that development is ultimately in the hands of countries themselves and that accountable and effective governance is a necessary ingredient. This is a core MCC principle, and MCC works with poor countries that have a proven track record of ruling justly, promoting economic freedom, and investing in the needs of their people.

Moreover, MCC's approach to the transparency of financial and program information in development assistance serves as a model for the Administration's efforts toward greater government-wide transparency.

To ensure not only MCC results but also the success of a whole-of-government approach to development, MCC coordinates with other U.S. Government and international donors to avoid redundant investments and to maximize opportunities for leverage and complementary assistance. In addition, MCC's standards for gender integration and its environmental, social, health and safety safeguards contribute to sustainable development and have been embraced by much of the development community.

Taking a whole-of-government approach, MCC projects are unlocking opportunities that other U.S. Government agencies are leveraging. Examples during FY 2010 of complementary U.S. Government's efforts include:

- Building on over $4 billion in food security-related investments, MCC is a key piece of the Administration's ***Feed the Future*** (FTF) initiative. MCC and **USAID** are identifying opportunities for FTF programs to complement and leverage existing MCC investments in food security. For example, since one of the key obstacles to food security in Mali is land tenure, the *Alatona Irrigation Project* in that country's MCC Compact is piloting land titles for small farmers. USAID intends to build on this by supporting a legal framework to resolve land conflicts. In Senegal, MCC and USAID have identified – and are coordinating on -- opportunities for USAID programs in social services, farmer training and rural infrastructure to complement MCC's investments (irrigation and water resource management) in the Senegal River Valley region. In Ukraine, USAID is continuing some of the successful anti-corruption initiatives from the MCC-funded Threshold Program that ended in December 2009, such as streamlining the customs valuation system and developing a pilot unified land registry. In Moldova, MCC and USAID are co-financing capacity building and market development activities for farmers who are also benefitting from Compact investments in irrigation infrastructure.
- The **U.S. Trade and Development Agency** funded feasibility studies for private sector activities connected with MCC Compacts and organized visits between representatives from MCC partner countries and the U.S. private sector. These visits allowed MCC partner countries to learn about available technologies and to observe the design, manufacture and operation of U.S. products and services. The **U.S. Export-Import Bank** and the **Overseas Private Investment Corporation** can provide financing to contractors that work on compact-funded projects and to companies that have increased their business because of Compact investments.
- **USAID**, the **U.S. Department of Treasury,** and the **U.S. Department of Justice** contribute to the success of MCC's Threshold Programs. Because most MCC Threshold Programs center on corruption, USAID brings its expertise in democracy and governance to program design and implementation. The U.S. Department of Treasury supports MCC Threshold Programs in such areas as customs administration and financial sector reform. The U.S. Department of Justice contributes technical expertise in prosecution and law enforcement to several MCC Threshold Programs.
- More than 160 contractors and suppliers attended a procurement conference in South Africa co-organized by the **U.S. Department of Commerce**, Business Unity South Africa, and

MCC at the Development Bank of Southern Africa. Representatives from MCC partner countries attended to meet with companies seeking contracting opportunities on projects funded by MCC Compacts.

- The **United States Peace Corps** and MCC are breaking new ground in Lesotho, where, for the first time, a first Peace Corps volunteer has been assigned to work with an MCA entity. MCC CEO Daniel Yohannes and Peace Corps Director Aaron Williams signed an agreement on September 9, 2010, to enhance further collaboration and cooperation between the two agencies and share respective strengths, knowledge and resources in support of country-led development initiatives that improve the lives of the world's poor. Peace Corps volunteers in El Salvador are exploring ways of collaborating with FOMILENIO, the Salvadoran MCA entity, on MCC-funded projects. So far, volunteers have surveyed students benefitting from MCC assistance in technical middle schools in the country's Northern Zone and have organized workshops to train artisans and other entrepreneurs to pursue market-based opportunities.

- **How will concurrent compacts, which the MCC is requesting, assist in providing better and more effective assistance? Should the length of compacts be extended? If we expect a country to implement its own projects, is five years a suitable amount of time for large-scale development projects, such as infrastructure and road improvements?**

MCC's governing statute currently restricts MCC to a single compact with each partner country at a time. MCC's request for FY2011 proposes concurrent compact authority in order to sign a compact with Indonesia in 2011. Concurrent compacts would improve the predictability of compact pipeline management, serve as an added incentive for ongoing policy reforms in partner countries, and help address MCC's unobligated balances.

With concurrent compacts, the agency could move forward with projects that are investment-ready, instead of having to put several projects at various stages of readiness into a single compact or delaying compact signing for a promising but less-developed project. As part of a larger, cohesive framework negotiated with the partner country, concurrent compacts will allow for smaller, staggered agreements and more certainty in the budget process; speed implementation; improve project management by allowing countries to manage fewer projects simultaneously; build management capacity with early projects; ease the current burden of managing large, complex compact programs; and foster innovation by allowing the agency to pursue more innovative approaches and partnerships that may normally slow down the compact development process.

Concurrent compacts would also have a positive effect on budget predictability and accountability. A key element of the MCC model is the ability to obligate program funding when a compact enters into force. This up-front obligation of the full budget over the duration of the compact is consistent with lessons in aid effectiveness, because it allows partner countries to plan and manage development strategies and budgets in a sustained way. It also allows MCC to make large investments in long-term infrastructure projects without suffering the cost premiums associated with uncertain project funding. This practice, however, means that MCC must hold large obligated but undisbursed balances. Concurrent compact authority would allow MCC to

sign smaller compacts, implement them more efficiently, and thereby reach disbursement targets more quickly.

Another critical change would allow MCC to structure compacts so that, on occasion, individual projects may exceed the five-year limit by a short period. Having definite time frames for MCC compacts is an important best practice for effective foreign assistance, but, in some cases, the most successful projects for poverty reduction are too large or complex to be completed within the mandated five-year period, particularly with MCC's emphasis on recipient-led implementation.

- The MCC was established in an attempt to learn from past mistakes, to explore new strategies, and to improve the effectiveness of foreign aid. **Has the MCC fulfilled those aspirations in your view? How will the MCC defeat the long-term curse of our aid programs—the tendency of countries that receive our aid to become dependent on it?**

MCC's model was created in response to growing recognition that economic growth is an essential foundation for achieving a wide range of development outcomes; the concern that too much development assistance was going to unaccountable governments, was not achieving results; and was not yielding sustainable outcomes. In response to these concerns, MCC's model and mandate focus on economic growth and poverty reduction, with three core tenets: 1) selectivity of country partners, to direct assistance to countries where conditions for growth are in place, and where assistance will be used well; 2) rigorous and transparent focus on results, to ensure that the impacts of investments justify the allocation of scarce resources, and that MCC is accountable for results; and 3) country ownership in prioritization of investments, implementation of programs, and commitment to policy reforms that increase impact and sustainability of development outcomes. MCC has shown that US development assistance can adhere to these fundamental tenets of accountability and effectiveness.

MCC's targeted, selective engagements are critical to ending the cycle of aid dependency, ensuring sustainability, and promoting country ownership. MCC's engagement with partner countries is not open-ended. MCC carefully considers the appropriate nature and duration of each country partnership based on the country's policy and implementation performance, as well as the opportunities to have an impact on growth and poverty reduction. MCC's mandate to partner with countries where investments will have the greatest potential returns in terms of poverty reduction and economic growth, and where U.S. taxpayer resources can be used most effectively, means that, in some cases, the greatest opportunity for impact may be in deepening partnerships with existing partners through second compacts. Continued partnership in select cases allows MCC to help countries solidify an economic growth path that attracts private investment allowing countries to move away from dependence on aid.

- **What short-term indicators can Congress look to in order to determine if a compact is making progress towards its objectives?**

MCC closely monitors interim indicators for each compact country through the monitoring and evaluation plan laid out in the compact agreement to ensure that the projects are making progress

towards meeting their targets. MCC also monitors process milestones such as the establishment of the accountable entity's inclusion of financial management and procurement systems and procedures, progress toward program disbursement and commitment rates, and progress on key policy reforms. As an example of early indications of progress in the form of policy reform, in Honduras, the newly-enacted Secured Transaction Law and establishment of a movable property registry system enables credit seekers to use an entirely new category of moveable, non-real estate property—such as shop inventory, future crops, tractors, supply contracts, and sewing machines—as collateral. This reform indicates that Honduras is on track to meet its compact objective of benefitting more than 1.7 million Hondurans and increasing incomes by about $240 million in the next 20 years.

- **How do MCC programs build local capacity in compact countries?**

Local capacity is fundamental to the sustainability of MCC investments because in-country capacity and institutions will ultimately determine the degree to which compact investments are successfully implemented and remaining benefits and assets integrated into country's longer term development plans. In addition, MCC's core principle of "country ownership" also challenges countries to "acquire" the necessary capacity to be able to, guided by MCC, implement the large scale programs funded under our compacts by themselves within the constraints of very specific and rigorous international standards and in a comparatively short period of time, limited to five years. For these reasons, MCC strategically incorporates capacity building mechanisms into its implementation strategy.

An important and overlooked mechanism for capacity building is the compact process itself, which involves establishing a local entity staffed by country nationals, known as the MCA. The hands-on training and experience gained by the group of in-country local personnel that are directly involved as part of MCA is a truly unique experience in large-scale program conceptualization, development and implementation. While MCC does not directly account for this benefit in its economic rate of return (ERR), it is clear that the experience gained by the MCA team members will represent a substantial asset to a developing country's future as these individuals become productive members of their society.

MCC also leverages the expertise of its staff assigned to country technical teams. MCC staff are experienced professionals in numerous fields of relevance to development (*e.g.*, engineers, water and sanitation specialists, agricultural specialists, fiscal accountability experts, procurement specialists, environmental and social experts, natural resource management experts, economists, policy and international affairs professionals). In general, core MCC team members travel periodically to compact countries to contribute to the compact design and to conduct oversight missions during implementation. Their primary role is to safeguard USG and MCC investments, and ensure that the compact is progressing consistent with MCC standards and expectations. However, concurrently, where feasible, MCC leverages these missions so that its own staff provides on-the-job training in areas essential to program planning and implementation.

Further, MCC has launched a "capacity building program." Based on the last seven years of experience, MCC has gained a clear understanding of the typical training needs during different phases of compact operations. As part of this program, MCC – with support of different US-based vendors – has developed training modules in a numbers of areas of low capacity in our compact countries (*e.g.*, fiscal control and prevention of fraud and corruption, program

management, procurement and contract administration, monitoring and evaluation, introduction to international engineering, environmental, and social standards). Consistent with our emphasis on "country ownership," MCC allows partner countries to request a particular training course. The course is then scheduled and delivered either in country, via video-conference or web-enabled mechanisms.

There are several other training and capacity-building mechanisms, such as "MCC University" or "MCC college," which are occasional events organized by MCC to promote learning from MCC experts, as well as from other country MCA counterparts involved in similar areas of expertise (*e.g.*, communications, monitoring and evaluation).

MCC standards are another way in which MCC contributes to capacity building. Many of the countries in which we operate may or may not have previously conducted activities similar to those involved in our compacts; however, most countries have not done this while concurrently complying with international standards related to procurement, fiscal accountability and control, and technical standards related to engineering, safety, environment or social aspects, all of which contribute to the sustainability of these investments. By requiring these standards to be met – and ensuring the oversight needed so that they are applied correctly, MCC is not only increasing the capacity of the MCA counterparts, but also that of ministries and agencies that partner with the MCAs and the broad pool of consultants and contractors that are hired by the MCA to implement the different components of the compacts. This contribution is substantial as it generally augments the capacity and competitive advantage of a broader pool of local stakeholders in the country.

- MCC compacts support a majority of infrastructure and transport projects that are focused on construction and rehabilitation of roads, airports, and water and sanitation systems, among other large-scale development projects. However, the costs for machinery and equipment for such projects have grown in recent years. **How have these rising costs affected MCC compacts for such projects?**

The costs of inputs to many of the infrastructure projects have indeed risen in recent years. The recent (vs. historic) cost trends for construction materials, labor, machinery and equipment, and energy have been upward. MCC is not alone in facing cost increases, but MCC's practice setting of infrastructure project budgets at compact signing, usually at the pre-feasibility phase, did increase that vulnerability. Changes between pre-feasibility, feasibility, and design necessitate re-estimation of costs, while the period between setting initial budget and contract award for major contracts for a typical infrastructure project can be well over two years, exposing MCC to external factors for a long time.

A number of projects in the early compact programs, in the face of rising costs, projects had to be scaled back (e.g., doing only one of two phases of the port project in Cape Verde with compact funds and reducing the number of kilometers of the main highway in Honduras financed by MCC.)

Based on that early experience, MCC made a number of operational changes to improve processes so as to better manage project costs and budgets, such as:

- Modifying the compact development process to defer investment decisions until such time as full feasibility studies (and, ideally, designs) have been completed; at that time, there is better information for decision-making and cost estimates should be more firm;
- Introducing due diligence guidelines to improve the breadth, rigor, and consistency of project appraisals;
- Seeking ways to introduce efficiencies into the project life cycle by compressing and overlapping the durations of steps without foregoing the benefits of improved information along the progression of activities;
- Working more closely with consultants to improve the reliability of project cost estimates, applying a more rigorous and conservative approach to cost estimation, and building costs up from the bottom using more reliable data sources rather than using a top down approach based on high level cost comparators;
- Adopting standards for the amount of contingencies by infrastructure sub-sector and by stage of project development/implementation; and being generally more prudent in the guidelines adopted for the extent of both physical and price contingencies that should be built into cost estimates to account for uncertainties;
- Designing more projects to be scalable, modular or phased so that, in the event costs should rise in spite of the previous steps, there are clear lines as to what may be de-scoped, still leaving behind a stand-alone and viable project;
- Rescoping projects to meet available budget constraints, while keeping economic rate of return targets and still reaching as many intended beneficiaries as possible;
- Working with the affected MCAs to seek out opportunities for parallel financing from other donors or the country's own budgetary resources to take up those portions of projects that may have had to be dropped from the compact program so that, in the end, the entire project, as originally conceived, may be delivered to benefit the ; andcountry. ; and
- Working with the MCAs and construction supervisors during construction to more tightly manage progress and the estimated cost at completion. While unforeseen costs may arise, increased effort is made to manage those aspects of costs during implementation that are controllable – e.g., design changes and other variations.

- **Mr. Yohannes, could you please explain how the MCC predicts the economic output and economic return of projects presented by eligible countries in their reports?**

MCC has a focused mandate – to promote economic growth and poverty reduction. This translates into a focus on increasing incomes among program beneficiaries. Economic analysis is a hallmark of MCC's approach to results, including estimating the potential returns on projects proposed by partner countries.

Most poor countries have many development needs, and stakeholders, both local and international, often struggle with setting priorities. MCC currently uses four tools to help

identify investment opportunities that will be cost effective and have the biggest impact in terms of raising local incomes and reducing poverty.

1. MCC asks country partners to conduct a **constraints analysis** that identifies the main barriers to private investment and economic growth. Based on this analysis, and in broad consultation with civil society and the private sector, partner countries submit proposals for projects to overcome these barriers to growth.
2. Country partners and MCC then use **benefit-cost analysis** to estimate the expected increase in local incomes of each proposed project. This helps MCC assess how much "bang for the buck" a certain investment will yield, and helps distinguish between projects with significant potential to spur growth and reduce poverty versus those that may be politically popular within a partner country but do not have sufficiently promising returns.
3. The benefit-cost analysis describes how the dollars spent on each activity will lead to higher incomes. It generates an **economic rate of return** (ERR) that reflects the fundamental economic viability of each proposed investment -- that is, whether the expected results justify the costs.
4. MCC and country partners use a **beneficiary analysis** (BA) to assess how the total income gains estimated in the ERR analysis will be distributed across different income groups in a country or targeted program region. The ERR and BA, together, inform project design and decisions about which country proposals to support in the MCC Compact.

ASIA

PHILIPPINES

- A significant portion of the $434 million compact signed with the Government of the Republic of the Philippines last summer is going for road construction. **Given the history of widespread corruption of public infrastructure projects in the Philippines, what special safeguards has MCC implemented to assure that U.S. taxpayer dollars are not embezzled?**

MCC takes very seriously its role as the administrator of U.S. taxpayers' hard-earned dollars. As with every compact, MCC countries are required to implement strict financial and procurement controls. Also, MCC's Resident Country Missions and DC-based team members are vigilant in oversight of compact funds to ensure they are used in an effective, efficient, and transparent manner.

Given the track record and concern with past public infrastructure projects in the Philippines, MCC has placed special attention on the issue of mitigating fraud and corruption.

External Project Management and Construction Supervision

In the Secondary National Roads Development Project, construction and associated activities will be managed and executed by an internationally-competed external project management consultant (PMC). The use of an external project management and construction supervision firm will insulate the project from negative influences from other parties, particularly during contract variations and change orders, which are the common source for misconduct. The PMC, which is

a common entity in many of MCC's compacts, also will provide supplemental assistance in mitigating fraud and corruption through their review and approval of contractor invoices, including change orders and disputes, and other oversight responsibilities.

Procurement

MCC has also required that there be an external procurement agent procurement agent procurement agent which is appointed for the management of procurement activities falling under the MCA-Philippines program. The use of an external company in the management and execution of procurement activities insulates the procurement processes from undue influences during the procurement process. Through the procurement agent, evaluation panels are composed of multi-disciplinary panel members, closely monitored and immediately penalized and/or disbanded in the event of misconduct. The procurement agent is also tasked to analyze the construction industry with the objective of recommending practices to mitigate the risks of unwanted fraud and corruption. Prior to the initiation of any procurement of works for the Secondary National Roads Development Project, the recommendations will be reviewed by MCC, MCA-Philippines (the compact's accountable entitycompact's accountable entity), and other relevant compact stakeholders to implement measures to protect against the misuse of compact funds.

The implementing strategy for MCA-Philippines provides additional measures to prevent and detect fraudulent and corrupt practices. The Government of the Philippines, with MCC support, will procure the services of a procurement fraud investigator to conduct a formal training program to recognize common procurement fraud schemes. MCA-Philippines' Procurement Agent will deliver training programs on MCC Program Procurement Guidelines and practices for observers from nongovernmental organizations and private sector groups who will be monitoring the procurement activity. MCA-Philippines' Procurement Operations Manual will include a specific section on defining fraud schemes and indicators to prevent, detect and remediate fraud and corruption, taking into account the analysis and recommendations of the construction industry study.

MCC is also implementing a "Bid Challenge System," which is unique to its operations and would provide opportunity to all bidders in seeking an independent review of any suspicion in procurement activities. Further, the Bid Review Panel procedures would provide additional safeguard, as compared to the government's existing procedures, where MCC will insist on private and/or international experts to be part of the evaluation panels.

Financial Management, Oversight, and Audit

The MCC program will be implemented through the Accountable Entity called the Millennium Challenge Account-Philippines (MCA-Philippines) and an external, professional Fiscal Agent will be engaged to perform fiscal agent functions. The Fiscal Agent will execute transactions approved by the Accountable Entity which consists of the Management Unit supported by a Board of Trustees and a Stakeholders Committee. The Fiscal Agent will report to a Director of Administration and Finance and Deputy Managing Director for day-to-day operations and will execute properly authorized transactions according to the terms of the Compact and all supplemental agreements (e.g., Fiscal Agent Agreement, Bank Agreement, Fiscal Accountability

Plan and Implementation Agreement). The Fiscal Agent will be the sole signatory on all MCA-Philippines permitted bank accounts.

There are a number of safeguards in place to ensure that Compact funds are used for the intended purposes. First is the requirement to use the U.S. Government's international payment system (ITS), whereby payments will be made directly from the U.S. Treasury to local and international vendors. This method insures that payments are made directly to the appropriate payee based on approved invoices. Second, fund transfers made into the local bank accounts will be for small amounts at a time, related to a closely-monitored administrative budget for operations of MCA-Philippines. The Fiscal Agent will be the sole signatory on these local bank accounts and provisions in the agreement with the local bank will stipulate that the Fiscal Agent is the only entity authorized to issue payment instructions.

MCC has placed this issue as one of its top priorities during the implementation of the Compact and feels confident in the measures inherent to MCC operations and the measures specifically designed for the Compact in the Philippines. While MCC, or any entity for that matter, may never be able to eliminate the risk of fraud and corruption, the incorporated measures will prevent, as best as possible, risks to U.S. taxpayer dollars assigned to the Philippines Compact.

INDONESIA

- MCC is scheduled to sign a compact with Jakarta at the end of FY 2011 that is projected to total approximately $700-770 million. MCC is based on the principle that compacts are signed without regard to political or policy considerations but only on the merits of the case. **Given that a number of taxpayer-funded initiatives were undertaken with Jakarta as part of Indonesia's newly announced "strategic partnership" with the United States in anticipation of President Obama's first visit as President to his boyhood home of Jakarta last fall, how can you give Congress airtight assurances that political considerations did not weigh in on the decision to finalize a MCC compact with Indonesia?**

Indonesia is the fourth most populous country and the largest Muslim country in the world, with more than 100 million people living on less than $2 per day. Given Indonesia's performance on MCC's selection indicators, its strategic importance to the U.S., its economic potential, and the high number of people living in poverty, MCC's Board of Directors selected it as eligible for compact assistance in December 2008 (FY09). When the Board takes such a decision, it declares that the country in question is eligible for assistance, and it invites that country to submit a proposal, and directs MCC to "seek to negotiate a compact" with the country. Since that decision, MCC has undertaken compact development activities in partnership with the Government of Indonesia. Compact development timelines may be driven by a number of factors, including the timing of technical feasibility studies, budget constraints, consultative processes in partner countries, etc.

At the time it was selected by the Board, Indonesia was classified as a low income country (LIC) and passed 13 out of 17 indicators, including every Ruling Justly indicator. In FY10, Indonesia graduated into the lower middle income country (LMIC) classification. As medians are often higher in this category, Indonesia did not meet the more competitive criteria in its new group.

However, the MCC Board utilizes an approach by which they judge the performance of a country that graduated to LMIC against both its new peer group as well as the LIC group for a transition period of three years; this is codified and made public in MCC's annual Selection Criteria and Methodology Report and applies to all graduating countries.

Compared to the low income country group, Indonesia would have passed 16 out of 17 indicators in FY11, including every Ruling Justly indicator. Based on these considerations, along with the opportunity to encourage economic growth a country with over 145 million poor people, the Board reselected Indonesia in FY10 and FY11.

WESTERN HEMISPHERE

- Within our Hemisphere, each of the MCC compacts that have been signed have been with Central American nations. As you may know, Central America is experiencing a disturbing surge in drug-related violence as the narcotraffickers from Mexico, Colombia, and elsewhere are being forced to find new routes and resources. Often times, the drug cartels and other criminal groups are able to co-opt local communities because the people have no other choice than to work with them in order to survive or make money. I believe MCC plays an important role in countering these pressures by enabling local communities to thrive on their own – thereby giving them a choice to resist the gangs. **Do you believe the changing security environment in this region has impacted the capability and sustainability of our MCC efforts in these countries though? Is the level of security taken into consideration when shaping and developing these compacts?**

We share our partner countries' concerns about the deteriorating security situation in Central America. While our programs in the region have remained on track, the security situation has had an impact. While we have not seen entire communities in which we work co-opted by drug-trafficking activity, MCA and implementer staff have modified their operations in order to mitigate the risk of violent crime. In addition, we expect that contractors are factoring more security costs into their bids, elevating the cost of achieving results.

In developing and implementing the compacts, we share out partner countries' vision that the economic opportunities created by the programs play a role in reducing the poverty that contributes to crime in their countries.

AFRICA

GHANA

- Ghana will soon complete implementation of a $547 million MCC Compact, and now is being considered for a second compact worth between $350 million and $400 million. Meanwhile, Ghana has just opened a major oil field and will be benefiting from a massive influx of new revenues. **Are you concerned at all by "indicator lag" in Ghana, particularly in relation to corruption? What steps have been taken to mitigate the risk that Ghana will fail this indicator in the immediate future, as oil revenues create new opportunities for corruption?**

While drilling for oil off the coast of Ghana began in December 2010, Ghana is still a very poor country, with a per capital income of just $1,318 a year, less than 1/7 that of Mexico. Discovering oil doesn't solve development challenges; there are many poor countries that benefit from oil revenue and it has not guaranteed success. As a very poor country, Ghana still needs to help to ensure that the rest of the economy gets on a dynamic growth path. It is from the non-oil economy that the most job creation, productivity increases, and long-term poverty reduction will come. MCC would focus on the non-oil part of the economy and support its ongoing efforts to prevent oil revenue from distorting its domestic politics and political economy.

In FY11, Ghana scores in the 97th percentile of low income countries (LICs) on the Control of Corruption indicator. Ghana has performed in the top quartile of LICs on this indicator every year since MCC was created. According to Transparency International's 2010 Corruption Perceptions Index, Ghana is the least corrupt low income country in Africa. Both the Control of Corruption indicator and the Corruption Perceptions Index show no sign of downward trends in recent years. In fact, Ghana's ranking on both indicators has improved slightly over the past five years.

