

FOREIGN ASSISTANCE REFORM

HEARING BEFORE THE COMMITTEE ON FOREIGN AFFAIRS HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

FIRST SESSION

—————
MARCH 8, 2007
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Serial No. 110-60
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Printed for the use of the Committee on Foreign Affairs



Available via the World Wide Web: <http://www.foreignaffairs.house.gov/>

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U.S. GOVERNMENT PRINTING OFFICE

33-823PDF

WASHINGTON : 2007

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FOREIGN ASSISTANCE REFORM

THURSDAY, MARCH 8, 2007

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

The committee met, pursuant to notice, at 10:02 a.m. in room 2172, Rayburn House Office Building, Hon. Tom Lantos (chairman of the committee) presiding.

Chairman LANTOS. The committee will come to order.

Before coming to my formal opening remarks, in recent times, it has become obvious to me that there is a significant disconnect between the announcement by the administration at its highest level of strategic policy goals and implementation of these same goals by high-ranking administration officials in their areas of responsibility.

The other day, we had Under Secretary Burns testify before the committee, and I asked him to reconcile the statements and actions of our Trade Representative with the enunciated policy of the administration. The administration, as I understand it, wants to put an end to Iran's military nuclear development by non-military means. I share that goal.

But, when Members of Congress call on our Trade Representative to terminate free trade area discussions with Malaysia as Malaysia is on the verge of investing a vast amount in Iran's energy resources, the response is one of cavalier dismissal.

I also think that there is a distinct problem—and this is not an ad hominem statement, Mr. Ambassador—in administration policies by individuals who come from the corporate world, where the top-down approach is the preferred modus operandi, and are thrust into a congressional climate where persuading Members of Congress, recognizing its function as a coequal branch of government, is a more accepted modus operandi.

I call this “tycoonitis”—people who come from the top of the corporate ladder who consider congressional suggestions, requests for information, and participation in decision making as intruding on their turf.

Ambassador Randall Tobias, as the first-ever Director of Foreign Assistance, you have been on the job for over a year. Your task was to reshape—carefully, delicately—and to bring order to our country's tangled thicket of assistance efforts overseas. Instead, it appears to many members of this committee, you took to it with a weed whacker, and the results are predictably unfortunate.

Your actions have caused consternation on Capitol Hill, in many of our Embassies and in USAID postings around the globe. Where

you could and should have listened to Congress and experts in the field, you instead charged ahead, making drastic changes under a shroud of secrecy and announcing them only after they were done. A process that begged for transparency was instead undertaken behind closed doors, under cover of darkness at Foggy Bottom.

Had you entered into a dialogue with Congress, we would have told you, for example, that providing United States assistance to a terrorist-controlled universe in Gaza was out of the question and, in fact, violates United States law.

According to recent reports, USAID transferred large sums of U.S. taxpayers' money to Al-Quds University, which just this past month held a weeklong celebration honoring the Hamas leader credited with inventing suicide belts in the mid-1990s.

News accounts and research by our colleagues in Congress showed that the administration has also granted millions of dollars in scholarships to students at Al-Quds and Islamic Universities without obtaining a pledge that the recipients will not engage in terrorist activities.

Now, my understanding is that one of the prime goals of U.S. foreign policy is to fight terrorism. And the notion that the U.S. Agency for International Development funds organizations and individuals engaged in terrorism or the glorification of terrorism is deeply disturbing.

The students who received scholarships could be participating in the university chapters of Hamas and Islamic Jihad, all the while receiving U.S. taxpayer money from USAID. This outrageous support for terrorism must and will end.

Had you consulted, Mr. Ambassador, with Congress, you would not have blocked legitimate efforts to conduct oversight over foreign aid reform. But that is precisely what you have done in a cavalier manner.

On November 14th of last year, four senior committee members, Representatives Watson, Payne, Smith and Blumenauer, sent you a detailed set of questions about foreign aid reform. In return, you sent a brusque, three-paragraph letter promising a briefing.

If these members wanted a briefing, they would have asked for one. Your job was to respond to them in writing as they requested. This has not been done. I will enter my colleagues' letter and your dismissive reply into the record of this hearing so all of us will have a chance to refer to them.

I am also formally requesting that your full written reply to the questions asked by our colleagues be entered into the record of this hearing.

[The information referred to follows:]



Congress of the United States
House of Representatives

November 14, 2006

Ambassador Randall L. Tobias
Director of U.S. Foreign Assistance
United States Department of State
2201 C St NW - Room 5932
Washington, DC 20520

Copy via facsimile to: (202) 647-2529

Dear Ambassador Tobias:

Thank you for your intrepid efforts to develop an improved, comprehensive framework for United States foreign assistance. We welcome this effort, and want to lend both our moral and practical support to this enterprise. U.S. foreign assistance is—and must continue to be—a central component of our American national security strategy.

We applaud your goals of making U.S. foreign assistance more efficient, transparent, collaborative, and coherent. However, we have serious concerns about the development of the reform process to this point, and whether the proposed reforms will serve these four goals. In particular, we want to ensure that all interested stakeholders, including Congress and USAID partner organizations, are being fully engaged in the reform process.

Attached to this letter is a list of questions we have compiled regarding the proposed reforms and the reform process. Answers to these questions will help us better serve as champions of your efforts. We look forward to working with you to further develop these reforms so that U.S. foreign assistance can better serve the vital U.S. strategic interest in supporting international development.

Sincerely,



Diane E. Watson
Member of Congress



Donald M. Payne
Member of Congress



Adam Smith
Member of Congress



Earl Blumenauer
Member of Congress



Michael M. Honda
Member of Congress

QUESTIONS FOR AMBASSADOR TOBIAS FROM MEMBERS OF CONGRESS REGARDING
FOREIGN ASSISTANCE REFORM, NOVEMBER, 2006

Legislative & Implementation Process

1. Please outline your anticipated timeline for actions you would like Congress to take via the legislative process:
 - A. When can we expect a formal submission to Congress of any outcomes from your process?
 - B. What form would a request for legislative action take? Would it be solely a budget and/or appropriations request or do you anticipate seeking authorizing language?
 - C. What do you anticipate your next formal request will be? Will it be the FY08 Budget document in February?
 - D. Do you anticipate making any requests for legislative language pertaining to the FY07 appropriations process? When would such a request be forthcoming? Do you anticipate making such a request before or after the delivery of the FY08 Budget document in February?
2. Will the FY07 process change funding levels, either for accounts or for country programs? Is there any ceiling on how much you intend to change the FY07 funding levels for various program elements?
3. We understand that the Administration has identified some countries as “fast track” countries and will be asking Congress to “reprogram” funding for these countries for FY 2007. Please explain the “fast track” process in more detail. Will the “fast track” process merely result in closer coordination between State & USAID, or will it result in a need for FY07 funds to be reprogrammed? How many countries are designated as part of the “fast track” process? What percentage of U.S. foreign assistance will this process include?
4. Is it true that no program within a country will be cut by more than 20% in FY07 or FY08? If true, are you concerned that the lack of available insight into this process is causing rumors and concern throughout the U.S. foreign assistance community?
5. What projected budget numbers have been submitted to OMB for FY08? Is any portion of this information available to Congress?
6. Are NGOs and other stakeholders being *consulted* as a part of the process, or merely being *briefed* about decisions that have already been made? We are getting a substantial amount of feedback that many stakeholders do not feel they are being consulted.
7. What type of input are you soliciting and from whom with respect to efficacy of existing programs? What tools do you have to assess the effectiveness of current programs?
8. How flexible is the current accounts structure to accomplish established and future objectives?
9. How will the U.S. coordinate its assistance with that of foreign governments? What will be the level of consultation and communication? What mechanisms are in place or under consideration to institutionalize such consultation?
10. How is F coordinating with other United States Government agencies delivering foreign assistance? E.g., what is the relationship between State, USAID and DoD in post-conflict planning, operational preparation and execution?
11. What role does the U.S. commitment to achieve the Millennium Development Goals play in the reform process, as well as the planned allocation and delivery process? It is not clear from the Framework how the goals of foreign assistance will align with the Millennium Development Goals, which contain specific commitments the United States Government has pledged to uphold. What are your specific plans to ensure that U.S. development programs are accountable to these goals? For example, how will your strategy on global basic education align with Millennium Development Goal #2, universal primary education for all children by 2015? What specific short-term targets will you set towards this long-term goal?
12. There is an ongoing concern about how this new process will impact programs Congress cares about (e.g. education, health, environment). Could you address these concerns? Can you describe the role of Congress, as you see it, in setting the U.S. development agenda through the proposed framework?

13. The published draft framework dated October 12, 2006 only lists poverty reduction as an end goal for developing countries. Is this an accurate depiction of the role you envision for poverty reduction within the reformed foreign assistance framework? If not, should the framework be adjusted to reflect the true imperative for poverty reduction in meeting the overall goal of “Helping to build and sustain democratic, well-governed states that will respond to the needs of their people and conduct themselves responsibly in the international system”?

Structure & Planning Process

14. Do you anticipate that changes to the organization chart at USAID and/or the State Department will be necessary to implement the proposed reforms? If so, what efforts have been undertaken in this regard?
15. Even though the State and USAID processes are combined on paper, how do you plan to address the fact that they are still funded separately? Do you expect this will require additional statutory authorities?
16. Under this new plan, the Secretary of State and Director of Foreign Assistance make the initial decisions regarding the overall funding available to each aid recipient country and regarding the types of programs to be funded in each country. On what are these initial decisions based?
17. How will the accounts be set up? How will they be divided across objectives? Will this require any Congressional action to reconcile?
18. Where will existing programs reside after reform is implemented? Will some be divided? Will some be combined? Will some be abolished? Which ones? Will this require any Congressional action?
19. With F’s new expanded definition of operating expenses and low ceilings on operating expenses allowed in a funding-recipient country, how will countries balance presidential initiatives (such as AIDS or malaria) with other, core programs? Is this a zero-sum game for all U.S. assistance within one country program? For example, in a country with a large PEPFAR program, which has high and non-negotiable operating expenses, would core programs, like maternal health and reproductive health, be cut?
20. How will the new interpretation of operating expenses handicap the ability of contractors and grantees to implement population and health programs? Under the expanded definition, many of the costs associated with running, monitoring and evaluating a program are no longer covered by USAID grants. If you don’t anticipate the new interpretation will handicap programs, please explain why.
21. Does the Director of Foreign Assistance rely on individual USAID staff or missions to call in their concerns about this new process, or is there an established mechanism through which missions are involved and formally engaged in the reform process? If the latter, what is this mechanism? Is this process formal or informal? If informal, how can we measure its efficiency or its effectiveness?

Strategic Goals

22. How do longer-term development goals get coordinated along with potentially shorter-term foreign policy objectives?
23. Development is a strategic goal in and of itself, and we applaud your effort to add strategic thinking to development assistance policy making. But some of elements of this strategy seem less strategic, and more tactical. Will funds for “Sustaining Partnership” countries still need to serve development purposes? How will you prevent the Sustaining Partnership category from becoming a slush fund for friendly governments who lack sustainable development strategies?
24. We have heard the “Sustaining Partnership” category described as an acknowledgment of the existing political imperatives which already guide U.S. foreign assistance decisions. In this case, can we presume that the creation of the “Sustaining Partnership” category will not substantially reduce the resources available to support development strategies in non-Sustaining Partner countries? Will this result in some countries losing assistance or seeing significant cuts in assistance?
25. Who are the sustaining partnership countries? What development goals apply for them? How will progress toward these goals be measured? How will you measure the efficiencies you are claiming you will gain from this process?

26. Who will decide how and when countries graduate from one category in the matrix to another? Will these judgments be based on transparent indicators?
27. How will the segregation of particular program areas within particular objective areas impact program design and assistance delivery? For example, environmental issues only appear in the new matrix under economic development. However, in truth, environmental issues are much broader, affecting security, governance and health issues. How will F ensure that these are all taken into consideration?
28. How will the reformed U.S. foreign assistance delivery system serve the goal of supporting women in developing countries? We've been told that the reorganization process is taking gender into account in a cross-cutting way. How is this being done, and why does the language of the framework not reflect this fact?
29. What resources are being brought to bear to ensure that gender is consistently addressed in the planning process, from the indicators to the country strategies to the monitoring and evaluation, to ensure that programs are effective? If you don't have adequate resources to do this, what resources do you think would be needed?
30. A 1996 GAO report on Child Survival funding through USAID revealed that "In Mozambique, reconstruction of a railroad bridge... was considered child survival" as well as other infrastructure and tenuously related projects. What precautions do you feel will be necessary to prevent such broadening of program area definitions beyond their proven and intended purposes? Specifically, how will the framework define "child survival"?

Evaluation (Metrics & Indicators)

31. Many of the indicators we are hearing about seem to be focused on short-term measurements (i.e. 12 months). What timeframe will you use to measure short and long term success of a project? How are you planning to reconcile indicators that point to short term results (which presumably determine future funding) and the need for long-term, sustainable development which is equally important but can take much longer to show those results? Are you concerned that an over-reliance on short-term indicators can distort your efforts in pursuit of long-term development goals?
 32. If all your measures are short term, how do you take into account initiatives that might have short term positive impacts but severe long term negative impacts, such as impacts on the environment? And how do you ensure effort on those things that may not show positive short term results but are important for their long term results, such as many education, health and environmental projects?
 33. What will the indicators measure? Is the monitoring and evaluation process designed to measure *efficiency* of U.S. foreign assistance programs or *effectiveness* of particular U.S. foreign assistance programs? I.e. is this a *development* exercise or an *accounting* exercise?
 34. What civil society input is reflected in the indicators/metrics? Please specify how much of this civil society input is from U.S. and international groups (e.g., Freedom House, Transparency International, etc.) and how much comes from local developing country NGOs.
 35. Will projects be judged based on their performance in only one sector (i.e., health, economic development, etc.) or in multiple sectors? Will this isolate programs under specific sector goals (e.g., an economic development project will only be judged by improvement in the economy and not by any social or environmental benefits or harms it creates, thereby an economic development project will have no incentive to be energy efficient or have long-term social benefits)? Under the new reorganization how will you ensure programs integrate social, environmental and economic goals to the highest degree possible? How will you account for improvements in other areas, such as economic growth, that are dependent on a healthy environment?
 36. What will the indicators for recovery and reconstruction be?
-



United States Department of State

Washington, D.C. 20520
www.state.gov

NOV 27 2005

Dear Ms. Watson:

Thank you for your November 14th letter regarding the foreign assistance reform process. I appreciate your interest and support of our efforts.

I could not agree with you more about the need to fully engage Congress and other stakeholders with the reform process underway. In addition to meetings with staff and Members from other committees of jurisdiction, the reforms have been discussed in numerous briefings with the staff of the House Committee on International Relations. I would warmly welcome the opportunity to meet with you to answer your questions and concerns directly. Please feel free to include the other signatories of the letter should you wish for me to meet with all of you at once.

Please contact Susan Sheybani in the Bureau of Legislative Affairs at 202-647-1903 to schedule the meeting. I look forward to speaking with you.

Sincerely,

A handwritten signature in black ink, appearing to read "Randall L. Tobias".

Randall L. Tobias
Director of Foreign Assistance and
Administrator of USAID

The Honorable
Diane Watson,
House of Representatives.

Chairman LANTOS. Despite endless prodding for further information as the reform process got underway, Congress has been provided with nothing more than a cursory overview of the fundamental foreign aid restructuring process—mere notification of steps already taken, decisions already made. We are not a potted plant watching the administration function. We are part of the decision-making process.

Last month, we were finally given a chance to review the results of your efforts when the President rolled out the fiscal year 2008 budget. I want you to know that I am not reassured.

I was stunned and astonished to learn that India is to receive 35 percent less United States foreign assistance, made possible by cutting economic growth assistance by 95 percent and dropping assistance for human rights and the environment altogether.

What message does this send to the Indian people? That, after the United States signs a historic civilian nuclear cooperation agreement with the Government of India, a move the administration hails as one of its few strategic successes in 8 years, we turn right around and cut nearly all of the development assistance from India?

We have entered the historic era of cooperation with India. We should be building new bridges to the Indian people, not tearing them down. I know that our assistance to India is modest, particularly in relation to the need, but this is a horrible signal to send to hopefully a newly-trusting ally.

I am equally troubled that for the 4th straight year in a row, the beleaguered democratic and civil society organizations in Russia and the former Soviet Republics will see devastating cutbacks in assistance—approximately 40 percent. At a time when supporters of democratic reform, the rule of law, and human rights are being assassinated or carted off to the gulags of Siberia, we should not be starving these groups of vital support.

A few days ago, I met with the most distinguished remaining members of civil society in Russia at our Embassy residence in Moscow. They are desperately pleading for aid as the Putin regime is squeezing them literally out of existence.

We have had disturbing reports in the last few days that one critic of the administration “fell” from a fifth floor apartment in Moscow. Some of us still remember that at the time of the Soviet occupation of Czechoslovakia, the Czech foreign minister also fell from a fifth floor apartment. It subsequently was revealed that he didn’t fall. He was pushed. Time will tell whether we are looking at a similar situation here.

This is not the time to squeeze and cut the handful of incredibly courageous non-governmental organizations that desperately attempt to maintain some degree of freedom in Russia. This is a time to double and triple our aid to them, not to reduce it.

You, Mr. Ambassador, rarely bother to consult with those who know best the needs for assistance in the field. Only the ambassadors, mission directors and program officers who are in-country and are dealing with the people there every day can truly understand local needs. Successful and sustainable foreign assistance programs can only be developed and implemented by people with detailed knowledge of the realities on the ground.

To remove the decision-making authority from these people will only be a profound disservice to the very goal which these reforms are trying to achieve, namely to increase the effectiveness of U.S. foreign assistance programs.

I support the President's basic foreign assistance budget and the need for a coherent and efficient foreign assistance program. But what we have seen so far is pennywise and pound foolish.

I now turn to my friend and colleague from Florida—the esteemed ranking member of the committee, for her opening statement.

Ms. ROS-LEHTINEN. Thank you so much, Mr. Chairman, and I welcome Ambassador Tobias to our committee, and I commend him for his service to our country not only in the military service, but also your dedication to community service.

I think when folks come from the private sector it lends a level of reality of budgeting, of transparency, of accountability, and I know that someone who has held positions of high responsibility as you have with AT&T, with Eli Lilly, et cetera, you understand how to be careful stewards of your shareholders' funds and that you are going to be a careful steward of the public funds now.

We thank you for your dedication to public service and its benefit to our country to have folks come from that sector, take a huge pay cut and say that they want to continue their service and improve our country. Not the chairman, of course, but just a few Members of Congress, and not the chairman and certainly not I, suffer from tycoonitis envy, and that is a shame on them also.

But I thank you for your leadership role on HIV/AIDS for example. The President tapped you to be the leader on that, and you did wonderful work and you continue with the spirit of dedicated public service, and you are a wonderful Ambassador to the United States and in our beliefs and in our agenda.

This is a time when the Secretary of State is warning that our aid has to be provided in the most effective manner possible in order to prevent the rise of the so-called failed states that can serve as sanctuaries for terrorism.

Some may think that the way to achieve the success is to simply provide more money. Funding is indeed important, but many other factors play a crucial role in determining whether our foreign aid programs attain success or end in failure. Your background as a businessman has taught you that as well.

Those factors include the design of the actual programs, the structure and the objectives of the agencies that oversee those programs, the way those programs are evaluated and indeed the very intellectual concepts that underlie the entire foreign aid framework.

We continue to operate, however, under the framework of the Foreign Assistance Act of 1961, an authorizing Act that is over 45 years old. 1961 was indeed a very different time than the one that we are facing now. It was a time when many impoverished countries had only just emerged from long periods of colonial rule and were in a Cold War competition with communist ideology.

The foreign aid framework of the 1961 Act was based on the theory of development that had gained acceptance after World War II

when our predecessors sought to respond to the communist model of state dominated economic planning.

Today, the Foreign Assistance Act of 1961 still provides the intellectual underpinnings of our programs today, but the world has indeed changed remarkably. For example, economic globalization has grown by leaps and bounds. Many countries that were once called developing have used trade and free market mechanisms to lift themselves into the highest ranks of world economy.

Colonialism and the Cold War are behind us, and the war against terrorism is now our preeminent challenge, yet the same philosophy continues to be cited as the preferred approach under which our foreign aid program should operate.

Also, the 1961 Foreign Assistance Act stated the need to bring all of our foreign aid programs under the oversight of a single foreign assistance agency and created that organization, the United States Agency for International Development. President Kennedy pushed for such an organization because he felt that we had too many different agencies involved in foreign assistance, yet today we see that our foreign aid programs are once again spread across many government agencies.

Some see this situation again as requiring centralization of our foreign aid administration. However, would we today seek to prevent, for example, the Centers for Disease Control from working directly with infectious diseases overseas? Would we seek to prevent the FBI and the DEA from doing anticrime and counternarcotics assistance programs overseas?

Further, should the new office that you have created at the State Department also move beyond overall evaluation of programs at State and USAID and the top down coordinating of those programs into a broader mode of operation that encompasses all U.S. Government programs? Some would argue that effectively melding assistance programs into policy requires more in-depth coordination that can be done through interagency procedures that are not binding on the many agencies involved.

Finally, Ambassador, on some broader issues we need to ask ourselves if official summits, big proposals and ever bigger funding are indeed better approaches than simply asking that poor man or woman in that impoverished village in a recipient nation what smaller programs have worked to make their lives better and focus our efforts on those deliverables.

We should further question why it is that we keep making loans to corrupt governments, loans intended to help their citizens, then forgive those loans later when those monies have been wasted. We should ask if these programs that we could support could use the business model that you have used in your life as a businessman and the U.S. Government seed money to address some of the most pressing problems of our time.

I don't know what the answer to all of those questions are, Mr. Ambassador, but I thank the committee for holding these series of hearings to explore them, and I thank the chairman for his leadership, and I once again welcome the Ambassador to our committee.

Chairman LANTOS. Thank you very much.

I will now recognize for brief opening remarks our colleagues. Mr. Berman.

Mr. BERMAN. I will wait until the questioning.

Chairman LANTOS. Mr. Fortuño.

[No response.]

Chairman LANTOS. Mr. Payne.

[No response.]

Chairman LANTOS. Mr. Flake.

[No response.]

Chairman LANTOS. Mr. Faleomavaega.

[No response.]

Chairman LANTOS. Mr. Sires.

[No response.]

Chairman LANTOS. Mr. Fortenberry.

[No response.]

Chairman LANTOS. Mr. Smith, you would like to make an opening statement?

Mr. SMITH OF NEW JERSEY. Just to welcome the very distinguished Ambassador Tobias and thank him for the tremendous work that he did as head of PEPFAR and now as head of USAID and look forward to his testimony.

Chairman LANTOS. I would like to welcome our distinguished witness, Ambassador Randall Tobias.

On January 19, 2006, the President designated him as the nation's first Director of United States Foreign Assistance to serve concurrently as Administrator for the Agency for International Development. He was charged with directing the transformation of the U.S. Government approach to foreign assistance.

From 2003 until last year, Ambassador Tobias served as the first U.S. Global AIDS Coordinator, responsible for launching the successful President's Emergency Plan for AIDS Relief and for directing all U.S. Government international HIV/AIDS assistance.

I look forward to your testimony, Mr. Tobias. We will be pleased to place your written record in total in the record, and you may proceed any way you choose.

STATEMENT OF THE HONORABLE RANDALL L. TOBIAS, DIRECTOR OF U.S. FOREIGN ASSISTANCE AND USAID ADMINISTRATOR, U.S. DEPARTMENT OF STATE

Mr. TOBIAS. Mr. Chairman, thank you very much. Let me also thank the ranking member, Ms. Ros-Lehtinen, for the opportunity to testify before the committee today on the fiscal year 2008 budget for foreign assistance and more broadly on foreign aid reform.

On International Women's Day, I especially want to recognize the committee's strong and constant advocacy on behalf of women worldwide.

I have submitted a longer statement. Mr. Chairman, I appreciate that being included in the record. I would like to make just some brief opening comments.

Chairman LANTOS. Please.

Mr. TOBIAS. As our nation's first Director of United States Foreign Assistance and as the Administrator of USAID, I appreciate the opportunity to share with you what we have achieved so far under foreign assistance reform and what I hope we can achieve together through the fiscal year 2008 budget process.

The fiscal year 2008 foreign assistance request for the Department of State and the U.S. Agency for International Development is \$20.3 billion, a \$2.2 billion or 12 percent increase over fiscal year 2006 enacted levels, which is the last year for which we have completed allocations.

Just as importantly, this year's request reflects a different approach to building the budget from previous years' methods, and I would like to take a moment to explain the basic principles that governed our prioritization.

First, we integrated planning based on considering all U.S. Government foreign assistance resources together and based on directing those resources to the achievement of a single overarching goal and the common objectives intended to achieve that goal.

In response to input received from many of the members of this committee and your staffs and our colleagues in the international development community, the transformational diplomacy goal that is the focus of our efforts was in fact revised along the way as we moved through the process, and it now reads that the goal of our foreign assistance is "to help build and sustain democratic, well-governed states that respond to the needs of their people, that reduce widespread poverty and conduct themselves responsibly in the international system."

For the first time, the Department of State and USAID planned resource allocations jointly. Second, we focused on country progress. The ultimate goal of transformational diplomacy is to put countries on a path to sustain further progress on their own.

In past budget years, funds were allocated first by account, then by sector and lastly by country. Much of the budget was built by determining so much for family planning, or so much for basic education, or so much for security assistance and so on. Funding from within these sector levels was then parceled out to countries on the basis of multiple sector level strategies.

Too often by the time they came together at the country level the result was a patchwork of interventions that did not necessarily relate to each other in ways that would maximize country progress or promote sustainability.

Third, we invested in states critical to long-term regional stability and prosperity. We have seen the risks that ungoverned spaces can pose to our national security and to their regional neighbors. We are also very aware of the costs of these ungoverned spaces to their own citizens. Their citizens are among the least able to access basic needs, including security.

At the same time, to truly transform the development landscape we need to also focus on states that are on the cusp of transitioning to economic political and social self-sustenance and that with continuing progress can serve as anchors for regional stability and prosperity.

Fourth, we focused on demand-driven interventions starting with the needs on the ground that are the critical levers for sustainable progress and transformation. Foreign assistance in the past has too often been a mile wide and an inch deep, and therefore impact was diluted and diffuse.

Based on the new country-driven process, we have prioritized resources to the areas that we believe will promote and sustain long-

term country progress. At the outset of the reform process, some expressed sincere concern that greater alignment between State and USAID assistance resources would result in shifting resources away from long-term development goals. In fact, our intent has been just the opposite, and I believe that in fact we are achieving our intent.

In fiscal year 2008, resources for the three objectives targeted to achieving long-term development progress—that is, Governing Justly and Democratically, Investing in People and Economic Growth—increased by 19 percent over the fiscal year 2006 levels for these same objectives, and that includes the largest request that this administration has ever made for basic education.

Finally, we matched accounts with country circumstances and the priorities that those circumstances suggest. Account levels did not drive our allocation process. Rather, the achievement of country progress did. Once we had a good sense of what our experts were recommending that we do for each country or for each program, we aggregated funding requests to their appropriate accounts.

In doing so, we sought to maximize the use of account authorities in support of effective implementation of foreign assistance programs based on those individual country circumstances. One outcome of this process was a decrease in funds for the Development Assistance account and an increase in Economic Support Funds, but there has been no change in development activities, only the accounts from which they are funded, and in fact resources devoted to long-term development have increased in the aggregate.

For too long our foreign assistance programs have lacked focus, addressing instead 1,000 agendas. There is an old saying that if you are not clear about where you are trying to go, all roads lead there. Too often we have moved in one direction for a while, then shifted direction, often times backtracking over the same course we traveled just a few years ago, but with no clear strategic direction. As a consequence, many recipient countries have not been given the tools they need with consistency to both achieve and sustain progress.

Far more than just rearranging the deck chairs, the reform reflected in the fiscal year 2008 budget represents the establishment of a strategic direction based on our best efforts to identify priorities and strategies that will lead to success, but we will need to develop with you common priorities in order to sustain permanent progress.

I look forward to engaging and working with you over the coming months to develop our common path, and I, too, urge full funding for the fiscal year 2008 request.

Thank you very much.

[The prepared statement of Mr. Tobias follows:]

PREPARED STATEMENT OF THE HONORABLE RANDALL L. TOBIAS, DIRECTOR OF U.S. FOREIGN ASSISTANCE AND USAID ADMINISTRATOR, U.S. DEPARTMENT OF STATE

Thank you, Mr. Chairman and ranking member Ros-Lehtinen for the opportunity to testify before the Committee today on foreign aid reform and the fiscal year 2008 budget for foreign assistance. On this International Women's Day, I especially want to recognize the strong and constant advocacy of this Committee on behalf of women worldwide.

After nearly a year in my new role as Director of Foreign Assistance and Administrator of USAID, I appreciate the opportunity to share with you what we have

achieved, and what I hope we can achieve together through the fiscal year 2008 budget process.

THE PRINCIPLES

The FY 2008 State and USAID foreign assistance request is \$20.3 billion, a \$2.2 billion or 12 percent increase over FY 2006 enacted levels, the last year for which we have completed allocations. Given current budget pressures and a shared commitment with Congress for deficit control, this increase reflects the importance this Administration places on foreign assistance, not just as a moral obligation to alleviate suffering, but as a foundation of our national security strategy.

As a result of foreign assistance reform, this year's request reflects a different approach to building the budget from previous years' methods, and I would like to take a moment now to explain the six principles that governed our prioritization.

First, we integrated planning based on the totality of U.S. Government resources and the commitment to a shared goal. For the first time in our nation's history, all \$20.3 billion of U.S. foreign assistance under the authority of the Department of State and USAID, as well as resources provided by the Millennium Challenge Corporation, are being applied to the achievement of a single overarching goal—transformational diplomacy. In response to input received from many of you, our colleagues in the international development community, and our host government counterparts, that goal now reads: To help build and sustain democratic, well-governed states that respond to the needs of their people, *reduce widespread poverty* and conduct themselves responsibly in the international system.

Over 100 interagency teams, organized by country, were tasked with ensuring that all State and USAID resources were coordinated for maximum efficiency and impact, and targeted to the achievement of shared objectives. Teams considered investments from the President's Emergency Plan for AIDS Relief and the Millennium Challenge Account (MCC) when allocating resources. As a result, in countries that will receive MCC Compact funds in 2008, you will see funds allocated to programs that will support the success of these investments, such as an increase in trade and investment funds and private sector competitiveness in Honduras, and in Ghana, a shift in funding to enhance the capacity of local government, who will be responsible for implementing the MCC Compact's programs.

Second, we focused on country progress. The ultimate goal of transformational diplomacy is to support recipient country efforts to move from a relationship defined by dependence on traditional foreign assistance to one defined by full sustaining partnership status. Now, I will spend a bit of time on this principle, because, while it seems like this is what we have been doing all along, this year's approach was quite different.

In past budget years, funds were allocated first by account, then by sector, and lastly, by country. Much of the budget was built by determining so much for family planning, so much for basic education, so much for security assistance, and so on. Funding from within these sector levels was then parceled out to countries on the basis of multiple sector-based strategies—one for family planning, etc. You get the picture.

It is not that these sectors are not critical to a country's development strategy—clearly they are, and we continue to evaluate resources by sector, ensure appropriate targeting, and incorporate best practices. It's a matter of what should drive the country's development program—country-prioritized need or a set global amount for a sector. We must tailor programs to the unique needs of each recipient country in reaching the transformational diplomacy goal.

This year, we led with country progress. We brought together teams of experts from USAID and State, in consultation with their field counterparts, and we gave them an overall planning number for each country—not by account, not by sector, just a total.

We gave them data on the status of country progress against independent indicators assessing poverty, human capacity, life expectancy, governance, and barriers to economic growth. We gave them the new Strategic Framework for U.S. Foreign Assistance, which outlines interventions according to countries' common country traits. We then asked them to allocate that budget to the areas that would best advance individual country progress, based on the opportunities and challenges that exist on the ground, and in turn, advance U.S. policy. The result is an FY 2008 budget focused on country progress.

Third, we invested in states critical to long-term regional stability and prosperity. As many of you are aware, the new Strategic Framework for Foreign Assistance categorizes each country receiving U.S. foreign assistance based on common traits and places them on a trajectory to measure their development progress against stand-

ardized indicators. The country categories are largely explained by their category name: Rebuilding, Developing, Transforming, Sustaining Partnership and Restrictive.

In the FY 2008 budget request, you will find that 51 percent of Department of State and USAID program assistance resources are concentrated in Rebuilding and Developing countries. These are the countries that are farthest away from sustaining partnership status, as measured by instability, poverty, human capacity, life expectancy, governance, and barriers to economic growth—all critical barriers to regional stability and success in the Global War on Terror.

We have seen the risks that “ungoverned spaces” can pose to our national security and to their regional neighbors; we are also very aware of the costs of these “ungoverned spaces” to their own citizens. States like Somalia, Afghanistan, Sudan, and the Democratic Republic of the Congo are among the poorest in the world. Their citizens are among the least able to access basic needs—including security.

At the same time, to truly transform the development landscape, we need to focus on Developing States such as Nigeria, Ukraine, Georgia, Pakistan, Jordan, and Indonesia—states that are on the cusp of transitioning to economic, political and social self-sustenance, and that, with continuing progress, can serve as anchors for regional stability and prosperity. We need to work with them to help them strengthen their institutions to make their progress permanent.

Fourth, we focused on demand-driven interventions that are critical levers for sustainable progress and transformation. Foreign assistance in the past has run the risk of being a mile wide and an inch deep. With a thousand agendas embedded in our foreign assistance programs, our impact was diluted and diffuse. It is important to note, as I often do, that there is very little that we do in our development portfolio that is bad. Someone, some community, is benefiting from the services we are providing and the interventions we are supporting.

But that is not the point. The real question is, are we achieving sustainable impact? Are we, in fact, enabling transformation? *Are we giving people what they need to sustain further progress on their own?*

Based on the new country-driven process, we have prioritized resources to the areas that we believe will promote and sustain long-term country progress. Funding is increased to programs targeted to improving governance and democratic participation, programs mitigating diseases that threaten the human and economic capacity of countries to progress on their own, programs that expand access to and improve the quality of education, and programs that enhance economic opportunity and the skills needed to participate in the global economy. These resource allocations reflect the wisdom of our interagency teams of country experts.

I often think about our past practice of allocating funds as being similar to teaching an individual a little French, a little German, and a little Spanish. If we keep doing it, that person will very slowly be able to speak a little more French, a little more German, and a little more Spanish. But if we instead took the resources spent on each language and put them toward one language, that person would be able to communicate fluently, and would then be better able to learn the other languages on his or her own.