In order to mitigate the impact of indicator lags, MCC takes into account supplementary information. When it comes to monitoring corruption, MCC considers expert narratives from organizations like Freedom House and Bertelsmann Transformation Index, rankings on the Transparency International Corruption Perceptions Index, and interagency information and reporting.

MCC will continue to track Ghana's policy performance as compact development continues.

- **In our current economic crisis, is it appropriate to be considering a second major compact for Ghana when the impact of the first has yet to be measured?**

MCC's mandate is to partner with countries where investments will have the greatest potential returns in terms of poverty reduction and economic growth, and where U.S. taxpayer resources can be used most effectively. In some cases the greatest opportunity for impact may be in deepening partnerships with existing MCC partner countries. Ghana consistently performs well on the MCC indicator criteria. Its continued track record of democratic governance is demonstrated by its regular ranking among the top LIC performers in the *Ruling Justly* category.

At the time MCC selects countries for second compacts, we assess whether they have made meaningful progress toward first compact results. This includes measuring their progress against targets set for every step of implementation. All of MCC's programs are designed to clearly map from the activities we fund through to the income gains we expect to achieve. We have targets for every step in the process, such as how many farmers are trained, how many apply what they learn, how much they improve their yields, and whether they achieve new access to markets. We monitor critical steps toward meeting income goals. If programs are off track, we work with country partners to make corrections.

Implementation of Ghana's Compact is on track, and MCC will continue to use first compact results as they come in to inform second compact development and implementation planning and the Board's decision whether to reselect the country next year.

Ghana has already achieved significant results under its compact, for example, as of March 2011:

- The Agriculture project has trained over 62,000 farmers in commercial agriculture, exceeding the compact target of 50,000. Six of twelve postharvest cooling facilities have been installed, and three regional pack houses and a cargo center are under construction. Rehabilitation and construction of 357 km of feeder roads is ongoing.
- The Transportation project has made progress in major construction on 14 km of the N1 highway around Accra, and 75 km of trunk roads in targeted districts. Construction commenced in 2010 on two Volta Lake ferries and rehabilitation of a floating dock, landings and terminals, which should generate improved access to inputs and markets for farmers in the Afram Basin.
- The Rural Development project has rehabilitated eighty school blocks (of 288 targeted), and construction is advancing on the remainder.
- The project aims to improve access to potable water for 21,800 households, combat disease in Guinea worm areas, and lessen distance and time to collect water (chores handled mainly by women and girls).

In addition to these accomplishments, Ghana has proven to be a good partner in terms of dedicating high-quality personnel to manage the MCC compact, having the political will and ability to manage implementation challenges effectively, and maintaining implementation momentum through political change in the country. MCC will continue to track progress against implementation targets in the remaining compact period. Following compact completion, impact evaluations will be conducted to measure the effects of compact programs on household income.

MALAWI

- The Board approved a $351 million Compact with Malawi in January 2011. However, the signing ceremony was postponed after the concerns were raised about amendments to the penal code that would restrict press freedom, among other issues. **What is the status of the Malawi Compact?**

The Malawi Compact was approved by the MCC Board of Directors in early January and was signed on April 7, 2011 in Lilongwe. Between the time the compact was approved, and the time the signing was scheduled, MCC engaged in a direct policy dialogue with the Government of Malawi regarding some recent amendments to Malawi's penal code, which MCC was concerned could be used to restrict media freedoms or individual human rights. Following a constructive, high-level dialogue in Lilongwe, the Malawian President and Cabinet published a statement to clarify that the publications clause in the amendments was intended to prohibit child-pornography or incitements to violence, not to restrict political speech. GOM publicly affirmed the constitutional protections of free speech, noting citizens' right to challenge the use of this law in the courts.

There were also amendments criminalizing female homosexual conduct. MCC stands firm that such laws are inconsistent with a country's human rights obligations and with MCC's policy indicators. Consequently, MCC made clear to the Government of Malawi that if they criminally punish LGBT individuals under this law, MCC would begin the investigations that represent a first step in the suspension/termination process.

MCC has proceeded with the compact at this point. It is an investment estimated to generate $3.1 billion in income benefits for close to 6 million Malawians. Still, MCC is watching closely to see that the Government of Malawi upholds its own commitment to citizens' rights and freedoms.

SENEGAL

- As you know, significant concerns have been raised about the decline of democracy and governance and increasing levels of corruption in Senegal. The construction of a controversial, 164-foot "African Renaissance" monolith to honor President Wade and his family by a North Korean firm did not help to assuage those concerns. Though the financial arrangements for the monument remain unclear, it is believed to have cost up to $70 million. That is a lot of money in a developing country experiencing frequent power outages and 49% unemployment. **What is the status of implementation of the Senegal Compact?**

Senegal's compact entered into force in September 2010. MCA-Senegal, the Senegalese government's accountable entity, is established, staffed and fully operational, and has signed agreements with two government affiliates, AGEROUTE (roads) and SAED (irrigation), to assist in implementation of the compact. MCA-Senegal has also signed contracts with third party procurement and fiscal agent, which have been mobilized for over a year performing all procurement and flow of fund operations, as well as a commercial bank. In addition, MCA-Senegal has signed contracts with design and supervision consultants for both the irrigation and the roads projects, and has hired consultants for preparing the tender documents for the Podor Works. The land tenure project activity is underway with the award of the land tenure preparatory work and the development of resettlement action plans. The first lots for the works are expected to start in winter 2011.

As context, Senegal has been eligible for MCC compact funding since 2004. Senegal is an electoral democracy, has never had a coup, and its transfers of power have been through the electoral process. According to the 2009 World Governance Indicators (WGI), which is the source MCC uses for its Control of Corruption indicator, Senegal performed better than 74% of low income countries on the Control of Corruption indicator.

As with all compact partners, MCC monitors trends in anti-corruption and accountable governance in Senegal very closely. MCC is in an ongoing dialogue with the Government of Senegal on its performance on anti-corruption activities and other aspects of its policy performance. To date these conversations have been fruitful, and contributed to an affirmation of some key accountability mechanisms in public procurement. A questionable use of public funding for large scale statues is troubling. If there is a pattern of actions that undermine the

institutions of accountability in a partner country, MCC will act according to its suspension and termination policy.

Furthermore, the compact provides the U.S. Government (and its donor partners) an important incentive to use in pressing for constructive reforms to fight corruption in Senegal. These efforts support the Senegalese people, who value their strong democratic tradition and are demanding both better governance and strengthened institutions tasked with safeguarding good governance.

- **What measures have been put in place to mitigate the risk that contracts will be steered to the friends and family of President Wade?**

The compact implementation paradigm requires compact business opportunities to be competed out through competitive bidding in conformity with MCC Program Procurement Guidelines. The guidelines require, inter alia, extensive MCC approval rights over all aspects of the procurement process, including the composition of technical evaluation panels, technical evaluation reports, financial evaluation reports or combined evaluation reports and the proposed contract award. In the case of contract awards made to date, MCC has exercised these rights, and a diversified array of companies has won bids. Like most compact partner countries, Senegal is also using commercial procurement agents and fiscal agents to manage the procurement process and the flow of funds/payment processes on behalf of MCA-Senegal, the accountable entity. In addition, MCA-Senegal key staff recently completed a fraud and corruption training session at MCC headquarters and are putting in place an anti-fraud and corruption action plan pursuant to MCC's policy on fraud and corruption.

On a policy level, MCC and several other donors made clear to the Government of Senegal that recent changes to their procurement code and implementing agency, in part due to legitimate national security concerns, were an accountability concern to us. In response, the government entered into discussions with donors, including MCC specifically, to address our concerns as they further revised the procurement code. Consequently, they have taken steps to amend the changes that would have weakened procurement procedures – including a January 2011 decree and a more recent draft decree under consideration by the Government of Senegal and various stakeholders. MCC is studying these amendments.

EASTERN EUROPE

KYRGYZSTAN

- Mr. Yohannes, as you know, the MCC Threshold Program for the Kyrgyz Republic was completed last June. **What are MCC's future plans with regard to Kyrgyzstan, particularly in light of last year's ouster of the authoritarian, President Kyrmanbek Bakiyev, the fragile political situation that currently exists in that country, as well as last June's tensions between ethnic Kyrgyz and ethnic Uzbeks in southern Kyrgyzstan, which erupted into violence and resulted in hundreds being killed and thousands injured?**

MCC's Board of Directors looks for demonstrated progress in our partners. With the completion of the threshold program, the Kyrgyz Republic does not have, nor is it currently eligible for, a program with MCC. Over the past few months, MCC has met with the Kyrgyz Republic Ambassador several times to discuss MCC eligibility requirements, explain MCC's selection process, and encourage the new Kyrgyz Government to continue its efforts to strengthen governance and the rule of law. During these meetings, MCC acknowledged that the actions of the new government may also take time to be reflected on the MCC scorecard.

MCC also encouraged the Kyrgyz Government to dialogue with USAID and the Department of Justice, both of which have programs supporting reforms in the Kyrgyz Republic.

ARMENIA:

- Mr. Yohannes, it is my understanding that in 2009 the MCC Board decided not to resume funding for further road construction under the $236 million compact with Armenia, due to concerns regarding democratic governance in that country. **What is the current status of MCC funding for Armenia? Furthermore, the five-year Compact for Armenia was signed in 2006 and is scheduled to end this year. How much in undisbursed funds do you expect to have left with regard to this Compact and what will happen to these funds once the Compact closes?**

When completed this fall, MCC's compact program in Armenia will have implemented the single largest refurbishment of the country's irrigation infrastructure in the last 30 years, while simultaneously helping to ensure the infrastructure's sustainability through a combination of revenue enhancing technical support to over 45,000 farmers and water supply institutions.

Available MCC funding for Armenia currently totals approximately $177 million, which reflects: funding for the Irrigated Agriculture Project in the amount of $152.7 million, Monitoring and Evaluation ($3.6 million), and Program Administration ($12.2 million), as well as approximately $8 million in compact funds that paid for rural road designs/studies and 24.5 km of rehabilitation before the June 2009 MCC Board of Director's meeting.

Of the original compact value of $235.6 million, $59.1 million in road funds were placed on hold by MCC and will remain unspent as a result of Armenia's continued declines in the MCC Good Governance Indicators since 2008. In addition, up to 10% the of remaining the compact value, $17.5 million, may remain unspent if final infrastructure scope is reduced and/or contingency funds are not fully consumed.

Questions for the Record Submitted to
Administrator Rajiv Shah by
Chairman Ileana Ros-Lehtinen
House Committee on Foreign Affairs
March 16, 2011

General questions:

Question#1:

In these difficult financial times, it is hard to make the argument for assistance to other countries when unemployed Americans face the loss of their homes and many others are fearful of our huge deficits, overseas borrowing and the literal printing of dollars by the Federal Reserve to support our spending. **Can we justify borrowing and printing hundreds of billions of dollars to then turn around and provide assistance to other countries?**

Answer:

Beginning in 2002, three successive U.S. National Security Strategies have recognized development as a cornerstone of our national security, along with defense and diplomacy.

As acknowledged in these recent strategies, foreign aid represents a cost-effective investment in U.S. national security, one which can forestall much higher expenditures in the future. Indeed, the Secretary of Defense has argued that the U.S. needs to redress the huge imbalance in our security investments through greater support for development and foreign aid.

USAID investments have led to some countries graduating from dependence on development assistance, and some have become aid donors. These countries tend to be our allies. The countries that represent the greatest and costliest threats are mainly those where development progress and development cooperation have been, at best, limited.

Not only does foreign aid – if wisely and strategically managed – represent a sound long-term investment in our national security, but it also contributes to our economic prosperity. Exports to developing countries have grown six times faster than exports to major economies, representing roughly half of all U.S. goods and services sold overseas. For every 10 percent increase in exports, there is a seven percent growth in American jobs. Increasingly, our economic prosperity will depend on selling goods and services to the 2-3 billion people in developing countries who will form tomorrow's global marketplace.

Question #2:
Administrator Shah, you have launched new reforms in an attempt to revitalize the Agency for International Development. **Which of these reforms do you see as being the most essential?**

Answer:

Our reforms, collectively titled "USAID Forward," were designed to work together to restore the United States as the global leader in international development, and enable USAID to achieve high-impact development while making the best use of limited resources. Our recently launched Bureau for Policy, Planning and Learning works closely with the Office of Budget and Resources Management to ensure our strategic planning is driven by both the latest evidence on development and rigorous prioritization in this resource-constrained environment. USAID's initiatives on innovation, science and technology, and learning, evaluation and research are changing the way USAID operates, using scientific advancements, and evaluation to achieve the greatest development impact. Implementation and procurement reform efforts are enabling USAID to make our business processes more efficient, while talent management reforms are ensuring we have the best staff in place in our highest priority Missions, often areas of significant U.S. national security interest including Afghanistan, Pakistan and Yemen. Implementation across these reform areas will best ensure a more efficient, cost-effective, and impactful USAID.

Three of these reforms clearly demonstrate the lasting nature of our reform efforts. USAID's implementation and procurement reforms are changing our business processes to enable the Agency to work with more local organizations and small businesses for greater sustainable economic growth development impact. Changes in regulations and policies will also allow USAID to work more accountably with host governments where it makes sense to directly support country-led development efforts. These reforms in our processes will make the Agency more effective and accountable in our development work in the future.

Similarly, USAID's evaluation policy will ensure rigorous impact evaluations and project performance reviews on our development efforts, and we will publish the results of these evaluations publically within three months of completion, ensuring transparency with both our successes and failures. This policy ensures that USAID learns from its experiences and is fully accountable on development results for the US taxpayer funds with which it is entrusted.

Finally, USAID is reforming our talent management to better meet development, foreign policy and national security objectives. For example, reforms to our bidding rules for Foreign Service assignments have already begun to reduce Foreign Service Officer vacancies in priority countries, including Afghanistan, Pakistan, Sudan, Iraq, Haiti, Yemen, the Democratic Republic of the Congo, Ethiopia, Liberia, Mali, Nigeria, and Rwanda. These talent management reforms are helping USAID place our best people in the frontline states of greatest concern to the United States government.

Question #3:

Administrator Shah, in recent comments you stated that USAID needs to be "selective and targeted" in its work. **In your opinion, in which USAID sectors do the United States have a comparative advantage? Which USAID programs provide the United States with the "best bang for the buck," so to speak?**

Answer:

Both selectivity and targeting (or focus) are a matter of prioritizing – geographically and functionally – to maximize impact and results in terms of our major goals. These goals include food security, global health, economic growth (including education), climate change, democratic governance, addressing crisis, conflict and instability, and providing humanitarian aid. They are based both on what we think are the most urgent challenges, as well as our capacities and capabilities to address them. In that sense, they reflect, in part, a U.S. comparative advantage.

Selectivity means putting our resources in countries where they are most likely to have the greatest results. In general, this means countries where both need for assistance and the opportunity to have an impact are greatest. Within countries, we want to *focus* on the most important and tractable constraints to progress in terms of our goal – those where we can have the greatest impact and achieve the greatest results.

The most critical constraints to growth (or food security or democratic governance or peace and stability) will vary from country to country. Therefore, while we will focus within countries, our programs will vary a great deal from country to country. We will not look to implement the same programs in every country. We will avoid spreading ourselves too thinly – in every country.

As our core goals differ greatly between sectors, the programs that deliver the "best bang for the buck" can also vary quite a bit. For example, in global health, we see direct, visible, important results from direct delivery of services to individuals. Conversely, in economic growth, the greatest impacts often come from policy and institutional improvements that support the private sector and private markets throughout the economy. These have much broader and more sustained impact than direct assistance to individual firms.

Question #4:

Administrator Shah, there have been arguments that traditional development assistance is outdated and inefficient and that we should be focused on more market-oriented development mechanisms, including promotion of market mechanisms in aid-recipient countries and promotion of trade and investment that lead to sustainable growth without the need for further assistance. USAID, however, seems to continue to favor the types of development assistance it has utilized for decades. **How do you respond to that?**

Answer:

All donors face a tension or competition between programs that directly achieve visible, tangible results in the near term – particularly those that directly help needy people – and programs that demonstrate long-term progress through policy reform, institutional strengthening, and sound lasting investments. Both kinds of programs are important and valuable, and USAID utilizes both.

Over the years, USAID economic growth strategies have emphasized the policies and institutions that support private markets, including trade and investment. We understand the importance of utilizing traditional approaches while, at the same time, incorporating more market-oriented development mechanisms to meet the evolving development needs of each country.

Question #5:
Economic growth is essential for the reduction of poverty. **Which foreign aid programs have been the most successful in producing sustained economic growth?**

Answer:

The most successful foreign aid programs, in terms of producing sustained economic growth, are those that help host country governments to recognize, prioritize, and take effective action to reduce the most serious barriers to growth. In most developing countries, those barriers usually arise from policy distortions and institutional weaknesses. Together, these undermine and distort the incentives facing private producers, ranging from small farmers to medium-sized manufacturers to large foreign direct investors. Meanwhile, they tend to benefit established economic and political interests, and thus require political will to address successfully.

Many developing countries suffer from a wide range of such distortions and weaknesses, but typically lack the capacity to address them all simultaneously. Successful aid programs work with reform-minded governments to identify which of those problems represent the "binding constraints" to faster and more sustainable broadly-based growth: excessive trade barriers, red tape barriers to doing business, an antiquated and corruption-prone tax system, poorly defined property rights or others in a long list of potential candidates. Those programs offer analytical support to help quantify the damage inflicted by those problems, and more broadly encourage the host government to undertake the needed reforms, including assistance in implementing reforms.

Question #6:

You recently stated that USAID expects to end assistance to several countries over the next few years. **Which countries will those be? Also, what steps is USAID taking to promote the graduation of both countries and non-governmental organizations overseas from U.S. foreign assistance?**

Answer:

In the President's FY 2012 request, we have sought to eliminate Development Assistance in the following 11 countries: Algeria; Benin; Cameroon; Chad; China; Guyana; Madagascar; Mauritania; Niger; Panama; and Togo. We have not made final decisions for specific countries beyond FY 2012. Through USAID's Country Development Cooperation Strategy and other planning processes, we are working closely with our host country partners and other donors to concentrate our efforts in fewer countries and focusing our efforts within countries. While we are continuing health and other targeted funding to some of these countries, we are aiming more broadly to change the nature of our relationship in the above 11 and other countries from assistance provider to development partner, working with non-assistance tools to further development cooperation.

Question #7:

Administrator Shah, you have established an Office of Budget and Management at USAID. **Could you please comment on how this office will coordinate and work with the F Bureau at the State Department, which was created to track and coordinate foreign assistance funds and programs?**

Answer:

F continues to play a critical analysis, reporting and coordination role on the foreign assistance budget. USAID will submit a comprehensive development and humanitarian assistance budget proposal beginning with the FY 2013 budget. F will integrate this proposal with other aspects of the foreign assistance budget, such as security assistance, and will provide integrated recommendations to the Secretary and Deputy Secretary.

Since the establishment of the Office of Budget and Resource Management (BRM) in September 2010, BRM and State/F have worked together on improving processes that have:

- Increased responsiveness: USAID has developed detailed procedures to more effectively manage reprogrammings, and congressional directives, including agreement with State/F on a streamlined approvals process for reprogrammings across countries or strategic objectives.

- Improved alignment of budgets to planning: USAID, working with State/F, developed a FY 2012 budget request that identified reallocations from development accounts to fund critical initiatives and development priorities.

- Elevated and improved strategic planning: USAID has developed, with State/F, a FY 2013 budget formulation process with greater linkages to country-owned strategies that are focused and articulate trade-offs among development priorities.

Question #8:
Administrator Shah, in an effort to obtain cost savings at USAID, you have eliminated several senior positions and reportedly intend to end some assistance programs over the next couple of years. **Could you please expand on which assistance programs have been selected to be terminated and which senior positions will be cut?**

Answer:

In the President's FY 2012 request, we have sought to eliminate Development Assistance programs in 11 countries, which represents a reduction of $44.9 million. These countries are: Algeria; Benin; Cameroon; Chad; China; Guyana; Madagascar; Mauritania; Niger; Panama; and Togo. While we are continuing health programs and other targeted funding to some of these countries, we are aiming more broadly to change the nature of our relationship in the above 11 and other countries from assistance provider to development partner, working with non-assistance tools to further development cooperation.

In addition, we plan to close Missions in Montenegro, Guyana, and Panama and eliminate and restructure costly senior development counselor positions in Paris, Geneva, Rome, and Tokyo, which will allow us to reallocate talent to priority regions.

Question #9:

Administrator Shah, you have said that one of USAID's objectives is to invest in "country-owned models" for inclusive growth and development. The term "country-owned" is used repeatedly in foreign assistance discussions. **What is your definition of "country-ownership"? Is it government, groups or individual recipients in countries that we assist who determine the kind of assistance they need and therefore claim to have provided "country-ownership"?**

Answer:
Country ownership is a cornerstone of aid effectiveness. A partner country is far more likely to sustain development efforts if they are consistent with national or local priorities, spring directly from groups that have a long-term stake in their success, and are owned by local and national leaders and broad constituencies. The definition of "country ownership" and who or what it encompasses- governments, groups, or individuals- will vary depending on the goal of our assistance and the constraints that we are trying to address.

Question #10:
Administrator Shah, can you describe the working relationship between the Agency for International Development and the Millennium Challenge Corporation? How do these agencies complement one another and work to coordinate resources and programs in the field?

Answer:
USAID and MCC have an increasingly collaborative relationship in both Washington and the countries where both have a presence. I have initiated monthly breakfast meetings and consult frequently by phone with the CEO of the MCC in order to facilitate coordination between our two agencies.

The new Partnerships for Growth effort in four countries – El Salvador, Tanzania, the Philippines, and Ghana – is a model for the future of collaboration and coordination, not just between USAID and MCC, but across the United States government. USAID, MCC, and the Department of State are currently working together to conduct joint growth diagnostics for a whole of government planning process that puts into practice the principles of the Presidential Policy Directive on Global Development.

In the context of our Feed the Future initiative, MCC and USAID have issued guidance for collaboration in priority countries where MCC has ongoing compacts or compacts under development. As a result, missions have been developing and reviewing Feed the Future strategies in close consultation with MCC, and both agencies are working together to promote alignment of our programs at the mission level.

In addition to these recent efforts, USAID has been working closely with MCC on the threshold programs since MCC's inception, and will continue this close collaboration if the MCC Board selects new countries for new threshold programs. As our limited past collaboration on compacts gives way to more robust efforts to plan together on compacts under development, we foresee strong benefits for both the U.S. government and, more importantly, the countries where we both operate.

USAID and MCC have different but complementary mandates that are both necessary to address the wide range of challenges in development that are central to USG national security interests. Our agencies are working together at all levels to not only avoid duplication of effort – the minimum standard – but to leverage resources and increase our impacts.

Question #11:
Over the past two years—since Fiscal Year 2008—total USAID staffing has grown 22%--from a total of 7,057 in Fiscal Year 2008 to 8,610 in Fiscal Year 2010. To fully implement reforms at USAID, you have stated that changes will require even more personnel. **How many more staff do you anticipate would be needed to achieve those reforms?**

Answer:
From FY 2008 to FY 2010, total USAID staffing increased 6%, from 8,081 to 8,615, as presented in the FY 2010 and FY 2012 Congressional Budget Justifications. In FY 2012, USAID needs an increase of 1,591 staff from FY 2010 to implement Agency reforms. The 1,591 staff includes 431 Foreign Service Officers (FSOs) under the Development Leadership Initiative and 161 Civil Service (CS) staff to support the Presidential, Acquisition Workforce, and Implementation and Procurement Reform Initiatives as well as other Agency reforms.

Question #12:

Administrator Shah, you have stated that contracting reform will mean accelerated "funding to local [non-governmental organizations] and local entrepreneurs, change agents who have the cultural knowledge and in-country expertise to ensure assistance leads to real local institutions and lasting, durable growth." However, as we have seen, corruption often runs rampant in certain developing countries. **How will we be able to sufficiently monitor the use of our funds by such individuals and entities in aid-recipient countries in which corruption is rife?**

Answer:

USAID recognizes both the opportunities as well as the challenges and risks involved when working with new local partners in developing countries. The USAID Forward reforms are designed to provide a multi-dimensional approach to best contend with these challenges and risks while pursuing smart development.

Under our Implementation and Procurement Reform Initiative, an award with a local partner will be preceded by a pre-award assessment of that organization's capabilities and vulnerabilities. Depending on the results of the assessment, we may arrange for support to strengthen their management and financial control procedures, either before or concurrent with an actual award. In addition, we may tailor the type of implementation mechanism to the strengths of the new partner. For example, a progress payment model based on agreed upon accomplishments might be used instead of a cost reimbursement award for inputs. And, under certain considerations given the capabilities of local organizations, we may include requirements in an award to a U.S. implementing partner that they work to strengthen the capabilities of their local partners so that, over time, the local partner will be in a better position to compete for their own awards with USAID.

In terms of monitoring the award, in January I announced a new evaluation policy at USAID that defines standards for monitoring, evaluation, and transparency. Every major project will have a performance evaluation, conducted by independent third parties, not by the

implementing partners themselves. USAID will release the results of these evaluations within three-months of completion, whether the results are good or bad. We have a number of activities that are moving forward under this policy, including new training for all of our program managers and evaluation specialists.

Finally, to address issues and matters of corruption head on, USAID has engaged closely with the USAID Office of Inspector General (OIG) to ensure we have people on the ground in certain countries where corruption is rife. In January 2011, USAID established a new Compliance and Oversight of Partner Performance division to serve as the Agency's central unit for determinations of suspensions, debarments, administrative agreements, and other official actions taken against contractor or grantee entities and/or their personnel. This division will be proactive in ensuring the financial integrity and sound business practices of USAID partners and will increase the Agency's efforts to safeguard programs and provide greater assurance of USAID's oversight of U.S. taxpayer funds.

Question #13:

In your opinion, how can we better coordinate U.S. assistance-implementing agencies to better integrate programs?

Answer:

The new Presidential Policy Directive on Global Development prioritizes greater coherence of assistance efforts across the U.S. Government. This policy establishes mechanisms for ensuring coordination and integration of assistance policy across the U. S. Government. Specifically, the policy establishes an Interagency Policy Committee on Global Development, led by the National Security Staff that reports to the National Security Council Deputies and Principals, to set priorities, facilitate decision-making where agency positions diverge, and coordinate development policy across the executive branch.

Question #14:

Administrator Shah, USAID is reportedly stepping up efforts to prevent fraud, waste and abuse by means of a new department task force. **Can you describe the steps this task force will take?**

Answer:

In January 2011, USAID established a new Compliance and Oversight of Partner Performance (COPP) division to serve as the Agency's central unit for determinations of suspensions, debarments, administrative agreements, and other official actions taken against contractor or grantee entities and/or their personnel. This division will be proactive in ensuring the financial integrity and sound business practices of USAID partners and will increase the

Agency's efforts to safeguard programs and provide greater assurance of USAID's oversight of U.S. taxpayer funds.

The COPP division will work closely with our General Counsel's Office and USAID's Office of Inspector General, which plays a critical role in investigation matters. The new division will be responsible for:

- Tracking past performance for both contractors and grantees across sectors and/or regions.
- Compiling new reports of suspicious activities under USAID-funded awards, both contracts and grants. This division will be coordinating closely with the Inspector General, General Counsel, and personnel who oversee day–to-day performance of USAID partners.
- Effectively tracking and recording partner self-disclosures relating to issues of mismanagement or abuse of USAID funds.

To further augment the efforts of this division, the Agency created a Suspension and Debarment Task Team that will manage high-level priority matters. The task team will coordinate with relevant USAID senior staff, comprehensively consider risks to the U.S. taxpayer and the program investments managed by the Agency, and ensure consistent implementation of decisions across Washington offices and field missions.

Global health

The current economic crisis gripping the American people no longer enables the United States to finance over 60% of the global response to the HIV/AIDS pandemic. United States funding for bilateral HIV/AIDS programs has increased from just over $5 billion in FY 2008 to $5.6 billion in the FY 2012 request, an increase of 11.4%. While funds supporting current enrollments for antiretroviral treatment cannot be cut, greater efficiencies have been achieved in delivering effective prevention, care and treatment programs, thus freeing up precious resources and enabling new enrollments.

Countries such as China, which has over $2.6 trillion in foreign cash reserves yet has received nearly $1 billion in assistance from the Global Fund and the United States to finance its response to AIDS, malaria and TB, can and should finance their own health programs.

Question #1:
How do we justify the $4 million request for China under USAID's apportionment of the Global Health and Child Survival account when China can and should finance its own health programs?

Answer:

It is important to note that infectious diseases know no borders. By addressing infectious diseases, such as HIV/AIDS and tuberculosis in China, we protect U.S. citizens by preventing the spread of these diseases.

Fighting HIV/AIDS, tuberculosis (TB) and malaria is a shared global responsibility, and we ask all countries, including China, to meet their responsibility. We have urged China to take greater responsibility as a recipient and an important provider of development assistance to other developing countries; we are pushing for China to take more financial responsibility for its national response to these three diseases; and we are cooperating with the Chinese to better address health issues in other countries.

By partnering to improve health outcomes in HIV/AIDS, TB and malaria, we foster and sustain a positive relationship with the Chinese government and affect how China reforms its health sector, as well as how it assists others in this sector. This is an important stepping stone in the larger USG-China dialogue that is taking place as China begins to take on its own development projects overseas. This partnership is demonstrated through the International Roundtable on China-Africa Health Collaboration meetings, with USAID actively involved along with other donor countries and multilateral institutions. Finally, USAID's contributions in China bolster directly and indirectly the empowerment and growth of civil society, with the goal of delivering effective health interventions, while protecting human rights and building viable civil society institutions that will act as a check and balance on how China designs, delivers, and implements its assistance in the developing world.

The Global Fund has approved grants for China totaling nearly $1 billion in assistance for HIV, TB and malaria. As the largest donor to the Global Fund, the United States has a deep

interest in ensuring that the Global Fund resources in China are expended on activities and interventions that are evidence-based, efficient and effective.

The USG has and will continue to work through our seat on the Global Fund Board to ensure Global Fund resources get to people most in need. With strong USG support and engagement, the Global Fund Board is developing new eligibility and prioritization criteria and cost-sharing requirements. These developments are designed to ensure resources are allocated most strategically, with a focus on reaching countries and populations in greatest need and on enhancing the sustainability, including through increased domestic investment, of Global Fund grants in middle-income countries. Funding provided through the GHCS account for China will complement these multilateral efforts at the Global Fund Board to ensure that the transition of HIV/AIDS, TB and malaria programs from Global Fund to Chinese Government funding will not result in the loss of services to those impacted by the three diseases.

India is the second largest recipient of Global Fund assistance to fight HIV/AIDS ($1.2 billion) and has received an additional $165 million in assistance through PEPFAR. Despite its very real development challenges, India now boasts the 11th largest economy in the world and has transitioned from the largest recipient of foreign assistance to a donor nation. In fact, India allocated $547 million to foreign aid-related activities in 2008, and the government announced that it no longer will accept bilateral assistance from the United Kingdom starting in 2011, and even launched a unmanned moon mission (estimated to cost roughly $86 million) in 2008.

Question #2:

Notwithstanding India's legitimate development challenges, does a country that can afford a space program merit a $17.8 million increase in USAID's apportionment of the Global Health and Child Survival Account?

Answer:

Despite impressive economic growth and technical advances, a staggering percentage of India's population still lives in poverty. Over 40 percent of the population (456 million people) lives below the poverty line of $1.25 per day, and 76 percent of the population (828 million people) live on less than $2 per day. India faces immense health challenges. It accounts for 20 percent of the world's maternal deaths and 25 percent of the world's children's deaths; 48 percent of children under age five are malnourished; and only 44 percent under age two are fully immunized. Further, tuberculosis remains the most common disease in India, killing more than 1,000 people per day. Tuberculosis is closely associated with HIV, and India has the third largest HIV/AIDS epidemic in the world, with an estimated 2.4 million living with HIV.

The request for an increase in the Global Health and Child Survival account focuses on reducing maternal and child mortality. In partnership with the Government of India, USAID's health interventions will focus primarily on the poorest northern states (Uttar Pradesh and Jharhand), with a population larger than Brazil and health indicators far worse than the country averages, and will target women and children—the most vulnerable population.

As part of the U.S. Government's transformed relationship with India as a strategic partner, USAID is changing the way we conduct business from a donor/recipient relationship to a partnership to address bilateral, regional and global development challenges. Through this partnership, USAID is well placed to influence the direction of India's assistance to other countries, as well as the use of its resources to address the immense health needs of its population, including promoting child and maternal survival and preventing the spread of infectious diseases, which is a shared global responsibility knowing no borders.

USAID funding will allow us to strengthen our health system investment, a focus of the President's Global Health Initiative, and advance objectives under the U.S. - India Strategic Dialogue. USAID recently signed a new Health Partnership Program Agreement with the Government of India (GOI) that lays out a five-year vision that reflects the GOI's requests for technical assistance from USAID to strengthen its systems to respond to these issues. Working with the government, the private sector and other donors, USAID is able to leverage approximately four dollars for every dollar of development assistance to positively influence development outcomes. With a relatively small investment, USAID develops and tests innovative models for addressing the country's most serious problems, which the GOI and private sector investment scale up and replicate nationwide using their own resources. In addition, USAID's long-term objective is to engage India to strengthen its role in international development and become a better provider of assistance.

Democracy assistance:

Compared to Fiscal Year 2010, the Administration's FY 2012 International Affairs request zeroes out the prior $120 million for the Democracy fund, and includes a 12% cut for the National Endowment for Democracy from FY 2010 levels (from $118M to $104M). Although there is a "Human Rights and Democracy Fund" as part of ESF (Economic Support Fund), ESF funds – including that fund – also appear to be cut from prior year levels.

Questions #3A, B, C:
Is there other, new money in the budget for democracy programs, or is democracy assistance being slashed as dramatically as it appears?

How will these cuts affect USAID's democracy funding around the world?

Understanding the fiscal constraints on U.S. resources, are significant cuts to democracy funding the right place to start, given the dramatic political transitions underway in the Middle East and North Africa?

Answer:

The current environment of fiscal constraints required USAID to make strategic decisions when preparing its FY 2012 budget request. The President's budget request for FY 2012 includes $3.15 billion for worldwide Democracy, Human Rights and Governance programs (listed in the budget under the category of Governing Justly and Democratically, or GJD).

While the FY 2012 GJD request represents a decrease of approximately $250 million, or 7.3%, from the $3.4 billion FY 2010 actual budget, democracy assistance programs remain an important element of U.S. national security policy, especially in light of ongoing political transitions in the Middle East and North Africa. While this budget reflects conditions that preceded these political transitions, we are recalibrating our ongoing programs to adapt to the current context and mobilizing funds to support new initiatives.

Moreover, much of the decrease in FY 2012 GJD funding can be attributed to strategic cuts in a few countries with the largest democracy portfolios. For example, in Iraq, where the GJD budget will decrease by $43 million compared to FY 2010, USAID requires substantial Government of Iraq (GOI) cost-sharing, (up to 50% of program costs). GOI buy-in promotes sustainability and permits USAID to continue its robust GJD programming, but with less of a burden on American taxpayers. Decreases in Iraq allow us to increase funding in consolidating democracies like Ghana, where the FY 2012 GJD budget of $10 million represents an increase of 150% over FY 2010 levels. In sub-Saharan West Africa, a region plagued by coups and instability, Ghana is one of the only countries to show strong democratic success at the national level. Investments in supporting and sustaining the progress of better performing democracies like Ghana promotes democratic development and stability in its region and on the continent, which is particularly important as we work toward the restoration of democratic rule in Guinea and Côte d'Ivoire.

Regional questions:

PAKISTAN

In the latest quarterly progress and oversight report on the civilian assistance program in Pakistan, the inspectors general for the Departments of State, Defense, and USAID found that USAID *"has not committed to a set of performance indicators to measure success of its programs as traditionally required for proper project management. Moreover, the U.S. Embassy in Islamabad has not identified a core set of development indicators by which to measure the success of the U.S. Government development strategy – including the efforts of USAID, the Department of State, and the Department of Defense."*

Question #4A:

While we all understand the unique challenges of scaling up a civilian assistance program in the Pakistani environment, **how do you explain the glaring failure to date in identifying basic measures of development outcomes by which the American and Pakistani people might assess the success, or lack thereof, of the U.S. assistance program there?**

Answer:

USAID's programming has been designed to support the precepts of the Enhanced Partnership with Pakistan Act, as well as the USG Country Assistance Strategy drafted at the beginning of 2010. Throughout the past 18 months, we have also worked directly with the Pakistanis to identify specific development outcomes that meet the needs of the Pakistanis while also complementing the USG strategy. To further define metrics by which the USG and the Pakistanis may assess the success of our assistance program, USAID recently led an effort to focus our programming, including identification of one clear, major objective in each development sector that would 1) be achievable, 2) have significant impact in Pakistan, and 3) be uniquely identified with US assistance. To that end, we have produced substantive working papers in the priority program areas we support, and through upcoming discussions with the Pakistanis, intend to identify major objectives for each area. These objectives, and the metrics to support them, will be made public.

Additionally, USAID missions throughout the world maintain a Performance Management Plan (PMP), which is a standard tool for tracking and evaluating progress. The PMP articulates low, mid, and high level goals and the indicators that will be used to measure the progress against these goals. The following are illustrative examples of indicators from USAID/Pakistan's PMP.

Energy

- Total megawatts of energy added through direct and indirect USG-assistance
- Total public and private dollars leveraged by USG for infrastructure projects

Economic Growth

- Percent increase in the number of loans to Small and Medium Enterprises by US-assisted financial institution

- Percent of US-supported vocational training graduates employed as a result of USG assistance

Agriculture

- Percent increase in the value of products produced by USG-assisted beneficiaries
- Number of additional hectares under improved water-related technologies or management as a result of USG assistance

Education

- Percent of USG-trained teachers observed to be employing improved teaching techniques
- Decrease in rate of teacher absenteeism in USG-assisted schools

Health

- Number of women who had two antenatal care visits by female health workers through USG assistance
- Number of people with improved access to drinking water as a result of USG assistance

Democracy and Governance

- Number of USG-assisted Civil Society Organizations engaged in watchdog functions
- Percent of decline of federal and provincial deficits due to USG assisted capacity building

Additionally, USAID is establishing a new reporting system, PakInfo. Once completed, PakInfo will include both Mission-wide performance indicators as well as individual project indicators. This system will strengthen Mission program monitoring capabilities, while also enhancing USAID Washington's ability to access recent performance information and to regularly update Congress and others.

Question #4B:

Why can't we and the Pakistanis jointly identify five or six key metrics and make the progress toward achieving them publicly available?

Answer:

This approach supports USAID's recent efforts to focus our programming and identify one clear, major objective in each sector that would be achievable, have significant impact in Pakistan, and be uniquely identified with US assistance. To that end, we recently produced substantive working papers in the priority program areas, and through discussions with the Pakistanis, intend to identify major objectives, performance measurements, and funding for each area. These metrics will be made public.

Additionally, USAID/Pakistan maintains a Performance Management Plan (PMP). The PMP is a standard USAID tool that defines goals and provides project-level indicators that track the progress towards those goals. The Government of Pakistan (GOP) does not maintain a similar mechanism. However, the GOP's Economic Affairs Division does manage foreign development assistance and regularly tracks progress through bilateral meetings and internal reviews of project reports. Both the PMP and the working papers mentioned above are shared with the GOP and are public documents.

As you know, recently the U.S. has sought to transition an increasing amount of assistance from U.S. or western contractors and NGOs to Pakistani implementers, both government and non-government. The apparent rationale for this change has been to: (a) develop local capacity; and (b) reduce the amount of funds being spent on administrative costs. However, because many Pakistani implementers lack the financial controls normally required to accompany the expenditure of large sums of money, the U.S. is actually providing assistance to upgrade the financial accountability of these host country contractors.

Question #5A:
While our effort to build local capacity in Pakistan has theoretical merit, the World Bank and others have tried this approach before and produced meager results. **What evidence do you have that we are, in fact, building sustainable local capacity and institutions?**

Answer:

USAID has a long and successful track record in building local capacity and institutions in the developing world. While Pakistan presents many challenges in this area due to security and the limited capacity of many institutions, we are applying those successful strategies and methodologies to our work there, and adapting to local conditions as necessary. As an example, USAID's successful stabilization work with local authorities and the Government of Pakistan helps to build the capacity and credibility of government in nearly 1,400 communities across the Federally Administered Tribal Areas (FATA) by improving service delivery. While fragile, these are successes we will build on as we implement our long-term development programs.

Since USAID returned to Pakistan in 2002, the major influx of development funding began with the allocation of FY 2010 funds. Projects designed for FY 2010 funding levels are in early stages of implementation; therefore, we are working closely with our Pakistani partners to enhance their capacity to undertake effective development programming, and expect to see continued improvement in the capacity of local institutions.

USAID is channeling funds through the Government of Pakistan (GOP), Pakistani institutions, and non-governmental organizations in order to build government and local capacity and to ensure sustainability. Since 2002, USAID has made 23 government-to-government awards for specific projects totaling approximately $1.1 billion, as well as 64 awards to Pakistani non-governmental organizations totaling approximately $260 million.

State and USAID have noted that the limited institutional capacity of new Pakistani implementing partners is a potential challenge. Therefore, USAID has risk mitigation strategies and procedures in place to improve the capacity of Pakistani organizations. USAID/Pakistan has increased its financial management and procurement staff from 22 in September 2009 to 51 in January 2011. Additionally, USAID/Pakistan established the Assessment and Strengthening Program (ASP), which works through local firms to conduct pre-award assessments, build institutional capacity, and provide training in procurement, and financial and administrative management to local implementing partners. ASP provides required institutional support for enhancing accountability and building partner organization capacity to effectively manage U.S. Government resources.

Examples of USAID-funded capacity building initiatives

- For the Malakand Reconstruction Program, USAID is building the capacity of the Emergency Response Unit for Kyber Pakhtunkhwa (known as PaRRSA). A USAID pre-award survey identified that PaRRSA needed to establish effective and efficient written policies and procedures; develop and implement financial management and procurement systems to properly handle funding and procurements; improve their recruitment process; and train staff on the policies, procedures, and the financial management and procurement systems developed. Thus far, PaRRSA has developed draft manuals for operations, finance and accounts; human resource; administration; monitoring and evaluation; and procurement policy. In relation to financial management, PaRRSa is successfully submitting quarterly accrual reports to USAID, and PaRRSa is reviewing its tendering process.

- USAID also worked through local Pakistani firms in Sindh, Balochistan, Kyber Pakhtunkhwa and Punjab to verify, monitor and document flood relief progress. These partnerships made it possible, in a difficult operating environment, for USAID to receive first-hand accounts of project challenges and successes. These firms have now demonstrated successful performance, as well as sound financial and accounting controls. This will widen the pool of eligible USAID partners amongst local firms for future endeavors.

- Fifteen of twenty-three USAID IG-approved Pakistani Certified Public Accounting (CPA) firms are under a contracting mechanism to conduct USAID pre-award assessments. U.S. CPA firms will also provide training to Pakistani CPA firms who will, in turn, provide training to the Pakistani institutions directly managing USAID activities.

- USAID signed agreements with the provincial governments of Punjab and Sindh to launch the municipal services delivery program, which will improve essential public service delivery in order to better address Pakistanis' basic needs.

- On January 7, 2011, the Department of State signed an agreement with the Water and Power Development Authority (WAPDA) to invest $40 million to complete the 17.4 megawatt hydro power transmission station at Gomal Zam Dam, which will provide electricity to 25,000 households in South Waziristan. Pre-award assessments indicate that while WAPDA will be a strong partner, the three power generations companies may need strengthening. The pre-award assessment will assist USAID to structure an agreement with these companies to address any weaknesses.

Question #5B:

How much has the USG spent in Pakistan on financial training for local implementers and are we, in fact, actually spending less in "administrative costs" now than we were when the U.S. was primarily relying on western contractors and NGOs?

Answer:

Consistent with the priorities set out in the Presidential Policy Directive on Global Development, the Quadrennial Diplomacy and Development Review (QDDR), and the USAID Forward reform themes, we are using our assistance to build sustainable capacity in the countries where we serve. Increased support to host nations' systems and indigenous organizations required short-term investment in strong local capacity building. To date, the USG has spent approximately $3 million on financial and management training for Pakistani implementing partners. This amount is based on a rough estimate of time spent giving formal classes, mentoring, and reviewing the progress of local implementers in newly acquired financial management skills. This training is a primary component of the USG's capacity building initiative and is seen as a long-term investment that will enable Pakistani institutions to manage funds according to international best practices and standards.

The worldwide average overhead/administrative cost of a US NGO or contractor is 25%. Administrative costs are high when working with local firms unfamiliar with US standards. The establishment of new accounting systems, better internal control practices, and improved audit oversight are all examples of necessary administrative costs. We feel strongly that once adequate financial management and control systems are established by Pakistani implementers, fewer USAID dollars will go toward this type of training.

AFRICA

Bilateral development assistance for South Africa, which recently joined the ranks of the largest high-growth economies in the world (along with Brazil, Russia, India, and China), has increased from $9.25 million in FY 2008 to $29.84 in FY 2012 (223%). A portion of that funding is for a "Trilateral Assistance Program," by which the United States provides up to $2 million annually to South Africa so that South Africa can turn around and provide foreign assistance to other countries.

Question #6A:

How does the trilateral assistance program with South Africa work and how, specifically, does it advance U.S. national security interests on the continent? In the current economic climate, do we still have the luxury of providing development assistance to one country so they can provide it to another country? How, exactly, does the generosity of the American taxpayer get recognized under this scenario?

Answer:

South Africa's leadership and engagement is vital to peace and stability in the region. Its role in providing technical assistance to post-conflict countries such as the Democratic Republic of the Congo (DRC) through its own government experts and elected officials is essential to maintaining a stable region and generating future economic growth and trade for the United States and South Africa's neighbors. The Trilateral Assistance Program is a critical component of the U.S. Government's larger strategy to strengthen South Africa's ability to play a more active role as a donor in the region. Rather than providing technical advisors, USAID supports the South African Department of Treasury, Department of Provincial and Local Government, and other government entities by building their capacity to provide targeted assistance to less developed countries in the region. South Africa also provides an African platform to engage other countries in strategic partnerships. The legacy of this cooperation will be the ability of the South African Government (SAG) to promote peace and stability in Africa as the United States focuses on new priorities. Building SAG capacity to support development goals in African nations that are less stable or have poor technical capacity is in the interest of the United States as a means to stabilize sub-Saharan Africa. Strengthening the SAG's role as a leading democracy and reliable trade partner that can improve the quality of life for its neighbors and reduce food insecurity, poverty, and communicable diseases is a cost-effective and sustainable approach to the USG's goal for the region.

Moreover, as a successful model of technical capacity and economic growth in sub-Saharan Africa, South Africa's public sector institutions as well as its diverse and capable private sector are extraordinary resources to promote development across the continent. At the same time, the U.S. and South African Governments often share development objectives for African countries. However, the SAG is beginning to understand the complexity of providing structured assistance to the region and needs to further build its own internal capacity to manage these efforts. Thus, to achieve mutual aims, USAID and the SAG National Treasury collaborate to provide technical assistance to third countries in Africa under the Trilateral Assistance Program.

Under this program, applications from SAG Ministries are submitted annually to a joint USAID/SAG committee for review and consideration. Selected applications are funded under a grant agreement between USAID and the SAG National Treasury. The United States and South Africa then identify, design, and implement projects of mutual interest that support the economic, political, and social development of other African states. The Trilateral Assistance Program is also an innovative model for the effective use of host country systems. This initiative has been highlighted by the SAG at a number of donor forums and presented as a case study to the Development Assistance Committee of the Organization for Economic Cooperation and Development. When including both financial and in-kind contributions, combined SAG and third country contributions to activities supported by this program often outweigh U.S. contributions by a ratio of three-to-one or even four-to-one.

Selected activities have been undertaken in several countries and in support of the Southern Africa Development Community, including support for education in southern Sudan (jointly funded with USAID), agricultural research and development in Malawi (jointly funded

with USAID), regional disaster risk management and mitigation, provincial administration and elections logistics in the Democratic Republic of the Congo.

Question #7A:

Given the current state of insecurity across North Africa and the Sahel – insecurity that directly impacts the vital national security interests of the United States – **how do you justify increases for South Africa while cutting assistance for Algeria, Tunisia, and other TSCTP partners?**

Answer:

The South Africa Development Assistance request seeks modest increases in the foreign assistance programs for education, democracy and governance, the Global Climate Change initiative and trilateral assistance. South Africa is the main strategic partner of the United States in Southern Africa and the region's driving economic force. Foreign assistance allows the South African Government to address continuing internal development needs while strengthening its regional role as a stabilizing regional actor, leading democracy, and reliable trade partner—all while supporting international efforts to advance democratic transitions and improving the quality of life for neighboring countries by reducing food insecurity, poverty and the spread of communicable diseases.

To date, many South Africans still suffer from a lack of equal opportunity, and languish without access to appropriate health care, education, and job opportunities despite significant progress made over the past two decades. The South African Government struggles to deliver basic local services to all citizens—the basis of its social contract after winning the struggle against Apartheid. Unmet expectations result in almost weekly demonstrations, which show the ongoing need for support to local government capacity-building. Current foreign assistance programs are working in partnership with the South African Government to develop expertise in South Africa to address domestic challenges and to mitigate the unforeseen, growing influences of less stable regimes and economies in the region.

While Algeria and Tunisia are TSCTP partner countries, USAID has not historically programmed foreign assistance in Tunisia and has only co-funded a small university-linkages program in Algeria using FY 2008 funds. Currently, USAID manages TSCTP program funds in Chad, Niger and Mauritania. The budget level for development-based counterterrorism programs under TSCTP has plateaued after steadily expanding in the last four years. The FY 2012 request reflects both the end of the expansion phase of TSCTP, as well as improvements to our analytical framework that have allowed program managers to more precisely target TSCTP programs. The request level will be adequate to ensure sustainable counter-extremism programs in sub-Saharan African countries that are members of TSCTP.