Similarly, when we split up our resources into too many sectors in one country, progress will be slow and often imperceptible. If we instead focus our resources, we enhance the ability of countries to gain enough strength and stability in areas critical to sustaining further progress on their own.

Focusing resources in this way has its tradeoffs. When one area goes up, unless there is an abundance of new resources, other areas go down. While the FY 2008 budget increased by \$2.2 billion over FY 2006 enacted levels, we squeezed far more in the budget. The budget includes important increases for HIV/AIDS, malaria, and humanitarian assistance; and for countries in which there are new requirements and opportunities such as in Kosovo, Iran, and Cuba. The FY 2008 budget also reflects efforts to continue to shift program funding, where requirements are predictable, from supplemental requests for Iraq, Afghanistan, Sudan and avian influenza into the base budget.

Within the country-level requests, you will also find quite a bit of smaller, yet equally important, shifts. Country teams prioritized interventions that would help a country's institutions to build the capacity to take on challenges in the longer term. So you will see increases in resources for conflict mitigation, justice systems, executive branch institution-building, anti-corruption, basic education, energy services, agriculture policy, workforce development, and clean environment. But with these increases, certain sectors were not prioritized by the country teams to the degree that they have been funded in the past. These areas include sectors that we realize are important to members of Congress, including family planning, maternal and child health, and biodiversity. We know that putting decreases forward in these

areas requires a robust justification of our reasons, and I hope we will have a substantive dialogue about why our teams made the choices that they did.

At the outset of the reform process, some members of this Committee expressed concern that greater alignment between State and USAID foreign assistance resources would result in a short-shrifting of long-term development goals. I am pleased to note that in fact the opposite occurred. In FY 2008, resources for the three objectives targeted to achieving long-term development progress—Governing Justly and Democratically, Investing in People, and Economic Growth—increased by 19 percent over FY 2006 levels for these Objectives. The FY 2008 request includes the largest request this Administration has ever made for basic education, and when projected FY 2008 MCC disbursements are considered, investments in these objectives increased by 29 percent over FY 2006.

Fifth, we allocated funds intended for country programs to country-level budgets. In the past, ambassadors and mission directors often did not have a full picture of the resources being implemented in their countries, because some activities were planned and implemented from Washington. Consequently, they did not exercise full oversight over these programs, and doing so from Washington was costly and time-consuming.

To empower our mission directors, ambassadors, and country teams, who are our people in the field with the best knowledge of country circumstances, the reform process maximized resources implemented at the country level into country-level budgets. Resources within global or regional budgets that had been planned for specific countries were accordingly shifted to those countries' budgets and planned together with other country-based support. As a result, such resources can be implemented consistent with country strategies and benefiting from expertise on the ground.

Recognizing that not all foreign assistance is most effectively implemented on a country basis, and that issues that transcend a single country's borders are best addressed as part of a global or regional strategy, activities such as support to regional institutions, multilateral organizations, or cross-cutting research remain funded within global and regional budgets. Humanitarian assistance, which is allocated on the basis of emerging crises, also remains funded within global budgets.

Finally, we matched accounts with country circumstances and the priorities the country categories are designed to address. Many of you may be used to hearing about the budget less in terms of countries and more in terms of accounts. There is a specific reason I have not mentioned accounts until now.

Account levels did not drive our allocation process. Country progress did. After the country teams submitted their allocations by program, we centrally aggregated them to their appropriate accounts. In doing so, we sought to maximize the use of account authorities and establish clear priorities in support of effective implementation of foreign assistance programs.

This means that, overall, funding for the Development Assistance account (DA), which has traditionally supported assistance in poor countries that demonstrate performance or a commitment to development, has been prioritized to Developing and Transforming countries. The Economic Support Fund (ESF), which focuses primarily on providing economic support under special economic, political, or security conditions, has been prioritized to support activities in the Rebuilding and Restrictive Country Categories.

However, activities to support the poor and invest in development have not changed. For the three objectives supporting long-term development: Governing Justly and Democratically, Investing in People, and Economic Growth, DA and ESF totaled \$3.7 billion in FY 2006. For FY 2008, DA and ESF in these objectives total \$3.8 billion.

The real change is within Restrictive and Rebuilding countries: Total funding in the three objectives supporting long-term development increased by 63% over FY 2006 levels. However, the balance between DA and ESF changed, with DA declining from \$331 million in FY 2006 to \$42 million in FY 2008; and ESF increasing from \$525 million in FY 2006 to \$1.4 billion in FY 2008.

Now I realize that this may have many of you worried that this DA decrease and ESF increase means that foreign assistance will now be used increasingly for political ends and that poor people will suffer. I know there is often a skepticism between our two branches when one side or the other presents a series of numbers, so let me address any doubts by citing a group many consider an "honest broker"—the Global Leadership Campaign. In their February 26, 2007, analysis, they point out, "Overall 'development-type' activities do not decline in FY08 due to the shift between DA and ESF, and in fact, increase in the aggregate."

Let me assure you of this point. Our intent in shifting funds from DA to ESF is to draw cleaner lines around their use, as identified by country characteristics. Pe-

riod. These cleaner lines allow us to justify to you why we have requested amounts for each account. There is no intent to take the “development” out of any of our development resources.

REGIONAL FUNDING TRENDS

Consistent with the principles mentioned above, I would like to review briefly the regional funding trends you will see in the FY2008 budget.

Africa. When projected MCC disbursements are included, the FY 2008 request for Africa represents a 54 percent increase over FY 2006. Including actual disbursements and projected FY 2008 disbursements from the MCC, resources for Africa have nearly quadrupled from 2001–2008. Over 75 percent of the FY 2008 budget will focus on Investing in People in order to address the crippling effects of disease and poverty, a \$2 billion increase from FY 2006. These increases are largely due to HIV/AIDS resources, but not entirely. When HIV/AIDS, MCC and the emergency-oriented accounts of P.L. 480 Title II food aid, Migration and Refugee Assistance, and International Disaster and Famine Assistance are excluded in both FY 2006 and FY 2008 (as allocation of emergency funds is often unknown until the end of a fiscal year), there is actually a 15 percent increase in resources to Africa.

East Asia and the Pacific. With projected FY 2008 MCC disbursements included, proposed FY 2008 funding for the region increases by 15 percent over FY 2006. Democratic challenges and terrorist threats require that peace and security programs emphasize counterterrorism and conflict mitigation while also maintaining military assistance for key Global War on Terror partners. Resources for these types of key security programs make up 18 percent of the request for the region. Countries such as Indonesia, the Philippines, and Mongolia collectively receive 53 percent of the region’s request.

Near East. The FY 2008 request for the Near East represents a 4 percent increase over FY 2006, including reduced levels for Egypt and Israel under glidepath agreements. The FY 2008 request emphasizes continued investments in Peace and Security and political reform. Accordingly, funding for Peace and Security increase by 4 percent, while investments in Governing Justly and Democratically increase by more than 80 percent. The FY 2008 request is concentrated in Iraq, Israel, Egypt and Jordan, representing 93 percent of the region’s budget.

South and Central Asia. Funding to South and Central Asia increased by 6 percent in the FY 2008 request compared to FY 2006 levels for the region. Funding will continue to support the Global War on Terror through security, reconstruction, development and democracy efforts, particularly in Afghanistan and Pakistan, which represent 84 percent of the region’s request. Success in these countries is critical to achieving peace, stability, and development progress throughout South and Central Asia. Funding for the five Central Asian countries declined by nearly 24 percent from FY 2006 to FY 2008. Much of the decline comes in Uzbekistan, where the government has worked actively to limit U.S. assistance related to reform, and in Kazakhstan, whose oil wealth lessens the need for our assistance.

Western Hemisphere. Foreign assistance for Latin America has risen dramatically since the start of the Administration, rising from \$862 million in FY 2001 to a requested \$1.4 billion in FY 2008. If the FY 2008 request is fully funded and MCC FY 2008 disbursements are taken into account, resources to the Western Hemisphere will have doubled under this Administration, from \$862 million in FY 2001 to \$1.66 billion in FY 2008—a 4 percent increase over FY 2006.

The focus of resources within the region has also changed. The Western Hemisphere, in general, has made significant progress over the last decade, although major challenges remain. Funds have therefore shifted from service-delivery in health and basic education, where the region has made progress relative to other regions, to economic growth and activities to help consolidate democratic gains. Our programs are targeted to improve government capacity and provide access to economic opportunity to all citizens, especially the poor and marginalized, by catalyzing private sector investments, reducing the cost of doing business, and expanding access to microcredit. With MCC disbursements considered, economic growth resources are up 80 percent in FY 2008. Resources to improve government capacity and strengthen democratic institutions are up 5 percent.

I am aware of recent briefings where concern has been expressed about declining funding for our neighbors. In fact, my very first trip since submitting the FY 2008 budget was to Bolivia, Ecuador, and Peru, three countries that have sustained decreases in the FY 2008 budget. In each of these countries, the positive impact of our past investments was clear, and our ability to build on them with innovative programming and partnerships was also evident.

Europe and Eurasia. This region represents another success story in development. The FY 2008 request for Europe and Eurasia represents a 26 percent decrease from FY 2006, reflecting success achieved in the region. When projected FY 2008 MCC disbursements in Georgia and Armenia are included, the reduction is 13 percent from FY 2006. While U.S. assistance has played a substantial role in supporting further integration of countries in Eastern Europe and the Western Balkans into Euro-Atlantic institutions, a number of difficult challenges remain across the range of foreign assistance objectives. Funds for Kosovo and Serbia represent 27 percent of the region's request. Countries at the forefront of reform—Ukraine, Georgia, and Moldova—and countries that present democratic challenges—Russia and Belarus—together represent 30 percent of the region's budget.

CONCLUSION

For too long, the debate between Congress and the Administration regarding foreign assistance has lacked focus. Very much like a ship with too many calibrations, the foreign assistance boat would move in one direction for a while, then shift directions with a new Administration or a new Congress, oftentimes back-tracking over the same course it had traveled just a few years ago. As a consequence, many recipient countries have not been given the tools they need for a long enough period of time to help their countries sustain progress. Globally, progress has been slow and often imperceptible.

The FY 2008 Foreign Operations budget, built on the basis of the principles and methodologies described above, reflects country-based strategies for progress, evaluated within the context of regional challenges and opportunities, and responsive to a shared goal and objectives targeted to achieve that goal. And since budget planning was thoroughly integrated, the FY 2008 budget, like a Rubic's Cube, relies on each individual piece to maintain the integrity of the whole.

We have taken big steps to increase transparency, accountability, and coherence of strategy in the allocation of our resources, including the creation of one office, under my direction, to oversee all USAID and State foreign assistance resources. I hope to make your oversight responsibility less burdensome by laying our principles and priorities clearly on the table, and providing tools by which we can consistently assess results.

In addition to developing the new Strategic Framework for Foreign Assistance, we have developed a standardized set of definitions, or a "Development Dictionary," if you will, of the programs that relate to our five priority objectives, and ultimately to the transformational diplomacy goal. The Development Dictionary describes what we mean, across all programs and sources of funding, when we describe a program as "justice system reform" or "conflict mitigation." We published this reference on line and have invited comments from your staffs and the NGO community. Every dollar of the FY 2008 budget is identified against these common definitions, making comparisons across fiscal years, countries, programs, and regions transparent and easy.

We have developed common indicators for each of the programs defined in the development dictionary, such that we will be able to compare partner, program, and country performance across agencies and sources of funding. We developed these indicators with input from the NGO community and have posted them on line, together with an email address to collect comments.

We have wrapped the money, definitions, and indicators into one system that will be able to tell you who is getting the money, what they are spending it on, and what results we expect to be achieved. This information will come together in an annual Operational Plan submitted to Washington for each country where foreign assistance funds are provided. For the first time, starting with FY 2007 funds, we will be able to tell you what a \$1 million change from X activity to Y activity will mean for a program so that you can better determine whether such a change, and its opportunity cost, best reflects the impact you want to have.

In making these changes, we sought explicitly to be responsive to concerns raised by Congress about the transparency of our decisionmaking, the coherence of our resources, and our ability to account for results. My hope is that the first steps taken over the past nine months will support a robust dialogue between the legislative and executive branches about funding priorities. Because with this new transparency of information comes a new responsibility on both of our parts to raise concerns where we feel our differing priorities will have a detrimental impact on transformational diplomacy progress. I look forward to hearing your input regarding the prioritization of resources that we have laid on the table.

Far more than just moving the deck chairs, the reform reflected in the FY 2008 budget represents the re-calibration of the ship. But only when we discuss our dif-

fering priorities, in the spirit intended by the balance of powers between the executive and legislative branches, will the ship find its most appropriate and progressive course. We need to develop common priorities for the ship's movement to sustain permanent progress.

I look forward to engaging and working with you over the coming months to develop our common path and urge you to fund the full FY 2008 request. Thank you.

Chairman LANTOS. Thank you very much, Mr. Ambassador.

Let me first direct attention to the funding to terrorist groups and individuals that USAID, under your leadership, is responsible for.

You undoubtedly read the piece that I read in the *Washington Times* on March 5. The *Washington Times* is not known as a left-wing organization hostile to this administration. If anything, the opposite is true. I will just touch on highlights. Then I welcome your comments.

Millions of dollars in United States foreign aid have been given in the past several years to two Palestinian universities, one of them controlled by Hamas, that have participated in the advocacy, support or glorification of terrorism.

The U.S. Agency for International Development has provided more than \$140,000 in assistance to the Hamas-controlled Islamic University of Gaza, including scholarships to 49 of its students.

USAID continues to fund multi-million dollar programs through the American-Near East Refugee Aid, which is building a high-tech facility for the school. U.S. law requires that any recipient of U.S. aid have no association with terrorists. That is the law on our books, Mr. Ambassador.

USAID also gave \$2.3 million in aid last year to Al-Quds University, which has student groups affiliated with designated terrorist organizations on campus and last month held a week-long celebration of the man credited with designing and building the first suicide belts more than a decade ago.

USAID assistance to the Islamic University in Gaza is particularly disturbing since it is openly controlled by Hamas leaders. Sheik Yassin and former Hamas leader Abdel Aziz Rantissi use Islamic University as a base, as has Ismail Haniyeh, Prime Minister of the Hamas-led Palestinian Government and a member of the school board of trustees. To give a feel for the political climate on the campus of this institution, 78 percent of the student council vote went to Hamas.

At Al-Quds University, last month there was a week-long celebration honoring a man by the name of Yahya Ayyash, the Hamas leader known as the martyr engineer. The martyr engineer was the most skilled suicide bomb maker in the Palestinian territories. He is credited with creating the first suicide belts in the mid 1990s and training the next generation of suicide bomb makers.

What are your observations, Mr. Ambassador?

Mr. TOBIAS. Mr. Chairman, I did see that story and immediately asked for a complete review of what the facts are.

I can assure you from my prior knowledge and again from reviewing the circumstances in this case that people at USAID understand the law and take very seriously their responsibility to uphold the law.

There is a very thorough vetting process that takes place using databases that are available from various government agencies and

other sources, including the official designated list of terrorist organizations and individuals and that kind of thing, and without exception we are not funding any organizations that have not fully passed scrutiny through that vetting process.

Over the last few years we have provided scholarships—

Chairman LANTOS. Are you denying the accuracy of this story which appeared 2 days ago?

Mr. TOBIAS. Yes, I am.

Chairman LANTOS. Have you written to the *Washington Times*?

Mr. TOBIAS. I think there is a letter being prepared, yes.

Chairman LANTOS. When do you think it will be completed?

Mr. TOBIAS. I don't know, but—

Chairman LANTOS. This is a very serious charge, Mr. Ambassador.

Mr. TOBIAS. Yes, I agree. I agree.

Chairman LANTOS. Let me just make a comment about your observation concerning vetting. Vetting is one thing. Pledges are another.

Why aren't these students who are receiving scholarships paid for by American taxpayer dollars, required to sign a pledge that they will not support or engage in terrorist activities, when every other USAID recipient is required to sign such a certification?

Mr. TOBIAS. I can't answer that question. I will be happy to take that as a question for the record as to what the technical reason is.

Chairman LANTOS. Didn't you ask that of your staff?

Mr. TOBIAS. I will, yes, but—

Chairman LANTOS. Every USAID recipient is required to sign such a certification. It is remarkable that terrorist organization-connected students were not asked to sign such a pledge.

Mr. TOBIAS. Well, without exception all of the recipients of scholarships have gone through the vetting process using all the databases. What the technical reasons are as to whether or not they sign a pledge I don't know, but I will look into that.

Chairman LANTOS. These are not technical issues, Mr. Ambassador.

The United States is engaged, as we are told ad nauseam and ad infinitum, in a global war against terrorism, and this agency of the U.S. Government is funding individuals and organizations, which are engaged in terrorism. You cannot dismiss this as a technical dilemma.

Mr. TOBIAS. Mr. Chairman, the only thing I can say is that all of the established vetting processes have been applied both to organizations and individuals here, and no USAID funding is going to organizations that do not pass scrutiny under that process.

Chairman LANTOS. Let me turn to the anticipated timeline for actions you would like Congress to take via the legislative process.

When can we expect a formal submission to Congress of any outcomes from the process? This was the letter that my colleagues sent to you. I won't read the whole letter—it is a multipage letter—but it asks for some very serious, very responsible and very appropriate questions of you.

The letter came from four senior members of this committee. They received a brush off. To this day, they have not received a substantive answer. How do you explain that, Mr. Ambassador?

Mr. TOBIAS. Well, Mr. Chairman, if we have made an error in judgment I apologize and we will answer these questions very promptly in writing.

All of the answers to those questions have been provided in briefings to staff of the members, and we did that because we thought it was an opportunity to provide more thorough answers than could be done in writing, but we will be happy to answer those in writing and to do so very promptly.

Chairman LANTOS. Ms. Ros-Lehtinen.

Ms. ROS-LEHTINEN. Thank you, Mr. Chairman, and I echo your sentiments, and the questions that you asked are very important to many members of our committee so I would like the Ambassador to know that those are not just the concerns of the Democratic chairman, but the ranking member, many of us who are very concerned about our dollars going to terrorist institutions or individuals who promote terrorism as a tool, so I thank the chairman for that line of questioning.

I have a question on Central Asia and a question on Cyprus, but because of some of our members having multiple committee assignments I would like to yield my time, Mr. Chairman, to Mr. Fortuño of Puerto Rico so that he has the opportunity to ask a question.

Chairman LANTOS. I am glad to recognize Mr. Fortuño.

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

Mr. FORTUÑO. Thank you. Thank you again to the ranking member, the gentlelady from Florida, and to the chairman as well.

I had really just a couple of questions regarding the Western Hemisphere. Based on today's presentation, I see that actually there is a shift from health and basic education needs to economic growth and activities. I have a couple questions.

One has to do with whether this is part of the "transformational development concept" that actually has been discussed in the past regarding aid to other countries, and, secondly, if you could go into further details on what we are doing in the region.

I have a serious concern with our national security stemming out of what is happening in the region, and I would like for you to comment further on that.

Mr. TOBIAS. Thank you very much for that question. It is certainly an extremely important region, I think as exemplified by the fact that the President departed this morning for a trip to the region. I in fact spent last week in Ecuador, Peru and Bolivia looking at some of our programs there, as well as some of the issues.

Our funding for the Western Hemisphere in the 2008 budget, considering all sources, has increased 4 percent when compared to the 2006 budget, but you are exactly right that we have done some rearranging.

This has been driven by an analysis on a country-by-country basis of those countries that are, for example, showing significant progress in education or healthcare, and what they need more heavily now is a focus on the economic growth aspects of our assistance to them to enable them to build the kinds of economies that will enable them to sustain the progress that they have achieved.

I think this is illustrative of the kind of thing we are trying to do with foreign assistance—to understand from our people on the ground and the experts here in Washington who have responsibilities for those countries exactly what the principal drivers are going to be to achieve sustainability and make adjustments in our programs accordingly, and that is what we have tried to do.

Mr. FORTUÑO. If you could clarify what kind of assistance? I mean, what form of assistance? You are moving away from healthcare and a location toward economic development. What kind of form does it take?

Mr. TOBIAS. Well, it takes various forms. For example, one of the programs I saw in Peru last week is both an economic—well, it is principally an economic development program where I met with a number of small business people who are getting either technical support to help them produce more of what they are doing or higher quality products, whether it is agricultural products or in some cases people who are making scarves or sweaters or whatever the case may be.

There are also some loan programs to help people get these businesses started. Our micro lending programs around the world are extraordinarily helpful in that regard, so these programs take a very broad base of approaches.

Mr. FORTUÑO. Thank you again, and I yield back the balance of my time.

Chairman LANTOS. Mr. Berman.

Mr. BERMAN. Thank you, Mr. Chairman.

Ambassador Tobias, I share a number of the concerns expressed by the chairman in his opening statement. For the life of me, I don't understand why once again the administration proposes to cut the low existing levels of appropriations, funding for the Asia Foundation. It is inexplicable to me.

The work they are doing in democracy-building in Pakistan and Afghanistan and throughout the Asia area has been applauded by people both within the State Department and in the whole international community. It is essential work.

We go through this process annually, and it is really ridiculous. The administration should match its rhetoric with its request to Congress.

What I want to focus on in my time now is Ukraine. You testify that the focus of our assistance program should be on developing states such as Ukraine—you specifically mention that as one of six countries—that are on the cusp of transitioning to economic, political and social self-sustenance, and that continuing progress can serve as anchors for regional stability and prosperity.

Ukraine's progress has been uneven since the dramatic Orange Revolution, but it remains one of the most democratic countries of the former Soviet Union, and I am sure you would agree that it is extremely important we make every effort to keep the Ukraine headed in the right direction.

There is a nonprofit, nongovernmental organization called the U.S.-Ukraine Foundation that has been doing great work in the Ukraine for the past 15 years. It has developed a very positive reputation among high level Ukrainian officials across the political

spectrum for its effective technical assistance in all the areas that have been considered a high priority for USAID.

Since the year 2000, the Congress has repeatedly requested the USAID increase funding for the foundation. These requests have been ignored. The administration doesn't want us to earmark significant portions of the foreign aid budget to allow you discretion. We make our requests, and then you ignore them. It creates a dynamic which impels a tendency to want to earmark when we have that kind of thing.

This is happening at a time when the Ukrainians themselves are asking the foundation to increase its presence and its efforts in the Ukraine. Some examples: The Ukrainian Government has asked the foundation for assistance in reforming its civil service and retraining local government officials, efforts that will help shape the nature of the Ukrainian bureaucracy for many years to come and have a direct bearing on Ukraine's international orientation.

The chairman of the Ukrainian Parliament, along with the leader of the opposition, supports the foundation's initiative to rejuvenate a dialogue between the United States Congress and the Rada, which will contribute to the development of a genuine strategic partnership between Washington and Kiev.

Due to lack of funding, the foundation was forced to drop its widely popular community partnership program facilitating the transfer of skills and knowledge between American and Ukrainian cities and in the process build enormous goodwill for the United States.

I understand that resources are limited. We can't fund every deserving program, but I don't understand why USAID would want to abandon the U.S.-Ukraine Foundation. They have a proven track record in Ukraine and infrastructure already in place.

Again, as the clear will of the Congress on this issue has been expressed; if you have any comments on it I would be appreciative of hearing them. I don't expect you to have great detailed knowledge of this specific program, but I would like you to look at it and get back to me. I certainly want to hear any comments you would want to make now.

Mr. TOBIAS. Thank you, Mr. Berman. I will look into this and get back to you.

I am aware of the U.S.-Ukraine Foundation. I have met with the leadership of the foundation, Dr. John Ryan, the former president of Indiana University, who has been a long-time friend of mine, and has been associated for a long time with that foundation, so I have an awareness of their work, but I don't know the specifics of the particular funding circumstances, so I will get back to you.

Mr. BERMAN. The one specific I can inform you of is that our requests for increased funding have repeatedly and again this year been rejected by USAID.

Chairman LANTOS. Thank you very much.

Mr. Smith of New Jersey.

Mr. SMITH OF NEW JERSEY. Thank you very much, Mr. Chairman.

Ambassador Tobias, especially today on International Women's Day I think it is appropriate—it is always appropriate—to raise what I consider to be and many of us consider to be the cruelest

abuse of women ever perpetrated on women, and that is the one child per couple policy in China, a human rights abuse that has literally touched every woman, especially the poor women in the rural areas, in a way that is unimaginable.

Forced abortion, coercive population control is commonplace. Heavy fines are imposed upon women up to five to 10 times, both husband and wife, if they do not abort a child or get permission to have a child. It is an intrusion of unprecedented proportions, and yet it has been supported by many nongovernmental organizations, including U.N. Population Fund, which continues to defend it.

Let me ask you a question. Since we know or believe that the money again will be withheld pursuant to Kemp-Kasten because of the co-management and support of the program by the UNFPA, last December you might recall I asked you personally, as well as by letter, that dollar-for-dollar every dollar that does not go to the UNFPA go into a dedicated account to try to mitigate and end the horror known as obstetric fistula.

I want to applaud the administration for doing what I had asked and others had asked that went unheeded during the Clinton administration, because I asked them as well, to set up a program under USAID to build hospitals, to provide services for repair as well as prevention of this horrific problem that occurs usually with obstructed delivery. It often kills the baby and kills the mother, but also leaves those who survive with terrible scars.

Again, I want to thank you because you have initiated it. I was just in Nigeria, Mr. Chairman, and we have an obstetric fistula program there in five of the counties. There is a great deal of unmet need.

My question and my appeal to you would be to take every dollar that is not going to UNFPA and put it into a dedicated fund to build out more capacity, more hospitals for surgical repair. I have met so many of those women in Africa, and the lucky ones, the ones who get the repair, get their lives back and then are re-integrated into their communities.

Secondly, you talked about capacity in your testimony, but the whole issue of essential obstetrical services remains the greatest need in Africa not just for the prevention of fistula, but so that mother and child can experience a birthing that would lead to a healthier baby and a healthy mother.

That is a great unmet need as well in Africa, particularly sub-Saharan Africa, and I would hope that we would put even more resources into training midwives, concurrently working on Safe Blood, and you have a Safe Blood Initiative. Chaka Fattah and others have worked on that, and you have responded well on that too, but essential obstetrical services, it seems to me, if we put real resources into capacity building, women's lives would be saved.

Even on Safe Blood, Mr. Chairman, we had a hearing last year and heard from a WHO representative who told us from the witness table, that upwards of 44 percent of the women in Africa could be saved from maternal mortality if they had access to safe blood. I mean, that is extraordinary. Again, I think it gives us a challenge that we certainly need to meet.

I have many other questions, but I would just ask you again about putting the money in fistula. And finally, Mr. Chairman, regarding the missing girls on International Women's Day: In China alone, one estimate puts it as high as 100 million missing girls because of the one child per couple policy.

In Africa, there is now a push to bring I believe the nightmare of a one, two and three child per couple policy. Rwanda is considering it right now. You only get there by way of coercion and extreme economic disincentives to women not to have children, and that very quickly goes into the whole issue of coercion.

By the year 2020, 40 million men will be looking for wives, Mr. Chairman, in China and won't be able to find them because they have been killed by sex selection abortion. That is an outrage. It will lead to more trafficking and bride selling.

I yield to the Ambassador.

Mr. TOBIAS. Mr. Smith, as you and I have discussed before, I think one of the outgrowths of our extensive efforts in the President's Emergency Plan for AIDS Relief is the additional benefit of building healthcare capacity in Africa.

The President's request for Africa this year for all foreign assistance represents an increase of 54 percent over the prior year. If this budget were to be approved for Africa, assistance for Africa under this administration will have increased by a factor of nearly four times.

In building laboratory facilities or training doctors or training nurses principally driven by the USAIDS objectives we get the additional benefit of training healthcare workers who can help in a number of ways.

I share your view about the horrors of the fistula problem. I think we have made progress. Because of the nature of our program planning process, each of the individual country teams led by the ambassador and the USAID mission director will put together operational plans, and until we see those operational plans and add up all the pieces we are not going to know for sure exactly what programs that they have focused on based on the needs in their country, but certainly there is a high awareness of this problem, and I will continue to keep a spotlight on it.

With respect to the issue you raised about the UNFPA, because in 2006 the UNFPA signed a 5-year agreement with China I think it is pretty clear under the Kemp-Kasten amendment we would not be providing the money that in prior years has been requested and then withheld.

Therefore, this year when we put the budget together we requested zero dollars for UNFPA on the basis that given this 5-year agreement there was no point in going through that exercise, so that is where we are on funding for UNFPA.

Chairman LANTOS. Mr. Payne of New Jersey.

Mr. PAYNE. Thank you very much.

Mr. Ambassador, looking at the budget increase that has been reported for Africa it indicates there is a 52 percent increase in 2008. However, as we look at that increase it has primarily been for the Global AIDS Initiative PEPFAR program, which I must say is doing an outstanding job that African leadership in all countries where it is in operation have high marks for it and is something

that I commend the Congress for funding and President Bush supporting.

However, there is an actual decrease in Africa when we remove HIV/AIDS, the Malaria Initiative and the Millennium Challenge. You know, there are decreases in education assistance, a decrease in peace and security. There are decreases in child and maternal health, family planning, reproductive health.

You know, the HIV and AIDS problem, the pandemic is just so horrific that I do believe that it should even be more heavily funded. However, it seemed to me that because of the extraordinary situation in that area that for us to cut all of the other areas in order to make monies available for PEPFAR and malaria I think is eroding gains that we have made in the past.

I wonder if you might respond to that.

Mr. TOBIAS. Well, if we back out the year-over-year increase for PEPFAR, the increase in Africa, excluding the money going to HIV/AIDS, is about 3 percent.

We have looked very carefully on a country-by-country basis to try to ensure that we are putting the money into the programs in the countries that are in most desperate need, and I think that the people here and the people on the ground in each of those countries have done a really good job of assessing the particular priorities.

There are a number of countries that have made a lot of progress, but indeed there is much, much to be done in Africa. Our top areas of focus in Africa are Sudan and Liberia, two countries that need a lot of help and are receiving a lot of help, but I think we have done a very balanced job of looking all across the board at various programs.

I would also say that with respect to the money going into the AIDS program there are other residual benefits from that, as I was discussing with Congressman Smith, but I didn't mention the Safe Blood Program, but that is another example of where with AIDS money we are funding a Safe Blood Program that has had a pretty dramatic impact.

Mr. PAYNE. Well, there is no question, as I indicated, that we really feel that that is the major area the funds should go in. However, I just would like to mention that things like basic education have dropped. Egypt and Jordan have gotten tremendous increases, but we have seen the other parts drop.

We have seen agriculture decreased when in Africa agriculture I think is the win/win for people to become self-sufficient at least with people still starving in Africa. We thought that Andy Nochelles when he was there was going to start to concentrate on agriculture again, but once again a decrease in that. At some time I might like—it might be too late for this year—to send a note to your area.

Finally, there is a program called Water for the Poor, and if you would have your people look at that. You would think it is the poorest countries like Niger where there is practically no water in the Sahale parts of Africa, but, believe it or not, the majority of the money, none of it practically has gone there. It is going to Iraq and Afghanistan and Jordan.

I think that we need to have programs to help people in the areas that are our main concerns and our allies. However, if we

have a program called Water for the Poor, the poorest places in the world that have no water, and use it politically for our war on terror or something we ought to call it Water for the War on Terror and then have another separate program because it is very deceiving and it is really wrong.

Thank you.

Chairman LANTOS. Thank you, Mr. Payne.

Mr. Flake of Arizona.

Mr. FLAKE. Thank you, Mr. Chairman.

Ambassador, in November GAO had an extensive report on Section 109 assistance with regard to democracy efforts with Cuba. It wasn't a pretty report. It noted many failings at USAID, notably virtually no communication between USAID and State, or so it seemed, on some of these programs.

Can you discuss specific steps that have been taken to correct this?

Mr. TOBIAS. Yes. I find these kinds of reports to be very helpful because it is difficult as the administrator of USAID to be every place all of the time, and I thought there was a lot of useful information in that report.

The report did point out the difficulty of monitoring programs when our people are, for obvious reasons, unable to be on the ground in Cuba, and I think the report pointed out the fact that dissidents in Cuba were reporting that they were receiving materials funded by the program and were finding those things useful.

The period that was covered by that GAO report, and I don't know if I have that in front of me, but I believe that that ended in 2005 as I recall. Prior to the gathering of data for the report and the time that the report was released, there were actions that were taken to in effect try to address some of these problems.

For example, a coordinator was appointed for Cuba in the State Department to have overall coordination of all of these activities.

Mr. FLAKE. If I might just a focus a little closer?

Mr. TOBIAS. Certainly.

Mr. FLAKE. One of the criticisms was although there are provisions to have no-bid contracts with virtually all of our agencies, it is rare. In this case at USAID 96 percent of the contracts that were let out were no-bid contracts. Specifically, has that policy been changed?

Mr. TOBIAS. Well, I am trying to do everything we can to eliminate no-bid contracts where there is any opportunity to have a competitive situation. Both from my private sector and from just common sense, I think that is the right thing to do.

Mr. FLAKE. But there is no evidence so far that that has changed?

Mr. TOBIAS. In this particular instance?

Mr. FLAKE. Yes.

Mr. TOBIAS. Well, these contracts you are referring to are contracts that are ongoing.

Mr. FLAKE. I understand, but new contracts that are being let out. Are there bids being accepted rather than no-bid contracts?

Mr. TOBIAS. I can't tell you for certain. I will have to take that for the record on this particular instance.

Mr. FLAKE. Some of the problems that were pointed out were that some of the contractors were purchasing items—for example, chainsaws, Godiva chocolates, cashmere sweaters.

Mr. TOBIAS. A coat, I think.

Mr. FLAKE. Yes. Games and whatnot, but obviously it is unlikely it made it to Cuba at all. There seems to be very little follow up with regard to USAID, until GAO came in, to actually follow up and see what was delivered or how this was working. Has that changed?

Mr. TOBIAS. Well, we have taken this very seriously and have looked and continue to look very thoroughly at any abuses and the remedial action that can be taken with respect to people who are receiving money. Some of that is still in process.

Mr. FLAKE. USAID has requested or the administration is requesting a serious ramp up, I think about a fourfold increase, in funding for some of these programs. Can you assure us that if you really are asking us to consider such an increase that we can see some evidence that things have changed?

Mr. TOBIAS. Well, a major part of my focus at USAID, but across the State/USAID/Foreign Assistance effort, is to do just that, to put more accountability into the system to be sure that we in the administration and you in the Congress know who is getting the money, what is expected as a result of getting that money, did we get what we expected from that money and what are the results that are being produced.

I also want to be able to look more so than we have been able to in the past at the cost effectiveness of various organizations that carry out programs for us so that we can look at some competitive comparisons as to why does it cost so much per unit to do something with this organization and twice that or half that, as the case may be, with other organizations, so those are exactly the kinds of things I am trying to put into the system.