Questions for the Record Submitted to
Administrator Rajiv Shah by
Chairman Ileana Ros-Lehtinen
House Committee on Foreign Affairs
March 16, 2011

Question #7B:

What adjustments do you anticipate being made to the request to provide greater, albeit belated, support for democratic transitions in Tunisia and Libya?

Answer:

This is an unprecedented moment of opportunity for political reform in the Middle East. When the protests in the Middle East began, USAID redirected ongoing programs and quickly put in place new programs that responded to the rapidly unfolding situation and met needs as they emerged.

- USAID is providing assistance as needed and requested – to pursue credible transitions to democracy and to meet expressed social and economic needs throughout the Middle East. We are reviewing previous commitments and identifying new ways of partnering through a renewed focus on those most engaged in their own transition.
- Although USAID has no government-to-government relationships with either Tunisia or Libya, in the short-term we are reviewing our partnerships with government entities and empowering civil society on democratic transition and governance issues. In the long term, we will focus on those underlying conditions that were a catalyst for popular unrest, including unemployment and education. As the situation evolves, USAID will continue reviewing how best to use its assistance to support the aspirations of the local population.
- If needed and where appropriate, we will use the mechanisms and personnel that USAID has in place to act quickly and begin new programming in Tunisia and Libya to support openings in the political environment, including utilizing centrally-based rapid response mechanisms.

Tunisia

- Tunisia presents perhaps the best opportunity for a successful transition given citizens' broadly shared democratic vision for the future, including within the moderate Islamist party; small geographic size and homogeneous population; high educational levels and significant middle class; and professional army.
- USAID has mobilized assistance for Tunisia to respond to the immediate humanitarian needs created by the protests and upheaval surrounding the ouster of Tunisia's former president and to support the political transition. Well-targeted and timely support, in both

the political and economic spheres, is critical to ensure the success of Tunisia's democratic transition, which can serve as a model for the rest of the region.

- In the immediate aftermath of the protests that led to the ouster of President Ben Ali, USAID provided $50,000 to respond to the urgent humanitarian needs of economically vulnerable Tunisians, particularly in Sidi Bouzid and Kasserine, where violent disturbances caused nearly 20,000 individuals to lose their means of basic subsistence. These funds have been used for bedding, butane for boiling water, and health supplies for local clinics.
- In response to the ongoing crisis in Libya, USAID has provided assistance to help meet increasing humanitarian needs on the Tunisia-Libya border. On March 2, USAID provided $50,000 for medical care, shelter, blankets, and other emergency assistance.
- USAID commodities were delivered to Tunisia on March 4 via two U.S. military C-130s. The planes delivered 2,000 blankets, 40 rolls of plastic sheeting (sufficient for up to 2,000 households), and 9,600 10-liter water containers. In addition, a USAID-funded emergency health kit – sufficient to treat 10,000 people for three months – is being transported to the Tunisian border for use in Tunisia or Libya, depending on need.
- USAID is providing $3 million for political party strengthening and elections assistance. These funds will be used to support the Tunisian government's ability to conduct the scheduled July 2011 Constituent Assembly elections or at a later date if they are postponed; strengthen ability of political parties to participate in elections and the Constituent Assembly; strengthen civil society organizations ability to participate in the political transition and incorporate citizens' views into the reform process; and conduct surveys to gauge citizens' concerns.
- Finally, USAID is funding programs that will support accountability and the development of human rights, expand the political voice and promote economic opportunities in politically marginalized regions, and create an enabling environment for the development of local NGOs.

Libya

- The United States continues to provide aid to those in need in Libya and to those who have fled the fighting in Libya. The overall security situation in certain areas of Libya continues to limit access for humanitarian organizations to assess the situation and provide life-saving assistance.
- A Disaster Assistance Response Team (DART) was immediately deployed to the region to manage the U.S. Government's humanitarian assistance to those in Libya and to those who had fled the fighting in Libya. The DART was based in Egypt and Tunisia until they gained access to Libya on April 5.

- The DART is working to determine additional humanitarian needs inside Libya and on its borders and is coordinating with other donors and international and non-governmental organizations. The team is meeting with the Transitional National Council as necessary to ensure our ability to get humanitarian assistance to those in need as quickly as possible.
- The USG is providing $47 million to meet humanitarian needs and to evacuate and assist those fleeing the violence in Libya. This includes support for the evacuation of third country nationals who have fled Libya; emergency food and humanitarian assistance; and support for relief programs in Tunisia and Egypt.
- The U.S. has also set aside up to $10 million to support international organizations and NGOs meeting humanitarian needs in Libya – funded activities include supporting health facilities in Libya with medical supplies, doctors, and nurses; distributing emergency relief supplies; and purchasing of emergency health kits and emergency trauma kits.
- In addition, the U.S. military—in coordination with IOM—has evacuated more than 1,100 Egyptians back to Egypt from Tunisia. This in-kind assistance is valued at nearly $1.1 million.
- USAID's FY 2012 request for the Middle East is nearly $1.6 billion and does not include Libya – this budget was prepared before the protests began across the Middle East. USAID will continue to monitor the evolving situation and will consult with the Congress as the situation evolves.

BURMA

Question #8:

The USAID webpage on U.S. assistance to Burma asserts that "USAID works to strengthen independent media, improve access to information, and build the capacity of Burmese journalists." With a press that is completely controlled by the Burmese military junta, **how is it possible to administer such a program in a way that U.S. tax dollars are effectively spent?** Please recall that it was the Burmese news media, under the direction of a paranoid regime, which reported after the May 2008 cyclone that U.S. military vessels gathered off the Burmese coast with relief supplies were poised for an invasion.

Answer:

USAID programs strengthen independent media in Burma by training journalists to offer an objective, non-biased and accurate view of events in Burma. The bulk of media outlets in Burma are controlled by the military junta, but smaller-scale publications and media exist and are able to report events inside Burma realistically, sometimes at great risk. News is distributed to the active diaspora, ensuring that it is then disseminated by respected international news outlets. Because of such objective reporting on events leading up to the November 2010 elections–Burma's first in 20 years – irregularities were communicated widely to global audiences. Journalists trained in USAID programs are also able to send messages within Burma without state interference. For example, preceding and during the election, the Free Ethnic Voices Radio program reached millions inside Burma every day with five minutes of radio coverage on issues of particular concern to ethnic groups.

Participants in USAID journalism programs are selected to represent all of Burma's ethnic groups. The training sessions are conducted in Thailand and emphasize internationally accepted principles of journalism. An intended by-product of the media training program is a growing cadre of working journalists within Burma with the skills and reach to improve communication in both directions, going in and coming out of Burma, to ensure that the junta is not able to monopolize the world's image of the country.

BOLIVIA

The significant cuts included in the FY 2012 budget request for Bolivia are an important acknowledgement of the lack of value and effectiveness of assistance to that country. Following the expulsion of our Ambassador, DEA personnel, and democracy and governance programs in 2009, our government has been unable to reach consensus with Bolivia on a Framework Agreement, despite ongoing high-level efforts for more than a year. Further, we have seen a disturbing trend in recent years of the Administration agreeing to modify foreign assistance programs to reflect the priorities of the host nation, rather than those of the United States. For example, in Bolivia, Evo Morales has prohibited the U.S. from implementing any democracy and

governance programs, thereby leaving our non-security assistance to primarily focus on environmental and economic growth programs.

Question #9:

While some may argue that maintaining these programs will help the U.S. "to keep our foot in the door," I think the Morales government has made it abundantly clear that they have no interest in working with the U.S. **Keeping in mind Bolivia's actions have disqualified it from receiving Andean Trade Preferences, can you please tell me how supporting environmental and economic growth programs in Bolivia is a responsible use of American taxpayer money?**

Answer:

USAID programs in Bolivia advance our foreign policy and development objectives by reducing poverty, improving access to health care, and protecting the environment. In implementing its programs, USAID works with civil society actors, including small farmers, small and medium-sized businesses, and NGOs that provide health care, as well as with those Bolivian officials at the national and local levels who remain eager to work with us and help us advance our goals there.

The bulk of USAID's proposed FY 2012 budget for Bolivia would support health programs. USAID programs are achieving significant improvements in maternal and child health by supporting vaccination campaigns, expanding access to prenatal care, treating and preventing disease, and extending family planning services.

The second largest sector of USAID's program in Bolivia links economic growth and environmental protection by expanding natural resource-based business and job-creation opportunities. USAID's assistance to Bolivia's forest sector has generated jobs and income for poor Bolivians while strengthening sustainable management of scarce natural resources.

USAID is also committed to resuming programs to strengthen democracy. Indeed, our engagement in the Americas will be shaped by countries' shared commitment to democratic practices and our ability to support individuals and institutions in those countries that advocate for greater democracy, human rights, and protections for vulnerable populations. Conclusion of the bilateral Framework Agreement and normalization of relations would require review of our FY2012 funding request, to advance opportunities presented by improved bilateral cooperation.

Question #10:
Haiti is slated to receive more than $370 million in assistance under the President's FY 2012 budget request. This is in addition to the $2.8 billion that was appropriated to Haiti following last year's earthquake. What specific actions is the State Department taking to ensure accountability and transparency for this future funding?

Answer:
USAID is employing a comprehensive set of techniques at multiple levels to ensure a robust level of oversight, monitoring, and evaluation.

Specifically, the Agency has put in place procedures and processes at three levels in both Washington and the field to monitor and evaluate programs to meet performance targets, as well as strict contracting regulations and highly trained personnel to ensure accountability of taxpayer's dollars.

First, we have program managers and financial officers on the ground who oversee the work of our implementing partners on a daily basis. While this is standard operating procedure, many potential mistakes or abuses are caught at this level, and we have a robust staffing plan to ensure proper oversight.

Second, USAID is standing up a dedicated monitoring and evaluation unit that will set benchmarks and targets across the portfolio. In addition, a quarterly report card will be established by an outside firm to track the progress of programming and highlight any lessons learned for senior managers in Washington.

Finally, a permanent office of the Regional Inspectors General is already operating in the USAID Mission. It will be staffed with five people to manage and oversee audits and investigations. The team, based in Port-au-Prince, will help to track assistance and expenditures and ensure accountability.

Outside of our own procedures, USAID is currently working with the General Accounting Office on two independent audits of programs and processes related to FY 2010 Supplemental Appropriations.

Question #11:

Over the past two years—since Fiscal Year 2008—total USAID staffing has grown 22%--from a total of 7,057 in Fiscal Year 2008 to 8,610 in Fiscal Year 2010. To fully implement reforms at USAID, you have stated that changes will require even more personnel. **How many more staff do you anticipate would be needed to achieve those reforms?**

Answer:

From FY 2008 to FY 2010, total USAID staffing increased 6%, from 8,081 to 8,615, as presented in the FY 2010 and FY 2012 Congressional Budget Justifications. In FY 2012, USAID needs an increase of 1,591 staff from FY 2010 to implement Agency reforms. The 1,591 staff includes 431 Foreign Service Officers (FSOs) under the Development Leadership Initiative and 161 Civil Service (CS) staff to support the Presidential, Acquisition Workforce, and Implementation and Procurement Reform Initiatives as well as other Agency reforms.

AFGHANISTAN

In early 2010, the Washington Post reported that the Kabul Bank, with its ties to the Karzai family and sometimes questionable practices, played a part in "a crony capitalism that enriches politically connected insiders and dismays the Afghan populace."

Question #11A:

Did the accounting firm Deloitte or any other USAID contractors report incidences of malfeasance at the Bank?

Answer:

No, the accounting firm Deloitte did not provide any reports of incidences of malfeasance at Kabul Bank to USAID prior to the run on Kabul Bank. The Central Bank supervisory team that examined Kabul Bank's books for several months starting in January 2010 did not find any evidence of fraud or malfeasance. During the 2008-2010 period there were rumors of possible (but undefined) "problems" at the bank from time to time, but no party ever provided any actual evidence of fraud or other malfeasance until summer 2010. No other contractors are on record as having contacted USAID to report incidences of fraud at the bank. The Kabul Bank fraud was carefully orchestrated and well concealed by major stakeholders, board members, and senior management. The fraudulent loan activity was not revealed until summer 2010 when the Kabul Bank Chairman of the Board began talking with the Afghan Central Bank and described the loan fraud conspiracy. This led the Afghan government to appoint a Conservator in September 2010 to manage the bank while determining the extent of the malfeasant activity and recovering fraud assets.

Question #11B:

What was the damage estimate conducted as a result of the run on the bank?

Answer:

The September 2010 run on Kabul Bank reduced its deposits by almost half to about $600 million. However, the run quickly reduced the bank's cash reserves to zero, requiring a $400 million loan from the Central Bank to provide liquidity to pay depositors demanding their money back. The loss due to loan fraud has been estimated by the Central Bank Conservator at approximately $900 million.

Question #11C:
Did USAID conduct a performance review or audit of the Deloitte Contract?

Answer:

In the immediate aftermath of the Kabul Bank crisis, USAID requested the Office of the Inspector General (OIG) to review the bank supervision component of the Deloitte contract. The Inspector General completed its review on February 9 and issued its final report on March 16. The OIG asserted Deloitte had received several indications of potential fraud during 2008-2010 but did not alert USAID. We are pleased that the review found no indications of fraud, waste or abuse by USAID or Deloitte. But with changed circumstances in a difficult assistance environment and to make our assistance more effective, we terminated the bank supervision component of the Deloitte contract on March 14. We are exploring ways to improve our assistance to the Central Bank's supervision of the Afghan financial system, and we will engage experts with the best possible skill set.

EGYPT

Dr. Shah, Secretary Clinton said yesterday in Cairo that she will seek quick congressional approval of an enterprise fund for Egypt—funded at $60 Million. Monies for such funds come out of AID's budget, as a rule. Our Committee has not been consulted, but was only told informally yesterday, when we inquired. There are serious issues surrounding some of our earlier enterprise funds.

- Executives of the funds were allowed to set up a stock option plan, and, when they closed down the fund's operations—
    - the CEO reportedly gave himself $22 Million,
    - the Chief Financial Officer was awarded $9 Million,
    - the Managing Director reportedly got over $8 Million, and
    - other executives got between $1 and $4 Million each.
- That's one example, $200 Million of that Fund's cash was transferred to a "legacy foundation".
- The taxpayers got back a grand total of $27.5 Million.
- The oversight of "legacy foundations" set up by enterprise funds as they have closed down operations has been questionable.

Question #12:
Why would we do this now in Egypt, given these issues?

Answer:

The Administration believes that an Egypt-American Enterprise Fund would stimulate private sector investment, support competitive markets, encourage public-private partnerships, and provide businesses with access to low-cost capital—all of which are critical needs in short and medium term for fiscal stability in Egypt. As a private, not for profit entity the Fund would have wide latitude in the types of investments it undertakes. This flexibility is important because it will allow Fund managers to target the most appropriate segments of the Egyptian market for investment. It is important to remember that the amount of capital available in Egypt is not the issue – there are already a large number of local and international investment firms active there, and banks tend to have a lot of liquid capital. The issue is that capital is not flowing to Small and Medium Enterprises (SMEs) and other vital sectors of the Egyptian economy. Rather than build entirely new and potentially duplicative structures from scratch, the Fund would be able to work with existing financial institutions to develop a stronger investment ecosystem. For instance, the Fund could partner with leading Egyptian or international investment firms on specific projects; work with the U.S. Trade and Development Agency on feasibility studies; and arrange for Overseas Private Investment Corporation co-financing of eligible downstream investment projects.

If the Fund is approved, it will be a not-for-profit, privately-managed corporation launched with U.S. grant assistance and governed by a joint American-Egyptian board of directors. The concept is to model this version of the Fund by drawing on the lessons learned from the USG's prior experiences from Eastern Europe. One of those critical lessons was the responsibilities and compensation of the management team.

The compensation structure for employees varies from fund to fund. The base salaries for fund employees are set by their respective Boards of Directors and managers and cannot exceed $150,000 per annum. In order to retain staff and to provide a strong performance incentive, the funds can have employee incentive compensation (such as profit-sharing) that is consistent with industry practice and is not paid out of the grant monies provided to the Enterprise Fund by USAID. The concept of employee incentive compensation was approved by the U.S. Government including Congress. USAID will review the management incentive compensation structure of any proposed Fund to ensure that management is appropriately compensated and taxpayer resources are protected.

Even in light of the examples presented, the overall performance of these Enterprise Funds has been positive, something possible with Egypt. Past efforts have led to over $9 billion in technical assistance and investment even after the operating cost of the Funds have been paid out and the creation of 30 new financial institutions such as banks, venture capital funds, leasing companies, finance companies, and micro-finance companies.

We believe that Congressional consultation is an important part of this process; State and USAID have already met with a bi-partisan group of Members of Congress, and we look forward to meeting with your committee to discuss this further.

Questions for the Record Submitted to
Administrator Rajiv Shah by
Congressman Bilirakis
House Committee on Foreign Affairs
March 16, 2011

Question #1:

Dr. Shah, thank you for your testimony here today and thank you for your public service. A few days ago, I was stunned to see a news report that unveiled, as far as I'm concerned, the gross mismanagement of U.S. tax dollars. The story's focus was the government deficit reduction report which revealed that hundreds of millions of taxpayer dollars are being funneled through the State Department in an effort to "fight Islamic extremism and build relationships with the Muslim world" by enhancing mosques overseas in places like Egypt and the Turkish occupied territory of northern Cyprus, which is particularly offensive to me since the Turkish army has been on a 36 year crusade to destroy and desecrate the religious heritage of Cyprus.

American taxpayers are providing dollars to put computers in mosques and giving imams internet service to, as we have found, run jihadist websites that seek to radicalize not only their local populations, but also American Muslims. Furthermore, we know from past testimony before this committee from the Broadcasting Board of Governors that there is a real problem perpetrated by Arab networks that are funded by the State Department. Some of these networks such as Al-Hurra TV, broadcast anti-American propaganda to the Middle East. In other words, Americans are paying for broadcasts that fan the flames of hate and terrorism.

So my question is, to what extent are tax payer dollars being used overseas to support extremist and terrorist behavior? Shouldn't USAID be better stewards of our money?

Answer:

I want to assure you that USAID takes seriously our obligations to deliver funds to people in need while serving as prudent and responsible stewards of U.S. taxpayer dollars. In that regard, we take all reasonable and appropriate steps to help ensure that we do not support extremist and terrorist behavior.

The Atlanta news report that you referred to was replete with inaccuracies and misleading statements. USAID does not send "hundreds of millions of dollars" to save mosques overseas. Rather, the activity in Egypt that was featured in the news report was a sewerage project, implemented from 1984 to 2006, which aimed to improve and expand sustainable wastewater collection, treatment, and disposal facilities on the west bank of Cairo and to ensure proper management of the system. One component of that program

was the lowering of ground water, resulting in part from leaking sewers and the rise and fall of the Nile, in Old Cairo, which houses Egypt's oldest mosque, as well as a synagogue and some of the world's oldest Christian churches. USAID funds were not used to restore or refurbish these structures but, instead, were used to lower the ground water around these buildings to preserve them from deterioration, as we did for all buildings in the Old Cairo residential area. The cost of the entire sewerage program was approximately $727 million, of which only $2.3 million was spent in the area of the mosque.

USAID fully supports the vision articulated by President Obama in his June 2009 speech in Cairo to build a broader, more comprehensive engagement with Muslim-majority countries, countries with significant Muslim populations, and the people of those countries. We believe this more comprehensive engagement, or intensified relationship, will, among other things, help advance the commitment of the U.S. Government to actively counter the actions and ideologies of terrorist organizations and their affiliates, and violent extremists overseas that threaten the interests and national security of the United States.

As part of these efforts, USAID has, in the past, provided support to the central mosque in Istaravan, Tajikistan, to reduce social conflict by creating opportunities for at-risk youth to channel their energies into productive endeavors; provided computer equipment to an influential religious and spiritual leader who heads the UNESCO World Heritage Grand Mosque of Djenne, Mali, to help bridge Djenne's information gap; and provided funding to help save historic, religious and cultural sites in Cyprus, the Apostolos Andreas Monastery and the Hala Sultan Tekke Mosque. All of these activities were designed for appropriate economic development purposes, consistent with U.S. law, and were aimed at improving our relationship with people in Muslim-majority countries, thereby countering extremist and terrorist behavior.

Question #2:

While USAID is funding the restoration of mosques and Islamic schools around the world, I am very concerned about recent reports that some international Christian aid groups have recently come under excessive scrutiny by USAID which appears extremely biased. **Why do you support the rebuilding of Islamic religious institutions while USAID is scrutinizing the activities of Christian aid groups to ensure that there is no government funding used for their religious activities?**

Moreover, given the apparent bias in the agency, what are you doing to ensure that all USAID staff are aware of the rights of all faith based organizations and are not discriminating against or harassing them for their religious affiliations, or for activities they may undertake that do not include government funding for religion?

Answer:

Faith-based organizations and religious groups are valued partners in USAID's humanitarian relief and development work. Because of their established credibility and respect in the local community, faith-based organizations and religious groups have a unique reach into the lives of the people USAID seeks to assist and have a long-standing presence in those communities. Likewise, religious and other community leaders are key partners in USAID's efforts to bring about sustainable and lasting change in the countries in which we work.

USAID is committed to treating all organizations, faith-based and secular, equally. The USAID Center for Faith-Based and Community Initiatives (CFBCI) has been charged with building bridges between the faith community active in development and the U.S. Government to ensure the concerns of these organizations are being heard and addressed. Accordingly, the CFBCI works to ensure that all USAID staff are aware of the rights of faith-based organizations and takes seriously allegations of harassment or discrimination against religious groups.

In addition, USAID has procedures in place for groups having a complaint. If a faith-based organization believes it is being unfairly scrutinized or penalized for non-government funded religious activities, they may approach the USAID Acquisition and Assistance Ombudsman with its complaint. The Ombudsman's Office's primary purpose is to ensure equitable treatment of all parties participating in USAID's contracts and grants pre-award, post-award and administration functions.

Question #3:

Dr. Shah, with respect to Cyprus, the United States' policy has been to support a Cyprus settlement and the President's budget proposal typically recognizes the reunification of Cyprus as an opportunity to advance U.S. interests in the region.

Since 1993, Congress has supported that interest through the appropriations process, appropriating Economic Support Funds to Cyprus for reunification but restricting that the funds "be used only for scholarships, administrative support of the scholarship program, bicommunal projects, and measures aimed at reunification of the island and designed to reduce tensions and promote peace and cooperation between the two communities on Cyprus."

The USAID website does not appear to provide up-to-date information on programs in Cyprus supported by ESF funding. In fact, the most recent information on its website is nearly two years old. **Can you please provide this Committee with a detailed accounting of programs supported by ESF funds on the island, for the past five years, including the recipients of funds for each year, the uses to which those funds have been put, and the role of those funds in helping achieve the reunification of Cyprus?**

Answer:

A summary of the most recent USAID/Cyprus programs is provided in the Attachment. It includes the grantees/contractors, the period of performance, the role of the funding in achieving reunification with a brief description, as well as the funding amounts by fiscal year. It also provides details for each of the programs including grantee/contractor websites where available.

The USAID/Cyprus website includes basic information on all programs in Cyprus supported by ESF funding, although several sections are out of date. USAID/Cyprus is in the process of redesigning and updating the website; we plan to have the new version by May 2011. It will continue to include general information about each project, with links to grantee/contractor websites and/or relevant contact information so that interested parties can request information directly.

Question #4:

Dr. Shah, The President's budget proposal typically recognizes the reunification of Cyprus as an opportunity to advance U.S. interests in the region by requesting Economic Support Funds for the island. Further, the Department's FY2012 budget justification requests, as it has in previous years, that Cyprus programs focus on "encouraging the eventual reunification of the island by building support for the peace process, increasing the capacity of civil society to advocate for reconciliation and reunification, and furthering economic integration."

Congress has further restricted Economic Support Funds for Cyprus to bicommunal projects and measures aimed at reunification to "reduce tensions and promote peace and cooperation between the two communities on Cyprus." However, according to the list of projects published on the USAID/Cyprus website, work appears to be heavily focused on Turkish Cypriot programs and not bicommunal in nature. For some projects listed, the intended purpose is to promote the sites as popular tourist attractions.

Can you explain how such projects fit within the definition of bicommunal projects meant to promote cooperation and reconciliation on the island? In light of Congressional concern about lack of transparency and advanced consultation of these funds, can you please specify the existing bicommunal programs which follow the intent of the law and are focused on promoting cooperation between Greek and Turkish Cypriots?

Answer:

All of USAID/Cyprus' programs are in accord with the Congressional mandate that ESF funds for Cyprus "be used only for scholarships, administrative support of the scholarship program, bicommunal projects, and measures aimed at reunification of the island and designed to reduce tensions and promote peace and cooperation between the two communities on Cyprus."

With reference to the Attachment, USAID/Cyprus Programs from 2006–2010, 74% of USAID/Cyprus funding over the last five years has been obligated to the Action for Cooperation and Trust (ACT) Program, where Greek Cypriot and Turkish Cypriot non-governmental organizations (NGOs) work together on issues of common concern to promote peace and reconciliation in Cyprus.

The remaining 26% has funded three programs – Economic Development and Growth of Enterprises (EDGE), Supporting Activities that Value the Environment (SAVE) and Promoting Private Sector Development (PPSD) – that aid the island's reunification by mitigating the disparities that complicate relations between the two sides. For example, under SAVE, international and Greek Cypriot experts worked with Turkish Cypriots to restore and protect more than six major cultural heritage monuments. Indeed, SAVE has encouraged visitors to these sites in order to ensure that they are properly preserved and protected until they can be returned to their rightful owners. Similarly, EDGE and PPSD have worked with both the Cyprus Chamber of Commerce and Industry and the Turkish Cypriot Chamber of Commerce to increase trade over the Green Line. The Chambers recognize that, in the long run, Cypriot businesses can be far more competitive, and a settlement more economically viable, if they work collaboratively. Thanks in part to EDGE and PPSD's efforts, trade across the Green Line is now easier and more commonplace. As well, associated transaction costs, though difficult to quantify, have decreased dramatically. Indeed, the Central Bank of Cyprus turned to EDGE to assist with efforts to ensure that the 2008 Euro (€) conversion process included the Turkish Cypriots who continued to use and hold Cyprus pounds.

Attachment:
1 – USAID/Cyprus Programs, 2006-Present

Question #5:

Dr. Shah, since 1993, Congress has appropriated Economic Support Funds to Cyprus for reunification of the island and restricted the funds "to be used only for scholarships, administrative support of the scholarship program, bicommunal projects, and measures aimed at reunification of the island and designed to reduce tensions and promote peace and cooperation between the two communities on Cyprus." As such, scholarships are the only specific project directed by Congress to carry out the Cyprus ESF program, yet there is a lack of specific information published on the scholarship program there.

I understand that the Cyprus Fulbright Commission administers these scholarships and that they are evenly distributed among the Greek Cypriot community and the Turkish Cypriot Community. **Can you explain why these scholarships are evenly divided when Greek Cypriots represent about 80 percent of the island's population and Turkish Cypriots represent only 20 percent?**

Answer:

The Cyprus-America Scholarship Program (CASP) was established in 1981 under a bilateral agreement between the Government of the United States and the Government of Cyprus. CASP is funded by the United States Agency for International Development (USAID) through a transfer of funds to the Bureau of Educational and Cultural Affairs (ECA) of the United States Department of State. ECA in turn enters into a Cooperative Agreement with the Cyprus Fulbright Commission, which administers CASP within Cyprus. Since 1981, CASP has brought thousands of Greek-Cypriot and Turkish-Cypriot students and professionals to the United States for degree programs and specialized training in fields that are vital to Cyprus; CASP seeks to promote improved communication, confidence, and trust between Greek-Cypriots and Turkish-Cypriots through bicommunal activities.

The Cyprus Fulbright Commission is governed by a binational Board; half the members are appointed by the U.S. Ambassador to Cyprus, and half are appointed by the Government of Cyprus. The Commission administers its award programs on the basis of merit; they are open to all Cypriots irrespective of which community they come from. While there are no pre-set ratios or quotas, the Fulbright Commission does strive to attract applicants from both communities. The Fulbright Commission does not keep records for Cyprus based on ethnicity.

Attachment

USAID/Cyprus Programs
2006-Present

Project	Grantee/Contractor	Period	Role of Funding/Brief Description	Fiscal Year	Funding
Action for Cooperation and Trust (ACT)	UNDP	October 2005 – September 2013	The objective of ACT is to build a stronger culture of tolerance, foster reconciliation and support settlement in all sectors of Cypriot society. Activities include grants and sub-grants to Cypriot organizations in areas including civil society strengthening, youth activism, community media, research and polling, participatory decision making, education, gender, economic interdependence, and sustainable development (including environment and cultural resource management).	2006 2007 2008 2009 2010	$12,300,000 $8,120,000 $4,915,000 $4,935,000 $5,810,000
Economic Development and Growth of Enterprises (EDGE)	BearingPoint	May 2005 – July 2008	The purpose of EDGE was to improve the Turkish Cypriots' ability to be able to shoulder their share of the costs of any future settlement and to take advantage of opportunities within a reunified Cyprus and in Europe. More specifically, it worked to improve banking practices and transparency; strengthen business associations and services; and provide firm-level assistance that promoted competitiveness and trade over the Green Line.	2007	$4,200,000

Supporting Activities that Value the Environment (SAVE)	International Resources Group (IRG)	September 2005 – January 2011	The purpose of SAVE was to provide a practical foundation for reunification by increasing local capacity to protect and manage Cyprus' natural and cultural resources. It was designed to use side-by-side technical assistance, demonstration projects and small grants to provide the knowledge and tools necessary to achieve European and international standards. Mitigating the disparities—not just in resources, but also in skills, capacity and access—that complicate relations between the two sides was another way to develop commonality and improve understanding between Greek Cypriots and Turkish Cypriots in preparation for a lasting settlement.	2006 2009	$1,950,000 $2,049,000
Promoting Private Sector Development (PPSD or EDGE II)	Deloitte Consulting	February 2008 – February 2013	Building on EDGE's work, PPSD is designed to support economic development in the Turkish Cypriot community by encouraging private sector development through improved business and banking practices. It encourages interaction between the Turkish Cypriots and the Greek Cypriot, European and global market places; it works to increase economic and business relationships over the Green Line by matching potential buyers and sellers, solving logistical and regulatory problems; and it works to hasten the adoption and implementation of European and international standards and practices across the island. The more aware, the more competitive and the more engaged the	2008 2009 2010	$2,516,000 $466,000 $1,640,000

			Turkish Cypriots are, the easier it will be for the two sides to come together in a settlement that reunites the island within Europe.		

Action for Cooperation and Trust (ACT)

ACT Phase I (2005 – 2008)

A detailed description of each of the approximately 120 activities implemented during the first phase of ACT, from 2005 – 2008, is available on the UNDP-ACT website under the Projects section. The link is included below.

http://www.undp-act.org/default.aspx?tabid=116&it=0&mid=0&itemid=0&langid=1

ACT Phase II (2008 – 2011)

A brief description/fact sheet for each of the nine large initiatives carried out during the second phase of ACT, 2008 – 2011, is available on the UNDP-ACT website under the Projects section. The link is included below.

http://www.undp-act.org/default.aspx?tabid=117&it=0&mid=0&itemid=0&langid=1

During this phase of ACT, full responsibility for project implementation and outreach was handed over to the Cypriot partners. Details about each of the initiatives can be found on the partner/network/project websites.

Supporting Activities that Value the Environment (SAVE)

The SAVE website contains information on all of the activities implemented under SAVE. This project was completed in January 2011.

http://www.save-irg.com/

Questions/Statement for the Record of the Honorable Dana Rohrabacher
Committee on Foreign Affairs, U.S. House of Representatives
Hearing: "The Agency for International Development and the Millennium Challenge Corporation: Fiscal Year 2012 Budget Requests and Future Directions in Foreign Assistance"
March 16, 2011

Question to Mr. Daniel Yohannes:

Can you tell this Committee what actions MCC is taking to negotiate with the government of Honduras for a second Compact that will require Honduras to resolve all outstanding American expropriation claims?

No candidate country is guaranteed eligibility. There has been no discussion about the type or size of future MCC projects in Honduras. Following any determination of eligibility, the development of a compact program generally takes MCC and partner countries a minimum of 18 months, including a careful analysis of binding constraints to growth and broad public consultations before project concept papers are submitted to MCC for consideration. During that development process, MCC makes it clear that there are no guarantees that the Board will approve country proposals, or that the level of funding sought will be available.

We are aware of Mr. Cema's case and of the U.S. Government's efforts to help resolve it. We continue to welcome information about investor experiences, including any allegations relating to deprivation of property or enforceability of contracts, in Honduras and in all of our partner countries.

Questions for the Record Submitted to
Administrator Rajiv Shah by
Congressman Albio Sires
House Committee on Foreign Affairs
March 16, 2011

QUESTION:
Dr. Shah, I was pleased to see that the President's budget for FY 2012 includes $20 million dollars for democracy programs in Cuba. These programs help support the basic human rights of the Cuban people. As you know, Alan Gross, a contractor working on such a program, was arrested and recently sentenced to 15 years in jail.

How is U-S-A-I-D working to mitigate risks faced by contractors and grantees that are providing critical assistance in the world's most oppressive areas, such as Cuba?

ANSWER:

The implementation of democracy programs in Cuba presents a unique set of safety considerations. Most of our grantees working on Cuba have a track record of working there or in other complex working environments around the world. To help mitigate the risks faced by our implementing partners, we have developed a variety of management and operational practices to heighten awareness of the unique challenges and sensitivities in implementing the program. My staff is happy to brief you on these improvements.

Questions/Statement for the Record of the Honorable Donald M. Payne
Committee on Foreign Affairs, U.S. House of Representatives
Hearing: "Fiscal Year 2012 Budget Requests and Future Directions in Foreign Assistance"

March 16, 2011

QUESTIONS FOR MR. YOHANNES, MCC:

1. **FY11 CR budget cuts:** I hear the House passed FY11 CR cuts of 29% would impact two African Compacts – Zambia and Cape Verde. This is troubling since Zambia, a very poor country has already put up $4 million of its own resources in order to qualify for the compact and now its being threatened in the 11th hour. Likewise, Cape Verde—a high performing country on all of the MCC indicators—is also being punished at the last minute. **Please talk about the impact of those cuts on FY '11 and any potential ripple effect on FY 12, and FY 13.**

   MCC holds itself accountable to the American people to ensure that every taxpayer dollar generates the best possible return on investment, working with countries that are poised to become the next generation of emerging markets. Compacts are investments in the future of countries that are making progress. Failure to invest in countries with such potential risks losing these new markets to our competitors; losing poverty reduction gains which, left unchecked, can result in destabilization that may later require far more U.S. resources to fix; losing the opportunity to create the capable partners we need to ensure regional peace and security; and losing face, since we have asked countries to undertake bold policy reforms to become eligible for MCC, and they have risen to the occasion. For example, we have asked countries to invest their own scarce resources in developing compacts, and they have done so, including Zambia, has put forward $4 million. There is also the risk of losing momentum for aid reform by cutting back on the one program that embodies all of the principles central to reform and important to the Congress and the American people – accountability, transparency, selectivity, and rigorous measurement of results.

   If the cuts are as deep as some have proposed, MCC will have a series of very hard choices to make. Cuts of this magnitude would impact Indonesia or Zambia and Cape Verde.

2. **Threshold programs:** I am a big supporter of MCC's threshold program, as thresholds often encourage important internal reforms in African countries that need technical assistance and support in order to build the type of government capacity that would eventually ensure their independence from foreign aid. It is important for us to talk about capacity building and technical assistance, particularly with regard to budget management and transparency-- in addition to trade and business development-- if we are to ever get to true country ownership. I understand there have been no **new** threshold programs signed since last May, and no funding was requested for the threshold program in FY2012. **Why was the program discontinued, and how do you propose to address the problem for which the program was created – to help more of the poorest countries meet the criteria for eligibility?**

   MCC's Threshold Program has not been discontinued but it has been redesigned to maximize its effectiveness. In FY10, MCC signed threshold program agreements with Liberia and Timor-Leste, and there are several other ongoing programs in our portfolio.

   Last year, MCC informed the committee that it was conducting a review of the Threshold Program. The review concluded that the Threshold Program has been a useful tool in strengthening the U.S. Government's dialogue with threshold country partners and supporting country-driven institutional reforms using the incentive of potential ccompact eligibility. The program has also been valuable in providing information to MCC's Board of Directors regarding a country's commitment to reform and the prospects of partnership through an MCC Compact. Using the program to improve performance on MCC's eligibility indicators within a narrow time frame, however, was not effective in most cases.

   Future threshold programs will assist countries in becoming compact-eligible by focusing on country-specific policy reforms that address impediments to growth. Progress will be assessed against measurable objectives that partner governments can act upon within specified time frames. This will serve to strengthen the logic underpinning the Threshold Program and to more closely align it with MCC's goal of creating policy environments conducive to reducing poverty through growth.

   A country's approach to the implementation of a threshold program will serve as a useful gauge of its commitment to making critical policy reforms, which is an important factor in assessing MCC's opportunity to reduce poverty and stimulate long-term growth through a Compact investment in that country. This in turn will help make these countries more attractive candidates for a compact investment.

3. In keeping with that line of questioning I want to ask about this "MCC effect," which I understand to mean MCC's ability to incentivize significant policy changes by

partner countries seeking to qualify for a compact. **What are some recent examples of this effect, in Africa or elsewhere, and has it diminished at all with time?**

MCC continues to track reforms conducted by partner countries seeking to qualify for MCC eligibility. Several governments in Africa, including the government of Burundi, have actively formed working groups, reached out to MCC, and inquired about how to improve policy performance. MCC has maintained active dialogues with these countries and facilitated dialogues between governments and the indicator institutions that publish the data MCC uses.

Six of the ten countries identified by the World Bank's 2011 Doing Business report as "Top Reformers over the Past 5 Years" were MCC partner countries. These included Burkina Faso, Georgia, Ghana, Mali, the Kyrgyz Republic, and Rwanda. Each of these countries implemented at least 12 policy reforms in the past five years, including reducing the time it takes to start a business or implementing new stock exchange rules to protect investors.

According to the Doing Business report, Ghana implemented policy reforms in 6 areas since 2006: "It created its first credit bureau, computerized the company registry and overhauled its property registration system, moving from a deed to a title registration system, all of which reduced the time to transfer property from 24 weeks to 5. The state now guarantees the title and its authenticity."

4. **Gender integration in MCC compacts:** Over the past 5 years, the MCC has positioned itself as a leader in gender integration among international development agencies. In particular, the MCC made several improvements in its commitment to gender integration in 2010, by including a focus on gender as one of five strategic priorities of the agency, developing operational guidance for how to integrate gender throughout the MCA process, and providing incentive awards for exemplary staff performance in this area. **In the context of the FY12 budget, how can the MCC ensure that resources are available to support these innovative improvements, which stand not only to improve the lives of beneficiaries but also to improve the effectiveness of MCA projects overall?**

   One of my top priorities is to ensure gender integration throughout the lifecycle of MCC compact activities – design, implementation, and evaluation. MCC has increased the number of staff focused on gender, and this year, we have adopted and begun to implement new gender integration milestones and operational procedures in all of our compacts. MCC is encouraging each country to include a staff member with gender expertise and gender assessment is included in all monitoring and evaluation activities for each program, including those in the current pipeline.

5. **Country Ownership:** Mr. Yohannes, in these tight economic times, we owe it to the American taxpayers to get the best value possible out of our foreign assistance.

Donors have built too many roads that fall apart after a few years because there were no funds set aside for maintenance. They set up programs to help women farmers increase their incomes, but don't address the fact that those same women can't legally own property, which means they can't take out loans to improve their farms. **Is the MCC doing anything to make sure its funds make a lasting impact? Does the MCC take any steps to reduce aid dependence by leveraging Compacts to encourage countries to make their own investments in their citizens' welfare?**

The sustainability of MCC investments is built into the very design of MCC compacts. In many cases, policy reforms are built into the compact as either activities or conditions to funding disbursements. These can be changes to national policies, laws, regulations, or even the traditional ways of doing business used by government institutions. In most cases, these reforms help unlock the full potential of MCC programs, and help improve the broader conditions for continued growth and investment in partner countries.

For infrastructure investments, MCC will frequently require that partner countries expand funding for and improve management of road maintenance funds. In some agricultural activities, MCC seeks private sector partners to ensure ongoing demand for farmer's products and assistance in getting to markets. MCC also places an emphasis on capacity building. partner country staff, rather than doing the work forMCC's model of country-led implementation helps countries bolster the skills to continue the work that was being done in efficient and cost-effective manner. And, of course, the very fact that MCC's investments demand a return in the form of increases in local incomes – the antidote to poverty – is MCC's greatest contribution to ensuring the sustainability of our investments.

MCC also aims to help countries transition from development assistance to sustainable private sector-led growth. For our investments to be sustainable and help countries on their path to a private sector-led economy, partner governments need to make a number of regulatory and institutional changes that help to unleash the private sector. MCC recognizes this in our selection process. By working with governments that have demonstrated commitment to a policy environment that supports growth, MCC hopes to create a strong incentive for developing countries to adopt good policies and use assistance well. MCC and its partner countries plan reforms in areas that leverage impact and ensure sustainability of our investments, and work to promote a stronger environment for both trade and investment.

6. **Aid Reform:** Mr. Yohannes, you have requested congressional support and approval for *concurrent* compacts and, in certain cases, *longer* compacts. **Can you explain to this committee the need for these changes, the conditions by which they would be granted, and what added flexibilities they will bring?**

MCC's governing statute currently restricts MCC to a single compact with each partner country at a time. MCC's request for FY2011 assumes concurrent compact authority in order to sign a compact with Indonesia in 2011. Concurrent compacts would improve the predictability of compact pipeline management, serve as an added incentive for ongoing policy reforms in partner countries, and help address MCC's unobligated balances.

With concurrent compacts, the agency could move forward with projects that are investment-ready, instead of having to put several projects at various stages of readiness into a single compact or delaying compact signing for a promising but less-developed project. As part of a larger, cohesive framework negotiated with the partner country, concurrent compacts will allow for smaller, staggered agreements and more certainty in the budget process; speed implementation; improve project management by allowing countries to focus on managing fewer projects at a time; build management capacity with early projects; ease the current burden of managing large, complex compact programs; and foster innovation by allowing the agency to pursue more innovative approaches and partnerships that may normally slow down the compact development process.

Concurrent compacts would also have a positive effect on budget predictability and accountability. A key element of the MCC model is the ability to obligate program funding at the point of entry-into-force. This up-front obligation of the full budget over the duration of the compact is consistent with lessons in aid effectiveness, because it allows partner countries to plan and manage development strategies and budgets in a sustained way. It also allows MCC to make large investments in long term infrastructure projects without suffering the cost premiums associated with uncertain project funding. This practice, however, means that MCC must hold large obligated but undisbursed balances. Concurrent compact authority would allow MCC to sign smaller compacts, implement them more efficiently, and thereby reach disbursement targets more quickly.

Another critical change would allow MCC to structure compacts so that, on occasion, individual projects may exceed the five-year limit by a short period. Having definite time frames for MCC compacts is an important best practice for effective foreign assistance, but, in some cases, the most successful projects for poverty reduction are too large or complex to be completed within the mandated five-year period, particularly with MCC's emphasis on recipient-led implementation.

7. **<u>Bilateral vs. multilateral</u>: To what extent do your agencies work with and coordinate with international organizations and multilateral development banks, such as the African Development Bank? What advantages do those**

institutions bring to the table that we are not able to achieve through bilateral programs alone?
Coordination with other development partners is a critical part of leveraging MCC's investments. Multilateral banks such as the African Development Bank (AfDB), Asian Development Bank (ADB) and World Bank (WB) generally have numerous years of experience in the countries in which we work. Therefore, MCC is able to capitalize on their experience in terms of preparatory work (e.g. feasibility studies, project designs, baseline data collection) and dialogue with the institutions on policy reform. For example, MCC is building on the World Bank's policy and institutional reform efforts concerning a major water and sanitation project in Zambia. This creates an improved environment for which MCC's investments can be more productive and sustainable.

MCC has recently signed a Memorandum of Understanding with the AfDB to share project work where it makes sense. For example, if AfDB has completed a feasibility study for which they do not have secured funding, MCC could use that study to develop a project saving time and resources.

8. **Leveraging Public /Private/Diaspora, etc:** The President's new global development policy seeks a shared, cooperative approach among donors so that the U.S. is not shouldering an overwhelming majority of bilateral assistance to poor countries. **How are you achieving this division of labor and coordinating effectively with other donors? Similarly, how are you leveraging partnerships with the private sector, NGOs, foundations, and diaspora communities to maximize our investments?**

MCC has been working with other donors virtually since it was established — expanding the projects of other donors (*e.g.*, the World Bank's Kalahi-CIDSS project in the Philippines), building on foundational project work (e.g., the Asian Development Bank on vocational education in Mongolia) and designs (*e.g.*, the ADB in Mongolia on roads) by other donors, developing coordinated implementation (*e.g.*, the European Bank for Reconstruction and Development, the World Bank, and MCC on the Regional Infrastructure Project in Georgia), and working to extend MCC project impact (*e.g.*, New Zealand Aid Programme and AusAid in Vanuatu). A standard feature of compact development is holding information and coordination meetings with donors in-country to maximize the opportunities to build on and supplement one another's work. Increasingly, MCC is proactively seeking opportunities to divide efforts along lines of cost-effectiveness and skill sets. Other donors are also interested in this approach. Both AusAid and the New Zealand Aid Programme have been actively expressing interest in working with MCC to design a cost-effective strategy for coordinated efforts in the Pacific region.

We are also working to develop a more proactive partnership outreach to the private and nongovernmental sectors. During compact development, MCC solicits input from the private and nongovernmental sector, and representatives of these interests are included in the country-wide consultations. More directly, many MCC programs are specifically designed to promote private sector activity (*e.g.*, credit lines, grants to farmers, training to improve skills and productivity). In addition, there are already a number of examples of engagement with the private sector in investment and management, as opposed to procurement (*e.g.*, El Salvador, Ghana, Jordan, Mali). The Agricultural Business Initiative in Ghana, Mali, and Morocco was designed as a pilot in attracting private sector investment to extend the impact of MCC-funded projects. MCC has recently introduced an Annual Partnership Solicitation, on grants.gov, which is intended – as the name suggests – to solicit interest from the private and nongovernmental sectors in partnership and investment in MCC countries.

We are also working with other USG agencies, including OPIC, USTR, and USAID, to capitalize on opportunities to bring together our respective programs fostering private sector engagement in development. Finally, there have been outreach events focused on diaspora communities, including the Armenian and Salvadoran communities. Engagement with the private and nongovernmental sector, as well as donors and other potential partners, has been identified as among key priorities for MCC now and in coming years.

9. **Country Ownership:** In working with well-governed, accountable partner countries, the Administration has prioritized country ownership as a key component of its development policy, which follows a founding principle of the MCC. **Dr. Shah and Mr. Yohannes, can you give us examples of how local ownership works in real time, and how you are ensuring that the voices of citizens and local civil society are being reflected in participatory, transparent consultative processes? How are you helping to build local capacity in-country so that partner countries can eventually assume full responsibility for their development?**

The premise for MCC's approach to country ownership is that development programs will be more effective and sustainable if they are part of countries' own development strategies. MCC believes that country ownership of an MCC compact occurs when a country's government leads on prioritization of investments, is responsible for implementation, and involves and is accountable to its domestic stakeholders for both decision making and results.

During compact development, country partners take the lead on consultations with citizenry, civil society, the private sector, local authorities and other donors. Consultation is essential for setting investment priorities, designing programs with beneficiaries' needs in mind, leveraging additional resources for increased impact,

and monitoring program implementation. During compact implementation, MCA staff (entities established by governments to implement MCC compacts) is accountable to their Boards of Directors, which usually include both government officials and members of civil society and the private sector. In some countries, additional stakeholder committees are formed to foster ongoing consultation during implementation.

MCC has seen in many countries that this broad-based approach to country ownership has been an essential anchor for MCA programs in times of political uncertainty or transition in countries. For example, consistent implementation of the Honduras program continued despite three national political transitions, including a controversial interim government, because country ownership in Honduras went well beyond the government. Representatives of Honduran civil society and private sector were part of ongoing consultations and served on the board of directors that oversaw the program. Local leaders from different parties brought resources, creativity and energy to the table in program implementation in their communities. The national congress passed laws regarding the financial sector, road maintenance, and resettlement policy that increase the impact and sustainability of our investments. Together, the Honduran people owned and anchored the program through the political transitions. In other countries such as Ghana, Benin, El Salvador and Mongolia, MCC's five-year compacts have stayed the course through political transition because country ownership goes beyond central governments, and stretches from initial planning, through implementation to accountability for results.

Under the MCC ownership model, country counterparts are responsible for implementation of MCC-funded programs. This creates opportunities for staff in MCAs, and the ministries that often serve as implementing partners, to strengthen expertise in areas important for managing development investments. For example, working with government counterparts and local construction contractors to meet international best practices for health, safety, and transparency can make countries more attractive for private investment. MCA and ministry staff can gain five years of experience implementing development programs with high standards for transparency, accountability and results. This can leave a strong and lasting impact on both individual and institutional capacity.

Country ownership is a key principle of President Obama's *Global Development Policy*. Country ownership is also a core tenet of the aid effectiveness agenda promoted through the *Paris Declaration* and *Accra Agenda for Action*. The starting point for MCC's approach to country ownership is the belief that development programs will be more effective if they are part of a country's own development strategy. MCC expects partner countries to identify the principle constraints to investment, growth and poverty reduction, to consult broadly with key stakeholders to better understand those constraints and to prioritize investments to address

them. In this sense, ownership extends beyond governments. These consultations result in programs that have broad public support, ensuring their resiliency in the face of political upheaval, including changes in government leadership and ideology.