Mr. FLAKE. There are several—

Chairman LANTOS. Thank you very much.

Mr. Sires of New Jersey.

Mr. SIRES. Thank you, Mr. Chairman. I would like to thank Ambassador Tobias for coming today and giving his testimony.

Mr. Ambassador, I believe that the major underlying causes of instability and the emergence of extreme governments is world poverty. Programs for poverty alleviation and education and economic assistance are some of the most vital in fighting extremism.

Do you believe that the restructuring of the foreign aid programs will continue to address poverty alleviation around the world over the long term, this restructuring that you are doing?

Mr. TOBIAS. Yes, I do, and that is at the core of very much what we have in mind here.

I think too often with the best of intentions our foreign assistance expenditures in the past have looked more like charity in some instances where we were delivering programs, but we were not putting money into the development of local capability and local capacity to provide the sustainability so that a country could take over more and more of the responsibility for its own destiny.

There are whole combinations of things that have to come into play—the freedom and democracy of the people in the country, the

degree to which there are investments being made in education and healthcare and women's rights and other very important elements—but in the end economic growth has to take place in order for there to be an underlying economic wherewithal to support the achievement or the sustainability of what is going on.

A lot of what we are doing is a combination of those things, but it ends up with that kind of sustainability, and that is very much I think what will be at the core of alleviating poverty.

Mr. SIRES. Mr. Ambassador, on the Western Hemisphere I noticed that some of the countries were cut. Nicaragua was cut \$1 million, Bolivia and some of the others.

This may be a little tricky, this question. We are not sending them a message because they are not exactly supporting us at this moment by cutting some of these programs?

Mr. TOBIAS. No. In fact, I met last Friday morning, a week ago tomorrow, with President Morales in Bolivia. We had a joint press event after our meeting at which time he thanked the people of the United States for the help we have provided in the last couple of weeks for the flooding victims in Bolivia.

He acknowledged, as I did, that the United States, the people of the United States, the people of Bolivia, have a lot of common interests, that there are a lot of issues where we have disagreements, but by engaging in a dialogue we can perhaps address those disagreements.

Our focus on the program in Bolivia, for example, was really established on a demand-driven basis by our people both in Bolivia and our people here in Washington who focus on Bolivia identifying those places and those issues where we ought to be spending the money.

Peru, another country I was in last week, is a very good example of where in prior years we have built three police training centers in Peru to help address the drug problem. There was money in the budget in prior years to build those police training centers. Those are built. We don't need money in the Peru budget for those training centers this year. The same with the acquisition of helicopters.

It has been a matter of trying to take a hard look at every country's circumstance.

Mr. SIRES. Thank you, Mr. Ambassador.

Chairman LANTOS. The gentleman from Indiana, Mr. Pence.

Mr. PENCE. Thank you, Mr. Chairman, and thank you for calling this important hearing.

It is particularly gratifying for me to welcome Ambassador Tobias to this hearing today. Being a fellow Hoosier, I have long admired the Ambassador's leadership in our state and leadership in the business community.

Mr. Ambassador, let me say to you publicly what I have said to you privately many times, how grateful I know the people of Indiana are that you were willing to take time that might have been otherwise spent in an enjoyable retirement to serve your country in a difficult role, particularly taking on the role of administrator at USAID at a time of transition and reform I think is terribly admirable.

Mr. TOBIAS. Thank you.

Mr. PENCE. Knowing you to be a small town farm boy from Northern Indiana made good, I know that it is a challenge that you will rise to with the same grace that has seen you to many heights in business and now in public life, so I thank you for your service.

Mr. TOBIAS. Thank you.

Mr. PENCE. Let me just ask you in the broadest possible sense, Ambassador Tobias, your philosophy of foreign aid.

I am someone who believes that personnel is policy, and while you are going to be implementing the Secretary of State's and the President's vision for transformation of this program, I wondered if you might just simply reflect on your philosophy of U.S. foreign aid.

Namely, as the previous gentleman rightfully observed, is it exclusively about alleviating poverty, or is foreign aid more that would resonate in Ellwood, Indiana, and in Rushville, Indiana? Is it also about pursuing our national interests?

Particularly in light of the reforms that are being contemplated, where do you see that balance being struck, and to what extent with these reforms will we be looking to evaluate foreign assistance on the basis of national interests versus the alleviation of poverty in developing nations?

Mr. TOBIAS. I think there are two primary drivers of foreign assistance. One is the traditional approach I think we have had as Americans of having big hearts and a compassionate spirit and looking at people around the world who are not as fortunate as we are, as a nation, and where we are in a position to provide both economic help and technical assistance, and I think many Americans certainly that I talk to across the country very much resonate with that, but at the same time certainly in recent years our foreign assistance has become a very core part of our national security strategy.

I think we saw on September 11 when ungoverned spaces exist and people in Afghanistan who were operating in that kind of an environment were able to launch what they launched against the people of the United States.

I had an experience 2 or 3 years ago that happened to me in Uganda of sitting in the dust with a young boy who was about 12 years old out in a rural area next to his home. His home was a mud/brick structure with a straw roof. He was 12 years old.

His father, who had died of AIDS, was buried behind the house. His mother was dying of AIDS, and on that very day he had completed the last day of school that was going to be available to him without paying school fees, and he had no hope of paying the school fees. The unemployment rate in that particular part of Uganda was about 60 percent.

So here is somebody whose father is dead, his mother is dying, he is 12 years old, he has no hope of more education, and he has no hope of any kind of a meaningful career. That is the kind of hopelessness that I think contributes to people having willingness to bind bombs to their bodies or do other horrible things to other human beings and so I think it is very much in the United States' national security interest and the interest of the American people to be addressing those issues with our foreign assistance.

But at the same time, I think it is important for the nations with whom we work and for us ourselves to not take the view that foreign assistance ought to be a permanent source of revenue for each of these countries.

Rather, foreign assistance ought to be an investment that we are making to help countries—it is not about us; it is about them—move up a trajectory so that they get to the point that they are able to graduate from foreign assistance, and all the various components that the foreign assistance program is designed to fund is really what that is all about.

Chairman LANTOS. Thank you very much.

Mr. Faleomavaega.

Mr. FALEOMAVAEGA. Thank you.

I want to compliment my good friend from Indiana for his comments he made earlier about the Ambassador being from a small, rural country farm. I find a sense of commonality with you, Mr. Ambassador. I am from a small village island eating coconuts and raw fish, so I at least hope with that sense of understanding and appreciation. I come from a very small place as well.

Mr. Ambassador, I note with interest, and I realize that this year's request for \$20.3 billion we are fighting for every penny for this year's appropriations, and I am not a mathematician, but when I look at the fact that we are spending \$10 billion a week for the mess that we created in Iraq I find it very hard to comprehend sometimes and to understand what we are going through right now in the budget process.

I note with interest in your statement that there is a 15 percent increase for this year's funding for East Asia and the Pacific region, and I would like to know exactly. You mentioned that 53 percent of that goes to Indonesia, the Philippines and Mongolia.

I don't know exactly what a 15 percent increase means. Can I get a dollar value of what exactly that is? If you divide the pie, how much goes to when you say East Asia, does that mean Southeast Asia? I get a little confused here. Middle East, Near East, Far East. I sense that I would like to know what is the total funding for Southeast Asia, and how much of it goes to the Pacific region?

Secondly, I wanted to know. I have just returned from a trip to Fiji, to Tonga and also to Samoa. I am sad to say that while some of my colleagues have complained because of the cuts that go into the various countries and regions, we have absolutely no presence in the Pacific region as far as USAID is concerned.

I am really, really concerned about this, Mr. Ambassador. I say it is absolutely shameful. It is distressing and personally pathetic. In my humble opinion, we have the European Union, we have Japan, we have China, so many other countries that are willing to help the Pacific region except the United States of America.

I am not wanting to get into a geopolitical situation with the United Nations or the votes or how you persuade countries to support your needs when the chips are down, but I am talking about these are some 15 island nations that we have neglected for all these years, and I really would like to ask what will it take to have USAID presence back in the Pacific region?

Can you help me out with that? Do I have to introduce a bill, or that can be done administratively?

Mr. TOBIAS. Congressman, I have on my desk right now 105 recommendations that have come to me from task forces that I have established at USAID of career employees who have been taking a hard look at the way in which we go about our work.

Part of our focus has been to try to look both currently and look out 10 years or so and say are we still doing what we do the way we did it 5 or 10 years ago, and is that really the best way to do it going forward?

Are we using technology as a way to get what we are doing to remote, far-flung places that are difficult maybe to justify concentrations of human beings? Are there things we are doing in bilateral programs that maybe we could do more effectively or pieces of those things more effectively regionally?

What will come out of the recommendations I don't know, but we are taking a very hard look at the way in which we distribute our programs, how we ought to be—

Mr. FALÉOMAVAEGA. Mr. Ambassador, when do you think you will make the decision on this?

Mr. TOBIAS. Well, as I say, the task forces have been hard at work. The recommendations have recently arrived on my desk, and as we begin to sort through them I will be wanting to consult with the Congress and talk with others.

The NGO community has provided a lot of valuable input. We have had over 60 meetings with various NGO organizations as we have gone through the process here.

I would be happy to come and meet with you and talk about the issues that are of interest to you.

Mr. FALÉOMAVAEGA. Thank you, Mr. Ambassador.

I yield back, Mr. Chairman.

Chairman LANTOS. Thank you very much.

Mr. Rohrabacher.

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

For the record, many of us who pride ourselves on being frugal certainly support ideas like trying to create healthy and safe water for people around the world and safe blood supplies and things such as that.

We would also hope that we don't just rely on the United States Government as we have now people like Bill Gates and other people who are stepping forward with billions of dollars. I hope that we are working with them to help connect them in ways that can be very helpful in helping those who live at risk throughout the world and they, too, can play a role.

One thing that you have mentioned, and again this has always been reestablished by people involved in these programs, that democratic reform and democratic progress is essential to having economic success of a country, as some of you acknowledged today.

I would like to relate that directly to the country of Ethiopia, for example. Now, understanding that Ethiopia just did our bidding in Somalia, which is something that we appreciate certainly, I don't know. Maybe that could have been handled in a different way. Maybe not.

The fact is the Ethiopian Government is becoming more and more dictatorial, not less. They actually had a free election, and then the current government put the opposition which won the

election in jail rather than turning the government over to the people who won the election.

Has this been reflected in the fact, and if we really do believe that democratization is important for economic progress, are we going to be restricting aid to Ethiopia? I mean, there are, for example, many claims, and there are constituents in my district, American citizens who have economic claims against the Government of Ethiopia that they refuse to deal with.

Furthermore, you have then the American claims. You have a trend toward dictatorship in Ethiopia. Should we not then be limiting our assistance? Specifically, if that is the case should we not eliminate Ethiopia from the Millennium account, the Millennium Project that we have moving forward?

Mr. TOBIAS. Of course, the Millennium Challenge Corporation has some very strict guidelines that are based on merit that include a number of the issues you are talking about such as democracy and rule of law. They use indicators that are supplied by well-regarded international institutions.

I am a member of the board of the Millennium Challenge Corporation, and those are the kinds of things that need to get reviewed all the time and will.

Mr. ROHRABACHER. With that said, if you could then pass on an understanding that many of us are watching what is going on, that we would expect a movement toward democracy and away from their current trend if they are to be included in the Millennium Challenge account.

Mr. TOBIAS. I will certainly pass that on to Ambassador Danilovich and others.

I think it is also important to point out that in a country like Ethiopia, but not singling out Ethiopia necessarily specifically, some of our assistance may go through government agencies.

We may be supporting a program, for example, in the health ministry or the education ministry, but much of our assistance goes through civil society, building local NGO organizations in the country, which has a residual effect I think of adding to the democratic environment in that country.

Mr. ROHRABACHER. As long as it is not sustaining their people and thus permitting the government to continue like in Korea, for example, where we provide food assistance. We just permitted the North Korean Government to use its own money for weapons. If that happens in Ethiopia or other countries, that is going the wrong way.

Thank you, Mr. Chairman.

Chairman LANTOS. Thank you very much.

The gentlelady from California, Ambassador Watson.

Ms. WATSON. Thank you so much, Mr. Chairman, and let me welcome Ambassador Tobias to this hearing.

Just very quickly, when Secretary of State Rice announced that she was developing an initiative on transformational diplomacy I was very encouraged, and when you became the coordinator that gave us great hope.

A group of us sent you a letter dated November 14, 2006, and we got a letter back 2 weeks later saying I would like to talk with

you. What I would like to do is resubmit. I think you have answered some of our questions. We had 35.

Mr. TOBIAS. Yes.

Ms. WATSON. I would like to resubmit those that have not been directly answered and hope you could get back to us because they pertain to a lot of what has been mentioned.

We have had various groups come into our office since you were put into that position, and there is wide concern that you have reversed a decade-long decentralization process in the U.S. Foreign Assistance program and so our question is are you allowing people from the outside or are you allowing people who were formerly with USAID and are you allowing our input as you go about reforming a lot of these programs?

If you could respond to that, we will put the questions in writing and you can respond back to us in writing.

Mr. TOBIAS. Okay. Let me first of all, Ms. Watson, I apologize if we haven't handled this issue as I thought we had. I received your letter. I personally read everything that was in it, and my understanding from my staff—

Ms. WATSON. I will give you a copy.

Mr. TOBIAS [continuing]. Was that we have answered all of those issues not in writing, but we have attempted to answer the questions in what we thought was a better way by doing that in briefings, but we will do it exactly the way you want to do it.

Ms. WATSON. Thank you.

Mr. TOBIAS. With respect to your question about decentralization, I think anyone who worked with me or around me in my corporate career would tell you that I am a field oriented person.

I was once in an organization that I was running that I thought was too headquarters centric. I turned the organization chart upside down so that people would understand that the people at the top of the organization were the people who were outward facing, facing the people that the corporation, in that case the customers, and that everybody on through to the CEO were there not to be supported, but to support the people in the field.

Part of the hard look we are taking at USAID is to see how much can we move out closer to the people at the end. I think maybe some of the commentary, which is very understandable, that people have made through this process is kind of like the seven blind men touching the elephant in a different part and getting a different impression because this has been very much a work in progress.

You know, I had the first people in the first space to get started in this process in June, and between June and just recently we put together the whole budget, but the fact of the matter is that the people in the field are going to have more of a say than they have had historically.

It is just that we have never set from Washington a strategic direction of here is where we are trying to go and here is what we want to accomplish, and the role of the people in the field is then going to be to figure out okay, how do we get that done?

Ms. WATSON. Right. Let me interrupt you. I am very interested in Representative Faleomavaega's request that we look at the Pacific.

Mr. TOBIAS. Yes.

Ms. WATSON. I was down with the Ambassador, as you know.

Mr. TOBIAS. Correct.

Ms. WATSON. We need to look at the countries in the Middle East and Africa countries too. I understand the President now is going down to Central and South America trying to spread our goodwill. Sometimes it is too late.

If you could address our questions, then I will get back to you when we read your responses.

Mr. TOBIAS. Yes. Okay.

Ms. WATSON. Because it is very important as we issue out aid to foreign countries that we do it in a way that is really relevant to the needs in these various countries.

Mr. TOBIAS. Right.

Ms. WATSON. Thank you very much for your cooperation.

Mr. TOBIAS. Thank you.

Chairman LANTOS. Thank you very much.

Before recognizing my friend from Nebraska, let me say members will have 5 days to submit questions for the record, and I know those questions will be answered in writing and promptly, Mr. Ambassador.

The gentleman from Nebraska, Mr. Fortenberry.

Mr. FORTENBERRY. Thank you, Mr. Chairman. Welcome, Mr. Ambassador.

Mr. TOBIAS. Thank you.

Mr. FORTENBERRY. You spent a great deal of time in your testimony talking about your restructuring of the budget this year and getting away from 1,000 agendas and creating clear focus. I appreciate that.

I think that we always have to in our foreign assistance programs tether ourselves to finding one answer, getting to the root causes of human suffering. If you think through that the breakdown of civil order, disease, a lack of economic sustenance are key elements that result in human misery, and I think your ordering of priorities such as just governments democratically, well-governed democratic and just governments, investing in people as well as economic development get at those.

One other root cause of human misery though is a breakdown of more fundamental civil institutions such as the family. My colleague, Congressman Smith, alluded to some of the most horrendous assaults on human dignity that we have ever witnessed in the history of humanity are taking place today such as China's one child policy.

This mindset is on the march around the world. Vietnam, somewhat of a China Lite policy. It is on the march in Africa. The Philippines, it is my understanding, just held it off.

In our foreign assistance programs, can we ensure that we are enlivened with a spirit that looks to sustain and nurture families and create a completely opposite model versus this command and control assault on human dignity that is taking place in so many areas of the world?

Mr. TOBIAS. Well, as you point out, in many of the impoverished countries of the world there is a breakdown of fundamental institutions—the institutions of community, the institutions of family—that provide the fabric that ties people together.

In the villages in Africa where I have spent a lot of time with the AIDS Initiative, the huge numbers of orphans, for example, just tear your heart out.

Yes, we are trying in all of our programs, really in a pervasive way, to do all we can to encourage the kinds of institutions, and families certainly are at the heart of that, that will help ensure that the kind of stability in communities and countries that is going to be necessary for countries to rise up from their situation so that the move to self-sufficiency does in fact happen.

Mr. FORTENBERRY. Thank you for your answer. This is absolutely critical.

Sometimes it is harder, though, because in the other again root causes of human misery we can quantify them a little bit easier—disease, lack of economic development, a breakdown of civil order—but these more fundamental breakdowns are harder to quantify, but I think we should again tether ourselves to that objective and always think deeply how do we sustain and nurture these fundamental institutions as one of the guiding paradigms of all that we are doing.

Thank you for your encouraging words.

Mr. TOBIAS. Thank you.

Chairman LANTOS. I want to thank my friend from Nebraska.

I want to thank you, Mr. Ambassador. I want you to know that on a bipartisan basis this committee is fully committed to our foreign aid program. We think you are doing a fine job, but I hope you don't mind that we point out severe problems that we detect.

I hope you will get back to us on the terrorist financing that was undertaken by your agency, and I very much hope you will take the requests and comments of members not only of this committee, but any Member of Congress, as seriously as they should be.

We want to thank you, and we wish you the best. This hearing is adjourned.

Ms. ROS-LEHTINEN. Thank you. I echo the sentiments of the chairman. Thank you, Mr. Ambassador.

Mr. TOBIAS. Thank you.

[Whereupon, at 11:41 a.m. the committee was adjourned.]

A P P E N D I X

MATERIAL SUBMITTED FOR THE HEARING RECORD

WRITTEN RESPONSES FROM THE HONORABLE RANDALL L. TOBIAS, DIRECTOR OF U.S. FOREIGN ASSISTANCE AND USAID ADMINISTRATOR, U.S. DEPARTMENT OF STATE, TO QUESTIONS SUBMITTED FOR THE RECORD BY THE MEMBERS OF THE COMMITTEE ON FOREIGN AFFAIRS

QUESTIONS SUBMITTED BY THE HONORABLE TOM LANTOS, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA, AND CHAIRMAN, COMMITTEE ON FOREIGN AFFAIRS

Question:

The shift of funds from the DA to the ESF account is having a crippling effect on global programs. The EGAT budget is being drastically cut. While the country focus has clear implications for some types of development, many types (such as creating a green revolution in Africa, developing varieties that increase food production in Africa) are not country but regional issues. Devolving these to countries fragments the efforts, increases the short term focus when longer-term is appropriate and generally decreases the efficiency of the effort. We need to keep a better balance between country, regional and global focus in this world of globalized markets. Why retreat from global programs?

Response:

We have absolutely no intent to retreat from global programs. We fully recognize that not all foreign assistance is, or should be, implemented on a country basis, and that many issues are best addressed as part of a global or regional strategy. Accordingly, the foreign assistance framework includes a separate category to highlight global and regional initiatives, defined as those activities that transcend a single country's borders. Such activities may include trade capacity building, emergency humanitarian assistance, support to regional institutions, multilateral organizations, or research. In actuality, in order to ensure a coordinated response and effective and sustainable impact, the reform process sought to maximize all resources implemented at the country level within country budgets. In identifying resources within global or regional budgets which were actually allocated to specific countries, we sought to bring transparency to the process as well as to ensure that what were in truth country resources were maximized and coordinated within country level budgets.

I note further that in the past, Ambassadors and Mission Directors often did not have a full picture of the resources being implemented in their countries, because some activities were planned and implemented from Washington. Consequently, they did not exercise full oversight over these programs, and doing so from Washington was costly and time-consuming. To empower our Mission Directors, Ambassadors, and country teams, who are our people in the field with the best knowledge of country circumstances, the reform process maximized resources implemented at the country level into country-level budgets.

Finally, as a point of clarification, our sole intent in shifting any funds from DA to ESF was to draw cleaner lines around their use, as identified by country characteristics. This shift had no impact on the funding for global and regional budgets, nor did it represent any reduction in or re-prioritization away from development activities.

Question:

In the past the relationship of USAID and US Universities has been a productive one. Most development professionals recall the major efforts of degree training and institutional capacity building in the 1960-80s as being some of the most effective

programs in the Agency's history. At the time USAID was training 15,000/year in degrees in US universities but now that number is below 1000. Those trained through USAID have risen to high levels within their government, are ambassadors for the US in their countries and represent high levels of achievement in their fields which fuel development. Why has USAID abandoned this highly effective effort?

Response:

USAID continues to see great value in long-term, U.S. degree programs and has certainly not abandoned these kinds of efforts. However, the cost of degree-earning programs in the United States is very high in comparison to other venues and modes of training. To address cost constraints, USAID has developed innovative long-term training approaches, as well as short-term training in the U.S. and overseas. USAID works with U.S. universities to negotiate cost-sharing or reduced tuition arrangements that can increase the number of people trained.

In Kenya, Uganda, Zambia, and Mali, higher education partnerships have featured new long-term degree programs for scientists and teachers in which coursework is conducted initially in their home country. A limited period of the M.S. or PhD program is spent in the United States before the students return home to conduct field research, set up incubator centers and laboratories, or teach to fulfill their degree requirements.

The use of partnerships and short-term training also increases local capacity which USAID's missions, embassies and local partners can use to support transformatonal development. These programs not only build local institutional capacity but also help provide U.S. institutions with working partners around the world, as well as excellent resources for public diplomacy.

Question:

While it is clear the basic education is important for development and social stability, why has higher education been so diminished within the USAID portfolio. Higher education programs, both to build human and institutional capacity, are fundamental to development in a global economy where information and technology play such a dominant role. How are nations to generate new knowledge, new technologies, new plant varieties, manage complex systems, negotiate trade treaties, meet international standards and create the new businesses that will complete on the international stage without highly trained entrepreneurs? In fact it is these highly trained people with vision often garnered in their university or our university environment that create the companies that employ those with a basic education. So why has USAID not done more in this area with its university partners.

Response:

Higher education can be an important component of recipient country efforts to move from a relationship defined by dependency to one defined by full partnership status. Higher education investments provide a wealth of short-, medium- and long-term results that advance and support a variety of development and diplomacy objectives, including economic growth in the countries where we work. The Agency's work with higher education partners builds both human and institutional capacity as well as important relationships that significantly enhance our ability to work effectively in a variety of cultures, countries and contexts.

The FY 2008 budget was built upon a country by country assessment of where assistance could be most effective given the overall strengths and challenges in a particular country and not by a more fragmented sector approach. Resources in each country were prioritized to the interventions that would be critical levers for development; in many countries, this intervention was higher education. Indeed, the FY 2008 budget request for higher education is \$142.6 million. These funds will be programmed both in bilateral missions and through central mechanisms.

In all, higher education has not been diminished within the USAID portfolio; on the contrary, higher education continues to be a vital asset across the entirety of the foreign assistance framework. As an example, USAID supports such partnerships through the work of its overseas missions and the Higher Education and Workforce Development team within the Office of Education in the Bureau for Economic Growth, Agriculture and Trade. An excellent case in point is the Training, Internships, Exchanges and Scholarships (TIES) Program in Mexico which was recently showcased by President Bush and President Calderon.

In addition to the work that we do with U.S. universities in higher education programs, I think it is important to note that U.S. universities are key implementing partners across a range of foreign assistance programs such as health and agriculture. We appreciate the good work that U.S. universities do across the world and fully embrace their participation.

Question:

U.S. universities are eager to develop their international perspective and capacity. Their capacity to be international is the source of our national capacity to be well equipped to do business internationally, be effective diplomatically and ensure our national security. Now that USAID is more interconnected with the Department of State would it not make sense to invigorate the partnership between the USG and US universities to build our domestic capacity in international experience of research, language, culture and science to be better prepared to engage all nations effectively for our own and their own benefit. We have such policy in place through Title XII and USAID's ADS 216. Why are we not taking full advantage of these existing instruments to enhance this partnership?

Response:

Many of USAID's higher education investments are designed to simultaneously utilize and strengthen the domestic capacity of U.S. universities to engage other nations in an effective manner. Representatives of the U.S. higher education community frequently remark that the higher education partnerships, exchanges, scholarships, research projects and related international community service opportunities supported by USAID are critical to the internationalization of their campuses and programs.

For example, the higher education partnership programs supported by the Office of Education in the Bureau for Economic Growth, Agriculture and Trade, have repeatedly improved the domestic capacity of U.S. institutions to internationalize their programs. A recent assessment of 12 Middle East Partnership Initiative (MEPI) partnerships implemented under the Higher Education for Development (HED) program revealed that more than 80% of the U.S. higher education institutions increased the internationalization and institutional capacity of their campus programs. For example, a number of institutions have already instituted Arabic language programs as a result of the opportunities and interests created by their HED partnerships.

Question:

One of the last remaining and long lasting programs between USAID and US universities are the Collaborative Research Support Programs (CRSPs). These are wonderfully effective programs that generate new knowledge about agriculture and environment to solve the problems of development in poor countries under Title XII. They are designed to do so while training graduate students and building institutional capacity . . . basically three birds with one stone. Universities contribute 25% or more to the effort and the CRSPs leverage large amounts of funding from other sources and have a wide range of partners, NGOs, universities, private sector. Your projections for next year are to cut these programs from \$23M to \$17M which would have a devastating impact on the programs. Congress has consistently recommended their funding to be closer to \$30M. This decrease appears to be related to the shift of funding away from the DA account to ESF and the major impact of that on the EGAT budget, suggesting that you are cutting across the board without regard to program quality. Why are you endangering effective, important programs and compromising relationships with US university partners who have been so support of international development activities?

Response:

The Collaborative Research Support Program (CRSP), one of several university-led programs supported by USAID, dates back to the 1975 Title XII amendment to the Foreign Assistance Act of 1961. Over this 32-year period, USAID core funding for the CRSP program has steadily increased to its historical high of \$23 million in Fiscal Years 2005 and 2006. There are currently nine active research areas under the CRSP program, each led by a single Land Grant university management entity; some with a history of more than 25 years as the management entity. USAID, in collaboration with the Board for International Food and Agricultural Development (BIFAD) and the university community, is restructuring the program to be more responsive to USAID field mission programs and changes in foreign assistance priorities. The intention is to expand opportunities for direct funding by field missions and ensure relevance of research to developing country needs.

As mentioned above, the CRSP program is one of several USAID supported programs with Land Grant universities under Title XII. Other Land Grant universities are successfully implementing training, institutional capacity building, and research programs with direct mission funding. Many have competed for these awards. While USAID central programs will continue to provide core funding for innovative global research led by the university community on topics of importance to developing

countries, USAID will also assist the CRSPs to leverage central core funding with funds from missions. The Agency is doing this by conducting reviews with the Title XII community every five years to validate and revise priority areas for research, helping to inform missions about CRSP activities, and expanding the topics to be more relevant to mission and host country needs. Further improvements are being discussed with the university community to find management efficiencies so that more funds can be made available for research and training. We note that changes in allocations to these programs are entirely unrelated to the efforts to utilize DA and ESF in a manner more consistent with their authorizations.

Question:

Ambassador Tobias, two weeks ago I sent a letter to you, cosigned by 40 of my colleagues, strongly opposing any reduction in the core support to the Collaborative Research Support Programs (CRSPs) in FY07 from \$23 million to \$17 million. These programs, administered by our land grant colleges and universities, are critical to poverty reduction and the elimination of hunger and disease in Africa. These programs are responsible for increasing crop yields, increasing nutritional standards, building human capital, and generally addressing development problems. With hunger and poverty on the rise in many African countries and the proven impact CRSP programs have on hunger and nutrition, why has the Administration proposed cutting these funds?

Response:

No response was received by the committee.

Question:

President Bush proposed a dramatic 25 percent reduction in funding for international family planning and reproductive health (FP/RH) programs in his federal 2008 budget request despite the fact that they are one of the most successful components of the U.S. foreign assistance program.

Under the President's proposal, total U.S. bilateral funding for FP/RH programs would be drastically reduced to \$324.8 million—a whopping \$111 million less than current funding levels. Ironically, the rationale for the decrease from the State Department was a recognition of "significant successes that have been achieved after 40 years of worldwide family planning efforts." Rather than build on these successes, this proposed budget abandons these essential lifesaving programs, sacrificing progress in maternal health, poverty alleviation and disease prevention.

Response:

Family planning and reproductive health programs remain a priority in the FY 2008 budget request for Child Survival and Health Funds. The Administration continues to be strongly committed to voluntary family planning programs in developing countries as a means of improving the health of mothers and children, preventing abortion, and achieving economically and environmentally sustainable population growth. The United States government is still the largest bilateral donor for family planning.

The Administration's FY 2008 budget request for family planning is an outcome of a rigorous budget process that took into account foreign assistance priorities and included analyses of country needs, gaps and obstacles to advancement, performance, programs of other donors, and available resources. The request reflects the continued need to improve family planning access in many countries while recognizing achievements in others, including the graduation of many countries from U.S. family planning assistance over the last several decades and the progress of other mature programs towards this end.

Successful graduation from Family Planning assistance requires many specific elements to be in place, including access to high quality Family Planning information and services across income groups; sufficient leadership, commitment, and financing at the national level; a reliable source of supply and delivery of contraceptive commodities; technical skills; and engagement of the private sector. Graduation benchmarks also include low fertility and high levels of contraceptive use.

In Asia, Indonesia, Thailand, and Turkey have graduated from assistance. Egypt will graduate by 2010. In Latin America, Brazil, Mexico, Colombia, and Ecuador, among others, are no longer receiving USAID family planning assistance. Family planning programs in the Dominican Republic, Jamaica, and Paraguay are on track to graduate from USAID family planning assistance in the next few years. In Europe and Eurasia, USAID programs in Kazakhstan, Kyrgyzstan, Moldova, Romania, Russia, and Uzbekistan have successfully increased contraceptive use and thereby reduced abortion.

The FY2008 budget request targets 43 percent of family planning resources to Africa, continuing a strategic shift in recent years of family planning resources towards the region and other areas of the world where contraceptive use is low and significant family planning needs remain. Nearly half of all maternal mortality occurs in Africa where, on average, only 15 percent of married women use contraceptive methods. Significant need continues to exist in low prevalence countries in Asia, such as Afghanistan, Cambodia, northern India, Pakistan, and Yemen, where contraceptive prevalence is below 25 percent. In Latin America, USAID is concentrating its family planning resources in Guatemala, Bolivia, and Haiti where contraceptive use ranges from 22 to 35 percent.

Question:

A concern was expressed that the strategic framework is far too rigid to accommodate the challenges presented by globalization—whether they be economic challenges or those posed by anti-democratic forces that function through international networks. In that regard, it would be helpful to know why the framework does not accommodate transnational issues, such as trafficking or labor rights.

Response:

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

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

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

Question:

A concern that the "F" process only takes into consideration things that can be "counted." i.e. the number of flu shots given in one day, and does not consider qualitative ongoing projects, that take time to achieve results, and are more appropriately reported through "telling the story." How is there capacity for that kind of program?

Response:

The Office of the Director of U.S. Foreign Assistance has developed standard performance indicators to measure both what is being accomplished with U.S. foreign assistance funds (e.g. short-term) and the collective impact of foreign and host-government efforts to advance country development (e.g. long-term). These indicators were identified by working groups comprised of development experts across the USG, in consultation with multiple consortia of NGO groups. Nearly all indicators capturing people-level progress will be disaggregated by sex. Operating Units may supplement the standard list with "custom indicators." These indicators will be reviewed and evaluated for inclusion as standard indicators in the future.

FY 2007 is a pilot year for testing the value and utility of the proposed indicators. During the pilot year, F will assess the current list of indicators and any custom indicators identified by the field, and continue to identify appropriate outcome indicators attributable to USG assistance. In the interim, USAID and State performance tracking systems will continue to capture non-standardized program performance data. Links to full descriptions of the indicators are available online at: <http://www.state.gov/f/releases/factsheets2007/78450.htm>.

Indicators are divided into the following three categories:

Strategic level indicators capture the impact of foreign and host-government efforts at the objective level (such as Investing in People or Economic Growth) and will be tied directly to the five-year Foreign Assistance Strategy, which is currently under development. They rely on data collected by secondary sources, such as the World Bank, UNDP, and Freedom House. While these indicators have not been finalized, examples of those under consideration include: decline in poverty rate or number of women holding seats in parliament. Measured improvement is expected over multi-year time spans.

Area level indicators measure country performance within sub-sectors of the five functional objectives (such as Health and Education within Investing in People). These indicators measure results beyond what could be achieved solely by USG (USG, Host country and other donors' activities combined). Some examples include: number of days to start a business, number of deaths among children under five per 1,000 live births, and net enrollment rate for primary school. Like the Strategic Indicators, measured improvement is expected over multi-year time spans.

Element level indicators measure outputs and outcomes that are directly attributable to the USG's programs, projects and activities. For example, indicators track the number of judges trained or total amount of loans disbursed due to expenditure of USG funds. Data are collected primarily by implementing partners, and targets are set by USG agencies and their partners against these indicators on an annual basis.

We welcome continuing input from the NGO community and others so that our indicators will be as robust as possible. We have a special mailbox set up for this purpose: Findicators@state.gov.

Question:

What programming role will the Bureau of Democracy, Human Rights and Labor have in FY 2008 and will it continue to have a human rights and democracy fund at its disposal under the strategic framework?

Response:

The Bureau of Democracy, Human Rights and Labor will continue to play a major role in programming innovative human rights and democracy initiatives through its Human Rights and Democracy Fund (HRDF) and, more broadly, will work with the Office of the Director of Foreign Assistance, to coordinate the democracy promotion envisioned under the Foreign Assistance Reform. DRL will administer \$86 million in DF programs in FY 2007, and another \$8 million will be transferred to the Bureau of International Organizations for the UN Democracy Fund. The push-back on democracy in many regions makes it more important than ever that the Department maintain its capacity to respond quickly and flexibly to new challenges.