Ownership extends through the project development phase into implementation, where MCC partner countries take the lead in all aspects of program management, including establishing and staffing an accountable entity, procuring goods, services and civil works, and providing oversight for all investments. Partner countries establish accountable entities—often referred to as MCAs—that are responsible for program implementation; these entities are staffed by country nationals and are accountable to a board of directors or similar governing body that includes representatives from civil society and the private sector. Typically, partners also establish stakeholder advisory committees designed to represent the interests of project beneficiary groups and ensure regular communication with key project stakeholders. MCC partners also take the lead in managing environmental and social safeguards associated with their investments and in tracking results.

Country ownership is vital to the sustainability of compact investments. Countries are more likely to make difficult policy reforms for programs that are aligned with national priorities, strongly supported by the public and implemented by recipients. They are also more likely to sustain these investments, for example, through diligent operations and maintenance.

Examples of country-driven consultations to develop MCC compacts include:

- **Jordan** created an advisory council of 15 to 20 international, royal and local nongovernmental organizations (NGOs) to advise on the strategy and execution of the country's consultative process. The council helped to recruit participants for regional meetings that took place in each of Jordan's 12 governorates. Following these broad consultations, several private business leaders and NGOs participated in a smaller, multidisciplinary, results-focused project design workshop to provide detailed insights on key problems in the water sector. This workshop actually determined the conceptual design for the projects that Jordan proposed as part of its initial concept paper, which later became the basis for the compact.
- The consultative process for the **Malawi** compact has been ongoing since the initial phases of compact development. The consultative plan was strategically designed to integrate the private sector, other donors, and civil society groups, including NGOs, religious leaders, traditional authorities, university faculty and students, women's groups, and various associations. Consultations with the private sector were particularly fruitful during the program design phase, eliciting private sector feedback on the impact of unreliable electricity on business productivity and suggestions for strengthening the policy, legal, and institutional environment in the power sector to encourage private sector investment. MCC and the Government of Malawi expect that, during the implementation phase, consultations will continue to

play a prominent role in further shaping the program and communicating key program results.

- During compact development, the Government of **Moldova** met with multiple NGOs to discuss constraints to economic growth, including the Foreign Investors' Association, the American Chamber of Commerce in Moldova, the National Confederation of Employers, the "Timpul" Business Club, the gender-focused Center Partnership for Development, and the Independent Analytic Center "Expert-Group." Public and private sector representatives from the agricultural sector, for example, advised on the design of the integrated high-value agricultural project in Moldova's Compact. The Steering Committee of MCA-Moldova, which is responsible now for implementing Moldova's MCC Compact, includes the executive directors from five NGOs.
- During compact development in the **Philippines**, the Philippines core team sought advice from the *Transparency and Accountability Network (TAN)* and *InciteGov*, two umbrella organizations that represent hundreds of grassroots NGOs engaged in anti-corruption and governance initiatives. *TAN* and *InciteGOV* supported national and regional consultations during the compact development process. Constraints and solutions that they identified, such as procurement fraud training, are included in the compact's governance framework. Moreover, at the project level, *Road Watch* held discussions with the Philippines core team and MCC during compact development to ensure that the *Secondary National Roads Development Project* was consistent with the principles adopted for similarly-funded road construction activities in the Philippines. Meanwhile, local farmer organizations and advocacy groups focused on gender participated in consultations regarding Kalahi-CIDSS, offering suggestions for the process of social mobilization and preparation that have been incorporated into this MCC-funded community-driven development activity.

10. <u>Women and Girls:</u> The President's global development policy, the QDDR, and the FY12 budget request all place a premium on the role of women and girls in U.S. development efforts as they are critical to advancing social, economic and political progress. **What are MCC and USAID doing to fully achieve this vision of addressing both women's and men's needs effectively throughout project outcomes?**

MCC has been a leader among USG development agencies in addressing gender inequalities that are constraints to growth and limit women's ability to participate and benefit from MCC's investments, to the point that Women Thrive Worldwide, a leading US gender advocacy group, has stated that MCC's gender policy is "the best in the US Government." Strengthening MCC's work in gender has been a top priority of MCC. A senior advisor was appointed by the CEO to further elevate our gender work as an agency-wide priority; and a Social and Gender Assessment group was expanded, increasing staff from two to five. In addition to our enhanced investments in resources and leadership, the most significant advancement we have

made is adoption of operational procedures and gender milestones that ensure that MCC's Gender Policy is implemented. These include:

- Requiring gender expertise on the teams of our country partners as well as MCC from the earliest stages of compact development.
- Ensuring that significant social/gender constraints are identified before concept papers are submitted to MCC.
- Steps to ensure that social and gender assessment findings are integrated into project feasibility and social impact studies and in detailed project designs.
- Strengthening gender integration in beneficiary analysis and all aspects of monitoring and evaluation, including baseline surveys and impact evaluations.

Requiring a gender integration plan developed by the partner country and approved by MCC prior to the compact's entry into force.

11. Global Development Council: The President's development policy also announced the creation of U.S. Global Development Council, comprised of leading members of the philanthropic sector, private sector, academia, and civil society. **Dr. Shah and Mr. Yohannes, what is the status of this Council? Dr. Shah, how will the work of this Council complement the efforts of your agency's existing Advisory Committee on Voluntary Foreign Aid (ACVFA)?**

The President's Policy Directive on Global Development Policy, signed in September 2010, directs the establishment of a U.S. Global Development Council (GDC) to provide high-level input to U.S. Government agencies in the field of global development. Consistent with the goal of elevating development to advance our national objectives, GDC will reach beyond government and provide greater coherence with non-governmental partners including leading members of the philanthropic sector, private sector, academia, and civil society. GDC is still being developed under White House leadership.

Questions for the Record Submitted to
Administrator Rajiv Shah by
Congressman Payne
House Committee on Foreign Affairs
March 16, 2011

Question #1A:

Feed the Future: Nearly two years ago, the administration announced the Feed the Future Initiative (FTF) and pledged $3.5 billion over three years to address the needs of small scale farmer and agribusinesses. **How does the FY2012 budget request for Feed the Future align with the President's pledge? What is the status of implementation?**

Answer:

At the G-8 Summit in July 2009, the President pledged to provide at least $3.5 billion over the next three years (FY 2010 to FY 2012) to attack the root causes of global hunger through accelerated agricultural development and improved nutrition. The USG commitment leveraged more than $18 billion in support from other donors, creating the financial capacity to significantly reduce the number of people living in extreme poverty and suffering from hunger and undernutrition. The President's FY 2012 budget requests $1.4 billion for State/USAID and Treasury to meet the President's pledge.

In the past two years, Feed the Future implementation has progressed rapidly. In the field, USAID and Walmart signed an agreement to support small rural farmers in Central America and connect them to the retailer's regional and international supply chains. In West Africa, USG investments in food security facilitated a 5% increase in intra-regional trade in three value chains—maize, onions, and livestock by strengthening market information systems, holding trade-related events, and providing technical assistance to producers, trader organizations, and agriculture-related firms. In line with the objectives of the Administration's food security initiative, the USG supported the creation of the Global Agriculture and Food Security Program (GAFSP) trust fund to provide an additional, unified source of financing to support sustainable food security strategies of those developing countries which demonstrate their commitment to addressing the food security needs of their population. U.S. contributions to the GAFSP are leveraged by significant contributions from other donors.

To coordinate Feed the Future implementation, USAID established the Bureau for Food Security. USAID has already planned interagency strategic reviews of all Feed the Future focus country implementation plans. Representatives from the Departments of State, Agriculture, and Commerce, the Millennium Challenge Corporation, U.S. Trade Representative, the Overseas Private Investment Corporation, Peace Corps and the U.S. African Development Foundation discussed and provided feedback to USG country team presentations before final strategy submission. To date, the interagency has approved 6 of 20 multi-year country implementation strategies and expects to complete all approvals by May 2011.

Question #1B:

There have been some concerns raised that the FTF process, to date, has lacked significant civil society and community consultation in the FTF-target countries. **What has been the level of civil society and community consultation?**

Answer:

The focus of Feed the Future—and USAID Forward, the Agency's ambitious reform effort—in our priority countries is to support and strengthen country-led and country-owned efforts to stimulate agricultural growth, improve nutritional outcomes and sustainably reduce food insecurity. These efforts include increasing the participation and support of a wide range of local institutions and stakeholders from the private sector and civil society. While significant progress has been made in terms of the engagement of local farmer groups and associations, the participation of other local civil society and community groups has varied greatly among focus countries. Civil society and community groups have an important role to play in advocating for grassroots solutions to complex food insecurity issues. For this reason we are encouraging USAID Missions and Embassies to reach out directly to civil society to identify constraints to their broader participation—or recognition—in country-led food security efforts. We are including local civil society institutions in our capacity-building efforts, and, in Africa, we have pledged to work with the CAADP "Non-State Actor" working group in 10 countries to implement the AU-NEPAD guidelines for civil society consultation and engagement. We are also consulting with our own non-governmental partners to determine whether there are specific opportunities for partnership in countries where agriculture may have a potential to create or increase space for civil society on issues like the legal enabling environment and policy advocacy.

Question #1C:

Lastly, there are various efforts in sub-Saharan Africa, both multilaterally and bilaterally, to increase investments in agricultural development and food security. **How does FTF coordinate and collaborate with ongoing programs to avoid duplication and waste?**

Answer:

One of the key principles of Feed the Future is to support country-led agriculture and food security efforts, including the development of country-owned food security strategies and investment plans. In sub-Saharan Africa, this support is provided within the framework of the Comprehensive Africa Agriculture Development Program (CAADP), a continent-wide, African Union-led commitment to agriculture that is changing the way governments, donors, private sector and other stakeholders invest in agriculture and food security. At least 22 CAADP compacts and 18 CAADP Country Investment Plans have been developed in Africa. These compacts and investment plans define evidence-based agricultural and food security roadmaps for achieving the Millennium Development Goal of halving poverty and hunger, and provide country-specific frameworks for all new and ongoing investment in agriculture and food

security, including bilateral and multilateral assistance. The USG, other bilateral donors, international organizations like the Food and Agriculture Organization (FAO) the International Fund for Agriculture Development (IFAD), and the World Bank (including the GAFSP—the Global Agriculture and Food Security Program) are deeply committed to coordinating and aligning their investments in support of these compacts and investment plans, and this is accomplished through development partner working groups at both the country and regional level, and the CAADP Donor Partners working group at a headquarters level. Feed the Future also collaborates with other U.S. agricultural programs, such as Food for Peace, to ensure efficiency and greatest impact at the country level.

Question #1D:

Also, how is the USG prepared to respond to the 1 billion hungry people (current, popularly quoted figure), if food prices escalate and the U.S. International Affairs budget is cut? Will Feed the Future commitments be honored?

Answer:

We are concerned about the impact that rising prices have on vulnerable people, and we are watching food prices closely and working with the international community to respond appropriately. World food prices have been increasing over the past six months due to strong global demand and weather-related production losses. Escalating food prices in 2007-2008 are thought to have sparked demonstrations and violence in more than 25 countries. Rising food prices, particularly when combined with high fuel prices, can rapidly undermine a household's purchasing power and undermine a household's asset base—pushing the already poor closer to destitution and forcing the near poor below the poverty line. Rising fuel prices also have an inflationary effect on food prices by increasing the cost of agricultural inputs, including the transportation of commodities.

The recent rise in food prices has meant an increase in the cost of foods purchased for global food assistance programs, including the USAID-administered Food for Peace (FFP) Title II emergency and non-emergency programs. Title II food costs have increased 42 percent over last year's level and prices for wheat and sorghum, which typically account for 63 percent of all our food purchases, have increased by an average of 48 percent. We estimate that these price increases have reduced Title II purchasing power by approximately 19 percent so far. Should food prices maintain their current levels, or continue to rise, this decrease in purchasing power could result in a decrease in available Title II food aid. The food aid provided by USAID is a life-saving measure for millions of vulnerable people overseas. Any reduction in the budget will only put further lives at risk.

Non-emergency humanitarian programs (including Food for Peace Title II programs) aimed at increasing the resilience of vulnerable households and communities, improving nutrition, and accelerating the participation of the very poor in rural growth, will continue to be the backbone of U.S. government food aid. Our emergency response programs, including our significant support to the UN World Food Program (WFP), will continue to mitigate the immediate, life-threatening impacts of hunger.

However, the U.S. government food aid programs are not enough to address food insecurity. In addition to the development and humanitarian support provided through Title II food assistance programs, Feed the Future, the U.S. government's global hunger and food security initiative, renews our commitment to invest in long-term and sustainable reductions in hunger and poverty. Together, the humanitarian assistance and Feed the Future programs will be coordinated to ensure that these resources have greater impact.

Supporting the President's commitment to the G-8 in July 2009, the FY 2012 Feed the Future Budget for State/USAID and Treasury continues this commitment by requesting $1.4 billion in funding to:

- Assist countries in increasing productivity and developing stronger commercial markets to lower food costs for both rural and urban populations. This stabilization of food markets will reduce poverty and contribute to greater political and economic stability.
- Increase farmer incomes by enabling them to shift to higher-value crops and to diversify their economic activity.
- Promote a better investment environment so that more diversified products and enterprises can translate into more vibrant regional trade and stronger trading partnerships with the United States. This will result in economic benefits to both the U.S. and its developing nation partners.

The FY 2012 Feed the Future budget also includes $109 million for economic resilience programs that are targeted towards "vulnerable but viable" rural communities in areas with high concentrations of chronic hunger. Aimed at meeting both humanitarian and development objectives through expanded support for productive rural safety nets, livelihood diversification, microfinance, and savings, these programs will reduce the vulnerability to short-term production, income, and market disruptions.

By increasing funding to agriculture while maintaining a robust humanitarian response, the Administration is addressing both the symptoms and causes of hunger and food insecurity including mitigating the adverse impact of episodic food price increases. Reducing funding to either at the expense of the other will undermine efforts to change what is otherwise a precarious, hungry, and unstable future for the developing world. Adequate levels of funding now for both short- and medium-term objectives will help to ensure that developing partner countries shift from being dependent on international assistance to becoming strong and stable trading partners.

Question #2:

Food Security in Africa: Increasingly, extreme weather events threaten food security in Africa. Innovative, agricultural risk management tools can help build food security and reduce the impact of unexpected crises. **The World Food Program has experimented with crop insurance and now has introduced a new software platform called "RiskView" to monitor weather-related food security risk in Africa. Is USAID a partner in these new innovations and, if so, what role is the Agency playing?**

Answer:

Evidence shows that uninsured risk can create and sustain poverty and food insecurity, especially amongst low-wealth agricultural and pastoralist households. The World Food Program's and others' efforts to identify viable insurance mechanisms for small farm holders is a response to this evidence.

USAID has a number of activities underway to test the efficacy and viability of insurance mechanisms for poor small-holders, to compile best practice guidelines on development-oriented insurance products, and build the capacity of local stakeholders to promote insurance markets and manage risk in low income countries. USAID intends to support WFP's effort to roll out an insurance premium-for-work type program that they originally piloted in Ethiopia. Through its Assets and Market Access Collaborative Research Support Program, USAID is also supporting the "I4 Index Insurance Innovation Initiative". This is a collaborative initiative that launches pilot index-based insurance programs and creates a network of subject experts for shared learning and the identification of best practices. The goal of the I4 is to discover whether, when and how index insurance can reliably transfer risk from low-wealth smallholder households, reducing their vulnerability to the economic impacts of climatic shocks. In addition to the pilots already being undertaken in Kenya and Peru, the I4 has added six more projects in Feed the Future countries in Africa, Asia and Latin America. Pilots have been strategically selected to represent a diversity of agro-ecological, economic and social environments. Each program will directly impact at least 5,000 small scale agricultural or pastoralist households, and will be designed to assure local scale up and dissemination and global learning.

"Risk View," or Agricultural Risk View (ARV), is an analytical software tool that might be used by an insurance mechanism. USAID is participating in a technical "peer review" of the new tool, together with the European Commission's Joint Research Centre. Once the review is completed, we will be able to make an assessment of the potential value of the ARV software tool, as opposed to a variety of other potential tools that could be used to initiate potential pay-outs from a pooled agricultural weather risk insurance fund.

Question #3A:

Global Health: U.S. investments in global health account for only one-quarter of 1% of the U.S. budget and they save literally millions of lives each year. These global health programs (through the President's Global Health Initiative, bilateral AIDS funding for PEPFAR, and the Global Fund to Fight AIDS, Tuberculosis and Malaria) represent a high-impact investment, advancing American security, diplomatic, and humanitarian objectives. The Administration's Global Health Initiative (GHI), along with the highly successful and bipartisan President's Emergency Plan for AIDS Relief, have set the standard for global health prevention and treatment programs. Yet the House passed Continuing Resolution, H.R. 1, proposes cutting GHI by 18 percent from the 2011 request and PEPFAR nearly half a billion dollars below the actual FY2010 levels. **Dr. Shah, can you quantify what these cuts will mean in terms of the number of people who won't receive life-saving HIV/AIDS treatment? With these funding**

levels, will we be able to reach the goal of preventing more than 12 million new HIV infections?

Answer:

As you know, H.R. 1 was not enacted, and we are pleased that the final bill provided FY 2011 funding levels for PEPFAR that were close to the FY 2010 enacted levels. Had H.R. 1 been enacted, the proposed total reduction of $513 million from the FY 2010 enacted levels for GHCS-State, including the Global Fund, would have represented a 9.6 percent decrease from the FY 2010 enacted levels for that account. Bilateral HIV/AIDS funding in the GHCS-State account would have been cut by 7.9 percent from the FY 2010 level, or $363 million. We estimated that this cut would have resulted in our not being able to provide lifesaving treatment to about 400,000 people as planned, nor to provide care and support to about 500,000 people infected and affected by HIV/AIDS, including nearly 300,000 orphans and vulnerable children. It would also have meant that approximately 100,000 fewer pregnant women would have received prevention of mother-to-child HIV transmission (PMTCT) services, and would result in approximately 20,000 more infants being born HIV-positive. By limiting PEPFAR's PMTCT efforts, along with constraining our ability to engage in broader prevention activities, these cuts would have jeopardized PEPFAR's work to prevent the spread of HIV around the world.

Question #3B:

Also, the proposed increases for maternal and child health programs as well as for the Global Fund to Fight AIDS, Tuberculosis and Malaria are welcomed. However, there are concerns that more must be done to sustain pledges already made by the U.S. government, including bilateral HIV/AIDS programs under PEPFAR, which are being straight-lined from FY2012 levels. **Dr. Shah, how does the administration intend to meet its PEPFAR commitment if bilateral funding is not being increased?**

Answer:

Despite challenging budgetary times, the requested budget for PEPFAR bilateral programs for FY 2012 is an increase from FY10 enacted levels. The budget continues the successful PEPFAR program launched with bipartisan support by the Bush Administration. We have made the commitment to reach more than 4 million people on treatment, more than 12 million with prevention, and more than 12 million with care. Through PEPFAR's partnerships with countries, other donors, and community and faith-based groups, we will leverage these commitments into reaching millions more with needed services.

Question #4:

African Diaspora: As you may know, the African Diaspora constitutes a growing economic force for the U.S. economy. Given the high level of expertise among the entire Diaspora, mobilizing a small fraction of these capacities would provide a significant contribution to the

development efforts in Africa and turn the "brain-drain" issue into a "brain flow". As of 2008, African American economic power had increased to $913 billion and is expected to rise to $1.24 trillion by 2013. According to the World Bank, documented remittances to sub-Saharan Africa are about $10 billion but could be as much as $40 billion. I am cosponsor of a bill, H.R. 656 introduced by Congressman Bobby Rush of Illinois, that would leverage the expertise and resources of the African Diaspora, other global citizens, and institutions to mobilize financial, human, and material resources for capacity building and sustainable growth in Africa. **Dr. Shah, what is USAID doing to leverage the African Diaspora, both in terms of recruiting direct hires and leveraging remittances for development on the continent?**

Answer:

Diaspora members are major stakeholders and potentially powerful actors in international affairs and foreign assistance. Through influence and remittances, they play a critical role in the development of their home countries by building partnerships and economic opportunity, increasing access to services, consolidating democracy and good governance, and increasing local capacity.

Remittances have outstripped official development assistance in recent years and demonstrate the financial commitment of diaspora groups to their home communities. In June 2009 USAID partnered with Western Union to launch the African Diaspora Marketplace (ADM) competition to encourage U.S.-based African diaspora members to propose new or expanded businesses that would create jobs and economic opportunity in Africa. ADM received 733 applications—twice the expected number—in just 60 days, and winners received grants of $50,000 to $100,000 to match their own funds to support the execution of their business plans. Winning entries ranged from a commercial plant tissue culture business that uses biotechnology to increase yield and quality of produce for Ethiopian agriculture producers, to a franchise business model that will empower female nurse entrepreneurs to improve access to healthcare and reduce the burden on government hospitals in Ghana.

The ADM pilot has generated a great deal of interest, both inside and outside the U.S. Government. The ADM has attracted private investors and donors interested in providing other resources to ADM applicants. The National Security Staff and Department of State have requested information on adapting the model, and the African Development Bank, International Fund for Agriculture, and the World Bank have asked to collaborate with USAID, which is eagerly responding to these requests.

With regards to hiring, and as part of USAID Forward reform efforts, the Agency is exploring ways to better leverage the extraordinary and diverse human resources available both inside and outside the federal government. USAID direct hires must be American citizens and must take part in a competitive and equitable hiring process. Diaspora members are encouraged to explore these options, including the Development Leadership Initiative.

Question #5:

Education: The education strategy you have just released makes a strong case for why we need to do more in terms of eradicating illiteracy and educating children in conflict countries, and putting the issue squarely in the context of economic growth and democratic governance. You have also set some important and ambitious goals, such as improving reading skills for 100 million children in the primary grade by 2015, and increasing access to education for 15 million children in conflict zones by 2015. Obviously, these goals implicate real resources. **Can you speak to how this strategy will be supported in the context of the Administration's FY12 budget request?**

Answer:

We expect that all of our basic education programs will align against our ambitious new goals as soon as possible, but by no later than FY2013. Because of previous commitments, some projects will need time to transition out of current activities, but we anticipate that by FY 2012, the vast majority of basic education funds will be programmed in support of our new goals. Any cuts in funding below current request levels would reduce USAID's ability to meet these targets.

Question #6A:

Humanitarian Assistance: The House passed CR, HR 1 cuts the International Disaster Assistance account by approximately 67%, the Migration and Refugee Assistance account by 45%, and global food relief by 41% relative to FY10 enacted levels. **Can you outline what impact cuts of this magnitude would have on the ability of USAID's Office of U.S. Foreign Disaster Assistance (OFDA) to respond to natural disasters and conflicts overseas?**

Answer:

The proposed reduction to the IDA account in HR 1 would have crippled USAID's ability to respond to disasters overseas and resulted in major program cuts or closures. Indeed, our ability to lead rapid, robust USG responses to major disasters, such as the recent earthquake in Japan and complex crisis in Libya, would have been severely weakened. OFDA would have been forced to consider eliminating funding for one of its two Urban Search and Rescue Teams, and/or closing one of three warehouses where emergency relief supplies are pre-positioned for rapid response.

In addition, such a reduction, if enacted, could have negatively impacted more than 10 million USAID beneficiaries in critical countries. For example, programs in Sudan, Somalia, Pakistan, Haiti, Yemen, or the Democratic Republic of the Congo, as well as other locations worldwide, might have been cut.

The following are examples of the types and magnitude of program cuts OFDA would have been forced to consider.

- In the Darfur region of Sudan, 6.5 million internally displaced persons (IDPs) might have gone without critical health services; more than 92,000 individuals could have lost access to clean water and sanitation facilities; 290,000 children malnourished children may not have received treatment; emergency distribution of basic supplies for 600,000 people could have ceased; and 21,000 displaced people may not have received emergency shelter.
- In Pakistan, up to two million malnourished women and children in flood-impacted areas of Southern Punjab and Northern Sindh may have lost access to treatment.
- In Haiti, 1.2 million beneficiaries of water, sanitation, and hygiene programs; 3.3 million people relying on OFDA health programs; and 350,000 people in need of shelter assistance would have been without this critical support. In addition, hurricane preparedness programs and supply pre-positioning throughout the region may not have been adequate.

Globally, disaster risk reduction programs in numerous countries would have been eliminated or severely reduced. These programs save lives and can reduce the costs associated with responding to disasters through the development of early warning systems and strengthening local community and government capacity to prepare for and respond to disasters.

For example, in November 1970, 500,000 people in Bangladesh were killed by the deadliest tropical cyclone ever recorded. In April 1991, another devastating cyclone hit Bangladesh, killing approximately 135,000 people. Shelters and evacuation procedure implemented after the 1970 storm were credited with reducing the loss of life. Following the 1991 cyclone, humanitarian agencies, including USAID, again instituted a number of disaster risk reduction measures. In December 2007, a storm of similar size and strength hit Bangladesh, killing no more than 3,500 people. The immense reduction in loss of life was again credited to the pre-storm efforts, many of which were funded by USAID.

Question #6B:

What impact would it have on areas of strategic importance to the U.S. including Sudan, Somalia, Afghanistan, Pakistan, Haiti and elsewhere?

Answer:

The proposed reduction would have had a devastating impact on OFDA's programs in the countries in question, which could have resulted in major program cuts or closures. The following are examples of the types and magnitude of program cuts USAID would have been forced to consider if H.R. 1 had become law.

- In the Darfur region of Sudan, 6.5 million internally displaced persons (IDPs) might have had to go without critical health services; more than 92,000 individuals could have lost

access to clean water and sanitation facilities; 290,000 children malnourished children may not have received treatment; distribution of basic emergency supplies for 600,000 people could have ceased; and 21,000 displaced people may not have received emergency shelter.

- In Southern Sudan, USAID could have potentially cut in half the number of people it plans to help return and reintegrate to the South after the referendum, from 300,000 to 150,000. This would have increased the possibility of violence over scarce resources and destabilization of the Government of Southern Sudan resulting in a new humanitarian crisis in the South.

- In Somalia, vaccinations and basic health services for approximately 1.1 million children and pregnant women, as well as therapeutic feeding programs for 144,000 malnourished children, would have been adversely impacted. The then proposed budget reduction could have prevented the provision of clean water, latrines and education on proper sanitation practices to over 150,000 individuals. In addition, the proposed funding constraints could have suspended the food security and nutrition early warning system that policy makers rely on to make informed decisions regarding the humanitarian situation in Somalia.

- In Afghanistan, the proposed budget reduction could have prevented the provision of an estimated 320,000 humanitarian services to beneficiaries in critical life-saving assistance sectors including shelter and settlements, water, sanitation and hygiene, emergency relief commodities, nutrition, health, agriculture and food security, and economic recovery and market systems.

- In Pakistan, up to two million malnourished women and children in flood-impacted areas of Southern Punjab and Northern Sindh could have lost access to treatment. Additionally, planned disaster risk reduction programs in Pakistan might have been eliminated.

- In Haiti, 1.2 million beneficiaries of water, sanitation, and hygiene programs; 3.3 million people relying on OFDA health programs; and 350,000 people in need of shelter assistance would have been without this critical support. In addition, USAID hurricane preparedness programs and supply pre-positioning throughout the region could have been inadequate for the upcoming hurricane season.

- A $235 million cut in Food for Peace Title II assistance, as originally proposed, (a 14% cut from the FY 2011 request of $1.69B) would have required reductions in the largest emergency food aid programs, to include Sudan, Ethiopia, Afghanistan, Pakistan, Libya and the Ivory Coast.

Question #6C:

What impact would the cuts to food aid have on the survival of vulnerable people around the world?

Answer:

A decrease in Food for Peace Title II funding would significantly decrease the delivery of U.S. food aid to people in need around the world. The food aid provided by USAID is a life-saving measure for millions of vulnerable people overseas, and any reduction will only put further lives at risk.

The proposed cuts in H.R. 1 would require reductions in the largest emergency food aid programs, to include Sudan, Ethiopia, Afghanistan, and Pakistan, and up to 15 million people might not receive life-saving assistance. This reduced funding would also come at a time when more U.S. food aid will be needed in the Horn of Africa where people are facing a new drought and in Pakistan, where many people continue to recover from floods and are still displaced from their homes due to insecurity.

The price to provide food aid has risen over the past year as well—commodities most commonly purchased for the Title II food aid program are up 40 percent when compared to the FY 2010 average. This price increase has diminished USAID's purchasing power by 20 percent, reducing the amount of food aid USAID can purchase to ship overseas.

Question #7:

Rights-based development: Development initiatives intended to spur the overall economic growth of states do not always take the needs of individuals or vulnerable communities, such as children, women, persons with disabilities or indigenous peoples, into consideration. In order to ensure that the needs of the most vulnerable people are addressed, has USAID mainstreamed a human rights based approach to development? If not, does USAID intend to do so?

Answer:

USAID has historically placed great emphasis on addressing the needs and interests of vulnerable populations, and our development work is based on principles of local participation, transparency and accountability that are consistent with a rights-based approach. For example, we have mainstreamed gender concerns throughout the agency, including requiring attention to gender issues in every USAID-funded project. Similarly, USAID has institutionalized the inclusion of people with disabilities in our development efforts. USAID's disability policy, set forth in 1997, was strengthened in 2004 and 2005 with additional directives mandating broad-based inclusion and accessibility in USAID-financed construction. References to the UN Convention on the Rights of Persons with Disabilities, which the U.S. signed in 2009, is being

written into our policies and USAID now employs a full-time disability advisor in our policy office. Finally, under our Special Programs to Address the Needs of Survivors, we have a dedicated team that designs and supports programs that specifically address the mainstreaming of vulnerable groups, including vulnerable children, survivors of torture and conflict, and persons with disabilities within our development work.

While these are just a few of many examples where USAID programs consider vulnerable communities, we realize that more needs to be done. We have taken to heart Secretary Clinton's call for a "rights-respecting" approach to development, and will elevate democracy, human rights and governance as a critical development goal for the Agency. To this extent, the Agency has recently approved an initiative to draft new policies in 2011 which aim to elevate gender equality and governance, human rights and democracy. USAID intends to strengthen the integration of democracy, human rights and governance not only across all of our sectors, but also within the Presidential Initiative areas, which will contribute to more rights-based approaches in USAID programs. In addition, as part of its commitment to reinvigorate its effort to combat trafficking in persons, USAID is designing a field guide for USAID officers in the field to combat trafficking based on a victim-centered, human rights-based approach.

Question #8A:
What progress are you making in developing goals, benchmarks and timetables for measuring progress towards achieving the goals outlined in the framework?

Answer:

The Department of State and USAID are in the process of establishing measurable goals, benchmarks and timetables for water and sanitation aid as required by the Paul Simon Water for the Poor Act of 2005.

Towards that end, the Department of State and USAID established a Water Steering Group. USAID expects to complete a draft water and development strategy in June that includes specific goals for our global water programs. A joint DOS/USAID water strategy will follow the USAID water strategy.

Question #8B:
Dr. Shah, do you have a sense of when a strategy will be complete that meets the requirements of the legislation? How will you ensure that USAID is clearly addressing the mandates and scope of the Water for the Poor Act when making your budget requests for water and sanitation?

Answer:

USAID expects to have completed a water development strategy in June 2011 which will further enable USAID to meet the requirements of the Senator Paul Simon Water for the Poor Act. Water is an important sector for USAID and we recognize that it is a part of the foundation for

success in both broader sustainable development and the three Presidential Initiatives – Feed the Future, Global Health, and Climate Change.

Question #9:

Elections and Democracy Building: The political standoff in Cote d'Ivoire, pre-election violence in Nigeria, reports of electoral unpreparedness in the DRC, and popular uprisings in north Africa, highlight the roadblocks to democracy that Africans face across the continent. It is well known that new democracies with fragmented, fragile political systems are at high risk to relapse into conflict. For example, according to many in the think tank and NGO community, after the Congolese national elections in 2006, the U.S. and other concerned states made a fundamental mistake by scaling down democracy, governance, and intense political engagement activities in the country in 2007 and 2008. As a result of this international disengagement and extremely poor governance within the Congo, the country began to drift. Conflicts broke out again in the East, and there was a lack of progress in consolidating state institutions to provide a basic minimum of security, justice and other basic state services. In another example, we saw the significant positive impact that occurred when the U.S. and international community came through to support the electoral process in South Sudan this January. Yet we know that successful elections are not the end, but only the beginning for Sudan. **What is USAID doing to support free and fair elections--- and democratic institution building between elections-- across Africa?**

Answer:

USAID's approach to supporting elections and political processes is based on the belief that elections are part of a process rather than an event and are essential to holding government officials accountable to citizens. As a result, USAID's election support programs aim to cover the entire election cycle, from technical assistance in drafting sound election laws and implementing political party finance reforms, through pre-election voter registration and education, to the administration and monitoring of elections themselves, and increasingly, to the resolution of post-election disputes.

With partners such as the National Democratic Institute, the International Republican Institute, the International Foundation for Election Systems, Search for Common Ground, and Freedom House, we are currently working to prepare for the next cycle of elections in numerous African countries, including Nigeria, Liberia, Democratic Republic of the Congo (DRC), and Kenya.

Through its assistance, USAID has also supported the incremental progress toward successful democratic transitions across Africa. Twenty years ago, Freedom House characterized only four African countries as electoral democracies; that number has risen to 18 today. Although all of these countries still face challenges to consolidating democracy, the overall long-term trend of democratization is one of steady progress.

For example, with USAID support, Ghana held its successful, fifth consecutive democratic presidential and parliamentary elections in December 2008 and solidified its role as a democratic leader in Africa. Since then, USAID has worked with grassroots civil society organizations and local district governments to improve the quality of governance and the availability of services for Ghana's population—as well as assisting the Government of Ghana in preparing for the sound management of newly discovered offshore oil and natural gas.

More recently, again with substantial support from USAID, in 2010 Guinea held its first credible presidential election in its history. As the second largest donor for elections in Guinea, USAID played an integral role in shaping this positive outcome. With a democratic government now in place in Guinea, USAID intends to support key political and institutional reforms that will strengthen the new system during this difficult transitional period, while reaching out to civil society organizations and other nongovernmental actors to help address Guinea's critical development challenges.

In the DRC, USAID efforts support formal peace negotiations in conflict-prone provinces, informal community reconciliation and healing, reduced suffering for hundreds of thousands of displaced war refugees, and is currently working to capacitate justice sector institutions to allow them to respond to horrific levels of gender-based violence. There are numerous challenges to upcoming elections in the DRC, including a weak and fractured opposition, limited infrastructure, incomplete voter registration and national identification processes, and ongoing conflict in the east. Previously, USAID assistance was instrumental in supporting the successful implementation of the Global and Inclusive Peace Agreement that culminated in the democratic elections of President Joseph Kabila. Today, donor resources are not as robust as they were during the 2006 presidential elections. Nevertheless, USAID is coordinating with UN agencies and other international donors to prepare. Multilaterally, USAID continues to fund MONUSCO, the UN peacekeeping operation, which is providing substantial logistical and technical support for the elections stakeholders. Complementing the $163-million election assistance basket fund managed by the UN Development Program, USAID is focusing on its recognized strength in promoting civic education through a $6.4-million two-year program to inform and enable citizens to register and vote in the elections, promote women's participation, and help to resolve election-related disputes. The program is expected to reach more than 8.2 million voters across the DRC's provinces. While the upcoming elections are critical for the country's future, they are only part of a broader transformation process, thus USAID's governance portfolio of approximately $18 million in FY 2010 takes into account the DRC's other democracy and governance priorities including support for critical governance institutions.

As these examples illustrate, elections alone do not make a democracy or even assure democratic transformation. That is why USAID also works to strengthen the rule of law, improve governance, support a dynamic civil society, protect human rights, and promote a free and independent media—interrelated elements that create the foundation for long-term democratic change. Recognizing that long-term improvements in health, education, economic growth, and the environment ultimately require responsive and representative governments, USAID also promotes the key role of good governance in other areas of development, including food

security, health, and climate change. USAID is funding programs related to democracy, human rights, and governance across the continent. Funding in FY 2010 totaled $311 million.

Question #10A:

In many regions, environmental degradation and natural resource exploitation are directly related to conflict. For example, water rights is a key to understanding power dynamics in tribally-controlled areas of Pakistan and unregulated mining of valuable minerals in Congo helps fund rebel groups and government militias. **What progress has been made to incorporate environmental sustainability practices into all aspects of development assistance?**

Answer:

USAID incorporates environmental sustainability into development assistance in several ways:

- USAID has policies, regulations, and procedures requiring environmental impact assessment and mitigation early in the design phase of every project followed by monitoring and adaptive management throughout implementation. This process is overseen by a small and dedicated group of professional environment officers.

- The Agency integrates environmental sustainability as regular components throughout its programs. For example, in our Feed the Future and Climate Change Initiatives, soil and water conservation are integral aspects of agricultural productivity, and farmer-led efforts to incorporate agro-forestry and rainfall capture techniques are very cost-effectively increase soil fertility without application of expensive fertilizers, and make them more efficient when they are used. USAID is the pioneer in sustainably funded integrated watershed management programs to conserve forests that serve as sources of drinking water for major cities, catchment for hydropower and other uses.

- All of our country plans and strategies include analysis from country-wide biodiversity and tropical forests. Many go beyond this basic standard to bring broader environmental sustainability into their programs through sector-wide Environmental Threats and Opportunities Assessments (ETOAs).

- USAID has developed core competency requirements for our officers and provides internal training to meet these requirements in environmental compliance, environment and natural resource management, land tenure and property rights, conflict management and mitigation, and water. In 2011, a special training module was designed and implemented that integrates all of these sectors to address situations of conflict over natural resources where land tenure and other resource property rights can be both a source of conflict and a solution.

- USAID also understands that insecure land tenure and resource property rights, conflict, and environmental degradation are intimately linked and the Agency is increasingly

supporting programs to improve land governance systems and strengthen the land and property rights of individuals and communities. USAID helps: a) reduce ambiguity, conflict, and instability surrounding land and property; b) create incentives for local people to conserve and protect valuable resources; c) increase economic opportunities and trade; and, d) provide local communities with opportunities to build the capacity to govern themselves as well as their resources.

- An example of our success is our conflict diamond project, where USAID is helping artisanal diamond miners to formalize their customary property claims through a process of community validation for the State Department's Kimberly Process work. In our main demonstration country, the Central African Republic, we reduced artisanal diamond mining land disputes in the project's two prefectures from 142 to 4 in the past two years.

- In the Democratic Republic of the Congo, the Central Africa Regional Program for the Environment operates in seven different large-scale landscapes, and the land use planning activities directly address the issue of conflict related to natural resource use. For example, in the Ituri Landscape in Eastern DRC, our partner, the Wildlife Conservation Society, has teamed up with the development NGO PACT using USAID funding to engage in participatory land use planning among diverse stakeholders including indigenous groups, refugees, miners, loggers and demobilized soldiers. Participatory planning leads to consensual decisions on land use zoning designating geographic areas most appropriate for protected areas, agriculture and livestock, and logging in order to make rational land use decisions that maximize both environmental conservation as well as poverty reduction. These efforts include commercialization of their production and linking them to domestic, regional and international markets.

Question #10B:

What can USAID do to promote land rights and responsible use of natural resources?

Answer:

USAID is currently working in more than 25 countries to clarify and strengthen land tenure and property rights and to support efforts that promote transparency, affordability, and accountability in land governance systems. We recently expanded our world class professional staff in this sector from one to four and expect to add a fifth expert later this year.

Over the past ten years, USAID has led the development of an innovative strategic approach for analyzing land tenure and property rights challenges and developing programmatic solutions that strengthen access and control over land and other resources. Addressing land and resource rights is essential for promoting economic growth and trade, enhancing the climate for doing business, encouraging good governance, mitigating conflict, fostering better natural resource management, and reducing the spread of HIV/AIDS. Other donors including the World Bank have adopted components of this Framework.

In Kenya, USAID is working with the Kenyan Ministry of Land and the Kenyan Wildlife Service to strengthen the land tenure and property/resource rights of local indigenous communities in order to improve their economic opportunities and support biodiversity conservation. In Uganda, USAID is working to improve dispute resolution mechanisms, dialogue, and joint monitoring of resources by pastoralists and others who have, for decades, experienced repeated violent conflict over land and property which, in turn, contributes to resource degradation. And in Ghana, USAID is supporting a project to help the working poor acquire cost-effective paralegal titles and low-cost housing finance products.

USAID maintains a web-based knowledge management database on land tenure and property rights programs and practice at http://usaidlandtenure.net which includes policy briefs on key tenure issues, practical tools for development professionals, videos, and country profiles outlining key land tenure and property issues in 62 countries at http://usaidlandtenure.net/usaidltprproducts/country-profiles. These tools and data are a significant contribution to understanding theory and practice in land tenure, property rights, and resource governance in development.

USAID's Senior Tenure Specialist is leading the United Nations' multinational working group developing voluntary guidelines for responsible land investments. The need for guidelines was evident during the food price crisis in 2008 and subsequent large-scale land acquisitions by multinational companies and foreign governments for production of food and biofuels. Concern regarding the potential for poorly framed concessions to expropriate land from local communities and smallholder farmers as well as small-scale entrepreneurs underscored the need to establish guidelines that would ensure responsible land investments.

In addition to the fundamental issue of land and other resource property rights, market-based economic incentives can make major contributions to increasing the responsible and sustainable management of natural resources. These can include reducing perverse incentives for over-exploitation (such as improperly modulated subsidies for pesticides and energy that stimulate excessive water pumping and pollution, or awarding land tenure for clearing forests), as well as adding positive incentives for resource conservation and management, such as clearly defined and conditional payments for environmental services such as:

- Watershed management and carbon sequestration provided by forests (past successful USAID projects are in Ecuador, Madagascar, Kenya, Vietnam; current ones are underway in Malawi, Cameroon, Ghana, Cambodia, Nepal, Brazil, Colombia, Guatemala)
- Protection of wildlife nesting grounds and migration corridors by tourism concerns, or *Wildlife Friendly*™ and other certification programs for companies that market natural products and work closely with communities to both produce them and manage the ecosystems that provide them more sustainably (examples include projects in Kenya, Tanzania, Zambia, Madagascar, Colombia, Ecuador, Nepal, Cambodia, and Russia)

Question #10C:

How are current conservation and environment projects tied to promoting political and social stability?

Answer:

USAID recognizes that social stability and sound governance are essential for conservation and environmental sustainability, and vice versa. USAID's environmental and conservation programs are built around a three-pronged approach that integrates environmental sustainability, improved livelihoods, and resource governance through civil society – what we call Nature, Wealth, and Power. This innovative and now tested approach is the foundation of USAID's flagship biodiversity conservation support project – Sustainable Conservation Approaches in Priority Ecosystems project – as well as key regional and country programs. USAID recognizes that sound natural resource management is a highly effective platform to promote improved governance and stability as it engages local actors in actions that directly impact their livelihoods and rights. Programs that start with community-based conservation often lead to empowerment of communities to strengthen platforms for local governance and broader economic development efforts. Examples include:

- Activities that foster trust and cooperation between local communities and protected area or conservation authorities, such as the brokering of a co-management agreement between the Forest Development Authority and communities surrounding the East Nimba Nature Reserve in Liberia. This agreement stabilized the boundary of the reserve and defined clear rights, responsibilities and benefits.

- Activities that build social capital of conservation actors to work collectively, such as in the development of Community Resource Management Areas in Ghana, where communities are facilitated to manage their forests and engage in group enterprises that bring in additional revenue to some of Ghana's poorest districts.

In addition, USAID addresses these issues through land tenure and property rights programing. Recognizing that insecure land tenure and property rights are at the heart of many conflicts – social conflicts between competing resource users as well as political conflicts over the control of resources – USAID's land tenure and property rights projects are designed to clarify and strengthen land and property/resource rights and land governance systems in order to reduce ambiguity, corruption and conflict, improve accessibility and responsiveness to the needs of all citizens, enhance local participation and voice, and increase transparency and accountability of government officials and local leaders.

In Rwanda, land conflicts have been a major source of social and political instability for decades and were a contributing factor in the 1994 genocide. USAID is working to increase awareness among the population of their land rights, to promote constructive dialogue over land issues, and

to improve conflict-management strategies in order to lessen pervasive tensions surrounding land. Such efforts help defuse long-simmering tensions and improve social and political stability. Similarly, USAID's land tenure and property rights project in East Timor is helping strengthen and clarify land tenure and property rights in a post-conflict environment in order to promote a more stable and equitable environment for all citizens.

Question #11A:

LRA: The rebel Lord's Resistance Army (LRA) continues to destabilize a vast section of central Africa, where its brutal attacks have displaced over 400,000 people and resulted in the abduction of more than 850 children since September 2008. On November 24th of last year the administration released to Congress its "Strategy to Support the Disarmament of the Lord's Resistance Army," as mandated by the bipartisan Lord's Resistance Army Disarmament and Northern Uganda Recovery Act passed by Congress in May 2010. **Please outline the U.S. Agency for International Development's (USAID) role and priorities in implementing this strategy in FY2012 and how these priorities are reflected in the FY12 budget request.**

Answer:

USAID contributed significantly to the development of the interagency Strategy to Support the Disarmament of the Lord's Resistance Army, and will continue to engage with other agencies and partners to achieve the four strategic objectives laid out in the LRA strategy: increasing protection of civilians; apprehending or removing Joseph Kony and senior LRA commanders from the battlefield; encouraging defection, disarmament, demobilization, and reintegration of remaining LRA fighters; and providing humanitarian relief to affected communities. Presently, humanitarian assistance is the priority in LRA-affected areas outside of northern Uganda, due to a security situation that precludes stabilization, recovery, and development programming in these areas.

The U.S. government (USG) has provided humanitarian assistance to LRA-affected populations since the late 1980s and remains committed to addressing regional emergency needs throughout affected areas of the Democratic Republic of the Congo (DRC), the Central African Republic (CAR), and southern Sudan. In FY 2010, USAID provided more than $32 million in humanitarian assistance and additional countrywide relief programming to targeted populations in these LRA-affected areas.

USAID remains prepared to respond to additional humanitarian needs, pending progress in establishing adequate security in additional areas. The FY 2012 budget request includes support for humanitarian operations in the DRC, CAR, and southern Sudan within the International Disaster Assistance account. USAID, in conjunction with the Department of State's Bureau for Population, Refugees, and Migration, will continue to monitor the humanitarian needs of LRA-affected communities and deliver humanitarian assistance throughout the region.

USAID has requested $4.4 million in FY 2012 Development Assistance for conflict mitigation and reconciliation, and USAID's activities under this objective will continue to support peace and recovery activities in LRA-affected areas of northern Uganda. USAID efforts for FY 2012 will focus on advancing the Government of Uganda's Peace, Recovery, and Development Plan (PRDP), which serves as the key policy framework that guides support for reconciliation and recovery in northern Uganda. Designed with the goal of supporting northern Uganda's transition from a region that relies on humanitarian assistance to an economically viable and self-sustaining region, the PRDP aims to strengthen government institutions, rebuild and empower communities, revitalize the economy, and support peace building and reconciliation.

USAID assistance resources that support development objectives in Uganda also support the implementation of the PRDP. For example, activities under the objective of investing in people will provide access to potable water and improved sanitary conditions for formerly internally displaced persons now resettling in conflict-affected areas in northern Uganda.

Moreover, any comprehensive resolution to the grievances that led to the conflict, including the economic marginalization of the area by the central government requires an economically viable north as well as the effective reintegration of displaced populations, including former LRA combatants. USAID will therefore continue to support reintegration efforts as part of a broader assistance package for development in northern Uganda, including activities targeting areas of high resettlement.

Question #11B

Bilateral vs. multilateral: To what extent do your agencies work with and coordinate with international organizations and multilateral development banks, such as the African Development Bank? What advantages do those institutions bring to the table that we are not able to achieve through bilateral programs alone?

Answer:

Several U.S. agencies manage multilateral aid, and the Departments of the Treasury and State are primarily responsible for multilateral policy and strategy. The Department of Treasury is the lead U.S. agency for engaging multilateral development banks, and USAID provides Treasury with technical input on development issues as part of the overall interagency engagement with multilateral development banks.

However, USAID does work closely to coordinate with both international organizations and the multilateral development banks. This is particularly evident in the field where donor groups work in concert with host country governments to meet their development priorities and objectives. Additionally, USAID contributes to the work of the U.S. Government at the World Bank by maintaining a senior advisor position in the Office of the U.S. Executive Director. The senior advisor helps to strengthen cooperation and understanding between the World Bank and USAID and helps to promote U.S. Government goals and objectives in the World Bank. USAID

does not have staff at the regional multilateral banks such as the African Development Bank or Inter-American Bank for Development.

Further, USAID has a representative on the Working Group on Multilateral Assistance, chaired by the Department of Treasury, which serves as the main forum for coordinating U.S. agency views. Other participants include representatives from the Departments of Treasury, State, Agriculture, and Commerce, the Federal Reserve Board, and Export-Import Bank.

In certain instances, multilateral institutions maintain a comparative advantage over bilateral donors. First, multilateral institutions have the potential to act as neutral mediators among donors, which makes them key players in the development arena. Second, multilateral institutions often provide complementing valuable research and analysis that helps to foster continual learning on important development issues.

Question #11C:

Leveraging Public /Private/Diaspora, etc: The President's new global development policy seeks a shared, cooperative approach among donors so that the U.S. is not shouldering an overwhelming majority of bilateral assistance to poor countries. **How are you achieving this division of labor and coordinating effectively with other donors? Similarly, how are you leveraging partnerships with the private sector, NGOs, foundations, and diaspora communities to maximize our investments?**

Answer:

USAID recognizes that the answers to the development challenges we face cannot come just from government. It is crucial to work with and leverage the contributions, financial and otherwise, of multilateral institutions, other donors, the private sector, universities, NGOs, foundations, diaspora communities, and entrepreneurial individuals if we are to deliver sustainable change to communities around the world.