Question:

It appears that labor rights programs are only incorporated in the President's FY 2008 budget for Central America with a side mention in Iran. I understand that Central America is included only because Congress has made it clear that it will earmark these funds. As I recall last year, Representative Lowey was especially concerned that these issues be addressed as reflected in appropriations language that she authored. Given this, while the Administration appears to believe in the value of improving workers' rights worldwide, why is this not reflected in the FY 2008 budget request?

Response:

Labor rights are recognized by the USG as fundamental human rights, and as such are core to U.S. foreign policy objectives in multiple countries. They are also an integral part of U.S. trade legislation, as respect for core labor standards is included as a condition in a number of trade beneficiary programs, such as the Generalized System of Preferences, and in nearly all free trade agreements signed by the United States. US Government-funded programs to improve working conditions and promote labor rights are currently active in every region in which the United States provides foreign assistance.

As part of the Secretary's reforms, we are currently reviewing the contribution of a range of programs to improve working conditions and workers' rights to our foreign assistance goals and how the issues they address are best incorporated into the Foreign Assistance Framework. Strategically, safeguarding the rights and improving the working conditions of workers worldwide are important to our Governing Justly and Democratically, Economic Growth and Investing in People objectives. We plan to continue to fund appropriate programs to achieve these goals in those places

where the promotion of labor rights are a priority at the country level. This will be determined in the FY 2008 operational planning process. Based on current assessments, our budget request includes the funding needs we anticipate for FY 2008.

QUESTIONS SUBMITTED BY THE HONORABLE ILEANA ROS-LEHTINEN, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF FLORIDA

Question:

Mr. Ambassador, Congress creates and funds specific accounts, largely because its Members want to know exactly what the funds are being applied to.

Won't it be a problem, under your framework, if a Member following up on an appropriation for a specific set of activities inquires as to what specifically is being spent on what specific efforts in what countries and is instead first provided with an explanation of the different categories you have set up with regard to program objectives and country categories?

After all, the Congress at this point doesn't authorize and appropriate to those categories and objectives. It appropriates instead to the accounts it has specifically created.

Response:

The changes that I have put in place are designed to be more responsive and transparent in providing information to the Congress. We have developed a standardized set of definitions, or a "Development Dictionary," if you will, of the programs that relate to our five priority objectives, and ultimately to the transformational diplomacy goal. The Development Dictionary describes what we mean, across all programs and sources of funding, when we describe a program as "justice system reform" or "conflict mitigation." We published this reference dictionary on line and have invited comments from your staff and the NGO community. Every dollar of the FY 2008 budget is identified against these common definitions, making comparisons across fiscal years, countries, programs, and regions transparent and easy. As such, under the new construct, when we are asked about programs and allocations in a given country, we will be able to produce a comprehensive and specific answer in a more expedited fashion.

We have wrapped the funding, definitions, and indicators into one system that will be able to tell you who is getting the money, what they are spending it on, and what results we expect to be achieved. This information will come together in an annual Operational Plan submitted to Washington by Post for each country where foreign assistance funds are provided. For the first time, starting with FY 2007 funds, we will be able to tell you what for example a \$1 million change from X activity to Y activity will mean for a program so that you can better determine whether such a change, and its opportunity cost, best reflects the impact you want to have.

In making these changes, we sought explicitly to be responsive to concerns raised by Congress about the transparency of our decision making, the coherence of our resources, and our ability to account for results. My hope is that these first steps taken over the past nine months will support a robust dialogue between the legislative and executive branches about funding priorities.

Question:

Mr. Ambassador, in the conclusion of your written testimony, you state that "since budget planning was thoroughly integrated, the Fiscal Year 2008 budget, like a rubic's cube, relies on each individual piece to maintain the integrity of the whole." What does that mean if the Congress wishes to adjust all or part of this foreign aid budget?

Response:

The FY 2008 Foreign Operations budget reflects country-based strategies for progress, evaluated within the context of regional challenges and opportunities, and responsive to a shared goal and objectives targeted to achieve that goal. And since budget planning was thoroughly integrated, the FY 2008 budget, like the proverbial Rubic's Cube, does indeed rely on each individual piece to maintain the integrity of the whole.

In addition to developing the new Strategic Framework for Foreign Assistance, we have developed a standardized set of definitions, or a "Development Dictionary," if you will, of the programs that relate to our five priority objectives, and ultimately to the transformational diplomacy goal. We have developed common indicators for each of the programs defined in the development dictionary, such that we will be able to compare partner, program, and country performance across agencies and sources of funding. We have wrapped the funding, definitions, and indicators into

one system that will be able to tell you who is receiving the funds, what they are spending it on, and what results we expect to be achieved. This information will come together in an annual Operational Plan submitted to Washington for each country where foreign assistance funds are provided. For the first time, starting with FY 2007 funds, we will be able to tell you, for example, what a \$1 million change from X activity to Y activity will mean for a program so that you can better determine whether such a change, and its opportunity cost, best reflects the impact you want to have.

My hope is that the steps taken over the past nine months will support a robust dialogue between the legislative and executive branches about funding priorities. Because with this new transparency of information comes a new responsibility on both of our parts to raise concerns where we feel our differing priorities will have a detrimental impact on transformational diplomacy progress; I look forward to hearing your input regarding the prioritization of resources that we have laid on the table.

Question:

Mr. Ambassador, what authority do you have, in your official capacity and position, to eliminate or disregard congressional earmarks?

If you do not have such authority, do you believe that you should?

Response:

We follow statutory earmarks as required by law. Such earmarks have the effect of limiting the President's discretion to conduct foreign policy and we have therefore urged Congress not to earmark appropriated funds. That said, however, I support the checks and balances system of our government that allows the executive branch to present a budget to Congress and for Congress to exercise its judgment in allocating taxpayer funds. Considering the tight budgetary environment, I am satisfied that the President's FY 2008 request represents the appropriate concentration of resources by country and by region. This is because the FY2008 request reflects a focus on the specific gaps and obstacles countries face in moving from one country category to another, with the ultimate intent of supporting recipient country efforts to move from a relationship defined by dependence on traditional assistance to one defined by full sustaining partnership status.

Question:

Why does a major foreign aid program and organization within the State Department—the Office of the Global AIDS Coordinator that runs the President's Emergency Plan for AIDS Relief—lie outside of the direct authority of your office, with its Coordinator also reporting directly to the Secretary of State? How does that improve coordination and implementation?

Response:

The U.S. Leadership Against HIV/AIDS, Tuberculosis, and Malaria Act (P.L. 108–25), promulgated in 2003, provides the U.S. Global AIDS Coordinator with primary responsibility for the oversight and coordination of all resources and activities of the USG to combat the HIV/AIDS pandemic. The Director of U.S. Foreign Assistance was subsequently established by the Secretary to make every effort within existing statutory authority to ensure that U.S. assistance writ large was used coherently and effectively. The Director's responsibilities accordingly include providing overall coordination and guidance to U.S. foreign assistance delivered through other agencies and entities of the USG, including the Office of U.S. the Global AIDS Coordinator. In building the FY08 budget, therefore, interagency teams, including representatives from PEPFAR, were assembled and tasked with making certain that resources were coordinated, mutually supportive and targeted to the achievement of shared objectives both within and across countries. In the PEPFAR focus countries, teams considered proposed USG resources in light of the specific gaps and obstacles impeding country progress as well as how these resources could be coordinated in such a way as to not only facilitate the success of PEPFAR programs but to amplify their results.

Question:

If the Millennium Challenge Account (MCA) and its Millennium Challenge Corporation are a "transformational" aid initiative, as is your office, why aren't they under your direct scope of authority?

Response:

The Millennium Challenge Act of 2003 established the Millennium Challenge Corporation (MCC) (Sec. 604) as independent entity with its own Board of Directors.

The Secretary of State and the Administrator of USAID sit on that Board. In addition to this authority on the MCC Board, the Foreign Assistance Act directs that the Secretary of State shall be responsible for the continuous supervision and general direction of economic assistance to ensure that such programs are integrated and the foreign policy of the United States is best served. With the establishment of the Office of the Director of U.S. Foreign Assistance, a new mechanism was created that helps to ensure that U.S. assistance writ large is used coherently and effectively. The Director's responsibilities accordingly include providing overall coordination and guidance for U.S. foreign assistance delivered through other agencies and entities of the USG, including the Millennium Challenge Corporation. In building the FY08 budget, therefore, interagency teams were assembled and tasked with making certain that resources were coordinated, mutually supportive and targeted to the achievement of shared objectives both within and across countries. These teams sought and received input from MCC about projected expenditures in the countries where they are working. In MCC threshold and compact countries, teams considered proposed USG resources in light of the specific gaps and obstacles impeding country progress as well as how these resources could be coordinated in such a way as to not only facilitate the success of MCC programs but to amplify their results. The result is that for the first time, all U.S. foreign assistance under the authority of the Department of State and USAID, as well as resources provided by MCC, are being applied to a single overarching goal, namely transformational diplomacy: *helping to build and sustain democratic well-governed state that respond to the needs of their people, reduce widespread poverty and conduct themselves responsibly in the international system.*

Question:

We have foreign aid programs spread across our Executive Branch agencies, yet you, as Director of Foreign Assistance, have control only over a portion of those programs and not even over all such programs at the State Department and the Agency for International Development.

What authority do you need to effectively oversee those programs in other agencies and ensure their coordination with our overall policy and assistance objectives?

Response:

I appreciate your interest in helping to ensure effectiveness in coordination and implementation of foreign assistance. It is the case that the reforms proposed so far, including the creation of the Director of U.S. Foreign Assistance position, will promote efforts to provide assistance strategically and effectively. I note that under current authorities this reform directly encompasses nearly 80% of all U.S. foreign assistance, which represents a significant footprint in bringing coherence to USG foreign assistance. Together with the Secretary, we will be evaluating the FY 2008 budget process and in that context we may identify changes, including ones that may require Congressional action, which may be appropriate. Again, I very much welcome the opportunity to work with Congress on this and other matters relating to the reform going forward.

Question:

Ambassador Tobias, you stated during your confirmation hearing last year that you wanted to put in place a formal process for extending your coordination mandate across those of our government agencies that provide foreign assistance.

Have you finalized that formal process?

If not, what steps are you now taking to develop it?

When do you anticipate that it will be completed?

Response:

In large part, it is through the Operational Plan process that the Director of U.S. Foreign Assistance will be able to provide coordination and guidance to all foreign assistance delivered through all agencies and entities of the USG. Operational Plans are intended to provide a comprehensive, interagency picture of all foreign assistance resources planned for implementation in-country, and how those resources are being used to support the transformational diplomacy goal. Developed by country under the leadership of the Ambassador, the Operational Plans ensure that all U.S. foreign assistance resources in that country are coordinated, appropriately linked to foreign policy objectives, and supportive of an integrated country strategy. They strengthen the link between funding, activities, and results and collect standardized data about foreign assistance programs. In FY2008, all recipient countries will complete Operational Plans. In FY2007, our pilot year, a total of 67 countries submitted integrated Operational Plans which we are currently in the process of reviewing.

Question:

Ambassador Tobias, are the actions you have taken so far just a first step in an extensive reorganization of foreign aid programs?

If so, what are the next steps?

If so, what legislative authorities will you need with which to proceed?

If so, what is the future of the Agency for International Development, in your view?

Response:

There are multiple steps involved in fully integrating a process for foreign assistance policy, planning, budgeting, and implementation. Creating a dynamic and transparent process will involve continuing review at every stage so that we can reassess what is working and what is not. For example, we are in the process of conducting an After Action Review of the FY08 budget building process, from initial budget formulation through the CBJ submission. We will take recommendations from the process to improve the FY09 budget formulation process. We hope to work closely with the Congress on the Foreign Assistance Reform as it evolves into a process that is more and more effective, efficient, accountable, and successful.

At this time, I am not requesting any changes in the authority that I have been given to coordinate foreign assistance resources. I appreciate your interest in helping us to ensure we are successful in our efforts to improve the effectiveness of our foreign assistance. The reforms proposed so far, including the creation of the Director of U.S. Foreign Assistance position, are an attempt to ensure that we provide assistance strategically and effectively. Again, I very much welcome the opportunity to work with Congress on this and other matters relating to the reform going forward.

In my view, I think USAID will emerge a stronger organization with more robust programs, structures, decision-making processes, and human capital. To that end, we are engaged in extensive dialogue with key staff in Washington, D.C. and the field, to include assessing bureau and mission roles and responsibilities. In addition, the agency has convened four internal Civil Service/Foreign Service working groups to make specific recommendations to improve human resource management and operations, better support U.S. foreign policy objectives, and more effectively implement development programs.

Question:

Mr. Ambassador, I understand that the State Department's Office of the Coordinator for Reconstruction and Stabilization is to be incorporated into your office, and yet, while serving as your deputy, the head of that office will continue to report directly to the Secretary. Is that correct?

If so, why will he or she report directly to the Secretary rather than through you?

Response:

The Secretary is responsible for preparing, planning for and conducting reconstruction and stabilization activities in post-conflict situations. To ensure that these activities are carried out in the most effective and efficient manner, the Secretary recently realigned the Office of the Coordinator for Reconstruction and Stabilization under the leadership and direction of the Director of US Foreign Assistance, with the Coordinator serving as a deputy in the Office of the Director of US Foreign Assistance. In this way, CRS's operational expertise and planning mandate are aligned with the funding authorities and foreign assistance country planning and budget processes of the Director of U.S. Foreign Assistance enabling more effective and efficient leadership for reconstruction and stabilization activities while minimizing duplicative roles or processes. The Coordinator will continue to maintain a reporting relationship with the Secretary in accordance with the 2005 Appropriations Act.

Question:

How do "coordinator" positions fit into any scheme for overall coordination of foreign aid programs?

We have a coordinator for AIDS, a coordinator for Europe and Eurasia, a coordinator for stabilization and reconstruction, a coordinator for counter-terrorism and other such coordinators. How will you, as the coordinator for all foreign assistance, work with them without making them irrelevant as coordinators in their areas of responsibility?

Response:

Coordinators are put into place for various reasons—some at the behest of the Secretary and some at the request of Congress. Coordinators provide expertise in targeted areas where there may be an emergency situation or an area in need of ongoing tailored assistance or special direction. As the first Global AIDS Coordi-

nator, I understand very well the important role that Coordinators can play and value the impact that coordination has when all key stakeholders come to the table with a shared desire and interest in tackling a problem.

In the same way that targeted areas, like AIDS or malaria, can benefit from decisive coordination, commensurate with the global challenges that our country faces, all of the United States' resources for foreign assistance will also benefit from deliberate and strategic coordination. A key aspect of my job is to ensure that all of our foreign assistance, considered globally regionally or by country, is part of a coherent strategy, and consistent with country-specific foreign policy goals. I value the input of and close working relationships with Coordinators as we seek to plan and use USG resources in the most strategic way possible to maximize impact in the lives of people who suffer under oppressive poverty, face starvation, battle disease, and suffer the consequences of conflict and insecurity.

Question:

Mr. Ambassador, in your view, should the oversight of US policy and funding support for international development banks be a matter handled by the State Department rather than the Treasury Department?

How do you coordinate debt forgiveness for countries—such as debt forgiveness under the Highly-Indebted Poor Countries initiative—with our foreign aid programs in light of the fact that forgiveness of debt is the equivalent of foreign assistance to those countries—provided in the form of budget support?

Response:

The State Department works closely with the Treasury Department on U.S. policy towards the multilateral development banks. A good partnership exists due to this close collaboration.

The Administration has worked to help post-HIPC and other debt relief recipient countries prevent a re-emergence of unsustainable debt by working with our assistance and credit agencies to move from loans to grants, in line with the IMF and World Bank Debt Sustainability Framework. Prior to receiving HIPC debt relief, recipient countries must develop a Poverty Reduction Strategy Paper which outlines how they intend to use domestic and international resources, including resources made available through debt relief, to reduce poverty. The World Bank and IMF monitor increases in social spending in HIPC and other debt recipients. To make effective use of debt relief, U.S. assistance providers (principally USAID) support governments to improve public finance and to efficiently expand social spending as well as support private sector development and investment to ensure sustainable growth in the world economy.

Question:

How is the new concept of “transformational development” different from the long-standing concept of “development” that underpinned our foreign aid programs from at least the enactment of the Foreign Assistance Act of 1961?

Response:

United States foreign assistance has long been focused on building the basis for democratic participation, creating the conditions for economic growth, providing for health and education, and addressing security concerns in developing nations, while at the same time responding to humanitarian disasters. But, as the Secretary has stated, true development requires far-reaching, fundamental changes in governance and institutions, human capacity and economic structure, so that countries can sustain further economic and social progress without permanently depending on foreign aid. Under the Secretary's leadership, the U.S. has reformed its organization, planning and implementation of foreign assistance in order to achieve these development objectives. We will do this, in part, by better leveraging the strengths and the contributions of our foreign assistance institutions toward the accomplishment of these shared goals. A fundamental purpose of this reform is, in the end, to better ensure that we are providing both the necessary tools and the right incentives for host governments to secure the conditions necessary for their citizens to achieve their full human potential.

Question:

Mr. Ambassador, in your testimony, you state that 84% of the budget request for South and Central Asia will go to Afghanistan and Pakistan. You note that assistance to Central Asia will decline and you point to less cooperation by Uzbekistan and greater oil revenues by Kazakhstan as factors in that decline.

However, Central Asia has been noted as a region where we may possibly see one or more “failed” states in the future. We could speculate that Turkmenistan and

Kyrgyzstan, and Uzbekistan itself, all for different reasons, might be potential candidates for failure as a state. Across the region, we see growing corruption and impoverishment, very poor governance, the rise of radical Islam and the growing presence of drug traffickers using the region as a transit route for Afghan-produced drugs bound for Europe.

How well is your strategic framework being applied if we see such trends in a region like Central Asia and yet our assistance, meant to “transform” states to prevent their failing, declines?

Response:

Central Asia continues to face many serious challenges. Weak democratic institutions and a lack of economic opportunity foster conditions where corruption is endemic and Islamic extremism can thrive. In addition, record-high levels of cheap heroin from Afghanistan transits Central Asia, fueling police corruption, drug addiction, and the spread of HIV/AIDS. U.S. assistance will be needed to help the region address these challenges for several years to come.

The funds requested for Central Asia in FY 2008 are appropriate to the needs and capacities of each country and are targeted to address these serious challenges. While the FREEDOM Support Act (FSA) budget is declining, the proportion of FSA funding for Central Asia is increasing relative to other post-Soviet states; in FY 2008, it represents nearly a quarter of the total FSA request.

Kazakhstan has benefited from sustained economic growth and progress in reforming the business regulatory environment, thereby improving its ability to attract foreign investment. In the area of Governing Justly and Democratically, FSA funding is focused on promoting the sustainability of reform through efforts to combat corruption, increase government accountability, and strengthen political and electoral processes. These programs continue to account for 20% of the entire assistance budget for Kazakhstan.

Assisting the Kyrgyz Republic to implement democratic reforms that allow for sustained progress and stability is the priority for U.S. assistance in this country. This moderate Muslim country continues to be a key partner in Operation Enduring Freedom through its provision of an air base for U.S. forces. Assistance will support strengthened democratic institutions, including parliament, and address corruption, economic development, and social issues that could put democratic progress at risk. Assistance will also help to secure borders and fight the growing drug trade from Afghanistan and its related scourges of corruption, addiction, and infectious diseases. In addition, U.S. assistance will work to improve the Kyrgyz Republic's economic integration with its neighbors.

Tajikistan's poverty and shared border with Afghanistan make U.S. assistance key for countering extremism. Excluding P.L. 480 Title II emergency food aid, the FY 2008 request increases by \$5.5 million from FY 2006. U.S. assistance will promote democratic reform, including strengthening civil society and independent media. It will also assist the government with economic reform, developing natural resources, fighting infectious diseases, and improving education. Following the 2005 withdrawal of Russian military forces from the Tajik-Afghan border, U.S. assistance will increasingly help Tajikistan decrease the flow of illegal drugs through its borders while promoting increased legitimate trade linkages with its neighbors.

In the past, U.S. assistance to Turkmenistan was strictly circumscribed by the country's authoritarian president-for-life, Saparmurat Niyazov, and focused solely on preparing the new generation for a better future. President Niyazov's death in late 2006 provides an opportunity to encourage the new government toward greater openness and reform. If the new government, headed by Gurbanguly Berdimuhammedov, is interested in reform and in being responsive to its citizens, U.S. assistance will seek to assist Turkmenistan to become a more democratic, prosperous and stable country. Currently, assistance is planned to sustain the country's few active civil society groups, improve healthcare, and provide objective information and new educational opportunities for Turkmenistan's population.

The reduced request for Uzbekistan reflects the unfortunate state of our strained bilateral relationship with the Government of Uzbekistan. Opportunities for the United States to promote reform are limited, as the Government of Uzbekistan's increasing pressure on our implementing partners has forced many U.S. Government-funded organizations to leave the country. In addition, Foreign Operations Act assistance to the central Government of Uzbekistan is restricted absent a determination by the Secretary that the government is meeting its commitments to build a strong and open civil society, ensure respect for human rights, and implement meaningful economic reforms. Funding is focused on providing assistance to the people of Uzbekistan, including programs to support civil society, defend human rights,

promote religious moderation, improve health care, fight diseases, and develop micro-credit and agribusiness.

Question:

Mr. Ambassador, in the conclusion of your written testimony, you state that “many recipient countries have not been given the tools they need for a long enough period of time to help their countries sustain progress.” Would you give us some examples of such countries and the efforts involved?

Response:

Many have commented that foreign assistance in the past has run the risk of being a mile wide and an inch deep. As has been noted in several studies of U.S. foreign assistance, with numerous agendas embedded in our foreign assistance programs, the cumulative impact was both diluted and diffuse. It is important to note, as I often do, that there is very little that we do in our development portfolio that is bad. Someone, some community, is benefiting from the services we are providing and the interventions we are supporting.

For example, in Rwanda in 1993, the field identified an urgent need for democracy and economic growth programs to address the growing unrest. However, due to sector based budgets and the unavailability of the appropriate type of funding, family planning programs were carried out instead. Likewise in Indonesia, economic growth programs requested in the mid-1990s in response to the Asian financial crisis were never carried out for similar reasons.

The real question is not, as is true in these examples, whether we can identify someone in need who may be benefiting. Certainly, recipients in the foregoing countries benefited from the family planning or other programming available. The real question is—are we achieving *sustainable* impact? *Are we giving people what they need to sustain further progress on their own?* The Secretary’s reforms are aimed at these very questions. Based on the new country-driven process, we are able to prioritize resources to the areas that we believe will promote and sustain long-term country progress.

Question:

Mr. Ambassador, one analysis by the Center for Global Development estimates that the President’s budget request for FY 2008 would devote over two-thirds of Development Assistance for Africa to fighting AIDS by allocating large sums to the PEPFAR program.

Is that a proper allocation in your view?

Response:

Yes. The investment in fighting HIV/AIDS in Africa through the President’s Emergency Plan for AIDS Relief (Emergency Plan/PEPFAR), is a major contributor to the broader U.S. Government (USG) strategy for international development. As stewards of development resources, the Emergency Plan has at least two critical obligations: (1) to achieve specific HIV/AIDS goals of supporting treatment for 2 million HIV-infected people, prevention of 7 million new infections, and care for 10 million people infected with or affected by HIV/AIDS, including orphans and vulnerable children; and (2) to leverage these resources for our nation’s larger international development agenda.

In meeting these obligations, the USG is leading the way in changing the development paradigm from the old “donor—recipient” mentality toward a model of genuine partnership. Particularly in Africa, confronting HIV/AIDS is central to this approach as a critical lever for hard-hit nations’ sustainable progress and transformation. Unaddressed, HIV/AIDS threatens to erode the welfare and stability of developing nations by undermining the human and economic capacity of a nation to progress on its own.

Unlike other epidemics, HIV does not attack the oldest, or the youngest, or the weakest—it strikes people in the prime of life. Since the 1990s, the single largest increase in HIV/AIDS mortality has been among adults aged 20 to 49, who today account for nearly 60 percent of AIDS deaths. This means African communities are being hobbled by the loss of the very segment of the population which is normally the backbone of any society—consumers and workers at the peak of their productive, reproductive, and caregiving years. In the most heavily affected areas, communities are losing a whole generation of parents, teachers, laborers, businessmen and women, healthcare workers, peacekeepers, and police.

In addition to the economic impact of the pandemic, HIV/AIDS has serious public health implications. An ever-expanding pool of immuno-suppressed people can both more readily contract and spread disease, and can lead to even more infectious diseases. A tragic example of this is the recent rise in Extensively Drug Resistant Tu-

berculosis (XDR-TB) among HIV-infected people. To date, there has been a significant spread of XDR-TB in sub-Saharan Africa, and in South Africa, at least 44 of the 53 cases reported have been among HIV-positive persons (the remaining 9 people were not tested for HIV). This must be of great concern to all of us, because XDR-TB is literally untreatable and almost always fatal. In this era of globalization, infectious disease knows no boundaries.

Beyond the economic and public health implications, this pandemic is a threat to national and international security. In particular, the disease is taking a high toll on militaries. HIV-related deaths have reduced the size of Malawi's armed forces by 40 percent.

Seventy percent of all military deaths in South Africa are due to HIV/AIDS. In Uganda, more soldiers have died from AIDS than from the nation's 20-year insurgency. This fuels national and regional instability, impacting nations' abilities to protect their own citizens as well as provide peacekeepers for other conflicts. For these reasons, General Wald, the former Deputy Commander, Headquarters U.S. European Command, has called HIV/AIDS the greatest threat to peace and security in Africa behind only weapons of mass destruction and terrorism.

While the focus of PEPFAR is on HIV/AIDS prevention, treatment, and care, the impact of our program is not—and need not be—limited to HIV/AIDS. In building the FY 2008 budget, with the leadership of the Office of the Director of Foreign Assistance, interagency teams, including representatives from PEPFAR, were assembled and tasked with making certain that resources were coordinated, mutually supportive and targeted to the achievement of shared objectives both within and across countries. In the PEPFAR focus countries, teams considered proposed USG resources in light of the specific gaps and obstacles impeding country progress as well as how these resources could be coordinated in such a way as to not only facilitate the success of PEPFAR programs but to amplify their results. PEPFAR is central to USG efforts to “connect the dots” of international development. HIV/AIDS programs are increasingly linked to important USG initiatives in other areas of health and development, such as child survival and health, TB, malaria, nutrition, education, and gender inequities, as well as supporting systems of sustainability and accountability.

As we move forward into 2008, investment in development support for Africa through PEPFAR programming will remain a key aspect of the President's broad vision for international development.

Question:

Since PEPFAR is not subject to your direct oversight, how does this allocation within the budget fit in with your strategy and objectives and program funding choices?

Response:

The U.S. Leadership Against HIV/AIDS, Tuberculosis, and Malaria Act (P.L. 108-25), promulgated in 2003, provides the U.S. Global AIDS Coordinator with primary responsibility for the oversight and coordination of all resources and activities of the USG to combat the HIV/AIDS pandemic. The Director of U.S. Foreign Assistance was subsequently established by the Secretary to make every effort within existing statutory authority to ensure that U.S. assistance writ large was used coherently and effectively. The Director's responsibilities accordingly include providing overall coordination and guidance to U.S. foreign assistance delivered through other agencies and entities of the USG, including the Office of U.S. the Global AIDS Coordinator.

In building the FY 2008 budget, therefore, interagency teams were assembled and tasked with making certain that resources were coordinated, mutually supportive and targeted to the achievement of shared objectives both within and across countries. In the PEPFAR focus countries, teams considered proposed USG resources in light of the specific gaps and obstacles impeding country progress as well as how these resources could be coordinated in such a way as to not only facilitate the success of PEPFAR programs but to amplify their results.

Question:

What is the formal decision-making process in the “country teams” you have set up to recommend specific aid programs in specific countries?

Who decides who participates in those country teams?

Who chairs the meetings of the country teams and reports their recommendations to your office?

Your office reportedly gave the country teams overall funding numbers to use in their planning meetings. How did your office arrive at those numbers?

Are the country teams free to choose a suggested funding level above the figure your office provides to them if they feel it is suitable for assistance programs in the countries they cover or are they constrained within limits with regard to potential funding levels?

Response:

The Country Core Team process for building the FY 2008 budget was a major step forward from previous years where funds were first allocated by account, then by sector, and lastly, by country. For FY 2008, the process was focused for the first time on using the country's needs, indicators, and a strategy to drive the formation of each country budget, combining guidance from the highest levels and the field, and focus U.S. resources on areas most critical to moving a country forward. Over 100 interagency teams, organized by country, were tasked with ensuring that U.S. assistance resources were coordinated for maximum efficiency and impact and targeted to advance country development toward the transformational diplomacy goal. Regional and functional bureau leadership identified representatives for the Core Teams which were led by my staff. Many core team members consulted with their field counterparts to develop the budget request as part of this process.

To further the goal of formulating a budget request built on country-driven development, each Core Team was given an overall planning number for their country and was asked to allocate that budget to the areas that would best advance individual country progress, based on the challenges and opportunities that exist on the ground. This planning number was derived from input from the field through the Mission Performance Plans and Annual Reviews, OMB guidance, relevant development indicators and foreign policy factors, and Administrative and Congressional priorities, and ultimately approved by the Secretary. In many cases, individual Core Teams provided a strong justification for additional resources to advance the transformational diplomacy goal that was incorporated into the budget request.

After the submission of the FY 2008 budget request, I asked my staff to conduct a review of the new budget formulation process with an eye to improving it for FY 2009. To inform this review, my staff solicited input from State Department and USAID regional and functional bureaus, embassies and USAID field missions, and key stakeholders from other U.S. agencies. I believe that this review will result in an even better process for FY 2009, one which formalizes the role that our field missions play in formulating the budget request, promotes further transparency, and ensures that stakeholders at the State Department and USAID have the opportunity to make their views heard.

Question:

Mr. Ambassador, there is some concern among foreign aid analysts that, in the first round of meetings last year of your office's "country teams" to coordinate budgets, some agencies took the new assistance categories you have set forward and simply "shoe-horned" their existing programs and activities into them and then used that to justify their country budgets.

Do you agree that this has been a problem?

How will you prevent this type of "status quo" thinking?

Response:

In previous budgets, the thousands of agendas embedded in our foreign assistance programs did not further the impact of our programs. As a result of the account and sector focus in formulating these budgets, resources were not viewed holistically and were often split up into too many sectors in each country which made progress slow and often imperceptible. Based on the new country-driven budget process, we have concentrated resources in areas that we believe will maximize progress in moving a country forward under transformational diplomacy goals. For example, funding is increased to programs targeted to improving governance and democratic participation, programs mitigating diseases that threaten the human and economic capacity of countries to progress on their own, programs that expand access to and improve the quality of education, and programs that enhance economic opportunity and the skills needed to participate in the global economy. I believe that the new process for building the foreign assistance budget request effectively focused resources in the best areas to advance individual country progress.

Nonetheless, acknowledging that any new process requires fine-tuning, I asked my staff to conduct a review of the new budget formulation process as implemented in FY 2008 and recommend a number of changes with an eye to improving the process in FY 2009.

Question:

Mr. Ambassador, some observers of our foreign aid budget process and program implementation complain that, while the program performance measures you have adopted to date measure inputs and outputs, they do not measure impacts. How do you respond to that?

Where do you obtain or how do you devise the "indicators" with which you measure the performance of assistance programs?

Response:

The Office of the Director of U.S. Foreign Assistance has developed standard performance indicators to measure both what is being accomplished with U.S. foreign assistance funds (e.g. short-term) and the collective impact of foreign and host-government efforts to advance country development (e.g. long-term). Links to full descriptions of the indicators are available online at: <http://www.state.gov/f/releases/factsheets2007/78450.htm>.

Indicators are divided into the following three categories:

Strategic level indicators capture the impact of foreign and host-government efforts at the objective level (such as Investing in People or Economic Growth) and will be tied directly to the five-year Foreign Assistance Strategy, which is currently under development. They rely on data collected by secondary sources, such as the World Bank, UNDP, and Freedom House. While these indicators have not been finalized, examples of those under consideration include the decline in poverty rate or the number of women holding seats in parliament. Measured improvement is expected over multi-year time spans.

Area level indicators measure country performance within sub-sectors of the five functional objectives (such as Health and Education within Investing in People). These indicators measure results beyond what could be achieved solely by USG (USG, Host country and other donors' activities combined). Some examples include: number of days to start a business; number of deaths among children under five per 1,000 live births; and net enrollment rate for primary school. Like the Strategic Indicators, measured improvement is expected over multi-year time spans.

Element level indicators measure outputs and outcomes that are directly attributable to the USG's programs, projects and activities. For example, indicators track the number of judges trained or total amount of loans disbursed due to expenditure of USG funds. Data are collected primarily by implementing partners, and targets are set by USG agencies and their partners against these indicators on an annual basis.

These indicators were identified by working groups comprised of development experts across the USG, in consultation with multiple consortia of NGO groups. Nearly all indicators capturing people-level progress will be disaggregated by sex. Operating Units may supplement the standard list with "custom indicators." These indicators will be reviewed and evaluated for inclusion as standard indicators in the future.

FY 2007 is a pilot year for testing the value and utility of the proposed indicators. During the pilot year, F will assess the current list of indicators and any custom indicators identified by the field, and continue to identify appropriate outcome indicators attributable to USG assistance. In the interim, USAID and State performance tracking systems will continue to capture non-standardized program performance data.

We welcome continuing input from the NGO community and others so that our indicators will be as robust as possible. We have a special mailbox set up for this purpose: Findicators@state.gov.

Question:

How is the degree of an aid-recipient country's cooperation with our program objectives factored into your framework?

If a host government "goes through the motions," so to speak, of implementing the recommendations put forward by our aid programs or if it does not take all of the necessary steps to allow actual implementation of the programs themselves, how is that measured and factored into your framework?

Response:

Regarding the role of host-country governments, outsiders cannot, with sustainability, secure citizens' health and safety, educate a critical mass, or create the conditions needed for economic growth—all of which are necessary for development, and all of which are the responsibilities of a nation's own government. The new Foreign Assistance Framework's emphasis on sustainability heightens the necessity of

the on-the-ground coordination that is done every day by our Embassies and Missions.

The approach employed by the Framework is a country based one which focuses on the specific gaps and obstacles that countries face in moving forward across the trajectory. For many countries, in particular the Restrictive countries, those obstacles include ones created by the Government itself. In those cases, we tailor our programs and activities in such a way as to address significant governance issues, for example, by empowering civil society. In any event, whether Restrictive or Developing or Transforming, we are constantly fully attentive to the role, direction, and level of partnership of the host government and design and implement our programs accordingly.

Question:

Some commentators on foreign aid programs believe that cultural and social differences among the world's major regions are not being sufficiently taken into account in the design of programs. They argue that the differences, for example, between a Catholic South American and a Muslim Middle East have real impacts on the success of our foreign aid programs.

Do you agree?

If not, why?

If so, how is that taken into account in your strategy and country categories and program objectives?

Ambassador Tobias, do you have regional coordinators in your office, either under that title or some other, and, if so, what are their managerial and program implementation responsibilities?

Response:

“Cookie-cutter” approaches to the challenge of transformational diplomacy are not effective and, in the long-term, are not successful. State and USAID assistance programs are designed for the needs and conditions in any given country and/or region. We focus on the specific gaps and obstacles that each country faces in moving forward, when developing assistance strategies and programming. We are eager to multiply the effect of “best-practice” assistance programs, which may be tailored to the particular situation on the ground, and to emphasize demand driven interventions.

The new Foreign Assistance Framework categorizes each country receiving U.S. assistance based on common traits and places them on a trajectory to measure their development progress against standardized indicators. In past budget years, funds were allocated first by account, then by sector, and lastly, by country. Rather than having sector-based strategies drive a country’s development strategy, this year’s request is focused on supporting each recipient country’s efforts to move from a relationship defined by dependence on traditional foreign assistance to one defined by full partnership status. As above, programs will be tailored to the unique needs of each recipient country in reaching the transformational diplomacy goal.

There are regional coordinators in the Office of the Director of U.S. Foreign Assistance. They play an important role in helping me to channel the expertise and interests of different bureaus and offices at the State Department and at USAID, both in Washington and in the field. In addition, the regional coordinators lead deliberations with senior State Department and USAID regional leadership to ensure that country allocations across the regions of their responsibility are strategic, participate in the formation of policy where assistance is relevant, promote coordination with other bilateral and multilateral donors active in the region, and serve as first stop in my office for inquiries about U.S. assistance in their regions. They are not responsible for the management and implementation of specific assistance programs.

Question:

Mr. Ambassador, how independent of your office are evaluations that are done of foreign aid programs that lie within your scope? In other words, do organizations that conduct evaluations of such programs rely on funding from you or the foreign aid agencies you oversee to do those evaluations?

Response:

Independence of evaluation is critically important and is achieved in several ways, including by having an evaluation office, independent of the operations of the Agency, staffed by qualified personnel. It is also achieved by having external stakeholders undertake their own evaluations and assist host countries to build their own institutional capacities, both of which I strongly support.

The USG also participates in and supports third party evaluations. For example, we participate in the OECD/DAC Evaluation Network, an independent body that undertakes evaluation of its members' work. The National Science Foundation also has provided independent evaluations of USAID's democracy programs.

My office is in the process of formulating evaluation guidelines for all foreign assistance programs to enhance accountability and improve their performance. We are reviewing the evaluation procedures followed by different USG agencies and bilateral and multilateral aid organizations. In addition, we are also examining the standards for evaluation proposed by the American Evaluation association. I want to assure you that the guidelines to be issued by my office will stress both the objectivity and independence of evaluations. They will require that all evaluations follow methodological and analytical rigor and avoid conflicts of interest of any kind.

Question:

Ambassador Tobias, the organizational structure you have begun to set up is reported to be very centralized, with most, if not all, decisions being made at the highest levels. Do you agree with that description?

AID has in past sought to decentralize its decision-making to some degree, relying on its missions abroad to assess needs, objectives and progress. How do AID's missions fit into the new process you have created?

Response:

Coordination is critical to ensure that our combined foreign assistance efforts—from USAID, the Department of State, the Millennium Challenge Corporation, or PEPFAR—are complementary and enable sustainable impact and transformation. In the past, State and USAID personnel working in-country submitted their own plans, to their own agencies, for their own operations—often on different timelines. This resulted in inconsistent opportunities, and little motivation, to compare programs across agencies to ensure that foreign assistance programs were comprehensive and coordinated. The new structure for foreign assistance adds value by combining functions in common to pull together a comprehensive picture for decision making.

USAID Missions continue to play a critical role in assessing the needs, objectives and progress of our development programs. Under the foreign assistance reforms, we have brought together State Department and USAID officials to provide the strategic direction for each country. Officials in the field have offered welcome input into this process. The field is charged, through the Operational Plan process, with providing the tactical map to achieve the strategic goals established in Washington. The country operational plans will outline how funding will be used in line with the overarching transformational diplomacy goal. While goals and priorities are defined centrally, the method for meeting and implementing those goals will be determined by those who live and work in-country. This is not really a shift in roles, just a clarification. Strategic direction has always been a Washington function, and execution a field responsibility. As we proceed with the after action review of the FY 2008 budget process, we will certainly consider any suggestions to sharpen field input as an element of the budget building process.

In the past, Ambassadors and Mission Directors often did not have a full picture of the resources being implemented in their countries, because some activities were planned and implemented from Washington. Consequently, they did not exercise full oversight over these programs, and doing so from Washington was costly and time-consuming. To empower our Mission Directors, Ambassadors, and Country Teams, who are our people in the field with the best knowledge of country circumstances, the reform process maximized resources implemented at the country level into country-level budgets. Resources within global or regional budgets that had been planned for specific countries were accordingly shifted to those countries' budgets and planned together with other country-based support. As a result, such resources can be implemented consistent with country strategies and benefit from expertise on the ground.

Question:

Mr. Ambassador, what should be the role in future of AID's missions abroad if you, either with or without legislative authority, seek to bring together actual program implementation by various agencies into a more coordinated procedure?

Will AID missions become a platform for in-country program implementation going beyond AID's portfolio?

Response:

USAID Missions currently provide assistance in implementing programs of the Millennium Challenge Corporation, PEPFAR, and other USG agencies. I expect that such inter-agency cooperation will continue.

In order to consolidate overseas services, reduce costs, and ensure the security of our personnel, USAID and the Department of State are pursuing a joint initiative to co-locate USAID Missions with Embassy compounds. This initiative is consistent with the President's Management Agenda as well as the *Secure Embassy Construction and Counterterrorism Act of 1999*, which requires the construction of new USAID office facilities to be co-located on Embassy Compounds when new embassies are constructed.

As we pursue greater co-location in the future, we can expect Embassy compounds to continue to serve as platforms for the implementation of a wide variety of inter-agency programs.

Question:

Ambassador Tobias, what is the future of the procurement systems that currently underlie our foreign aid programs' implementation, in your view?

Will such procurement remain a major responsibility of AID or will it migrate to the State Department?

How have you begun coordinating any procurement that may be taking place at other State Department agencies that provide assistance with the procurement that is conducted by AID?

Response:

We have taken steps to reform the procurement process at USAID where I believe the majority of procurement action will remain. I tasked a cross-bureau team to review 130 Washington based institutional support contracts and agreements. The review is complete and recommendations are being drafted to reduce costs, achieve efficiencies, and bring coherence to the Agency's use of institutional support mechanisms.

Other procurement improvements include an automated contract system which is expected to achieve greater efficiencies by:

- Providing stakeholders and the public more accurate information;
- Implementing specific policies to increase competitiveness;
- Creating a clearer linkage between the Operational Plans and contracts and grants;
- Establishing targets for Small Businesses and new partners.

The new procurement system will provide increased efficiencies by standardizing the acquisition-related business processes across USAID worldwide operations in conformance with federal procurement regulations and Agency policy. Other streamlining efforts include the development of web based tools, such as templates, checklists and sample documents that allow contracting officers to act more quickly and with fewer resources.

USAID's new procurement system will have improved reporting capability through complete integration with the Phoenix financial system and a direct link into the Federal Procurement Data System—New Generation (FPDS-NG). The public, Congress, and OMB will be able to search our procurement data in FPDA-NG to identify contractors, extract reports on practices such as competition and utilization of small businesses.

Both Department of State and USAID are working to be able to use the same management software systems to manage contract and grant procurement. If the PEPFAR experience is any guide, by having encouraged the joint planning of programs, there will certainly be opportunities for closer coordination between State and USAID for ways to better align or combine procurements. As part of the Operational Planning process, we are taking a close look at the kinds of procurement instruments we are employing so as to ensure that, where possible, their use is consistent with building indigenous capacity. We should have more detailed information on the distribution of procurement mechanisms once the reviews are completed.

Question:

After receiving reports that USAID was supporting programs in occupied Cyprus without consultation with the Government of the Republic of Cyprus, the Senate Appropriations Committee included in its FY 2006 Report the following:

"The Committee is concerned that funds made available for bicomunal projects on Cyprus have been obligated without appropriate notification and participation of the Government of Cyprus [GoC]. The Committee believes that if such funds are to

improve the prospect for peaceful reunification of the island, they must be allocated transparently and in full consultation with the GoC and other interested parties.”

How does USAID engage and consult with the Government of the Republic of Cyprus as Congress directed in the 2006 appropriation? What has USAID done to address the concerns expressed by Congress?

Response:

The USG is committed to consultation and transparency with “the Government of Cyprus (GoC) and other interested parties” on the USG foreign assistance program for Cyprus, in accord with the FY 2006 Senate Appropriations Committee report. Since 2005, Embassy Nicosia has made it a priority to increase the frequency and breadth of consultations. The Ambassador, Public Affairs Officer and USAID Representative have had numerous meetings with GoC officials to discuss USG foreign assistance in Cyprus. Concerns expressed by GoC officials at these meetings have been taken into account in our programs. For example, USG foreign assistance programs are highly sensitive to recognition, property issues, and contractor office locations, all of which have been raised as concerns by the GoC in our consultations. These are examples of productive results of our consultations with the GoC.

While we support and consistently offer the GoC consultations, which are not always accepted, effectively ceding full decision-making authority on Turkish Cypriot-initiated projects to the GoC would nullify the basic premise of over 30 years of bicomunal programming. This would jeopardize the Turkish Cypriots’ pro-solution leadership and discourage Turkish Cypriots from participating in our programs. Although we welcome consultations with the GoC, the U.S. Government must maintain full authority over and accountability for U.S. assistance programs in Cyprus, as it does for its assistance programs in any foreign country.

QUESTION SUBMITTED BY THE HONORABLE RUSS CARNAHAN, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MISSOURI

Question:

Since 1993, Congress has imposed a statutory restriction on the use of ESF monies for Cyprus: “to be used only for scholarships, administrative support of the scholarship program, bi-communal 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.”

Has USAID or the State Department used funds on Cyprus outside of ESF for programs, thus avoiding Congress’s statutory restriction?

Response:

The annual Foreign Operations, Export Financing, Related Programs Appropriations Act contains a soft earmark that \$20 million in ESF should be used for scholarships, administrative support of the scholarship program, bi-communal 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. USAID’s funding for programs in Cyprus is limited to Economic Support Funds (ESF). In addition, Nonproliferation, Anti-Terrorism, Demining and Related Programs funds for the Export Control and Border Security program are used in Cyprus to help establish fully effective export controls aimed at preventing transshipments of WMD and other dangerous items and strengthening nonproliferation investigations and prosecutions in Cyprus. In addition to these foreign assistance programs, the Department of State’s International Information Program Office, the Education and Cultural Affairs Office, and the European and Eurasian Affairs Press and Public Diplomacy Office use Diplomatic and Consular Programs/Public Diplomacy funds for cultural programs in Cyprus, including Fulbright Scholarships. All of these funds are used transparently and in consultation with the GoC. None of the funds for Cyprus have been used to avoid any statutory restriction.

QUESTION SUBMITTED BY THE HONORABLE JIM COSTA, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Question:

As public officials committed to improving public health and addressing poverty in developing countries, our ability to assess the impact of U.S. foreign assistance is critical. As stewards of taxpayer dollars, Congress has an obligation to ensure federal funding is directed towards efficient and proven programs.

According to the May 2006 Center for Global Developments Report, international assistance suffers from a significant "evaluation gap," a lack of understanding of the impact of various development interventions on the well being of the individuals and communities they are intended to affect.

What criteria does the office of the director of foreign assistance use for evaluations? What actions is the office of the director of foreign assistance taking to ensure that there are rigorous impact assessments conducted by third parties? How is that impact being measured and shared publicly?

Response:

First, let me note that my office and USAID have been actively engaged with the Center for Global Development and the wider donor community on the important issue of how best to conduct impact evaluations of development programs in the social sector. I have expressed very strong support for the need to conduct impact, as well as other types of evaluation.

My office is in the process of formulating guidelines for evaluation of all foreign assistance programs to ensure accountability for use of taxpayer funds and to measure whether programs are achieving their intended results. The guidelines to be issued will address the need for objectivity and independence of the evaluations. They will require that all evaluations follow methodological and analytical rigor, and they will avoid conflicts of interest of every kind. We will continue to focus both on evaluations during the life of a program, for continuous project improvement, and at the end of the program to measure results and impact. Impact evaluations are critically important to determine the sustainable results of development assistance, be it of the USG programs or the combined impact of host country and donor development programs. The guidelines will also emphasize the importance of systematically collecting monitoring data during the life of a program. Such data are critical to evaluators when they assess the overall impact of a program.

Independence of evaluation is achieved in several ways, including through having an evaluation office, independent of the operations of the Agency, staffed by qualified personnel. I also strongly encourage external stake-holders to undertake their own evaluations and to assist host countries to build their own institutional capacities.

Finally, the USG participates in and supports third party evaluations. For example, we participate in the OECD/DAC Evaluation Network, an independent body that undertakes evaluation of its members' work. The National Science Foundation also has provided independent evaluations of USAID's democracy programs.

We understand that the Center for Global Development believes that randomized control trials are the gold standard for impact evaluation and should be adopted as the method for impact evaluation. We strongly believe that the method for the evaluation should be determined by the questions being asked.

QUESTIONS SUBMITTED BY THE HONORABLE ELIOT L. ENGEL, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF NEW YORK

Question:

Assistant Secretary of State for Western Hemisphere Affairs Tom Shannon recently told Colombian daily El Tiempo that the "social side has to stand out in the second phase of Plan Colombia." In FY 2006, 77.9% of U.S. aid went to Colombia's security forces. The request for 2008 moves only \$10 million from the military to the economic category. The military-police share falls only slightly to 76.2% of a total of \$586 million.

Response:

Colombia's "Strategy to Strengthen Democracy and Promote Social Development" significantly increases the funding which Colombia plans to allocate to socio-economic issues. The new plan clearly reflects the Colombian government's stated intention to make the social side "stand out in the second phase of Plan Colombia," and we agree that it should.

Colombia's strategy places increased emphasis on consolidating state presence and on economic development through sustainable growth and trade. It recognizes the need to expand programs in remote rural areas, especially those emerging from conflict. Increased security, social services, and assistance to especially vulnerable groups, such as the Afro-Colombian population on Colombia's Pacific coast, indigenous people, and displaced persons, are among its priorities.

This strategy reflects Colombia's new realities, based in large part on the progress made by Plan Colombia, and seeks to continue those successful counter-terror,

counter-drug, democracy, human rights, alternative development, and humanitarian policies. Of particular note are the June 2006 poverty rate figures, just released by the Colombian government's National Planning Office, which show a reduction from 60 percent to 45 percent since Plan Colombia began. The rate of extreme poverty has fallen to 12 percent. Although these figures also show that the rate of rural poverty remains higher than that for urban poverty, they represent steady progress that we expect to continue with the new strategy.

Rather than change the proportion of United States support for FY 2008, we are requesting about the same mix of counternarcotics/counterterrorism and economic/social/human rights assistance as in previous years, while the Colombian government is greatly expanding its own spending on such economic and social programs. Our programs provide support in those areas where we have a unique capability and which contribute to Colombia developing its own capacity to assume them. Colombian government officials have clearly told us that continued U.S. support to counternarcotics and counterterrorism programs remains critical and that the Administration's proposed mix of U.S. assistance reflects their needs at this time. However, over the next few years, we expect to increase the proportion of U.S. assistance that goes to social, economic, and human rights programs.

We are in the process of preparing a report on all aspects of the future multi-year strategy for United States assistance to Colombia, as called for by House Committee Report 109-486. This report, which we expect to send to the Congress in mid to late April, will present additional, more detailed information on this program.

Question:

Some critics have claimed that the President's foreign assistance reform will allow long-term development and poverty reduction to be overwhelmed by strategic concerns. In this context, I'd be interested in your assessment of the breakdown of FY 2008 assistance to Colombia. Will more money be spent on socioeconomic issues in the coming years?

Bolivia is the poorest country in South America. Yet, the President proposes to cut assistance to Bolivia by \$20 million in the 2008 budget.

How do these reductions fit into the foreign assistance reform framework? And how does the Administration plan to sustain its level of influence in Bolivia with a diminished foreign policy toolbox?

Response:

Of the 26 bilateral programs in the Western Hemisphere, Bolivia ranks third, following only Colombia and Haiti in total funding. Our priorities in Bolivia are to strengthen fragile democratic institutions; reverse the growth of illegal coca cultivation and cocaine production; and reduce social and economic exclusion. The FY 2008 budget request for Bolivia, though representing a small decrease from FY 2006, correctly reflects these priorities.

The request provides an over 35% increase in funding for critical democracy and good governance activities that encourage respect for democratic processes and transparent institutions at a time when Bolivians are intensely debating their political and economic future. Funding for specific programs in this area include rule of law and human rights, political competition and consensus-building, and civil society.

USG investments to reduce social and economic exclusion in Bolivia include funding activities in the health, education, and economic growth areas. Funding for education increased from \$882,000 in FY 2006 to \$6 million in FY 2008. The Administration also supports a preferential trading relationship with the Andean Trade Preference Act (ATPA) beneficiary countries—Colombia, Peru, Bolivia, and Ecuador—as part of our economic growth strategy for the region.

The decrease in Bolivia's bilateral budget is largely in the eradication and alternative development areas of its counternarcotics program, and reflects a diminished commitment by the Government of Bolivia to eradicate coca.

Question:

Tuberculosis is the world's most deadly (though curable) infectious disease and is a serious global public health threat. For this reason I am introducing legislation to address this threat and support the Global Plan to Stop TB, which details the actions and resources needed to make a significant impact on the global TB burden.

Making an impact, in fact, halting and reversing the progress of this airborne killer, is entirely possible. However, in spite of this, and in spite of the emergence of XDR-TB in Africa (and the potential rolling back of our progress and investments so far to scale up Antiretroviral therapy to reach universal access to treatment for HIV/AIDS by 2010), the Administration's FY08 budget request essentially flat-lines bilateral funding for global TB control to roughly \$90 million.

I believe it makes financial and moral sense to provide a significant increase in US funding to combat TB globally and I urge the administration to provide greater leadership in this area rather than flat-lining funding for these cost-effective, life-saving programs.

Can you comment on how the Administration plans to appropriately address the global TB burden if it is flat lining these important programs?

Response:

Although the USG request of \$89.9 million for FY 2008 funds for international programs in tuberculosis (TB) is about equal to funding in 2006 and 2007, funds requested for other health assistance affecting TB have increased substantially. In particular, the multi-agency President's Emergency Plan for AIDS Relief support for TB/HIV has increased nearly five-fold in just three years: from \$25.5 million in 2005, to \$48.6 million in 2006, and to at least \$120 million in FY 2007.

In addition, the USG supports TB programs through multilateral assistance. The USG is the largest donor to the Global Fund to Fight AIDS, TB and Malaria, contributing one third of the Fund's resources. Through 2007, the Global Fund will have committed \$1.4 billion to TB grants. The World Health Organization is also supported by USG funds and maintains major TB programs.

Our programs are fully aligned with the priorities of the multilaterally-agreed Global Plan to STOP TB 2006–2015, and USG staff were heavily involved in the development and drafting of the Global Plan. Within the Global Plan, USAID contributes to the Global Drug Facility and invests in the development of new drugs and treatment regimens with the goals of reducing the duration of treatment and slowing the emergence of resistance. In coordination with the Global Plan, our funds are primarily used to help build strong TB programs in countries with a high burden of TB, the first priority for reducing the spread of extensively drug resistant (XDR) and multi-drug resistant (MDR) TB. Through USAID, USG funding supports the development of improved TB control programs in 37 countries, including support for all elements of the Stop TB Strategy.

We are closely following the XDR TB situation and very much share your concern about this emerging threat. USG staff are actively engaged with our international and country partners in the response effort, including the Global XDR Task Force which is finalizing the Global XDR plan. We have moved quickly to reprogram existing resources to help with the global response, including moving resources to respond to the needs identified in South Africa.

Within our international TB programs, we also provide funding for other urgent priorities, including improved laboratories, infection control, and treatment of MDR TB and surveillance of drug resistance. The USG continues to be the leading supporter of the Green Light Committee, which helps to improve access to second line anti-TB drugs and ensures their appropriate use.

QUESTION SUBMITTED BY THE HONORABLE JEFF FORTENBERRY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA

Question:

Given the new framework for foreign assistance, what specifically is USAID doing to strengthen families in vulnerable circumstances?

Do we have programs currently in place to strengthen legal and regulatory frameworks that create incentives for family cohesion?

In addition to fostering economic growth programs, are we investing in people through regional capacity building programs and training programs that bring critical life skills to help vulnerable families?

Response:

Historically, US programs and activities directed towards vulnerable children have provided an effective means of bringing increased attention and action towards resolving the challenges faced by vulnerable children in environments that do not typically attend to vulnerable populations. They continue to do so, mirroring Secretary Rice's interest in vulnerable children and enabling these children and their families to be included within larger transformational development goals.

USAID's Displaced Children and Orphans Fund (DCOF) responds to highly vulnerable children such as children without family care, children affected by war, institutionalized children, street children, and children with disabilities. Since its inception in 1989, the Displaced Children and Orphans Fund has also provided significant financial and technical support for developing, testing and expanding approaches and program models that benefit highly vulnerable children and dissemi-

nating this information to USG partners, other donors and governments and civil society.

The Displaced Children and Orphans Fund's project in Georgia is one good example. It is a model of modern day care opportunities with educational and psychosocial support for children of the most vulnerable families; with parental skills and vocational trainings; with legal, psychosocial, and family health services; and with linkages to employment opportunities and entitlement registration. The latter is important, as many of these families do not have paper work and skills necessary to navigate Georgian systems.

In addition, the Fund leads the national research effort to generate a comprehensive estimate of the street children problem in Georgia, the national Working Group that created the National Minimum Standards for Family Support Services. The project is cooperating with line ministries to improve legislation related to child welfare and protection emphasizing parental rights and responsibilities.

Notably, the Fund endeavors to form networks among countries working on similar issues. For example, countries that relied on the Soviet style system of institutionalizing children, Georgia, Ukraine, Azerbaijan, are now uniformly seeking ways to get children out of institutions. USAID is working with these countries, who are working with each other, to set up systems that reflect current thinking on how to make the transition from institution to community a success for all concerned.

Other key programs include ones in the Sri Lanka and DRC Congo. In Sri Lanka, where the deficiencies within the current system of child care and juvenile justice are well documented and reforms of the current laws are underway, USAID is working with the Department of Probation and Child Care on a child care policy and a juvenile justice policy which sets down overall goals and direction. In DROC, the roots of child separation and abandonment are addressed through ongoing research, public outreach, and support to communities at risk. The focus is on family mediation, reunification, and follow-up mechanisms such as alternatives to institutionalization, and a system for foster care when no extended family members are able or willing to intervene.

QUESTION SUBMITTED BY THE HONORABLE ADAM SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF WASHINGTON

Question:

The United States has committed to helping achieve the Millennium Development Goals, the first of which is to reduce extreme global poverty (those who live on less than \$1 per day) by half by 2015. How, if at all, does the strategic framework in the Foreign Assistance Reform address this specific goal? How would progress toward achieving this goal be tracked? How are you evaluating whether or not U.S. foreign aid spending is helping to reduce widespread poverty as stated in the overall transformation diplomacy goal? What kinds of indicators for poverty reduction are you using? The reason I ask is because, despite the fact that the Administration has made statements committing to help meet this goal, we do not have a clear strategy for how we will do that or how we will track progress toward it. That's why I recently re-introduced legislation, the Global Poverty Act (HR 1302), to require the President to develop a comprehensive strategy for fighting global poverty—including helping to achieve the first Millennium Development Goal—and to report back to Congress every year on its progress.

Response:

Under Secretary Rice's leadership, the United States has reformed its organization, planning, and implementation of foreign assistance in order to maximize the impact of our foreign assistance dollars to achieve U.S. foreign policy objectives and improve the lives of those around the world. We have taken major steps to increase transparency, accountability, and coherence of strategy in the allocation of our resources, including through the creation of one office to oversee and coordinate all USAID and State Department foreign assistance resources and the development of the new Foreign Assistance Framework that focuses all of these resources on the achievement of a single overarching goal—transformational diplomacy, i.e., to help build and sustain democratic, well-governed states that respond to the needs of their people, reduce widespread poverty, and conduct themselves responsibly in the international system.

The reform of U.S. foreign assistance does not change U.S. support for the principles of Millennium Development Goals (MDGs). The FY 2008 request, with its focus on promoting transformational development through the foreign assistance framework, demonstrates this commitment. Specifically, the budget request focuses

on supporting individual country development strategies, addressing the specific gaps and obstacles countries face in moving from one country category to another, and identifying the target objective or objectives appropriate to the individual country context. Over half of the program assistance resources in the budget request for the State Department and USAID are concentrated in Rebuilding and Developing countries. These countries are the farthest away from sustaining partnership status as measured by instability, poverty, human capacity, life expectancy, governance, and barriers to economic growth. In addition, total funding in the three objectives supporting long-term development (Governing Justly and Democratically, Investing in People, and Economic Growth) increased by approximately \$100 million from FY 2006 levels in the FY 2008 budget request.

While MDGs are a useful metric to monitor the impact of growth on people (especially the poor), they are limited in a number of respects. For example, they exclude economic growth and governance. In addition, they do not define the full range of development challenges, address country commitment to reform, or account for private capital flows.

Within the new Foreign Assistance Framework, poverty reduction is tracked through such overall indicators such as declines in poverty rates (the percentage of the population living on less than \$1 a day) and growth in per capita incomes. At the same time, recognizing that serious and sustained progress in reducing poverty depends on overall development progress, the Framework promotes and tracks progress across a range of programs that contribute to poverty reduction, such as broad-based economic growth through investments in such areas as agriculture, micro-enterprise development, and pro-private sector policies which are essential to creating the opportunities needed to raise the living standards of poor households. We also support investments in people—especially in basic education and health—to ensure that all citizens are in a position to gain access to the opportunities created by growth. Within these interventions, we track progress to ensure that the poor are benefiting from these programs, including through such indicators as the percentage of the poor benefiting from social services or assistance.

Our commitment to advance MDGs is also illustrated by major increases and initiatives included in the budget request. For example, funding to combat HIV/AIDS reflects an increase of \$2.18 billion over the FY 2006 enacted level; for malaria, the funding request increases by \$285 million; for food aid, the request increases by \$100 million; and for multilateral debt relief initiative, we will provide up to \$60 billion in debt relief to 42 poor countries (23 have received about \$39 billion thus far). We will continue to track the implementation and disbursement of foreign assistance to ensure that our programs contribute to poverty reduction.

QUESTIONS SUBMITTED BY THE HONORABLE CHRISTOPHER H. SMITH, A
REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Question:

I was recently in Nigeria, and I was informed by USAID personnel there that Nigeria was not included as a focus country under the President's Malaria Initiative even though it has the 4th highest rate worldwide and the highest rate in sub-Saharan Africa for malaria prevalence. The apparent reason is that malaria funding is based on population, and due to Nigeria's high population it would have gotten all the money if included in the calculations. Could you please explain the official reasoning behind this decision? Unless a more justifiable reason can be provided, some formulation should be devised so that Nigeria is included as a focus country.

Response:

At the October 18–19, 2006 meeting of the President's Malaria Initiative (PMI) Interagency Steering Committee, Nigeria was considered together with 12 other African countries for inclusion as one of the eight final countries to participate in the PMI, bringing the total number of countries to 15. All candidates went through a standard assessment process which included an appraisal of the policy environment and performance in other health programs and on Global Fund grants, the infrastructure in place, the activities of other donors, and the disease burden, both in absolute and relative terms.

With respect to the later factor, in order to not favor nations on the basis of population size alone, the three largest countries, Ethiopia, Nigeria, and the Democratic Republic of Congo, were asked to submit smaller, sub-national units, such as states or regions, for consideration in the selection. The Steering Committee then considered all countries and sub-national units for participation in the PMI.

Although Nigeria, with its population of more than 120 million, reports a very high number of malaria cases each year, the risk of malaria transmission and the prevalence of malaria infections and malaria-associated deaths are no higher in Nigeria than in most other countries in sub-Saharan Africa. In fact, according to the 2005 WHO World Malaria Report, Nigeria ranks 15th among the 16 West African countries in terms of the rate of reported malaria cases per 1,000 population. Additional factors that were considered in the decision not to include Nigeria in the PMI were its very weak health infrastructure and the uncertain security situation in the proposed Delta region. These factors would have presented very serious obstacles to a rapid scale-up of malaria prevention and control measures.

Nonetheless, non-PMI funding for malaria activities in Nigeria jumped from \$2.6 million in FY2006 to \$6.5 million in FY2007. Moreover, the World Bank is providing a \$180 million interest-free credit to Nigeria to support the country's National Malaria Control Program.

Question:

I raised concerns in a prior hearing of this Committee and I am aware that fellow members are raising concerns in other Committee hearings about the transparency of monies being spent by the Global Fund. Has the Administration taken any action in recent weeks on this issue? Has the Global Fund given any positive reactions to the concerns being expressed by Congress?

Response:

As background, since the founding of the Global Fund in 2001, the United States Government (USG) delegation to the Global Fund has taken the lead in ensuring transparency, accountability, and strong and effective internal governance standards at the Global Fund.

When Richard Feachem, then the newly appointed Executive Director of the Global Fund, visited Washington, D.C. in June 2002, he met with Under Secretary for Global Affairs Paula Dobriansky. The first two points the USG raised in that meeting were: 1) USG commitment to the Global Fund, and 2) "the need for strong financial and program accountability mechanisms" at the Global Fund.

During the period 2003–2005, HHS Secretary Tommy Thompson served as Chairman of the Global Fund, and throughout the early years of the Global Fund the USG sat on four out of the Board's five committees:

- Ethics;
- Governance and Partnership (GPC);
- Monitoring, Evaluation, Finance, and Audit (MEFA); and
- Portfolio Management and Procurement (PMP).

In addition to the USG's one voting seat on the Board, membership on these multiple committees, which are the source of most Board policymaking, has afforded the USG additional opportunities to advocate for accountability and transparency.

Since the Board reorganized its committees in 2005, the USG has chaired the Policy and Strategy Committee (PSC), and sits on both the PSC and the Finance and Audit Committee. The work of these two committees is essential in maintaining Global Fund transparency, accountability, and good governance.

In 2006, in our leadership capacity on the PSC, the USG circulated a position paper to fellow Global Fund Board members that outlined our views on key elements of the Board's policies and long-term strategy. The USG made clear to the Board that these were "bright line" positions to which the USG was firmly committed.

Among the key points of this document:

The Global Fund must maintain performance-based management, and base all of its funding decisions on the achievement of results that are clear, rapid, measurable, accountable, and sustainable;

The Global Fund must maintain independent technical review of all proposals; and

The Global Fund must support partnerships in countries with a proven record of strong governance, political commitment and implementation, and must remain vigilant and swift to avoid corruption or misuse of its grant monies.

Your question notes recent reports on accountability and transparency at the Global Fund. In response, the Global Fund Secretariat, partly in response to continued pressure from the USG and other Board Members, is looking at the role and responsibilities of its Local Fund Agent (LFA) contractors, who provide auditing and oversight to Global Fund field operations. The USG's Government Accountability Office (GAO) is completing a report on several aspects of the Global Fund, including

how the LFAs are fulfilling their designated responsibilities. The Global Fund Secretariat also commissioned a study of the LFA system for presentation at the Board Meeting later this month. Two key issues in these studies are whether the Board should expand the LFA oversight role to cover programmatic as well as financial elements, and how to account for expenditures by sub-recipients. These studies are likely to produce concrete recommendations the Board will refine and adopt to improve the accountability and transparency in Global Fund activities at the country level.

On March 21, 2007, the USG member of the Global Fund Board of Directors, Dr. William Steiger, wrote to Mr. Ken Langford, Inspector General, ad interim, of the Global Fund. The letter was written in response to the 2006 report of the Office of the Inspector General (OIG) on the use of the Fund Secretariat's Credit Suisse account, and asked Mr. Langford to make this report public, along with the management response to that document. Mr. Langford responded on April 5th, 2007, by stating that a "third and current piece of work" on the OIG Credit Suisse Report is not yet complete, and that consideration of its release will be delayed pending its conclusion and "any potential finding of possible wrongdoing."

This third piece of work is a review the Board mandated in its February 2007 Special Meeting, as follows: "The Board requests the ad-interim Inspector General to conduct an independent analysis of the remaining issues raised by the Inspector General's report and the Secretariat's [management] response, and to advise the Board whether further action is required, not later than the Fifteenth Board Meeting in April 2007." Mr. Langford cited the principles of transparency and accountability that underpin the OIG, and noted that "in general, this would imply public release of reports." The USG delegation to the Global Fund Board will continue to push for the release of this report following the presentation of Mr. Langford's analysis at the 15th Board Meeting later this month.

The Global Fund Board also requested its Finance and Audit Committee to submit at the 15th Board Meeting in April recommendations on "clarifying the role, remit and priorities of the OIG [and] documenting an overall assurance framework for the Global fund." The USG member of the Finance and Audit Committee has taken a leading role in drafting the subset of these recommendations that address the policy of the Global Fund's OIG for the public release of reports and other documents. In this process, the USG has pushed strongly for transparency, and for the public release of all documents in an appropriate form, by using U.S. law that governs Executive Branch inspectors general as a model.

The Credit Suisse account, the subject of this OIG report and of recent questions from Congress, is a relatively small account the Fund Secretariat has maintained and used for limited types of headquarters expenses deemed to require unusually swift action. The Global Fund Board took steps at its special meeting in February to place additional limitations and reporting requirements on the use of the Credit Suisse account. It is important to note in discussing the issue of Global Fund financial transparency that all governmental contributions to the Global Fund, including our own, go directly through the Global Fund's Trustee, the World Bank. All are reported in detail on both the Global Fund's website and through annual audits commissioned by the Global Fund's Board.

Question:

The Director position at the Office of Microenterprise Development (OMD) has been vacant for more than six months. During the July 27, 2006 hearing on microenterprise before the House International Relations Subcommittee on Africa, Global Human Rights, and International Operations, Jacqueline E. Schafer, the Assistant Administrator of the USAID Bureau for Economic Growth, Agriculture and Trade testified that the Administration would conduct a search or make an arrangement to find a successor for the vacant position. What progress has been made in the search? When can we expect a Director to be named?