We must also recognize that solutions to these challenges can come from many sources. Last year, USAID launched Development Innovation Ventures. By bringing together diverse individuals from academia, the private sector and NGOs, USAID hopes to identify, develop, rigorously test, and ultimately scale up promising approaches to pressing development issues around the world.

Through its Global Development Alliance model, USAID specifically works with the private sector to create alliances that align the interests of development with the interests of the business community. GDAs mobilize the ideas, efforts and resources of governments, businesses and civil society to stimulate economic growth, develop businesses and workforces, address health and environmental issues, and expand access to education and technology.

In addition, USAID has taken steps to connect with diaspora communities across the country in order to better inform USAID's work, introduce key USAID staff, gain insight from

the diaspora community, and provide guidance on ways they may be able to partner with the Agency to implement programs in their home communities. Successful events have been held with diaspora communities from Haiti, India, Afghanistan, Pakistan, West Bank/Gaza, and Vietnam.

Lastly, USAID has a public engagement team that is focused on ensuring that communities with an interest in development efforts, from veterans to faith-based organizations and from universities to small businesses are being strategically engaged to ensure our investments in development and relief result in effective and sustainable change.

Question #11D:
In working with well-governed, accountable partner countries, the Administration has prioritized country ownership as a key component of its development policy, which follows a founding principle of the MCC. Can you give examples of how local ownership works in real time, and how you are ensuring that the voices of citizens and local civil society are being reflected in participatory, transparent consultative processes? How are you helping to build local capacity in-country so that partner countries can eventually assume full responsibility for their development?

Answer:

USAID has embarked on a series of reforms called "USAID Forward," which promotes sustainability through increased country ownership. Increased local ownership also furthers the goals of the Paris Declaration on Aid Effectiveness and Accra Agenda for Action, such as greater use of partner country systems and support for local, civil society, which the United States government shares. An example of the emphasis on 'local ownership' is the recent evolution of the USAID primary education activity in Senegal. After initially funding construction of primary schools in order in increase the number of students completing primary education through a cooperative agreement with an international partner, USAID recently began working directly with the Government of Senegal (GOS) on the construction of middle schools and the support of school governance structures. This approach not only helps improve the formal education system but also allows the project to strengthen GOS organizational, financial, and technical capacities through the use of its existing institutions, such as the Ministry of Finance, the Ministry of Urban Planning, and the Ministry of Education.

Faced with an environment where government ministries seldom communicate with each other or cooperate on development projects, the project successfully brought together three GOS ministries as well as local governments and rural communities to support middle school improvement. The project has encouraged multi-sectoral coordination and cooperation among historically stand-alone ministries, further strengthening the organizational capacity of the GOS to engage and partner with stakeholders.

To further local ownership of USAID programs, USAID has pioneered the use of Country Development Cooperation Strategies (CDCSs), which are used to coordinate interests

and inputs of local development partners – host country governments, civil society, other bilateral and multilateral donors, and the private sector – to define development goals and methods over a multi-year period. USAID will post the completed CDCSs on our website to increase transparency and ensure that the CDCS blueprint is followed. Under USAID Forward, USAID is also developing an assessment tool to identify, as your question states, "well governed and accountable countries" with whom to pilot use of their own country systems for program implementation. Use of these "country systems" should enhance local ownership of programs, increase local capacity, and will be a long step toward creating the conditions for "graduation" of the USAID assistance program in such countries.

Question #11E:

Women and Girls: The President's global development policy, the QDDR, and the FY12 budget request all place a premium on the role of women and girls in U.S. development efforts as they are critical to advancing social, economic and political progress. **What are MCC and USAID doing to fully achieve this vision of addressing both women's and men's needs effectively throughout project outcomes?**

Answer:

From our years of experience working with women and girls, USAID recognizes that reducing gender inequalities and promoting female empowerment are important development objectives in their own right; in addition, investments in women and girls have large multiplier effects. For example, through the Feed the Future initiative, we are increasing women's ownership of land and access to inputs such as credit, capital, and technology in order to increase their productivity and earnings. Additionally, investments through the Global Health Initiative will improve the health of women and adolescent girls, through programs that address nutrition, maternal and child health, family planning, safe water, sanitation and hygiene. To unleash women's economic power, we are collaborating with GSMA Development Fund (the association of mobile phone operations) in support of the Women Program, a public-private partnership to increase women's access to mobile technology in developing countries. USAID is also strongly committed to supporting women in all phases of conflict resolution from prevention efforts, to peace negotiations and post-war reconstruction, including taking active leadership in preparing the US National Action Plan to implement UN Security Council Resolution 1325 on women, peace, and security. In many areas of work, from promoting good health outcomes to reducing gender based violence, we work with men and women, and boys and girls.

USAID is committed to cementing our investments in women and girls through a new Agency policy on gender equality and female empowerment that includes strong guidance for how gender analysis is incorporated into the design of country and sector strategies, projects, and solicitation requests.

Question #11F:

Global Development Council: The President's development policy also announced the creation of U.S. Global Development Council, comprised of leading members of the philanthropic sector,

private sector, academia, and civil society. **Dr. Shah and Mr.Yohannes, what is the status of this Council? Dr. Shah, how will the work of this Council complement the efforts of your agency's existing Advisory Committee on Voluntary Foreign Aid (ACVFA)?**

Answer:

The President's Policy Directive on Global Development Policy, signed in September 2010, directs the establishment of a U.S. Global Development Council (GDC) to provide high-level input to U.S. Government agencies in the field of global development. Consistent with the goal of elevating development to advance our national objectives, the Council will reach beyond government and provide greater coherence with non-governmental partners including leading members of the philanthropic sector, private sector, academia, and civil society. The Council is currently under development at the White House.

The Advisory Committee on Voluntary Foreign Aid (ACVFA) provides a link to private voluntary organizations (PVOs) active in humanitarian assistance and development work overseas. We see the GDC as an exciting opportunity for additional support to raise the profile of development in the Administration and to complement the long-standing effort to solicit input via ACVFA that we have undertaken for decades.

ACVFA will continue to:

* Consult with, provide information to, and advise the U.S. Agency for International Development (USAID) and other U.S. Government agencies on development issues relating to foreign assistance in which the U.S. Government and PVOs interact;

* Provide information and counsel to the PVO community on issues of concern regarding their relations with USAID and other U.S. Government agencies; and

* Foster public interest in the field of voluntary foreign aid and in PVO activities.

Questions/Statement for the Record of the Honorable Jeff Duncan (SC-03)
Committee on Foreign Affairs, U.S. House of Representatives
Hearing: "USAID and the MCC"
March 16, 2010

Please specify which witness(es) your question is directed to.

I believe that the tools of statecraft are essential to maintaining our national security. I know that economic and security assistance is vital to accomplishing that purpose. However, I am concerned that USAID is not using American taxpayer dollars in a prudent manner that meets our national interest. In looking at some of the countries we currently support, I see problems with corruption, religious persecution, and no clear return on our investment.

In these difficult financial times when our nation is $14 trillion in debt, it is hard to make the argument for assistance to other countries when Americans face the loss of their homes and others fear our huge deficits, overseas borrowing, and the literal printing of dollars by the Federal Reserve to support our spending.

To: Mr. Daniel Yohannes

- Out of the six compact partner countries for FY12, how many of those countries are first-compact countries? How many of those countries are second-compact countries?

MCC has a pipeline of six partner countries anticipated in FY11 and FY12. Malawi, Indonesia, and Zambia are first compact partners; and Cape Verde, Georgia and Ghana were selected by the Board of Directors to develop second compact proposals.

- When you determine that a country is eligible for MCC compact assistance based on your 17 independent performance indicators, do you take into account the possibility of whether a country will be a one or two compact country? What is the level of priority given to seeing a country graduate the first compact without entering into a second compact? On what basis do you determine if a country is eligible for a second compact? What will prevent a third or fourth contract?

MCC does not have an inherent preference for working with new or existing partners. The MCC Board of Directors makes decisions on which countries are eligible for MCC assistance is a decision by MCC's Board of Directors. The Board's determination of eligible countries is based primarily on country performance on MCC selection indicators. In determining country eligibility, the Board also considers the opportunity to reduce poverty and generate economic growth within a country, and the availability of MCC funds.

In addition, for countries that are candidates for second compact selection, the Board considers each country's performance implementing its first compact. To assess first compact implementation performance, the Board considers country performance in three general areas:

- Progress towards achieving compact results, including significant progress relative to the planned compact timeline and on process and output indicators, the degree to which compact programs are on track to reach compact targets, and the level of commitment to monitoring and evaluation plans included in the compact.
- The nature of the country partnership with MCC, including political will and capacity to implement compact programs, pro-active management of implementation challenges, and achievement of policy reforms associated with compact investments.
- The degree to which the country has implemented the compact in accordance with MCC's core policies and standards, including in the areas of preventing fraud and corruption, procurement, environmental impact, gender integration, monitoring and evaluation, and legal provisions as defined in the compact agreement and other supplemental documents.

MCC's Board is extremely selective when determining eligibility for subsequent compacts. Of the eight countries that will conclude compacts by the end of 2011 (Armenia, Benin, Cape Verde, Honduras, Ghana, Georgia, Nicaragua, and Vanuatu), MCC's Board has only selected three as eligible for a second compact – Cape Verde in FY10 and Georgia and Ghana in FY11.

MCC's mandate is to partner with countries where investments will have the greatest potential returns in terms of poverty reduction and economic growth, and where U.S. taxpayer resources can be used most effectively. In some cases the greatest opportunity for impact may be in deepening partnerships with existing MCC partner countries. However, MCC's engagement with partner countries is not open-ended. MCC carefully considers the appropriate nature and duration of each country partnership based on the country's policy and implementation performance, as well as the opportunities to have an impact on growth and poverty reduction. This includes consideration of the potential sustainability of MCC's investments, and on the country's ability to attract and leverage public and private resources in support of development. MCC's targeted, selective engagements are critical to ending the cycle of aid dependency, ensuring sustainability, and promoting country ownership.

Questions for the Record Submitted to
Administrator Rajiv Shah by
Congressman Jeff Duncan
House Committee on Foreign Affairs
March 16, 2011

Question #1:

I understand that some of the comprehensive reforms you've undertaken have included eliminating senior positions and assistance programs. **What programs have you eliminated? How much money have you saved? What happened to the savings? Was the money redistributed to another part of USAID?**

Answer:

In the President's FY 2012 request, we have sought to eliminate Development Assistance programs in 11 countries, which represents a reduction of $44.9 million. These countries are: Algeria; Benin; Cameroon; Chad; China; Guyana; Madagascar; Mauritania; Niger; Panama; and Togo. These savings have been redistributed to other countries and priorities including Feed the Future and USAID Forward reforms.

In addition, we plan to close Missions in Montenegro, Guyana, and Panama in FY 2012 and eliminate and restructure costly senior development counselor positions in Paris, Geneva, Rome, and Tokyo through FY 2015.

Since the proposed mission closings and position restructuring will not occur until the end of FY 2012, the budget request does not reflect any savings for these actions.

Question #2:

Why is the Innovation Ventures Fund necessary? I understand you've given $100,000 to Signa Chemistry to pay for an E-bike that your website says uses "affordable fuel-cells" to power the bike. **What countries does this technology help? Is this an efficient use of taxpayer dollars?**

Answer:

The Development Innovation Ventures (DIV) program is a key part of USAID Forward and aimed at producing development outcomes more cost-efficiently and in a way that manages risk more effectively. DIV is based on the view that promising ideas should be rigorously tested and demonstrate clear evidence of producing development outcomes before being supported for wide-scale adoption, which can occur through

commercialization, public-sector support, or a combination. DIV is applicable in most every country USAID operates in and wide-scale adoption via the public-sector would be considered in cases where rigorous testing demonstrates cost-effectiveness. As a result, DIV seeks to identify innovative projects with the potential for significantly impacting development goals, test their cost-effectiveness, and support proven projects in transitioning to wide-scale adoption. Through a competitive selection process, DIV awards grants at three levels of support: proof of concept and feasibility; relatively small-scale projects aimed at acquiring evidence of effectiveness; and assisting projects proven to produce development outcomes achieve wide-scale adoption. All funding is tied to milestones, each stage of funding is competitive, and grantees do not automatically advance to the next stage of funding. The DIV approach also emphasizes leverage and the majority of current grants leverage funding by other partners. We believe that the DIV model's focus on testing good ideas for proof of their effectiveness before supporting their wide scale adoption is both cost-efficient, risk-mitigating, and has the potential for producing significant development outcomes.

Regarding Signa Chemistry, the $100,000 in support DIV is providing is focused on adapting the company's clean fuel cell technology for development and disaster assistance applications. Specifically, this $100,000 grant is intended to develop (1) a general purpose portable power source which could be used to power anything from water pumps and computers to refrigerators to store medicines; (2) a long-range, pollution-free transportation alternative; and (3) a portable, clean battery that could be used in emergency or disaster relief efforts. In this case, DIV's support leverages past research and development into clean fuel cell technology and seeks to cost-efficiently adapt this technology for development applications.

Question #3:

USAID has created a new bureau and a new office as part of your reform measures. The Bureau of Policy, Planning, and Learning and the Office of Budget and Resource Management in the Office of the Administrator are supposed to assist USAID in your mission. **How many additional people do you need to hire in the new bureau and office? How much money will this cost? Are you taking the money from another section in the budget, or are you requesting an additional amount to fund these ventures? If additional money, why didn't USAID consolidate?**

Answer:

USAID has established the Bureau of Policy, Planning, and Learning (PPL) to provide policy analysis, meaningful evaluations and development research, strategic planning coordination, and a dedicated focus on using science and technology to solve development problems. The Office of Budget and Resource Management (BRM) links the development budget to development strategies, strengthens development results, and increases the efficient use of resources.

To fulfill USAID's role as a pillar of our national security, the President's FY 2012 budget requests $3.8 million to fully implement these new operating units. However, it should be noted that the request also includes a number of trade-offs that were made to accommodate the creation of these new operating units. For example, we have realigned our current workforce to begin staffing PPL and BRM within our current resource levels. There were a number of employees who were transferred from other Washington operating units in order to fill the staffing needs of the new offices. Finally, we have identified a variety of administrative cost savings that will allow the Agency to operate more efficiently and reduce our reliance on expensive contractors. These trade-offs are included in the FY 2012 budget request, and helped to reduce the overall level of resources needed to establish new operating units.

The Agency established BRM to provide USAID a corporate-level capacity to develop and propose a comprehensive USAID development and humanitarian assistance budget. The creation of BRM provides the Agency with unique capacity to more effectively align budgets to development priorities and to improve strategic planning with greater linkages to country-owned strategies.

Question #4:

A specific reform in the "USAID Forward" plan is to "employ more selectivity regarding how USAID focuses its work and allocates its resources." **What model are you basing your selectivity on? How are you determining selectivity?**

Answer:

Selectivity describes how we approach prioritization. Selectivity means putting our resources in countries or sub-national regions where they are most likely to have the greatest impact on a particular development objective. It is about matching geography and local conditions to potential results. The *general* criteria (or model) for selectivity are "need" and "opportunity to make an impact." We focus resources where both need and opportunity to make an impact are highest.

The *specific* criteria for *need* and *opportunity to make an impact* depend on the objective we are pursuing. For instance, for economic growth *need* is a matter of poverty and low income. The countries with the greatest needs are usually the poorest countries. *Opportunity to make an impact* is a matter of whether the cooperating country has established policies that support private markets and entrepreneurship. Accordingly, the opportunity to make an impact is greatest where cooperating country policies are most supportive of private markets and entrepreneurship. We use MCC and World Bank tools for appraising policy performance.

Where complex crises are concerned, *need* is a matter of the degree of political instability, conflict and violence. Need may be great even in countries that are not so poor. The *opportunity to make an impact* is a matter of judgment we must make about the capabilities and intentions of our partners, usually the regime in power. Overall foreign

policy considerations also play a major role in exercising selectivity and prioritizing countries and resource allocation where complex crises are concerned. For instance, we often prioritize countries where larger regional peace and security concerns are at stake.

Question #5:

In reference to China – which has over $2.6 trillion in foreign cash reserves – and India – which now boasts the 11th economy in the world – how can we justify $4 million to China for its Global Health and Child Survival Account and a $17.8 million increase to India when it chooses to afford its own space program?

Answer:

It is important to note that infectious diseases know no borders. By addressing infectious diseases, such as HIV/AIDS and tuberculosis in China, we protect U.S. citizens by preventing the spread of these diseases.

Fighting HIV/AIDS, tuberculosis (TB) and malaria is a shared global responsibility, and we ask all countries, including China, to meet their responsibility. We have urged China to take greater responsibility as a recipient and an important provider of development assistance to other developing countries; we are pushing for China to take more financial responsibility for its national response to these three diseases; and we are cooperating with the Chinese to better address health issues in other countries.

By partnering together to improve health outcomes in HIV/AIDS, TB and malaria, we foster and sustain a positive relationship with the Chinese government and affect how China reforms its health sector, as well as how it assists others in this sector. This is an important stepping stone in the larger USG-China dialogue that is taking place as China begins to take on its own development projects overseas. This partnership is demonstrated through the International Roundtable on China-Africa Health Collaboration meetings, with USAID actively involved along with other donor countries and multilateral institutions. Finally, USAID's contributions in China bolster directly and indirectly the empowerment and growth of civil society, with the goal of delivering effective health interventions, while protecting human rights and building viable civil society institutions that will act as check and balance on how China designs, delivers, and implements its development programs in the developing world.

The Global Fund has approved grants for China totaling nearly $1 billion in assistance for HIV, TB and malaria. As the largest donor to the Global Fund, the United States has a deep interest in ensuring that the Global Fund resources in China are expended on activities and interventions that are evidence-based, efficient and effective.

The USG has and will continue to work through our seat on the Global Fund Board to ensure Global Fund resources get to people most in need. With strong USG support and engagement, the Global Fund Board is developing new eligibility and

prioritization criteria and cost-sharing requirements. These developments are designed to ensure resources are allocated most strategically, with a focus on reaching countries and populations in greatest need and on enhancing the sustainability, including through increased domestic investment, of Global Fund grants in middle-income countries. Funding provided through the GHCS account for China will complement these multilateral efforts at the Global Fund Board to ensure that the transition of HIV/AIDS, TB and malaria programs from Global Fund to Chinese Government funding will not result in the loss of services to those impacted by the three diseases.

Despite impressive economic growth and technical advances, a staggering percentage of India's population still lives in poverty. Over 40 percent of the population (456 million people) lives below the poverty line of $1.25 per day, and 76 percent of the population (828 million people) live on less than $2 per day. India faces immense health challenges. It accounts for 20 percent of the world's maternal deaths and 25 percent of the world's children's deaths; 48 percent of children under age five are malnourished; and only 44 percent under age two are fully immunized. Further, tuberculosis remains the most common disease in India, killing more than 1,000 people per day. Tuberculosis is closely associated with HIV, and India has the third largest HIV/AIDS epidemic in the world, with an estimated 2.4 million living with HIV.

The request for an increase in the Global Health and Child Survival account focuses on reducing maternal and child mortality. In partnership with the Government of India, USAID's health interventions will focus primarily on the poorest northern states (Uttar Pradesh and Jharhand), with a population larger than Brazil and health indicators far worse than the country averages, and will target women and children—the most vulnerable population.

As part of the U.S. Government's transformed relationship with India as a strategic partner, USAID is changing the way we conduct business from a donor/recipient relationship to a partnership to address bilateral, regional and global development challenges. Through this partnership, USAID is well-placed to influence India's direction of its assistance to other countries, as well as the use of Government of India's resources to address the immense health needs of its population, including promoting child and maternal survival and preventing the spread of infectious diseases, which is a shared global responsibility knowing no borders.

USAID funding will allow us to strengthen our health system investment, a focus of the President's Global Health Initiative, and advance objectives under the U.S. - India Strategic Dialogue. USAID recently signed a new Health Partnership Program Agreement with the Government of India (GOI) that lays out a five-year vision that reflects the GOI's requests for technical assistance from USAID to strengthen its systems to respond to these issues.

Working with the government, the private sector and other donors, USAID is able to leverage approximately four dollars for every dollar of development assistance to positively influence development outcomes. With a relatively small investment, USAID

develops and tests innovative models for addressing the country's most serious problems, which the GOI and private sector investment scale up and replicate nationwide using their own resources. In addition, USAID's long-term objective is to engage India to strengthen its role in international development and become a better provider of assistance.

Question #6:

Although Congress passed the Child Soldiers Prevention Act of 2008 last Congress, the Administration continues to give assistance to four of the five countries that use child soldiers and receive American aid (Chad, Sudan, Yemen, and the Democratic Republic of Congo). The President issued a waiver October 25, 2010 saying it was in the "national interest" to continue the funding. How is it in the national interest to give funding specifically for "Global Health and Child Survival" to Congo in the form of $65 million through USAID and request $1.95 million for "peace and security" assistance for this year when Congo uses child soldiers?

Answer:

Under the Child Soldiers Protection Act of 2008, the State Department is required to publish in its annual Trafficking in Persons Report, a list identifying foreign governments or government-armed groups that use or recruit child soldiers. The Democratic Republic of the Congo (DRC) was included on this list and is consequently subject to specific military assistance restrictions; Global Health and Child Survival funds are not affected by the Act. The Administration's decision to waive sanctions this year for the DRC was reflective of a deliberative and inclusive process throughout the State Department and undertaken in partnership with the White House.

The national security strategy declares that the United States "has a moral and strategic interest in promoting global health. When a child dies of a preventable disease, it offends our conscience; when a disease goes unchecked, it can endanger our own health; when children are sick, development is stalled." Poverty, disease, and lack of basic necessities can lead to despair, stagnant economic growth, and political instability abroad. Investing in the health of people in developing countries improves families' livelihoods and their country's well-being, thus reducing the instability that fuels war and conflict. In addition, fighting global disease directly protects health in the United States—infectious diseases know no borders.

The $65 million in Global Health and Child Survival (GHCS) funds will effectively and efficiently address the leading causes of death in women and children under the age of five. The preventable deaths annually in DRC are staggering, and the country has an incredibly high burden of tuberculosis, measles, and polio, each of which has a multiplying effect; for example, each untreated person with tuberculosis infects 10-12 additional people. DRC has an estimated 30 million cases of malaria a year, and the disease accounts for nearly half of the country's child deaths.

USAID uses GHCS funding to implement low-cost interventions that focus on saving the lives of women and children. Projects will diagnose and treat tuberculosis, prevent children from contracting malaria, and reduce the number of malaria-related deaths from conditions such as pneumonia and malnutrition. These efforts will help make the population healthier and more productive over the long run, unburdening the DRC's health system to address other critical needs. USAID will also train and equip skilled midwives to manage obstetric emergencies, and prepare community health workers who can reach out beyond the traditional health infrastructure to educate mothers-to-be on preparing for birth and proper infant care. In child health, USAID will expand its high-impact, cost effective interventions that save lives such as treating newborn infections properly; expanding vaccines and immunization coverage; preventing and treating diarrhea and pneumonia; and increasing access to clean water, sanitation and hygiene.

Peace and security funding is aimed at extending state authority, assisting populations' return and reintegration in the east, and addressing the root causes of insecurity. The FY 2012 request includes resources to cover requirements that have been supported in the past with supplemental appropriations. Resources will build the capacity of the Government of the DRC to effectively address issues such as rampant sexual and gender-based violence and other human rights issues. Funds will also be used to further the goals of stabilization and recovery through activities that support community recovery, reconciliation and conflict resolution (particularly in the area of land tenure conflict mitigation and reform), and the extension of state authority, which is critical to effective implementation and enforcement of Congolese law, including international conventions preventing recruitment of child soldiers adopted by the DRC.

Questions for the Record Submitted to
Administrator Rajiv Shah by
Rep. Jeff Duncan
House Committee on Foreign Affairs
March 16, 2011

International Religious Freedom Report

Question #7:

The U.S. Commission on International Religious Freedom's (USCIRF) 2010 Annual Report cites **eight** countries (Burma, China, Eritrea, Iran, North Korea, Saudi Arabia, Sudan, Uzbekistan) that the Department of State has designated as a "Country of Particular Concern" (CPC) because of their violations of religious freedom. These are repeat countries from the 2006 designations. The Secretary of State has declined to designate the five additional countries (Iraq, Nigeria, Pakistan, Turkmenistan, and Vietnam) as CPCs that the USCIRF has recommended. When USAID puts together its budget request for aid, do you take CPC designations into account? Can you explain in detail how you evaluate your aid priorities in these countries in light of this designation?

Answer:

USAID takes into account many aspects of the situation in countries recommended for foreign assistance, including the outlook for religious freedom, as reflected in the USCIRF annual report and other sources. In any country, USAID evaluates the prospective impact of its aid strategy on marginalized populations as well as on the majority. The advancement of human and civil rights and the encouragement of a vital civil society are important objectives for USAID. In addition, the State Department through its Ambassadors and regional bureaus has significant weight in the foreign assistance budget recommended by the Secretary of State, bringing foreign policy considerations, including considerations of religious freedom, into play.

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