Response:

Although we are actively looking, a candidate has not yet been identified to lead the office. In the meantime, Assistant Administrator Schafer has assigned Mr. Tim Mahoney, a senior member of the Foreign Service, as the supervisor for the staff of the Microenterprise Development Office. The Office continues its work on all fronts, with an ambitious agenda that includes its Accelerated Microfinance Advancement Project, the Implementation Grants Program, the FIELD-Support Leader With Associates (LWA) program, and a number of other activities as well.

Question:

According to section 3 of the Microenterprise Results and Accountability Act of 2004 (P.L.108-484), The Office of Microenterprise Development (OMD) is supposed

to be funded at a level of not less than \$25 million. For the past three years appropriations report language has directed USAID to fund OMD at not less than \$30 million as part of a strategy of preserving the viability of the leading NGO microfinance networks. Yet OMD continues to receive budgets of \$13 to 19 million. Without a central funding source, microfinance networks are unable to achieve global economies of scale that would enable them to reach millions more of the poor. How will USAID ensure that the large number of missions that have not received technical input from OMD benefit from such input in developing their microfinance strategies? How will USAID ensure that global microfinance networks continue to fulfill their potential for aggressive growth and high impact?

Response:

USAID applauds the work of the global microfinance networks with both USAID and private sector partners. Indeed, USAID encourages these networks to take advantage of MD office funding vehicles and to cultivate partnerships, while also engaging the far greater resources of the private sector and capitalizing on increasing private sector interest in microfinance. Notable examples include:

FINCA's \$10 million agreement with the USAID/Afghanistan Mission through a Microdevelopment (MD) Office mechanism to extend microfinance services throughout Afghanistan; 2) Opportunity International's ongoing relationship with a number of USAID Missions, including Malawi, for support to Opportunity International Bank of Malawi, which is also funded by the MD office; 3) Opportunity's recent receipt of a \$50 million gift from a private donor, and a \$15 million grant from the Bill and Melinda Gates Foundation.

With regard to the office's funding levels, USAID strikes a balance among competing priorities, of which the MD office is one. The office was fully able to expand its partnerships with global microfinance networks and others through its Leader With Associates, Grants Under Contract, and Implementation Grant programs. It is important to note that funds for the administrative office come at a cost to field programs.

The MD office meets Mission demand for technical input by assisting with program development, project design, monitoring and evaluation and with advising local counterparts. MD technical advisors spent more than 300 days in the field assisting Missions in FY 2006, traveling to 22 countries. During this time, MD staff also advised dozens of Missions virtually, by phone, email or other means.

QUESTIONS SUBMITTED BY THE HONORABLE DIANE E. WATSON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Question:

Will the reforms being implemented truly enhance the effectiveness of American foreign aid? Or will they simply provide better bookkeeping? Can you provide specific ways in which these reforms will actually enhance the capacity and delivery of particular assistance programs?

Response:

The FY2008 request reflects a different approach to building the budget from previous years' methods. Most notably, for the first time ever, all \$20.3 billion of U.S. foreign assistance under the authority of State and USAID were integrated into one, joint budget submission. Not only was the budget fully integrated, it was strategic. There were six principles that governed the prioritization of the FY 2008 budget request: 1) integrated planning based on the totality of USG resources; 2) maximizing country progress; 3) investing in states critical to long term regional stability and prosperity; 4) focusing on demand-driven interventions that are critical levers for progress; 5) allocating funds intended for country programs to country level budgets; and 6) matching accounts with the country circumstances and intent they are designed to address.

The end result is that the FY 2008 budget request reflects a more coherent, systematized approach to the budget than in previous years. Certainly, I believe that the result will significantly enhance our ability to both identify and meet foreign assistance goals. For example, with respect to Ghana, funds were shifted to enhance capacity of local governments to reduce the possibility of undermining the results of the MCC Compact, which will be implemented through District Assemblies. Regionally, we focused on countries that are lynchpins to pulling the region forward—in the East Asia and Pacific region; for example, Indonesia, the Philippines and Mongolia make up 53 percent of the budget request. Further, we focused on de-

mand-driven interventions, instead of interventions that were historically funded in specific countries but not necessarily strategic. Funding was consequently increased to programs targeted to improve governance and democratic participation; mitigating diseases that threaten the human and economic capacity of countries to progress on their own; expanding access to and improving the quality of education; and enhancing economic opportunity and skills to participate in the global economy.

I look forward to engaging with you on the different ways that we see the reform impacting foreign assistance and ways that we can improve it even further.

Question:

What effort is being made through the reform process to strengthen the capacity of the United States Agency for International Development (USAID) to perform its core mission, "to extend assistance to countries recovering from disaster, trying to escape poverty, and engaging in democratic reforms?" How can this capacity be strengthened in the face of declining administration requests for operating expenses funding?

Response:

The FY 2008 Operating Expenses budget request is \$609.0 million. In addition, the Administration requests \$62.0 million in the Emergency Global War on Terrorism FY2008 Supplemental to fund the USAID Iraq operations and USAID Afghanistan security costs.

This year's proposed operating budget, drawing upon the Foreign Assistance Framework and the extensive work done by USAID working groups over the past year, begins a process of upgrading and streamlining USAID operations worldwide. Our objective is a vibrant agency that serves as the premier platform for delivering U.S. development and humanitarian assistance, fully consistent with U.S. strategic and foreign policy objectives.

USAID is undertaking institutional reforms to streamline the Agency, improve the efficiency and effectiveness of supporting the delivery of foreign assistance, and better align resources with U.S. foreign policy priorities. The Agency has undergone a number of reviews in the past few years to align its workforce with the Agency's mandate. The recommendations from these reviews are being carefully considered to effectively design workforce, management, training, and hiring practices that maximize the Agency's impact and efficiency. The FY 2008 request will allow USAID to maintain the workforce and improve management acumen to strengthen programs and support systems, while committing to cost containment and efficiency.

Question:

What impact will this reform process have on funding levels, both overall and for specific countries, programs, and Congressional priorities?

Response:

Foreign assistance in the past has run the risk of being a mile wide and an inch deep. With a thousand agendas embedded in our foreign assistance programs, our impact was diluted and diffuse. It is important to note, as I often do, that there is very little that we do in our development portfolio that is bad. Someone, some community, is benefiting from the services we are providing and the interventions we are supporting.

But that is not the point. The real question is, are we achieving sustainable impact? Are we, in fact, enabling transformation? *Are we giving people what they need to sustain further progress on their own?*

Based on the new country-driven process, we have prioritized resources to the areas that we believe will promote and sustain long-term country progress. Funding is increased to programs targeted to improving governance and democratic participation, programs mitigating diseases that threaten the human and economic capacity of countries to progress on their own, programs that expand access to and improve the quality of education, and programs that enhance economic opportunity and the skills needed to participate in the global economy. These resource allocations reflect the wisdom of our interagency teams of country experts.

Focusing resources in this way has its tradeoffs. When one area goes up, unless there is an abundance of new resources, other areas go down. While the FY 2008 budget increased by \$2.2 billion over FY 2006 enacted levels, we squeezed far more in the budget. The budget includes important increases for HIV/AIDS, malaria, and humanitarian assistance; and for countries in which there are new requirements and opportunities such as in Kosovo, Iran, and Cuba. The FY 2008 budget also reflects efforts to continue to shift program funding, where requirements are predictable, from supplemental requests for Iraq, Afghanistan, Sudan and avian influenza into the base budget.

Within the country-level requests, you will also find quite a bit of smaller, yet equally important, shifts. Country teams prioritized interventions that would help a country's institutions to build the capacity to take on challenges in the longer term. So you will see increases in resources for conflict mitigation, justice systems, executive branch institution-building, anti-corruption, basic education, energy services, agriculture policy, workforce development, and clean environment. But with these increases, certain sectors were not prioritized by the country teams to the degree that they have been funded in the past. These areas include sectors that we realize are important to members of Congress. We know that putting decreases forward in these areas requires a robust justification of our reasons, and I hope we will have a substantive dialogue about why our teams made the choices that they did.

My hope is that the first steps taken over the past nine months will support a robust dialogue between the legislative and executive branches about funding priorities. Because with this new transparency of information comes a new responsibility on both of our parts to raise concerns where we feel our differing priorities will have a detrimental impact on transformational diplomacy progress; I look forward to hearing your input regarding the prioritization of resources that we have laid on the table.

Question:

Why has the Administration decided to shift a significant portion of funds from the Development Assistance (DA) account into the Economic Support Fund (ESF) account? ESF traditionally focuses on only a few countries that are strategically important to the U.S., and is more vulnerable to funding diversions to address more immediate and political concerns. How does this improve accountability and effectiveness in reducing poverty and supporting development?

Response:

In the FY 2008 budget request, we sought to maximize the use of account authorities and establish clear priorities in support of effective implementation of foreign assistance programs. We, therefore, matched accounts with country circumstances and the priorities the country categories are designed to address.

This means that, overall, funding for Development Assistance (DA), which has traditionally supported poor countries that demonstrate performance or a commitment to development, has been prioritized to Developing and Transforming countries. Economic Support Funds (ESF), which focus primarily on providing economic support under special economic, political, or security conditions, has been prioritized to support activities in the Rebuilding and Restrictive Country Categories.

The intent in shifting funds from DA to ESF is to draw cleaner lines around their use, as identified by country characteristics. These cleaner lines allow us to justify to Congress why we have requested amounts for each account. The shift is in no way reflective of a reduced prioritization of development activities. To the contrary, total funding in the three objectives supporting long-term development (Governing Justly and Democratically, Investing in People, and Economic Growth) increased by approximately \$100 million from FY 2006 levels in the FY 2008 budget request.

Question:

What will the organization chart look like at USAID after this process is completed? What will the organization chart look like at State after this process is completed? (Even though the State & AID processes are combined on paper, how will you address the fact that they are still funded separately?)

Response:

A comprehensive review of our foreign assistance structure indicated that assistance was fragmented among many bureaus within State and USAID, leading to conflicting or redundant efforts and less than optimal coherence between programs, policies and goals. As a result, the Secretary established the Office of the Director of US Foreign Assistance (F) to bring together under single leadership, State and USAID staff performing the common foreign assistance functions of strategic planning, budgeting, program planning, and program evaluation and accountability. These staff included personnel from the Office of Policy Planning (PPC/P), Office of Strategic and Performance Planning (PPC/SPP), the Office of Resource Allocation (PPC/RA) and the Center for Development Information and Evaluation (PPC/CDIE). It also encompassed all personnel from State Resource Management/Foreign Assistance office and select personnel from Resource Management/Strategic and Performance Planning. For the PPC functions which remained at USAID, the Management Bureau or the newly established Office of the Chief Operating Officer (COO) now

have oversight. The COO's office is part of the Administrator's office, and serves as the focal point for the Agency's management reform initiatives.

The Director of U.S. Foreign Assistance reports directly to the Secretary. As the Secretary recently announced, the Coordinator for Reconstruction and Stabilization (S/CRS) is now a Deputy within F, so that the operational mandate and expertise of S/CRS is aligned with the funding authorities and planning processes of F. F is further comprised of regional units for country based planning and budgeting which mirror the regional units at the State Department, and functional units which track the five Foreign Assistance objectives: peace and security, governing justly and democratically, investing in people, economic growth and humanitarian assistance. There is also an Operational Management unit to track strategic information and performance and to maintain accountability.

USAID and the Department of State foreign assistance funds are appropriated through the same appropriations bill in Congress. The Director of U.S. Foreign Assistance, dual-hatted as the USAID Administrator, oversees the coordination and programming of all of State and USAID funds appropriated in this bill. In establishing the F structure, the Secretary sought to ensure that we make every effort within current statutory authorities to fulfill our responsibilities to provide assistance strategically and effectively.

Question:

The Secretary of State and Director of Foreign Assistance make the initial decisions regarding the overall funding available to each aid recipient country and regarding the types of programs to be funded in each country. On what are these initial decisions based?

Response:

The FY 2008 budget process was unique in many ways. For the first time, all \$20.3 billion of U.S. foreign assistance under the authority of the Department of State and USAID, as well as resources provided by MCC, are being applied to a single overarching goal-transformational diplomacy. State and USAID presented a unified foreign assistance budget request based on six strategic principles: 1) integrating planning based on the totality of U.S. Government resources; 2) maximizing country progress; 3) investing in States critical to long-term regional stability and prosperity; 4) focusing on demand driven interventions for sustainable progress; 5) allocating funds to country level budgets where possible and appropriate; and 6) matching the accounts with country circumstances.

In developing this budget, State and USAID undertook a multi-stage process. The first step was to solicit input from the field, to include the Mission Performance Plans (MPPs) and the Annual Reviews (ARs). With the field's view and taking into account OMB guidance, we derived initial allocations for reaction by country based teams. These initial levels excluded non-country programs such as centrally managed OE and emergency funding. In addition, most rebuilding countries were allocated separately due to security concerns. Likewise, most restrictive countries were likewise allocated separately due to legislative concerns as were countries with widely accepted Congressional and Administrative mutual support. The initial levels took into account a number of weighted factors such as the development gap (per capita income, child mortality, total fertility, youth literacy, and sanitation), population, foreign policy, security, and political rights and corruption.

Country based or core teams evaluated these initial levels, using guidance such as spider graphs and the MPPs and considering other USG, such as MCC, and donor contributions. In those cases where the core teams were convinced that initial levels should be higher, the team submitted a reclama for that amount.

The core team recommendations were then submitted to a series of check and balances. Regional Leadership teams considered whether the core teams got the initial levels right as well as whether the mix among objectives made sense and the mix among country categories was appropriate. Senior Reviewers then considered the work of the Regional Leadership Teams. The Senior Reviewers not only looked at the previous prioritizations but made cross-regional comparisons too. Based on input from all of these levels of review, reclaims were allocated, and all country levels were finalized for submission to OMB.

At this time, we are engaged in the final, very critical step of the FY08 budget process which is the after action review. As part of the review, we will walk back through all the stages of the process to see where adjustments are needed and improvements can be made. We welcome the opportunity to engage with you on our findings.

Question:

The role of Director of Foreign Assistance was created to, "Create and direct consolidated policy, planning, budget and implementation mechanisms and staff functions required to provide umbrella leadership to foreign assistance," as well as, "Direct the required transformation of the USG approach to foreign assistance in order to achieve the President's Transformational Development Goals." Yet the President's Budget request for Fiscal Year 2008 indicates that the DFA's authority will only extend to a small portion of a \$24.3 billion U.S. Foreign Assistance Budget. Given this, how can the DFA's reform proposals truly have a "transformational" impact on the delivery of U.S. Foreign Assistance?

Response:

The purpose of establishing the position of the Director of U.S. Foreign Assistance was to ensure within current statutory authorities that we make every effort to fulfill our responsibilities to provide assistance strategically and effectively. As such, the Director, dual hatted as the USAID Administrator, oversees the coordination and programming of all of the Department's and USAID's foreign assistance resources.

In FY08, all U.S. foreign assistance under the authority of the Department of State and USAID, as well as resources provided by MCC, is being applied to the achievement of a single overarching goal-transformational diplomacy: *To help build and sustain democratic, well-governed states that respond to the needs of their people, reduce widespread poverty and conduct themselves responsibly in the international system.*

This is a first with respect to our foreign assistance budgeting and an ambitious beginning (covering almost 80% of all foreign assistance funds) of what is expected to be broader coordination across all agencies involved in the delivery of USG foreign assistance. One key tool expected to facilitate meaningful coordination is the new Strategic Framework for U.S. Foreign Assistance which articulates an organizing strategy for achieving this goal, focusing on five objectives that together address the underlying causes of persistent poverty, despotic governance, insecurity, and economic stagnation: 1) Peace and Security; 2) Governing Justly and Democratically; 3) Investing in People; 4) Economic Growth; and 5) Humanitarian Assistance.

The FY 2008 budget is focused, strategic, and prioritized to these shared objectives. In addition, the Department of State and USAID have jointly developed common definitions and indicators to describe, account for, and evaluate our foreign assistance programs and their impact in achieving the objectives of the strategy. A new budget and performance tracking system will house budget and planning data that will allow us to track objectives to programs, dollars, and results. Performance evaluations will allow us to further refine and focus our foreign assistance dollars.

In all, the FY 2008 budget request reflects a more integrated, systematized approach to the budget than experienced in previous years. I believe that the result will significantly enhance our ability to both identify and meet foreign assistance goals. I look forward to engaging with you, and other members of Congress, on ways that we can make the FY 2009 budget process even more transformational.

Question:

Does the Director of Foreign Assistance rely on individual USAID staff or missions to call in their concerns about this new process, or is there an established mechanism through which missions are involved and formally engaged in the funding process? If the latter, what is this mechanism? Is this process formal or informal? If informal, how can we measure its efficiency or its effectiveness?

Response:

Communicating with USAID staff, both at mission and here in Washington, regarding how we can make the Secretary's reforms as effective as possible is a priority for me. To that end, we have created a number of mechanisms for USAID staff and missions to provide feedback, not only about the reforms but about other matters of concern to them. For example, I hold "Open Door" meetings with USAID staff, ideally every other week. I sent a message to all USAID staff, encouraging them to contact me with any comments or questions at AdministratorsMailbox@usaid.gov. We have created a website, foreignassistance.net where staff can submit questions and comments. Immediately following the submissions of the Operational Plans, we sent a survey requesting feedback on how to improve the process and requesting input on what obstacles staff have encountered. We created a separate email address for staff to provide comments and ask questions specifically on indicators. As part of an After-Action Review, F staff held meetings and contacted individuals in the field to get their input into the FY08 budget

process. We value the vast knowledge and experience of USAID staff, and will continue to reach out to them in an ongoing effort to improve the Agency and to advance the Secretary's transformational diplomacy goal.

With specific regard to building the budget, one of the principles of the Secretary's reform is for Washington to provide clear strategic guidance and for the field to focus on their strength, operationalizing that vision. The budget building process relies on a number of formal inputs from the missions. For FY08, we first asked the Ambassadors to submit policy papers identifying their priorities. These policy papers were used by our country core teams, along with other inputs, as part of the basis for their discussions for outlining a vision for country progress and allocating budgets in a way that fully supported that goal. Core teams also communicated with the field about specific programs and questions that were raised during the country core team meetings. Looking toward the FY09 budget exercise, we will focus on ways to refine the budget process, to include ensuring we have the right mechanisms in place to solicit and incorporate field input.

Question:

How will the segregation of particular program areas within particular objective areas impact program design and assistance delivery? For example, environmental issues only appear in the new matrix under Economic development. However, in truth, environmental issues are much broader, affecting security, governance and health issues. How will F ensure that these are all taken into consideration?

Response:

Our "Development Dictionary" is a tool to increase transparency and maintain a common understanding of programs by providing a standardized set of program areas and definitions. While the Foreign Assistance Framework defines "why" we are doing what we are doing in foreign assistance, the development dictionary is the fundamental structure by which we program dollars and explain "what" we are doing with foreign assistance funds to achieve the "why." Country strategies will identify how each area contributes to moving a country forward on the development trajectory, including how the areas combine to produce results in the country. But let me be clear on this because the question also relates to my earlier statement before HACFO regarding the risk of foreign assistance running a mile wide and an inch deep. We are prioritizing resources to areas that we believe will promote and sustain long-term country progress which requires focusing on the direct, attributable links between resources programmed in those areas and the desired outputs, outcomes and impacts, so that we can assure the most strategic allocation of resources.

Question:

How will these reforms relate to the established goals of U.S. foreign assistance, including mandates set forth by Congress? The Director has so far stated that he feels these reforms can be implemented without Congress acting to change his statutory authorities. Have you not encountered a single instance where a proposed reform would have run counter to existing statutory authorities?

Response:

I appreciate your interest in helping us to ensure that the appropriate tools are in place to permit us to improve our foreign assistance effectiveness. It is the case that the reforms proposed so far, including the creation of the Director of Foreign Assistance position, are an attempt to ensure that we make every effort within current statutory authorities to fulfill our responsibilities to provide assistance strategically and effectively. Together with the Secretary, we will be evaluating the FY 2008 budget process and in that context we may identify changes, including ones that may require Congressional action, which may be appropriate. Again, I very much welcome the opportunity to work with Congress on this and other matters relating to the reform going forward.

Question:

During the development of the reform process, were reforms proposed that were subsequently rejected simply because they would require Congressional action to change statutory authorities?

Response:

To my knowledge, no proposals were rejected because they would require Congressional action to change statutory authorities. The reforms are an attempt to ensure that we make every effort within current statutory authorities to fulfill our responsibilities. We have to demonstrate to Congress and to the American people the

value-added of a more strategic and integrated approach. We very much look forward to working with Congress going forward.

Question:

How will these reforms impact commitments the United States has made to our international partners? In particular, where in the Foreign Assistance Framework document are the United States' commitments to the Millennium Development Goals operationalized?

Response:

Under Secretary Rice's leadership, the United States has reformed its organization, planning, and implementation of foreign assistance in order to maximize the impact of our foreign assistance dollars to achieve U.S. foreign policy objectives and improve the lives of those around the world. We have taken major steps to increase transparency, accountability, and coherence of strategy in the allocation of our resources, including through the creation of one office to oversee and coordinate all USAID and State Department foreign assistance resources and the development of the Strategic Framework for U.S. Assistance that focuses all of these resources on the achievement of a single overarching goal—transformational diplomacy, i.e., to help build and sustain democratic, well-governed states that respond to the needs of their people, reduce widespread poverty, and conduct themselves responsibly in the international system.

The reform of U.S. foreign assistance does not change U.S. support for the principles of Millennium Development Goals (MDGs). The FY 2008 request, with its focus on promoting transformational development through the foreign assistance framework, demonstrates this commitment. Specifically, the budget request focuses on supporting individual country development strategies, addressing the specific gaps and obstacles countries face in moving from one country category to another, and identifying the target objective or objectives appropriate to the individual country context. Over half of the program assistance resources in the budget request for the State Department and USAID are concentrated in Rebuilding and Developing countries. These countries are the farthest away from sustaining partnership status as measured by instability, poverty, human capacity, life expectancy, governance, and barriers to economic growth. In addition, total funding in the three objectives supporting long-term development (Governing Justly and Democratically, Investing in People, and Economic Growth) increased by approximately \$100 million from FY 2006 levels in the FY 2008 budget request.

While MDGs are a useful metric to monitor the impact of growth on people (especially the poor), they are limited in a number of respects. By excluding economic growth and governance, they cannot be considered a comprehensive development strategy. In addition, they do not define the full range of development challenges, address country commitment to reform, or account for private capital flows.

Within the new Strategic Framework for Foreign Assistance, poverty reduction is tracked through such overall indicators such as declines in poverty rates (the percentage of the population living on less than \$1 a day) and growth in per capita incomes. At the same time, recognizing that serious and sustained progress in reducing poverty depends on overall development progress, the new Strategic Framework for Foreign Assistance promotes and tracks progress across a range of programs that contribute to poverty reduction, such as broad-based economic growth through investments in such areas as agriculture, micro-enterprise development, and pro-private sector policies which are essential to create the opportunities needed to raise the living standards of poor households. We also support investments in people—especially in basic education and health—to ensure that all citizens are in a position to gain access to the opportunities created by growth. Within these interventions, we track progress to ensure that the poor are benefiting from these programs, including through such indicators as the percentage of the poor benefiting from social services or assistance.

Our commitment to advance MDGs is also illustrated by major increases and initiatives included in the budget request. For example, funding to combat HIV/AIDS reflects an increase of \$2.18 billion over the FY 2006 enacted level; for malaria, the funding request increases by \$285 million; for food aid, the request increases by \$100 million; and for multilateral debt relief initiative, we will provide up to \$60 billion in debt relief to 42 poor countries (23 have received about \$39 billion thus far). We will continue to track the implementation and disbursement of foreign assistance to ensure that our programs contribute to poverty reduction.

Question:

How will the implementation of reform impact our relationships with the national development agencies of our allies around the world, such as the United Kingdom's Department for International Development?

Response:

We expect the implementation of U.S. foreign assistance reform to have a positive impact on our relationships with our allies around the world. We have already begun to see this happen in the field, in Washington, and with international partners.

By including all State and USAID resources, the new Foreign Assistance Framework and country Operational Plans for 2008 and beyond make it easier to explain our programs to other donor agencies and coordinate efforts so they can be mutually supportive and comprehensive. For example, in Ghana, the donors have mapped out a comprehensive assistance strategy to build on each others' comparative advantages. In that case, USAID, MCC and PEPFAR programs are calibrated with 20 other donors' programs to advance Ghana's national development strategy. In Bosnia-Herzegovina, Sweden and the Netherlands are joining as partners in USAID's Governance Accountability Project to strengthen democratic local governance. This cooperation has helped USAID leverage other resources, and the common approach is reinforcing the U.S. strategic interest in local governance issues that will affect the future of Bosnia. I could cite a number of other examples, all of which are built upon solid relationships that exist with other donors, and which we fully expect to expand as the reform is implemented.

Aid reform is taking place not only in Washington and in the field, but internationally among our allies. The aim is to improve aid effectiveness and achieve development results. The Paris Declaration on Aid Effectiveness, which we endorsed in March 2005 along with 100 other countries and donor agencies, gives us a common basis for working together under our new Framework with development agencies such as the UK'S Department for International Development toward increased effectiveness and results. U.S. aid reforms are consistent with these shared aims and contribute to good mutual dialogue with other development agencies. While implementation of the reform is still at an early stage, we envision that it will lead to more coherent development policies, closer coordination with other donors at the country level, and greater use of host-country-led common results frameworks for measuring success.

Question:

Many of the indicators we are hearing about seem to be focused on short-term measurements (i.e. 12 months). What time frame you will use to measure success of a project? How are you planning to reconcile indicators that point to short term results (which presumably determine future funding) and the need for long term, sustainable development which is equally important but can take much longer to show those results? Are you concerned that an over-reliance on short-term indicators can distort your efforts in pursuit of long-term development goals?

Response:

This question highlights the importance of all three categories of indicators which will be used for assessing progress in achieving USG foreign assistance goals. We will review outputs and outcomes at the element-level that demonstrate what we are "buying" with foreign assistance dollars. We will also review country performance results at the area level and impact level indicators at the strategic level. By using this combination of outputs, outcomes and impacts, we can begin to analyze and better understand the linkages between what we are "buying" and how those efforts contribute to longer-term impacts.

Short-term results do not determine funding decisions. Funding decisions are based on a number of inputs, including but not limited to the full range of indicators.

Many of our standard indicators do fall within a short-term time frame. In order to capture a full picture of the results achieved with foreign assistance, a fewer number of high level indicators are needed than lower level indicators. As an example, in an education program, we might consider 'net enrollment rates increase.' This higher level indicator encompasses quite a number of activities that contribute to this one measurement. Given the particular situation, we might construct or repair a school, train teachers or administrators, etc. Our element level indicators capture the outputs and outcomes of each of these, resulting in a greater number of these lower level indicators.

Question:

In examining the standard performance indicators on your website, a distinction is made between 12-month “element level” indicators, and longer term “strategic level” and “area level” indicators. Yet while many of the short-term element level indicators have been developed, the strategic and area level indicators are still under development. In light of this fact, how do you intend to prevent Congressional and Executive Branch funding decisions to not be skewed towards short term priorities over longer term strategic priorities?

Response:

The process for making funding decisions for FY 2008 was centered on setting strategic priorities over the longer term. The ultimate goal of transformational diplomacy is to support recipient country efforts to move from a relationship defined by dependence on traditional foreign assistance to one defined by full sustaining partnership status.

In past budget years, much of the budget was built not by country, but by sector. Therefore, what drove many country programs wasn't the specific country need as much as a set global amount for a sector that needed to be met. This year, the country teams were given an overall target number for each country—not by account, not by sector, just a total.

They had at their disposal data on the status of country progress against independent indicators assessing poverty, human capacity, life expectancy, governance, and barriers to economic growth. They had the new Strategic Framework for U.S. Foreign Assistance, which outlines interventions according to countries' common development situations. They were asked to allocate funds for objectives and programs that would best advance individual country progress. The result was a country-driven allocation for the FY 2008 budget. The Executive Branch provides this information to Congress to help make budget decisions that incorporate both short and long term strategic priorities.

With respect to performance, my office has developed standard performance indicators to measure what is being accomplished in the short-term on an annual basis with U.S. foreign assistance funds. Approximately one-third of these indicators are outcomes, with the remaining two-thirds being outputs. To date, missions have supplied targets in their operational plans using these indicators. In addition, we have selected a number of internationally accepted indicators, compiled by renowned third-party sources, such as the World Bank, Freedom House, and the International Energy Authority. These indicators measure the collective impact of foreign and host-country efforts over the longer term.

Question:

If all your measures are short term, how do you take account of initiatives that might have short term positive impacts but severe long term negative impacts, such as impacts on the environment? And how do you ensure effort on those things that may not show positive short term results but are important for their long term results, such as many education, health and environmental projects?

Response:

We have developed both short term and long term indicators based on best practices identified by the USG and the NGO and multilateral communities. Short term indicators are important to understanding exactly what we are purchasing with foreign assistance dollars in a given fiscal year and the attendant opportunity costs. Long term indicators are essential to understanding the level of progress we are making towards our stated foreign assistance goals. Together, both types of indicators provide us with the appropriate level of insight into our foreign assistance activities and programs and the necessary accountability for taxpayer provided funds.

Question:

What will be measured? Is the indicator process designed to measure efficiency of U.S. foreign assistance programs or effectiveness of particular U.S. foreign assistance programs? I.e. is this a development exercise or an accounting exercise?

Response:

Our aim is to provide Congress and the American taxpayers with the fullest picture possible in terms of their foreign assistance dollars. This requires meaningful insight into efficiencies—what are we purchasing with our dollars and what those dollars accomplish, as well as development outcomes—to what degree are we positively impacting our goal of helping to build and sustain democratic, well-governed states that will respond to the needs of their people, reduce widespread poverty and conduct themselves responsibly in the international system. Thus, we have devel-

oped three levels of indicators (both short and long term) which we will review on a continuous basis to ensure that our insights are as meaningful and responsive as possible.

Question:

What civil society input is reflected in the indicators/metrics? Please specify how much of this civil society input is from U.S. & International groups (Freedom House, Transparency International) and how much comes from local developing country NGOs.

Response:

Several interagency indicator working groups met with members of the NGO community to consult on the indicators. The integration of their ideas varies among sectors. In general, impact-level indicators are developed and tracked by outside groups such as the World Bank and Freedom House. Data on output-based indicators is gathered at the host-country level by implementer, both local and U.S.-based. We welcome input from civil society on a continuing basis and have set up a special mailbox for that purpose: Findicators@state.gov.

Question:

Will projects be judged based on their performance in only one sector (ie health, economic development, etc) or in multiple sectors? Will this isolate programs under specific sector goals (e.g. an economic development project will only be judged by improvement in the economy and not by any social or environmental benefits or harms it creates, thereby an economic development project will have no incentive to be energy efficient or have long term social benefits)? Under the new reorganization how will you ensure programs integrate social, environmental and economic goals to the highest degree possible? How will you account for improvements in other areas, such as economic growth, that are dependent on a healthy environment?

Response:

Element level indicators are designed to capture what U.S. foreign assistance is directly being used to accomplish. They are intended to capture the "what" of our activities so that American taxpayers will know precisely what their investments purchased. Higher level, outcome-based indicators capture the synergy resultant from cross-cutting impacts of U.S. government funded programs, the efforts of the host country government, and other donor efforts. Our foreign assistance successes will be judged based on overall country progress, which reflects the results across all objectives and program areas. By evaluating our successes at this level, and coordinating our funds accordingly, we are ensuring integration and mutually supporting programs across sectors.

Question:

What will the indicators for recovery and reconstruction be?

Response:

Recovery and reconstruction are very broad terms that would incorporate many of the indicators across multiple sectors depending on the definition applied. We invite you to review and consider at your convenience the full set of indicators which are now available online at <http://www.state.gov/f/releases/factsheets/2007/78450.htm>. In addition, once the Operational Plan reviews are completed, we would be pleased to discuss with you the kinds of indicators specifically employed by rebuilding countries.

Question:

We understand that responsibility for water and sanitation issues are about to be reassigned to the Chemicals Group within the State Department's Office of Environmental Policy. We are concerned that the impact of this would be to demote water and sanitation issues within the State Department bureaucracy. Please describe the existing organizational responsibility for water and sanitation issues, particularly for implementing the Senator Paul Simon Water for The Poor Act (P.L.109-121) and any contemplated changes to this management or reporting structure.

Response:

The Department's Bureau of Oceans, Environment and Science recently reorganized some of its functions to respond to recommendations made in its last inspection. In doing so, the Bureau sought to devolve to the line office certain responsibilities that accreted over time to its Office of Policy Coordination and Initiatives. Consequently, the Bureau moved responsibility for water and sanitation issues to the Office of Environmental Policy and integrated them into a unit that has been re-

named the Division of Air and Water Resources. The Bureau's team responsible for implementation of the Paul Simon Water for the Poor Act, including interagency preparation of this year's report to Congress, is now working under the direction of the Deputy Assistant Secretary for Environment. In our view, these changes further strengthen our support of water and sanitation issues.

Question:

How will the funding cuts to DA impact U.S. assistance for safe drinking water and sanitation?

Response:

Funding cuts to DA will not have an impact on U.S. assistance for safe drinking water and sanitation. The intent in shifting funds from DA to ESF is to draw clearer lines around their use, as identified by country characteristics. The shift is in no way reflective of a reduced prioritization of development activities and certainly will not restrict activities in water and sanitation. ESF has consistently been used to fund water and sanitation programs in the past and this will certainly continue.

We believe that safe drinking water is critical. The Operational Plan elements of Maternal and Child Health, Social Services and Protection for Especially Vulnerable Populations, Agriculture Enabling Environment, and Environment all contain sub-elements pertaining to water. Once the Operational Plans are in and we can assess how the Field has programmed resources towards these sub-elements, we will be pleased to provide you the complete picture of resources going to drinking water.

Question:

The Water for the Poor Act requires the implementing USG departments and agencies "to increase the percentage of water and sanitation assistance targeted toward countries designated as high priority countries," defined as those with the greatest need and where aid can be most effective, as well as "expand affordable and equitable access to safe water and sanitation for underserved populations." How does the new Foreign Assistance Framework reflect the elevated priority for safe drinking water and sanitation mandated by the Water for the Poor Act? How does the new Foreign Assistance Framework and the proposed Fiscal Year 2008 budget ensure that these goals are met?

Response:

The Secretary's reform provides strategic direction by linking all U.S. foreign assistance programs and activities to a single goal of transformational diplomacy—helping to build and sustain democratic and well-governed states that respond to the needs of their people, reduce widespread poverty and conduct themselves responsibly in the international community. Through the new Strategic Framework, foreign assistance is focused on five objectives (e.g. Investing in People) designed to further the transformational diplomacy goal, and, in each country, to address the specific gaps and obstacles countries face in achieving the goal, to include a gap such as the lack of adequate water and sanitation.

To that end, water and sanitation is a distinct element under the Health program area of the Investing in People (IIP) objective. Programs and activities consistent with this element include provision of sustainable access to an improved source of drinking water and improved sanitation facilities to people who did not formerly have access. Water appears in all five objectives, reflecting the comprehensive and cross-cutting nature of water interventions. Under IIP, the focus is on human development which allows operating units that have prioritized water and sanitation to focus on some of the very poorest and most disadvantaged and underserved people and to ensure that water and sanitation interventions have a direct impact on the health of the most vulnerable—particularly young children at risk of life-threatening diarrhea and other water-borne diseases.

There is also a subelement under maternal and child health called "Household Level Water, Sanitation, Hygiene and Environment," designed to realize health gains—particularly for the poor and underserved—associated with improved access to water and sanitation services.

Water resources management, including protection and sustainable management of various water sources, is found under the natural resources management program area of the economic growth objective, reflecting the close connections and inter-related nature of USG work in water.

It is through the Operational Planning process that we will be able to identify specifically the range of interventions directed toward water and sanitation in FY 2008. Operational Plans are intended to provide a comprehensive, interagency picture of all foreign assistance resources planned for a given country in a given fiscal year. They are further designed to strengthen the link between funding, activities

and results and to collect standardized data about foreign assistance programs. These plans are developed by the Field wherein the expertise about most effective means and best practices to meet the strategic priorities exists. We would be pleased to outline for you and your staff any and all water and sanitation interventions for FY 2008 once those plans are available.

Question:

Given the recurring absence from the President's budget of any funding specifically for safe drinking water and sanitation, what impact have Congressional earmarks in the water and sanitation sector had on State Department and USAID programming?

Response:

I support the checks and balances system of our government that allows the executive branch to present a budget to Congress and for Congress to use its best judgment to direct how that money should be spent. As part of the Secretary's reform, we are committed to doing our part to present Congress with a well-justified budget that clearly lays out our proposal for the way foreign assistance dollars should be spent, and transparently outlines the tradeoffs associated with diverging from this proposal.

The FY 2008 budget reflects the Administration's request for what we believe we need to further the goal of transformational diplomacy in all of the regions. We ask that you fully fund the request, as it represents the absolute minimum needed to achieve progress. Furthermore, we believe that the increased funding for USAID's program in Africa and a new water strategy and focal area in USAID's Asia Near East (ANE) region reflect both the Administration and Congress' priority on water and sanitation. In Africa, we've increased funding for water and sanitation with \$20 million in FY 2006 and a planned increase in FY 2007 of \$20.9 million. In the Asia Near East region, the new Blue Revolution Initiative includes objectives on access to and effective use of safe water and basic sanitation; environmental management and economic productivity; and transboundary issues.

It is through the Operational Planning process that we will be able to identify specifically the range of interventions directed toward water and sanitation in FY 2008. Operational Plans are intended to provide a comprehensive, interagency picture of all foreign assistance resources planned for a given country in a given fiscal year. They are further designed to strengthen the link between funding, activities and results and to collect standardized data about foreign assistance programs. These plans are developed by the Field wherein the expertise about most effective means and best practices to meet the strategic priorities exists. We would be pleased to outline for you and your staff any and all water and sanitation interventions for FY 2008 once those plans are available.

Question:

Given the importance of coordinating between 15 USG department and agencies involved in international water and sanitation, do you think it would be useful to appoint a Special Coordinator for Water and Sanitation, either in the office of the Director for Foreign Assistance or the Undersecretary of State for Global Affairs?

Response:

The State Department Bureau of Oceans and International Environmental and Scientific Affairs, with strong technical support from USAID, has effectively coordinated a comprehensive inter-agency water working group for some time. We do not see a need for a special Coordinator for Water and Sanitation at the present time.

Question:

The FY08 budget request for foreign operation expenditures is one of the few areas of the U.S. budget that received an increase in funding (of nearly 12%). However, the defense budget is currently 21.5% of the national budget while the international affairs budget is just over 1%. Do you think the level of resources requested by the President for international affairs is adequate to address the root causes of political and human insecurity, and state failure in the developing world? If not, what else should the U.S. be doing to balance our national security interest in development so that it is on par with our defense and diplomacy efforts as outlined by President Bush in his 2002 National Security Strategy?

Response:

Our nation's security depends on the stability of other nations. The locus of threats has shifted to the developing world, where poverty, injustice, and indifference are exploited by our foes to provide a haven for criminals and terrorists. For-

eign assistance and the development it supports are a key part of our national security architecture and the Global War on Terror. U.S. programs are tightly integrated with our diplomatic efforts to advance our security interests, development efforts, and democratic ideals.

Commensurate with the global challenges that our country faces, the Administration has sought a significant increase in foreign assistance resources. In a very tight budget year, the Administration asked for \$20.3 billion in the FY 2008 Foreign Operations request, a 12 percent increase over the FY 2006 enacted budget. In percentage terms, this increase is larger than any other Federal Government agency request in the FY 2008 budget.

The Foreign Operations budget request strategically realigns resources in order to accomplish key national security and development goals with maximum efficiency and fiscal responsibility. Over half of the funding requested is now concentrated in Rebuilding countries (countries in or emerging from internal or external conflict) and Developing countries (low or lower-middle income countries not yet meeting performance criteria related to effective and democratic governance, investments in people, and economic freedom), recognizing that these are the countries the furthest from the transformational diplomacy goal. Indeed, total funding in the three objectives supporting long-term development (Governing Justly and Democratically, Investing in People, and Economic Growth) increased by approximately \$100 million from FY 2006 levels in the FY 2008 budget request. Overall, the Foreign Operations request is robust, targeted to address critical needs, and appropriate in the context of the President's overall budget request for FY 2008.

Question:

Ambassador Tobias, you have just undertaken a monumental effort to analyze, categorize and distribute our foreign aid spending across the new transformational diplomacy framework. What have you learned from this exercise about the U.S.'s priorities for global engagement and development assistance? Are there key questions or tradeoffs you grappled with in the process? Are there outstanding issues you would like the committee to address to improve the effectiveness and coherence of our foreign assistance?

Response:

I have learned many lessons throughout this process but one of the most important items imparted to me was the need for this type of reform. In the past, we lacked a compass for our foreign assistance activities. We were not able to draw a direct line between our budget decisions and our strategic principles. We had a myriad of ways defining our programs, as in the example you offered from the 1991 GAO Report, whereby programmers defined the reconstruction of a bridge as a child survival activity.

I think we now all appreciate the need for a single, guiding foreign assistance goal. Having set the goal, we listened closely to the NGO community who helped us understand that reducing widespread poverty had to be spelled out in the goal. It was done. We worked hard to put together our "development dictionary" so that we could all speak with one voice about our assistance activities and track them appropriately and transparently. This required input and capabilities from across the USG and the NGO community, and we expect that it too will need to be refined from time to time as will our common standard indicators.

We look forward to continuing to learn to work across the USG and with our NGO partners to capitalize upon and leverage their expertise. We very much intend to work with Congress as we do so. We are now in the process of conducting after-action reviews of the FY2008 budget, and we are eager to discuss with you and ultimately incorporate particular lessons learned.

Question:

The FY08 International Affairs Budget presentation provides an unprecedented level of detail on U.S. spending and deserves much praise. For the first time, we can see where much of our aid resources are being spent. It seems that much of our aid is concentrated among large, primarily political allies like Egypt and Pakistan, while another major portion is dedicated to reconstruction efforts in Iraq and Afghanistan. In your opinion, are these the right countries on which the U.S. should be focusing the majority of its foreign aid resources? How do the poorest or lowest income countries fare in the President's FY08 budget request for foreign operations? What level of resources and types of programs would you think necessary for these countries to truly transform?

Response:

American diplomacy must integrate and advance our security interests, our development efforts, and our democratic ideals. American foreign assistance must support these efforts by promoting responsible sovereignty, not permanent dependency, as it seeks to meet the needs of poor and vulnerable populations who live under oppressive poverty, face starvation, battle disease and suffer the consequences of conflict and insecurity. In present times, improving the lives of others has become central to our national security as the focus of threats has shifted to the developing world, where poverty, injustice and indifference are exploited by our foes to provide haven for criminals and terrorists and the planning of criminal acts. Foreign assistance and the development it supports are therefore more important than ever, now not just in terms of our moral responsibility to alleviate suffering, but as foundational pillars of our new national security architecture and the Global War on Terror (GWOT).

As a result, over half of the program assistance resources in the FY 2008 budget request for the State Department and USAID are concentrated in Rebuilding and Developing countries. These countries are the farthest away from sustaining partnership status as measured by instability, poverty, human capacity, life expectancy, governance, and barriers to economic growth—all critical barriers to regional stability and success in the Global War on Terror. In addition, total funding in the three objectives supporting long-term development (Governing Justly and Democratically, Investing in People, and Economic Growth) increased by approximately \$100 million from FY 2006 levels in the FY 2008 budget request.

Commensurate with the global challenges that our country faces, this Administration has sought significant innovations, such as the President's Emergency Plan for AIDS Relief (PEPFAR) and the Millennium Challenge Corporation (MCC), and increases in funding for foreign assistance, while maintaining our support for our key partners in the Global War on Terror. In a very tight budget year, the Administration asked for \$20.3 billion in the FY 2008 Foreign Operations request, a 12 percent increase over the FY 2006 enacted budget. Overall, the request is robust, targeted to address critical needs, and appropriate to support the transformational diplomacy goal.

Question:

The Office of the Director of Foreign Assistance has been reviewing the FY07 Country Operational Plans since February 21. Based on your initial reviews of the plans, where do you see the most significant shifts in program funding from FY06 to FY07? What will be the impact of these shifts on development programs that have a track record of success?

Response:

An important component of the Secretary's reforms is the Operational Planning process. Operational Plans are intended to provide a comprehensive, inter-agency picture of all foreign assistance resources planned for implementation in a given country in a given fiscal year, and how those resources are being used to support the Transformational Diplomacy Goal. Operational Plans are also intended to strengthen the link between funding, activities, and results, and to collect standardized data about foreign assistance programs. In FY08, all country operating units will prepare a joint State/USAID operational plan for their FY08 resources.

For FY 2007, a transitional planning year, all USAID missions prepared operational plans. Joint State/USAID plans ("fast-track" plans) were prepared for each African country and a number of select others from other regions. Each participating

Operating Unit received a projected allocation to plan against in late November which were adjusted once the final FY 2007 appropriation was passed pursuant to the P.L. 110-5, signed into law on February 15, 2007.

With all the plans now submitted, we are conducting technical, program and policy reviews of each plan. Once these reviews have been completed, we will be able to share with you final FY 2007 levels for countries and programs including any significant shifts being proposed.

Question:

The committee commends the addition of "poverty" to the top-line goal of the new strategic framework. How are you evaluating whether or not U.S. foreign aid spending is helping to reduce widespread poverty as stated in the overall transformational diplomacy goal? What kinds of indicators for poverty reduction are you using?

Response:

The focus of the Secretary's transformational diplomacy agenda is to concentrate our diplomatic and foreign assistance resources on helping to build and sustain democratic, well-governed states that respond to the needs of their people, reduce widespread poverty and conduct themselves responsibly in the international system. Explicit in the goal is the United States' commitment to reducing widespread poverty and addressing other barriers to fulfilling human potential, while recognizing the central role that good and responsive governance plays in addressing these concerns sustainably. In the FY 2008 budget request, funding for the three objectives that support long-term development—Governing Justly and Democratically, Investing in People, and Economic Growth—increases by 20 percent over FY 2006 levels, the last year for which we have completed allocations. When Humanitarian Assistance is added, the collective goals represent 65 percent of the FY 2008 budget, whereas in FY 2006, they represented only 61 percent of the FY 2006 foreign assistance budget. We are doing more than preserving the humanitarian and poverty alleviation focus of our work under the new budget and structure; we are enhancing it.

We will continue to track the implementation and disbursement of foreign assistance to ensure that our programs contribute to poverty reduction. Within the new Strategic Framework for Foreign Assistance, poverty reduction is tracked through such overall indicators as declines in poverty rates (the percentage of the population living on less than \$1 a day) and growth in per capita incomes. At the same time, recognizing that serious and sustained progress in reducing poverty depends on overall development progress, the new Strategic Framework for Foreign Assistance promotes and tracks progress across a range of programs that contribute to poverty reduction, such as broad-based economic growth through investments in such areas as agriculture, micro-enterprise development, and pro-private sector policies which are essential to create the opportunities needed to raise the living standards of poor households. We also support investments in people—especially in basic education and health—to ensure that all citizens are in a position to gain access to the opportunities created by growth. Within these interventions, we track progress to ensure that the poor are benefiting from these programs, including through such indicators as the percentage of the poor benefiting from social services or assistance.

Question:

Many of us believe that the new transformational diplomacy framework is great in concept, but as long as we continue to provide the bulk of funding to key political allies and Iraq and Afghanistan, real reform is not happening. Would you agree? Do you, after having gone through this major undertaking, think it's time we rewrote the Foreign Assistance Act, got rid of earmarks, and even began talking about changes in architecture including the status of USAID or creation of a Cabinet-level development agency?

Response:

The FY2008 budget was built on six strategic principles: 1) integrated planning based on the totality of USG resources; 2) maximizing country progress; 3) investing in states critical to long term regional stability and prosperity; 4) focusing on demand-driven interventions that are critical levers for progress; 5) allocating funds intended for country programs to country level budgets; and 6) matching accounts with the country circumstances and intent they are designed to address. With respect to investing in states critical to long term regional stability and prosperity, we concentrated over 50% of all resources in Rebuilding and Developing countries. These are the very countries that are farthest away from the transformational diplomacy goal as measured by instability, poverty, human capacity, life expectancy, governance and obstacles to economic growth; and are critical barriers to regional stability and success in the War on Terror. Rebuilding countries like Iraq and Afghanistan, along with Liberia and Somalia, Sudan and Colombia, among others, are states that, without progress, will have a negative impact on regional stability and national security.

I do believe that real reform is underway. As outlined above, we have strategic principles by which budget decisions were made. We have common, standard indicators through which we can consistently measure results. We have a "development dictionary" that describes exactly what we mean, across all programs and sources of funding, when we describe a program as "justice system reform" or "conflict mitigation." We have integrated planning based on the totality of U.S. Government resources. We are focused on country progress. And most importantly, we are applying all of U.S. foreign assistance under authority of the Department of State and USAID, as well as resources provided by MCC, to the achievement of a single overarching

goal—transformational diplomacy: “To help build and sustain democratic, well-governed states that respond to the needs of their people, reduce widespread poverty and conduct themselves responsibly in the international system.” The USG will continue to fund strategic priorities—but we need to do so in a way that is truly coordinated, accountable, and focused on country progress.

It is the case that the reforms proposed so far, including the creation of the Director of Foreign Assistance position, are an attempt to ensure that we make every effort within current statutory authorities to fulfill our responsibilities to provide assistance strategically and effectively. Together with the Secretary, we will be evaluating the FY 2008 budget process and in that context we may identify changes, including ones that may require Congressional action, which may be appropriate. I very much welcome the opportunity to work with Congress on this and other matters relating to the reform going forward.

Question:

One the main principles of the President’s International Affairs Budget is that foreign assistance planning should be based on the totality of U.S. Government resources in a country. How does this principle adhere to the original intent of presidential initiatives like PEPFAR, PMI, and MCC, which were supposed to be “additive” above existing foreign assistance levels? MCC Compact Countries like Benin and Ghana have seen substantial cuts in foreign assistance in FY08 due, apparently, to expected MCC disbursements. How will cuts in foreign assistance affect successful, sustainable development programs that may not benefit from MCC compacts in those countries?

Response:

Presidential initiatives such as the Millennium Challenge Corporation and the President’s Emergency Plan for AIDS Relief (PEPFAR) play a key role in our integrated approach to further individual country progress toward the transformational diplomacy goal. In a very tight budget year, the Administration asked for \$20.3 billion in the FY 2008 Foreign Operations request, a 12 percent increase over the FY 2006 enacted budget, a larger increase in percentage terms than that requested for any other Federal Government agency in the FY 2008 budget.

State and USAID request for FY 2008 reflects integrated planning based on the totality of U.S. assistance resources available for any given country—including MCC and PEPFAR. Through this planning process, we made determinations about appropriate and fiscally responsible use of funds to support U.S. Government priorities to ensure that programs are effective, well-coordinated, targeted to achieving country progress, and planned for sustainability. In countries that will receive MCC Compact funds in 2008, State and USAID resources were targeted to address other development gaps, ensure the success of the MCC Compact, and amplify its results. For example in Ghana, the MCC Compact focuses on improving the lives of the rural poor through agribusiness development. Therefore, the State and USAID request targets assistance to enhance the capacity of local government, responsible for implementing MCC Compact program. In sum, the ultimate goal is for all U.S. Government funds directed toward recipient countries to be coordinated and accounted for.

Question:

When President Bush announced the Millennium Challenge Account and the President’s Emergency Plan for AIDS Relief, funding for both programs was meant to be additional and two of several foreign aid tools the U.S. was using to transform developing countries. The FY08 budget suggests that this is no longer the case and that other U.S. development programs are being cut in countries where MCA and PEPFAR programs exist. Can you explain this discrepancy, and how you are ensuring that there is still a comprehensive approach to transformational diplomacy in these countries?

Response:

Millennium Challenge Corporation (MCC) resources are in addition to the State and USAID base overall—the State and USAID FY 2008 request for development programs is \$2.2 billion more than FY 2006 level. The State and USAID request for FY 2008 reflects integrated planning based on the totality of U.S. assistance resources available for any given country—including MCC and the President’s Emergency Plan for AIDS Relief (PEPFAR)—to ensure that programs are effective, well-coordinated, targeted to achieving country progress, and planned for sustainability.

In formulating the budget request, over 100 interagency teams, organized by country, were tasked with ensuring that all State and USAID resources were coordinated for maximum efficiency and impact, and targeted to the achievement of the

transformational diplomacy goal. Teams looked at the totality of each country budget, including MCC and PEPFAR investments, and made determinations about the appropriate and fiscally responsible use of funds to advance development. For example, in Honduras, USAID and State funds were re-prioritized for programs that will support the success of its MCC Compact, such as an increase in trade and investment funds and private sector competitiveness. In all countries that will receive MCC Compact funds in FY 2008, State and USAID resources were targeted to address development gaps not addressed by MCC and PEPFAR, ensure the success of the MCC Compact, and amplify its results.

Question:

The president's budget request reflects substantial increases to specific programs like PEPFAR and the malaria initiative, while many of the other development assistance accounts receive flat-lined or reduced funding levels. What steps would you take to ensure that the U.S. has a comprehensive approach to foreign assistance for development, and that long-term growth and poverty reductions complement life-saving HIV/AIDS and malaria programs?

Response:

The Secretary established the Office of the Director of US Foreign Assistance to address the very issue you raise—how to ensure that USG resources are both allocated and implemented in a manner that is coherent, coordinated, accountable, and, importantly, strategically aligned with our foreign policy goals. In building the FY2008 budget, planning was integrated, seeking the most complete picture of U.S. activities and programs, from HIV/AIDS resources to MCC resources to activities funded by DA, CSH, ESF etc. To that end, interagency teams were assembled, and tasked with ensuring that these resources were mutually supportive and focused on the specific gaps and obstacles to moving the country in question forward.

With respect to implementation, one of the primary tools that we are using to ensure that the United States has a comprehensive approach to foreign assistance for development, including taking steps to ensure that long-term growth and poverty reductions complement HIV/AIDS and malaria programs, is the Operational Plan. Under the leadership of the Ambassador, teams in the field program their country allocations in an integrated fashion and entirely directed toward advancing that country toward the transformational diplomacy goal. As they provide a clear roadmap for the use of USG foreign assistance funds, Operational Plans should improve coordination efforts with host countries, vital to development efforts, as well as other donors.

Question:

The new Office of the Director of Foreign Assistance has oversight of several spigots of U.S. foreign aid, but still lacks direct authority over the MCA and PEPFAR. How does this affect your ability to strategically coordinate U.S. foreign aid efforts?

Response:

The U.S. Leadership Against HIV/AIDS, Tuberculosis, and Malaria Act (P.L. 108-25), promulgated in 2003, provides the U.S. Global AIDS Coordinator with primary responsibility for the oversight and coordination of all resources and activities of the USG to combat the HIV/AIDS pandemic. The Millennium Challenge Act of 2003 established the Millennium Challenge Corporation (MCC) (Sec. 604) as an independent assistance entity with its own Board. The Director of U.S. Foreign Assistance was subsequently established by the Secretary to make every effort within existing statutory authority to ensure that U.S. assistance writ large was used coherently and effectively. The Director's responsibilities accordingly include providing overall coordination and guidance to all U.S. foreign assistance delivered through other agencies and entities of the USG, including the Office of the U.S. the Global AIDS Coordinator and the Millennium Challenge Account.

In that vein, representatives from PEPFAR and MCA participated on the interagency teams which helped to develop the FY2008 budget. These teams were assembled and tasked with making certain that resources were coordinated, mutually supportive and targeted to the achievement of shared objectives both within and across countries. In the PEPFAR focus countries and in MCA compact and threshold countries, teams considered proposed USG resources in light of the specific gaps and obstacles impeding country progress as well as how these resources could be coordinated in such a way as to not only facilitate the success of PEPFAR and MCA programs but to amplify their results. The result was that for the first time, all \$20.3 billion of US foreign assistance under the authority of the State Department and USAID, as well as all resources provided by MCC, were applied to a single overarching goal—the transformational diplomacy goal.

Question:

What is the advantage of channeling HIV/AIDS funding through the Department of Health and Human Services? While these funds are technically under the coordinating authority of Ambassador Tobias as the Director of Foreign Assistance, isn't this antithetical to the idea of a more coordinated and unified foreign assistance structure?

Response:

The funding in question is not discretionary, but rather represents the USG contribution to the Global Fund to Fight AIDS, Tuberculosis and Malaria (Global Fund). The Global Fund is an important part of the strategic plan that guides implementation of the President's Emergency Plan for AIDS Relief (Emergency Plan/PEPFAR). The USG share of total Global Fund contributions has held consistently at approximately 30 percent. The USG initially made a five-year pledge of \$1 billion for the Global Fund in years 2004–2008. With the \$300 million in the President's 2008 Budget, the USG will have nearly tripled that commitment to the Global Fund by contributing about \$2.5 billion. In order to provide adequate financial and human resources to complete the goals of PEPFAR as well as maintain U.S. leadership in the Global Fund, the President has spread the request for resources across the two appropriations bills (Foreign Operations and Labor-Health and Human Services).

We consider the interagency work in representing the United States on the Global Fund to be one of our coordination success stories. Through the Global Aids Coordinator, which has overall responsibility for ensuring that all statutory benchmarks have been met before any USG contribution is made, USAID, State, and HHS regularly meet and fully coordinate on all aspects of the Global Fund. Requesting the USG contribution within NIH continues HHS' longstanding role in the advancement of the Global Fund. It is important to note that the Global Fund contribution is not at the expense of other appropriations for NIH, but is additive.

Question:

How is the Directorate of Foreign Assistance working with the Department of Defense to coordinate that agency's spending on development programs overseas? Were DoD funds accounted for when the F Bureau was determining the totality of USG resources in a given country when setting that country's top-level funding allocation?

Response:

F is working closely with DoD to ensure that steps are taken to better coordinate the provision of foreign assistance. Historically, it has proved difficult for State to account for DoD funding and development programs. The experience of developing the FY 2008 budget resulted in the Office of the Director of U.S. Foreign Assistance, with other State and USAID offices, and DoD defining a multi-pronged approach where planned or proposed DoD programs and funding levels can be taken into account as the foreign assistance budget is developed and executed.

The new Mission Strategy Plan (MSP), which is submitted by the Ambassador with input from the Embassy Country Team (which includes DoD), is the first opportunity where DoD can share its funding plans for a country program. The second opportunity arises through the Peace and Security Roundtable process in which the relevant State and USAID bureaus invite DoD and other USG agencies to discuss their priority countries, programs and possible sources of funding.

As the budget formulation process continues, there are additional opportunities, including participating in the Senior Reviews with the Secretary of State, where DoD funding plans and proposals can be discussed and taken into account as the foreign assistance budget is developed.

After the Congressional Budget Justification is submitted, there is yet another opportunity—the Operational Plan—where DoD funds and plans can be explicitly incorporated into the foreign assistance planning process. As part of the Operational Plan process, all Missions are requested to account for all USG resources programmed by all USG agencies in-country providing a comprehensive look at USG programs in a given country. MCC and DoD programs are included in the narrative of the Operational Plan.

We are committed to increasing the opportunities for better coordination and to enhance our working relationship with DOD.

Question:

The transformational diplomacy agenda places a welcome emphasis on state-building, being designed to help other countries build the institutions they need to provide security, create the conditions for growth, and govern effectively. It also recognizes, at least implicitly, that advancing "development" may rely on a wide range of policy instruments, from multiple agencies, to address the poor governance and internal

conflict that beset so many developing countries. Could you explain what kind of process you have developed to ensure thorough deliberation and adjudication of the various U.S. policy goals at stake in each particular aid recipient, including how these goals should be balanced and integrated? Specifically, how do you ensure that U.S. policies for foreign aid are aligned and not working at cross-purposes with U.S. policies for defense and security as well as trade, environment, and investment?

Response:

Under Secretary Rice's leadership, the United States has reformed its organization, planning, and implementation of foreign assistance in order to maximize the impact of our foreign assistance dollars to achieve U.S. foreign policy objectives and improve the lives of those around the world. We have taken major steps to increase transparency, accountability, and coherence of strategy in the allocation of our resources, including through the creation of one office to oversee and coordinate all USAID and State Department foreign assistance resources and the development of the Strategic Framework for U.S. Assistance that focuses all of these resources on the achievement of a single overarching goal—transformational diplomacy.

Consistent with the reform of foreign assistance, the Department of State and USAID are presenting a unified foreign assistance budget request for FY 2008 that strategically realigns resources in order to accomplish key national security and development. For the first time, the process of formulating the request was focused on using the country's needs, indicators, and development strategy to drive the formation of each country budget and focus U.S. resources on areas most critical to moving a country forward toward the transformational diplomacy goal. Over 100 interagency teams, organized by country and pulling together experts from regional and functional bureaus at USAID and the State Department, were tasked with ensuring that U.S. assistance resources were coordinated for maximum efficiency and impact and targeted to maximize each country's progress.

The new Strategic Framework for U.S. Foreign Assistance categorizes each country receiving U.S. foreign assistance based on common traits and places them on a trajectory to achieve the transformational diplomacy goal. The FY 2008 request reflects a focus on the specific gaps and obstacles each country faces in moving from one country category to another and identifying the target objective or objectives appropriate to the individual country context. The ultimate intent is to support recipient country efforts to move from a relationship defined by dependence on traditional foreign assistance to one defined by full partnership status.

Question:

How, specifically, do you differentiate the roles and responsibilities of the two major U.S. development agencies on the ground—USAID and the MCC—and how do USAID, State/F and MCC collaborate at both local and Washington levels? What role does State/F play in MCC decision-making, given the presence of the Secretary of State (as chairman) and USAID Director on the MCC board? What efforts are made to ensure synergy or complementarities given the different roles? Provide some specific examples.

Response:

USAID, MCC and State work very closely and collegially both in Washington and in the field. In part, this working relationship is a product of the close formal and informal ties between all three agencies in Washington. As noted, the Administrator, who is dual hatted as the Director for U.S. Foreign Assistance, serves on the MCC Board, and in that way is intimately familiar with and has a stewardship role with respect to MCC programs and activities. Less formally, Ambassadors Tobias and Ambassador Danilovich meet often outside of the MCC Board process to discuss matters of coordination and development. Perhaps more to the point, USAID and MCC are currently implementing eleven Threshold Country Programs together. These programs are approved by the MCC Board of Directors and implemented by USAID. As a result, USAID and MCC staff are real partners in these programs and have a shared stake in their success. Not surprisingly, MCC regularly recruits experienced USAID senior officers to join their operations staff which further facilitates learning, as well as improved coordination.

USAID, State and MCC consult with respect to allocating resources. In countries that will receive MCC Compact funds in FY 2008, State and USAID resources were targeted to address development gaps not addressed by MCC, to help ensure the success of the MCC Compact, and amplify its results.

For example, in all countries that will receive MCC Compact funds in FY 2008, State and USAID resources were targeted to address development gaps not addressed by MCC, to ensure the success of the MCC Compact, and to amplify its results.

Question:

Ambassador Tobias, I appreciate your focus on Africa, as well as the administration's initiatives on AIDS and malaria. My concern, however, is that most children die from diarrhea, pneumonia, measles, and neonatal complications, not malaria or AIDS. Many countries with high child mortality rates seem to lack funding for saving children's lives from these other causes. For example, Uganda receives a lot of funding for AIDS and malaria in the FY 2008 budget—but funding for child and maternal health programs gets cut in half. Ghana gets increases in funding for MCA for malaria—but funding for child and maternal health programs has been cut by 30%. Cote d'Ivoire's and Zambia's child and maternal health programs are completely zeroed out for FY 2008, and many other countries in Africa with high child mortality rates don't receive any funding for child and maternal health programs—Cameroon, Central African Republic, Gambia, Togo, Zimbabwe for instance. (Based on the sub-element table in the CBJ entitled "child and maternal health")

Response:

Because of the enormity of the problem of high maternal and child mortality rates in many African countries, effective international partner collaboration in addressing this problem is essential, as is a strong commitment by African governments themselves. To use USG resources most effectively, priority countries are identified based on need, in terms of both the magnitude and the severity of under-five and maternal mortality, that is, the number of preventable deaths as well as the rate of mortality. We work with those countries to develop and implement strategic approaches that focus USG and other resources on scaling up the high impact interventions to prevent and treat diarrhea, pneumonia, measles and neonatal complications, and build local capabilities essential to implement and sustain progress.

We examine, for each country, the relative role of U.S. resources in relation to other country and international partner resources for maternal and child health (MCH), as well as each country's own commitment to improving MCH, its capacity to program resources effectively, and the potential for interaction with other USG investments, including the President's Malaria Initiative and GAVI funding.

In those countries with high maternal and child mortality where USAID does not have a presence, such as Cameroon, Togo, Central African Republic and Cote d'Ivoire, there are other partners to support national efforts to reduce these rates.

The engagement of the new leadership at UNICEF, new international partner interest (e.g., by Norway), participation of the Bill & Melinda Gates Foundation and other new partners, and the beginning of new interest and investment by many developing countries themselves (e.g., India) offer the possibility of sustained and even accelerated progress.

Question:

How does the current transformational diplomacy effort approach weak and failing states? What else should be done to ensure that the U.S. takes a strategic approach to weak and failing states as part of its development assistance programs and U.S. global engagement?

Response:

As breeding grounds for terrorism, crime, trafficking, and humanitarian catastrophes that can destabilize an entire region, failing, failed and fragile post-conflict states pose one of today's greatest security challenges. As a result, preventing or helping countries manage internal conflict in crisis countries is now a mainstream part of U.S. foreign policy.

Through the Secretary's transformational diplomacy strategy, the State Department and USAID are mobilizing the U.S. government to address proactively these security challenges to support our national interests, save lives, promote democracy, and foster long-term regional stability.

At the State Department, the Office of the Coordinator for Reconstruction and Stabilization (S/CRS) collaborates with partners from the entire US government to identify states at risk of conflict and instability, to bring U.S. agencies to a common diagnosis of the problem, and to develop interagency strategic plans to reduce conflict and build the institutional capacity necessary to sustain peace. S/CRS' Active Response Corps (ARC) form the Department's cadre of diplomatic first responders, trained and ready to deploy on short notice to begin stabilization and reconstruction. ARC members are currently deployed in troubled areas such as Chad, Darfur, Kosovo, Nepal, and Lebanon, where they, according to need, extend the Secretary's diplomatic reach, support nascent peace processes, coordinate stabilization activities, provide whole-of-government planning expertise and best practices, and build partner capacity.

At USAID, the Office of Transition Initiatives has worked since 1994 to lay the foundation for long-term development in thirty-one conflict-prone countries by promoting reconciliation, jumpstarting local economies, supporting nascent independent media, and fostering peace and democracy through innovative programming. OTI programs often are initiated in fragile states that have not reached the stability needed to initiate longer-term development programs.

S/CRS and OTI fall under the leadership of the Director of U.S. Foreign Assistance and Administrator of USAID, Ambassador Tobias. This integration will facilitate the application of S/CRS and OTI's experience in failed and failing states to planning, budgeting and evaluation decisions across all foreign assistance resources. At the same time S/CRS, OTI and other key partners continue to systematically develop a systematic U.S. Government capacity and necessary mechanisms to respond effectively to emerging conflicts.

Question:

Significant shifts in resources have been made between the Development Assistance and Economic Support Fund accounts. Nigeria, for example, has its ESF account cut entirely, and all of its resources listed under DA, while the Democratic Republic of the Congo receive zero DA funds in 08, and only ESF funds. Could you explain the rationale for these shifts? I would also encourage your office to make the budget data publicly available so that it is possible to see funding of transformational diplomacy "objectives" broken down by country, so that these kinds of shifts, particularly from DA to ESF can be seen.

Response:

One of the strategic principles in developing the FY 2008 budget request was to maximize the use of account authorities and establish clear priorities in support of effective implementation of foreign assistance programs. We, therefore, matched accounts with country circumstances and the priorities the county categories are designed to address.

This means that, overall, funding for Development Assistance (DA), which has traditionally supported poor countries that demonstrate performance or a commitment to development, has been prioritized to Developing (like Nigeria) and Transforming countries. Economic Support Funds (ESF), which focus primarily on providing economic support under special economic, political, or security conditions, has been prioritized to support activities in the Rebuilding (like the Democratic Republic of Congo) and Restrictive Country Categories.

The intent in shifting funds from DA to ESF is to delineate more closely their use, as identified by country characteristics and consistent with their original authorization. This more robust delineation permits us to justify to Congress why we have requested amounts for each account. I cannot overemphasize that the shift is in no way reflective of a reduced prioritization of development activities. You will find that, to the contrary, total funding in the three objectives supporting long-term development (Governing Justly and Democratically, Investing in People, and Economic Growth) increased by approximately \$100 million from FY 2006 levels in the FY 2008 budget request.

It is our intent to be as transparent as possible. The FY 2008 CBJ has tables that break out objectives in each country down to the element level and then by account. If you would like additional information, or data broken down in another way, please contact my staff and we would be happy to accommodate you.

Question:

The traditional objectives of Economic Support Funds (ESF) have been to strengthen markets, improve economic growth, and develop democratic institutions. In light of the significant shift in funds from the Development Assistance (DA) account to the ESF account, how do you intend to ensure that ESF funds will extend beyond these traditional objectives and continue to fund sustainable development in Rebuilding Countries like Afghanistan, which have had their DA budgets zeroed out?

Response:

In developing our request for DA and ESF, our aim was to maximize the use of their account authorities in support of effective implementation of foreign assistance programs. Our aim was not to downgrade our prioritization of development activities, nor was that the outcome. As I've described, total funding in the three objectives supporting long-term development (Governing Justly and Democratically, Investing in People, and Economic Growth) increased by approximately \$100 million from FY 2006 levels in the FY 2008 budget request.

With respect to Afghanistan, as you noted, no DA funds were allocated for use in Afghanistan in FY08. As the chart below demonstrates however, programs that

were previously funded out of DA were not discontinued but are now being funded out of ESF. Afghanistan is a rebuilding country and, accordingly, our focus is on preventing or mitigating state failure and restarting critical social services, activities more consistent with the intent of the ESF account. As Afghanistan progresses to a developing or transforming country status, we would expect to see more activities funded by DA.

	2006 CBJ Actual	2008 CBJ Request
Afghanistan Snapshot (Rebuilding country)		
Political Parties	3,537	3,700
DA	1,355	—
ESF	2,182	3,700
Civic Participation	3,835	1,670
DA	3,835	—
ESF	—	1,670
Basic Education	37,136	45,500
DA	35,762	—
ESF	1,374	43,000
Agricultural Enabling Environment	5,823	21,000
DA	5,823	—
ESF	—	21,000
Agricultural Sector Productivity	3,960	9,740
DA	3,960	—
ESF	—	9,740
Natural Resources and Biodiversity	11,200	5,000
DA	11,200	—
ESF	—	5,000

Question:

How will the shift in funds from DA to ESF be implemented? Which agency will have primary oversight and management authority of these funds in the future? Will democracy programs, for instance, be managed by State's DRL office, or USAID's DG office? How will you prevent State Department managed funds from being overly politicized and tied to short-term diplomatic goals rather than long-term development goals?

Response:

The intent in shifting funds from DA to ESF is to draw cleaner lines around their use, as identified by country characteristics. These cleaner lines allow us to justify to Congress why we have requested amounts for each account. The shift is in no way reflective of a reduced prioritization of development activities or a desire to alter management. In FY 2006, USAID programmed approximately 95% of the appropriated ESF. We do not expect that this trend will change in FY 2008. To be sure, the decision as to which agency or office will manage funds is based on which

unit is best poised to implement a specific program most effectively and in a most cost efficient manner.

Question:

Will the ESF account retain its historical flexibility for funding diversions?

Response:

Under the Foreign Assistance Act of 1961, as amended, Congress established the Economic Support Fund to provide “assistance to countries and organizations, on such terms and conditions as [the President] may determine, in order to promote economic and political stability.” We are not requesting any change in authorities in our account structures at this time. We are committed to working within current statutory authorities to use ESF and all other funds in a responsible, accountable manner that is consistent with the Secretary’s transformational diplomacy goal and Congress’ authorization.

Question:

Many of our development assistance efforts suffer from a lack of knowledge about their actual impact on individuals and communities. There is a desperate need for better measurement of this impact and how social and development interventions affect poverty and improve health and education in developing countries. What is the Office of the Director of Foreign Assistance doing to bridge this “evaluation gap” and how will impact, rather than outcomes, be measured by your office and shared with this committee?

Response:

We have been actively engaged with the NGO community on the important issue of how best to conduct impact evaluations of development programs in the social sector. I have expressed very strong support for the need to conduct impact, as well as other types of evaluation.

My office is in the process of formulating guidelines for evaluation of all foreign assistance programs to ensure accountability for use of taxpayer funds and to measure whether programs are achieving their intended results. The guidelines to be issued will address the need for objectivity and independence of the evaluations. They will require that all evaluations follow methodological and analytical rigor and they will avoid conflicts of interest of every kind. We will continue to focus both on evaluations during the life of a program, for continuous project improvement, and at the end of the program to measure results and impact. Impact evaluations are critically important to determine the sustainable results of development assistance, be it of the USG programs or the combined impact of host country and donor development programs. The guidelines will also emphasize the importance of systematically collecting monitoring data during the life of a program. Such data are critical to evaluators when they assess the overall impact of a program.

Question:

I understand that representatives from India, Mexico, Uganda, the UK Department for International Development, the Netherlands Ministry of Foreign Affairs, the Millennium Challenge Corporation, the African Development Bank, the Bill & Melinda Gates Foundation and the Hewlett Foundation have recently agreed to work on creating a new independent impact evaluation entity provisionally named the “International Initiative for Impact Evaluation” to conduct this kind of high quality study of how development programs affect poverty reduction, health and education outcomes. How might your office participate or leverage these studies to inform the U.S.’s own development efforts?

Response:

The USG participates in and supports third party evaluations. For example, we participate in the OECD/DAC Evaluation Network, an independent body that undertakes evaluation of its members’ work. The National Science Foundation also has provided independent evaluations of USAID’s democracy programs. We are encouraged by this addition and look forward to finding ways to use these studies to inform the U.S.’ development efforts.

Question:

What will be the impact of the reform process on integrated development that relies on multi-sectoral interventions? We are hearing from NGO program staff in the field that they are being asked by USAID missions to “shoehorn” their programs into a single Objective Area as outlined in the new strategic framework, even though a single program might cut across multiple objective areas. How would you address this concern?

Response:

We recognize that a number of programs are and should be cross-sectoral and cut across multiple objective areas. We regret that some NGOs were apparently under the impression that they should “shoehorn” their programs into one area. Our guidance was, and continues to be, that cross-sectoral programs are a critical approach to undertaking development work. What the framework is designed to accomplish and what we did ask our partners to do was to describe which program elements were relevant for their programs and the amounts of funding directly attributable to program elements and sub-elements for each program regardless of the program area with which it was associated. Where the activities undertaken fundamentally served a cross-cutting objective, we directed them to capture that important cross-cutting nature in a section of the Operational Plan referred to as “key issues.” Again, in no way do we want to discourage cross-sectoral work; rather, the opposite is true.

I note that we are taking a number of measures including formal training and outreach, After-Action Reviews, surveys and analysis, as well as informal communication to correct any misunderstandings such as the foregoing that occurred in this first year.

Question:

If all your measures are short-term, how do you take account of initiatives that might have short-term positive impacts but severe long-term negative impacts, such as impacts on health, safety and the environment? And how do you ensure effort on those things that may not show positive short-term results but are important for their long-term results, such as energy efficiency, education, health and environmental projects? How will you ensure that an over-reliance on short-term indicators will not distort your efforts in pursuit of long-term development goals?

Response:

The Office of the Director of Foreign Assistance has developed standard performance indicators to measure both what is being accomplished with U.S. foreign assistance funds (e.g. short-term) and the collective impact of foreign and host-government efforts to advance country development (e.g. long-term). Links to full descriptions of the indicators are available online at: <http://www.state.gov/f/releases/factsheets2007/78450.htm>.

Indicators are divided into the following three categories:

- Strategic level indicators capture the impact of foreign and host-government efforts at the objective level (such as Investing in People or Economic Growth) and will be tied directly to the five-year Foreign Assistance Strategy, which is currently under development. They rely on data collected by secondary sources, such as the World Bank, UNDP, and Freedom House. While these indicators have not been finalized, examples of those under consideration include: decline in poverty rate or number of women holding seats in parliament. Measured improvement is expected over multi-year time spans.
- Area level indicators measure country performance within sub-sectors of the five functional objectives (such as Health and Education within Investing in People). These indicators measure results beyond what could be achieved solely by USG (USG, Host country and other donors’ activities combined). Some examples include: number of days to start a business, number of deaths among children under five per 1,000 live births, and net enrollment rate for primary school. Like the Strategic Indicators, measured improvement is expected over multi-year time spans.
- Element level indicators measure outputs and outcomes that are directly attributable to the USG’s programs, projects and activities. For example, indicators track the number of judges trained or total amount of loans disbursed due to expenditure of USG funds. Data are collected primarily by implementing partners, and targets are set by USG agencies and their partners against these indicators on an annual basis.

As discussed above, these indicators were identified by working groups comprised of development experts across the USG, in consultation with multiple consortia of NGO groups. Nearly all indicators capturing people-level progress will be disaggregated by sex. Operating Units may supplement the standard list with “custom indicators.” These indicators will be reviewed and evaluated for inclusion as standard indicators in the future.

FY 2007 is a pilot year for testing the value and utility of the proposed indicators. During the pilot year, F will assess the current list of indicators and any custom indicators identified by the field, and continue to identify appropriate outcome indi-

cators attributable to USG assistance. In the interim, USAID and State performance tracking systems will continue to capture non-standardized program performance data.

We welcome continuing input from the NGO community and others so that our indicators will be as robust as possible. We have a special mailbox set up for this purpose: Findicators@state.gov.

Question:

Will projects be judged based on their performance in only one sector (e.g. health, economic development, etc) or in multiple sectors? Will this isolate programs under specific sector goals (i.e. an economic development project will only be judged by improvement in the economy and not by any social or environmental benefits or harms it creates, thereby an economic development project will have no incentive to be energy efficient, consider long term availability of water supply, or have long term social benefits)? Under the new reorganization, how will you ensure programs integrate social, environmental and economic goals to the highest degree possible? How will you account for improvements in other areas, such as economic growth, that are dependent on a healthy environment?

Response:

The focus on country progress, rather than accounts and sectors, will increase the integration of programs by ensuring that they all contribute to the overall advancement of that country. Woven into that focus is the importance of the linkages between individual programs and how multi-sectoral programs can achieve multiple benefits needed to advance country progress.

The placement of a particular program under one objective or another will not impact the program design or assistance delivery. There are numerous sectors that have an element under a certain objective (like environment or water), however the full picture of funding that supports that sector is not captured until the sub-element level is determined.

As an example, access to adequate drinking water is so critical, that it cuts across all objectives except Peace and Security. Additional elements under Maternal and Child Health, Social Services and Protection for Especially Vulnerable Populations, Agriculture Enabling Environment, and Environment all contain sub-elements pertaining to water. This is one reason why the Operational Planning process, wherein the field identifies activities at the sub-element level is so important. Through these plans, we are able to obtain the complete picture of resources going to drinking water, the outlines of which are contained in the CBJ.

Functional teams of technical experts, and program teams of country and regional experts, along with technical input, were organized to review the Operational Plans and one of the key aspects under review was to look for the use of best practices, including where cross-sectoral linkages should be made and multi-sectoral programming used to maximize the overall impact of foreign assistance.

Taking all of the forgoing into consideration, we emphasize that in no way does the location of the element or sub-element impact the program design or decrease the delivery of cross-cutting programs.

Question:

The foreign assistance framework places considerable emphasis on sustainability, including helping nations achieve sustainable improvements in the well-being of their populations, and explicitly recognizes one critical aspect of such sustainable improvements: strengthening national health systems. Yet all health investments are organized around particular diseases and other public health threats. How will you ensure that U.S. health investments contribute to overall health system development and that they are well-coordinated with one another and with national health sector plans, so that they strengthen rather than weaken fragile health systems?

Response:

The Secretary's foreign assistance reform recognizes the critical importance of strong and sustainable health systems. Strong health systems, characterized by high quality service delivery, sound management of drugs, human resources and information, and good governance and adequate financing, can sustainably combat priority diseases such as tuberculosis, HIV, and malaria. The new Strategic Framework for Foreign Assistance is aimed at maximizing country progress, that is, focusing on the specific gaps and obstacles countries face in advancing from one country category to the next. As such, the reform is ideal for examining and directing assistance towards obstacles in combating diseases which impede country progress, to include the obstacle of systemic health care gaps. As the reform provides a com-

prehensive picture of all in country activities, we can also ensure that governance or other programs necessary to bolster health interventions are in place.

We support both rapid health improvements and long-term sustainable health systems, while recognizing that health improvements may show more rapid impacts, including on lives saved, than health system improvements. Our investments in solving health system constraints that are specific to particular diseases and other public health threats ensure that U.S. health investments are concentrated on health system development measures that translate directly into health impact. We find that these approaches often serve as models that countries can adopt more broadly to strengthen the rest of their health systems.

The Framework also supports cross-cutting health system strengthening interventions, by sharing the costs among the disease-specific funding accounts according to the share of health system benefits that they will receive from the intervention. For example, a cross-cutting health human resource activity can be funded using HIV, TB and malaria funds if it is possible to estimate what share of the resulting health impact will accrue to each disease program against the disease-specific priorities in the legislation. In most regions, we avoid investing in broad areas such as overall health financing arrangements, utilizing disease-specific financing, such as financing for immunizations and contraceptives.

We typically rely on the Field to determine how best to allocate resources to achieve health impact as part of the Operational Planning process. To ensure that our health investments are well coordinated with national health sector plans, we conclude broad framework agreements for U.S. foreign assistance with host country governments. We also sign specific agreements with host country health authorities. For example, all U.S. health investments in tuberculosis directly support national tuberculosis plans.

We support country leadership and coordinate with Sector-Wide Approaches (SWAp donors) and the host government health strategies they support. We work closely in disease-specific programs on strengthening health systems with health partners who receive USG funds and provide other funding for health programs, including the World Bank, World Health Organization, the GAVI Alliance, and the Global Fund to Fight AIDS, Tuberculosis and Malaria.

Question:

As you are aware, many of the world's poorest countries are suffering a critical shortage of health workers, a major obstacle to achieving goals for AIDS, maternal health, and other areas. Yet the framework is largely silent on the need for investments in the health workforce that cut across program elements, including retaining and equitably deploying health workers, and training new ones. Will you review the framework to ensure that it clearly encompasses the full range of investments required in the health workforce, and revise it as necessary?

Response:

The Foreign Assistance Framework does support and encourage cross-cutting investments aimed at health workforces. Under the Framework, all health program elements contain sub-elements that focus on the development of national health programs and infrastructure. All USAID Missions support capacity building by promoting workforce training, strengthening procurement distribution and management information systems, promoting quality assurance, improving financing and financial management, and strengthening surveillance systems.

The President's Malaria Initiative (PMI), for example, works to strengthen national malaria control programs, within the context of Ministries of Health National Health Plans, and builds capacity for country ownership of malaria control efforts. The PMI will soon launch the Malaria Communities Program to build independent, sustainable malaria-control projects in Africa by providing grants to African Non-Governmental Organizations (NGOs) and faith-based groups to support their malaria-control work.

The President's Emergency Plan for AIDS Relief (Emergency Plan/PEPFAR) also supports similar programs by working in partnership with host nations as they build and strengthen health workforce and associated systems. Investments in health workforce and health systems development are integral to the entire range of PEPFAR program activities. In nations with limited health workforces, expansion of capacity is a prerequisite to meeting PEPFAR's ambitious goals. In the 15 focus countries, partners reported that approximately 25 percent of programmatic activities had components that supported health workforce and systems. These investments provide a base from which to further expand institutional and human resource capacity.

Question:

Staff from your office have repeatedly said that the process for determining the top-line funding allocation for each country included consultation between each Country Core Team and the USAID field mission in a given country. However, on several occasions last summer and fall, your staff admitted that such consultation was not required, but rather, that it was simply "encouraged." Why wasn't consultation with field missions required of the Country Core Teams in FY07, and will it be required in FY08?

Response:

The Country Core Team process for building the FY 2008 budget was a major step forward from previous years where funds were first allocated by account, then by sector, and lastly, by country. For FY 2008, the process was focused for the first time on using the country's needs, indicators, and a strategy to drive the formation of each country budget, combining guidance from the highest levels and the field, and focus U.S. resources on areas most critical to moving a country forward. Over 100 interagency teams, organized by country and bringing together State Department and USAID experts, were tasked with ensuring that U.S. assistance resources were coordinated for maximum efficiency and impact and targeted to advance country development toward the transformational diplomacy goal. As part of this process, many core teams consulted with their field counterparts to develop the budget request.

After the submission of the FY 2008 budget request, I asked my staff to conduct a review of the new budget formulation process with an eye to improving it for FY 2009. To inform this review, my staff solicited input from State Department and USAID regional and functional bureaus, embassies and USAID field missions, and key stakeholders from other U.S. agencies. Coming out of this review, one important recommendation which we will adopt in preparing the next budget is to formalize the role that our embassies and USAID field missions play in the process of formulating the budget to ensure that these views are taken into account in the development of the FY 2009 request.

Question:

The list of country classifications (Transforming, Developing, etc.), though widely available, only became public with the release of the CBJ on February 16 (nearly a year after countries were first classified). We encourage your office to make this most basic information public during the FY08 Operational Plan cycle, and each year hereafter.

Response:

The new Framework for U.S. Foreign Assistance categorizes each country receiving U.S. foreign assistance based on common traits, and places them on a trajectory to achieve the U.S. transformational diplomacy goal. The Framework containing these categories has been located on our website and, as you note, is reproduced in the FY2008 Congressional Budget Justification (pages 3 and 11) and in the Congressional Summary and Highlights (pages 7 and 13). The FY2008 request reflects a focus on the specific gaps and obstacles countries face in moving from one country category to another. The ultimate intent is to support recipient efforts to move from a relationship defined by dependence on traditional foreign assistance to one defined by full sustaining partnership status.

Question:

Last December you initiated a review of USAID configuration in light of the foreign assistance reform process, with the objective of coming up with specific recommendations about how USAID should operate within the Strategic Framework for Foreign Assistance to remain the U.S. Government's "premier international development agency." Four working groups—"Focus," "Structures," "Delegations of Authority" and "Human Resources"—were to come up with recommendations regarding the functions that USAID should continue to perform in the delivery of foreign assistance. The initial output of these task forces was due in late December, with a revised version in January. Can you give us an update regarding the outcome of this exercise? What are the specific recommendations regarding the role, structure and human resource requirements of USAID, and what is the F Bureau undertaking in terms of follow-up?

Response:

To improve USAID's operations and prioritize its resources for maximum use, I convened a set of working groups, including professionals from USAID's Civil and Foreign Service to make specific recommendations to improve human resource man-

agement and operations, better support U.S. foreign policy objectives, and more effectively implement development programs.

The working groups utilized input gathered from assessments of the regional and pillar bureaus; efforts such as the Africa Bureau's piloting of mission reassignments; comments submitted by USAID staff through an Agency-wide email-box; and the findings from the Business Model Review Group (developed in 2004 by the previous Administrator to propose changes to better align Agency operations overseas and in Washington). The most valuable asset and input on the working groups was, of course, the people themselves, who are among USAID's most experienced, thoughtful, and creative leaders.

In late December, the working groups submitted more than 100 recommendations regarding the Agency's programs, structures, decision-making processes and human capital needs, and how they should support the new Strategic Framework for Foreign Assistance. Upon thorough review of their submissions, I reconvened the groups to request that they determine the cost implications of their respective recommendations and propose a plan to make each recommendation actionable. For those recommendations requiring only minor changes, I will make decisions upon receipt of the detailed analyses.

For those recommendations requiring operational, structural, or statutory changes, I intend to name a senior Agency official to chair an Implementation Working Group. A critical part of this process will be to consult extensively with Congress as we consider implementation of such reforms. I look forward to engaging with Members of the House and Senate as this effort gets underway.

Question:

How will the funding cuts to DA impact U.S. assistance for basic education?

With more funding for basic education going to the ESF account than the DA account, what on-the-ground changes to the implementation of education programs by USAID do you foresee?

Of the 52 countries with existing basic education programs, 22 countries are seeing cuts to basic education in the Administration's FY08 request; and an additional 7 countries' basic education budgets are being zeroed out (East Timor, Guinea, India, Madagascar, Mexico, Nepal and South Africa). Is there still a need to improve access to and quality of basic education in these 7 countries? If we walk away from our current investments in these countries, we run the real risk of wasting that money when our programs have not yet created self-sustaining educational systems. Could walking away from our current investments in basic education in these 7 countries be detrimental to lasting transformational change?

Response:

Funding for basic education has increased more than five-fold since FY 2000, from less than \$100 million to more than \$500 million. For the same period, the number of countries receiving assistance for basic education increased more than 150 percent, from less than 20 to 52 countries, most of which are located in sub-Saharan Africa. The greatest level of assistance is provided to Muslim countries that are of strategic importance to the United States. Investments in basic education require time to mature before they can have any real impact on development.

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

The intent in shifting funds from DA to ESF is to draw cleaner lines around their use, as identified by country characteristics. The shift is in no way reflective of a reduced prioritization of development activities and certainly will not restrict activities in basic education. ESF has consistently been used to fund education programs in the past and this will certainly continue.

Question:

Why does the Administration's FY08 request eliminate basic education funds to India, which is home to over 1/3 of the world's illiterate people, and a country where 4.6 million children do not have access to school?

Response:

India's economy is presently growing at over 8 percent a year, making it one of the world's best-performing economies for a quarter century. India has also emerged as a significant donor in its own right, notably in Afghanistan where it has contributed over \$50 million to rebuilding the country. Reflecting these trends and programmatic successes, the FY 2008 USG foreign assistance budget request level for India has declined by 35 percent from the FY 2006 level (\$124.9 million to \$81 million).

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

Question:

Why does the Administration's FY08 request cut or eliminate funds for basic education in 13 of the 25 African countries with basic education programs?

Response:

The Administration's total basic education request for Africa for FY 2008 of \$155.6 million represents a \$26.5 million (21%) increase over the FY 2007 request. This request demonstrates our commitment to basic education as a critical component of the USG's transformational diplomacy goal of building strong democratic states equipped to meet the needs of their people, reduce widespread poverty, and engage responsibly in the international community.

The FY 2008 budget was built on an assessment of where assistance could be most effective given the overall strengths and challenges associated with a country rather than a more fragmented sector approach. Resources were prioritized to the interventions that would serve as critical levers for development. In some countries, therefore, country portfolios were realigned to provide additional funding in support of other objectives, including, in some countries in Africa, activities relating to strengthening democracy and governance.

Notably, the FY 2008 request contains \$100 million for President Bush's Africa Education Initiative (AEI), a \$600 million multi-year initiative that focuses on increasing access to quality basic education in Africa through scholarships, textbooks, and teacher training programs. This \$100 million request represents a \$45 million (82%) increase over AEI funds provided in FY 2006.

Question:

The administration's FY08 request for basic education is \$14 million over FY06 enacted levels. However, in Egypt and Jordan comprise about \$99 million of the total FY08 request and, therefore, there is even less money for the remaining countries than in previous years. Why have Egypt and Jordan seen such substantial increases while many country budgets in Sub-Saharan Africa are being cut?

Response:

In FY 2007, we requested \$455 million in basic education. The FY 2008 request is an 18 percent increase, demonstrating the importance country teams placed on basic education when doing their allocations. Using a country-based approach, we were able to strategically focus 80 percent of the FY 2008 request in Rebuilding and Developing countries—countries that most need support for basic education for children, especially at the primary level.

There is a 23 percent increase in basic education activities in Rebuilding countries and a 21 percent increase in Developing countries (which includes Egypt and Jordan) from FY 2006.

In the FY 2008 budget was built upon an assessment of where assistance could be most effective given the overall strengths and challenges in a country rather than by a more fragmented sector approach. Resources were prioritized to the interventions that would be critical levers for development. In some countries, this meant basic education. In others it meant prioritizing away from basic education.

The increase in basic education programs in Egypt and Jordan will support important education reforms agreed to by the Government of Egypt and the Government of Jordan's efforts to improve teaching and to strengthen the link between education and the workplace. Investing foreign assistance funds in these promising efforts reflect precisely the goal of transformational diplomacy, which is to move countries

forward toward sustainable market democracies that can graduate from assistance. Both Egypt and Jordan are powerful forces for peace and stability in the Middle East. Assistance to both countries is designed to decrease the underlying causes of extremism and to support economic growth. Given that both countries have high youth unemployment rates (approximately 57% in Jordan and 35% in Egypt), strengthening education systems and linking these efforts to market-driven labor needs are strategies that mitigate terrorism.

In concert with the larger goals, the increase in basic education funds for Egypt is due to anticipated opportunity for systemic reform and commitment to benchmarks in basic education by the Government of Egypt in FY 2008. The \$62 million increase in basic education programs from FY 2006 to FY 2008 is the result of redistribution in Egypt's non-military funding (the overall level of which declined in accordance with the bilateral glidepath agreement reached in 1998).

Jordan has experienced a nearly 20% population growth rate with the influx of Iraqi refugees into the country. This situation has strained Jordan's educational resources. The Government of Jordan has moved rapidly to address this issue by improving education, building schools, and training teachers in addition to introducing technology into the classrooms and emphasizing girl education and education for out-of-school youth. The USG is shifting resources from other areas to basic education to support the Government of Jordan's significant efforts in both economic development and national security.

Countries in Africa which saw large basic education increases include Ethiopia, Liberia, Sudan, Kenya and Somalia. Again, basic education levels were allocated on a country need basis and in order to achieve a balanced response to the development challenges in Africa, several country portfolios were realigned to provide additional funding in support of other objectives, including activities relating to strengthening democracy and governance.

Question:

The Director position at the Office of Microenterprise Development (OMD) has been vacant for more than six months. During the July 27, 2006 hearing on microenterprise before the House International Relations Subcommittee on Africa, Global Human Rights, and International Operations, Jacqueline E. Schafer, the Assistant Administrator of the USAID Bureau for Economic Growth, Agriculture and Trade testified that the administration would conduct a search or make an arrangement to find a successor for the vacant position. What progress has been made in the search? When can we expect a Director to be named?

According to section 3 of the Microenterprise Results and Accountability Act of 2004 (P.L.108-484), the Office of Microenterprise Development (OMD) is supposed to be funded at a level of not less than \$25 million. For the past three years appropriations report language has directed USAID to fund OMD at not less than \$30 million as part of a strategy of preserving the viability of the leading NGO microfinance networks. Yet OMD continues to receive budgets of \$13 to 19 million. Without a central funding source, microfinance networks are unable to achieve global economies of scale that would enable them to reach millions more of poor people. How will USAID ensure that the large number of missions that have not received technical input from OMD benefit from such input in developing their microfinance strategies? How will USAID ensure that global microfinance networks continue to fulfill their potential for aggressive growth and high impact?

Microfinance is a way for poor people to serve as drivers of economic growth and also participate in the benefits of that growth—an effective marriage of economic growth and poverty reduction strategies. It currently has the capacity to grow aggressively to reach millions more of the world's poor with a range of financial services. Billions of dollars of private investment capital are available if we are able to leverage and strategically apply public funds, yet the USAID missions of many countries have no discretionary funding available for economic development, including microfinance. Even leading microfinance networks with proven track records that are bringing significant private funds to the table are finding there is no funding to compete for. How will the F Bureau ensure that microfinance is included in each country's budget?

Response:

Without a doubt, microfinance is one tactical approach that can serve as a important tool toward meeting our economic growth objectives. It is for the USAID Missions, who are expert in the most effective tactics and best practices for their respective countries, to identify the approaches which will advance the overall strategic goals established in Washington. Typically, anywhere from 50 to 70 missions each year carry out some kind of microenterprise development program, whether micro-

finance, policy or enterprise development. In FY 2007, approximately 60 missions have microenterprise programs.

Question:

Thirty to fifty million people today have access to microfinance service, yet 300 to 500 million people are still excluded from basic financial services and could benefit from them. With sufficient initial investment, a microfinance program can reach sustainability, and from then on can continue to provide life-changing opportunities for the poor without further grant funding. Under the new structure, will USAID and the State Department be able to provide global leadership to ensure that microfinance achieves its potential on a global scale? How are USAID and the State Department ensuring that microfinance is part of their plans? Where does microfinance fit in the new framework?

Response:

In the new Foreign Assistance Framework, microfinance and microenterprise development are explicitly included among the Economic Growth elements. We fully anticipate that support for microfinance and microenterprise development will continue to play a role in long-term economic growth programs. Moreover, microenterprise development is a versatile approach that can help advance other foreign assistance objectives besides Economic Growth. USAID and State will continue to promote the versatility of microenterprise programs to achieving the goal of transformational diplomacy.

USAID is confident that its knowledge generation agenda and knowledge sharing program will continue to provide global technical leadership in microenterprise development. The uniqueness of USAID's approach to microenterprise development lies in its attention to the full range of constraints facing microenterprises: access to finance, linkages into competitive markets and value chains, and enabling policy environments. This holistic approach is the foundation of USAID's leadership in the sector.

To speed microenterprise efforts to achieve their global potential, USAID designs its microenterprise activities along a "doing, learning, teaching" continuum. Activities are implemented with the goal of harnessing the learning and practices those activities generate, and sharing best practices as broadly as possible throughout the entire microfinance and microenterprise industry, including but not limited to programs that receive USAID funding. By creating learning opportunities that engage implementers of all types, in all developing world contexts, the Agency multiplies the impact of its microenterprise investments by increasing development and adoption of scaleable innovations throughout the microfinance and microenterprise development industry.

Question:

The trend to distribute funds through missions has led to a significant increase in the percentage of funds awarded through umbrella contracts and umbrella projects. From 1996–2005 there has been a general trend toward decreased spending by USAID on microfinance/financial services and at the same time a greater reliance on umbrella mechanisms. Taking into account year-by-year fluctuations, we see that at the start of the period, umbrellas accounted for approximately 9 percent of all microfinance funding (\$10m/\$115m), while in 2004, umbrellas accounted for over 38 percent. In 2005, the amount obligated to umbrella programs was 51 percent (\$107m/\$211m), and only 37 percent of the microfinance and microenterprise support was obligated directly to non-profits. How does the new structure affect the use of umbrellas as opposed to direct awards?

Response:

Umbrella programs are agreements in which a mission or other operating unit obligates funds to a single organization or firm for a broad range of activities, and that organization or firm implements some of those activities directly and other activities through sub-grants or sub-contracts with other organizations. Typically they are contracts, but sometimes they are cooperative agreements.

There are a number of key reasons why umbrella programs are useful and often employed: they promote management efficiencies; they can include a broad range of activities (e.g., strengthening institutions and associations, doing policy work); and they provide missions more control over activity outcomes than is possible when using grants.

Preliminary data for FY 2006 shows USAID Missions reporting 8 percent (\$9.5 million/\$111.7 million) of total microfinance funding going to umbrella programs. The same preliminary data shows 63% of total microenterprise funding obligated to

non-profit entities, including microfinance networks and 25% of total microenterprise funding obligated to consulting firms.

Question:

Will you be including consideration of restrictions on the livelihoods of refugees and other marginalized populations in your Economic Growth analysis? In some countries, hundreds of thousands of refugees are restricted from employment, professional activity, entrepreneurship, and property rights. This is not only as a violation of refugees' basic rights under the 1951 Convention relating to the Status of Refugees, but also a serious and unnecessary constraint on economic growth and development. Will the Department use sources focused on the rights of these populations in its evaluations and actively promote the elimination of such restrictions?

Response:

The Department actively promotes the rights of refugees under the 1951 Convention relating to the Status of Refugees and its 1967 Protocol, by leading humanitarian diplomacy efforts and providing significant funding for refugee protection and assistance, including support for refugee livelihoods. The Bureau of Populations, Refugees and Migration (PRM) has supported refugee livelihoods programs in Chad, Liberia, the Palestinian territories, Pakistan, Sierra Leone, Southern Sudan, Thailand, and elsewhere. In eastern Chad, for example, PRM is providing support to Africare for its "Refugee Empowerment Project" for Sudanese and Central African refugees. Africare works with refugees and host communities to formulate community development plans and provides training and support to agricultural extension programs and income generating activities.

The Department's Human Rights Report contains a section in each country report in Section 2, Respect for Civil Liberties, part d. Freedom of Movement within the Country, Foreign Travel, Immigration, and Repatriation—Protection of Refugees. Country reports include restrictions on refugee economic activity, such as those you enumerate in your question.

While governments have primary responsibility for the protection of refugees on their territory, in practice, many developing countries consider refugees to be beyond the capacity or priorities of national social and economic assistance programs, and therefore do not include refugees in economic measures to target vulnerable populations. Where such governments are unable or unwilling to include refugees in social and economic assistance programs, international humanitarian organizations step in to address gaps in refugees' ability to support themselves and their families. Therefore, economic growth statistics grounded in government programs or expenditures would not include refugees in those cases.

In recent years, when refugees have repatriated, increased coordination of community-based programs to reintegrate returning internally displaced persons, refugees, and demobilized combatants have resulted in inclusion and better targeting of all vulnerable groups, regardless of their provenance. In repatriation, then, one could expect that national statistics are more likely to include repatriated refugees.

All told, most economic analysis used by the Department is based on data collected and initially analyzed by independent institutions, such as the World Bank. Many national analyses are done on the basis of statistics gathered by national governments, whether the institution performing the analysis is governmental or non-governmental. To the extent that national governments include (or take measures to exclude) refugees from their national data, then, they will be included or excluded from analyses. Our experience, however, is that it is difficult to distinguish refugee participation in the economy from that of others, in which case we would expect their input into gross domestic product, for example, would be included.

QUESTION SUBMITTED BY THE HONORABLE DAVID WU, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF OREGON

Question:

Having had a chance to review President Bush's remarks to the Hispanic Chamber of Commerce this past Monday, I was pleased that he singled out for recognition the story of Victor Lopez Ruiz of Chiapas, Mexico, who came to the United States under a program funded by your agency—the Cooperative Association of States for Scholarships. The President quoted Victor as saying that the CASS experience changed his life, and rightly went on to note that "There are countless people like Victor . . . across our hemisphere, young people filled with talent and ambition only needing the chance of an education to unlock their full potential."

The CASS program has also operated at Mt. Hood Community College in Gresham, Oregon, just outside Portland, and I am therefore aware of its tremendous impact. There is a proposal before USAID to renew the cooperative agreement under which CASS has operated. This is a program that serves both important public diplomacy and development goals. I know that I am one of a good number of Members of Congress who have urged you to approve that new cooperative agreement. In light of the President's stated commitment to increasing resources aimed at educational exchanges in Latin America, I do hope you will see fit to continue this proven program that, as Victor said, is changing lives.

Response:

The CASS program has achieved commendable results over the past two decades, training students like Victor Luiz Lopez at schools like Mt. Hood Community College. Such programs contribute to the advancement of developing countries and benefit U.S. institutions and public diplomacy in the region. As part of the foreign assistance reform process, USAID is conducting a thorough review of all our programs on the basis of cost, efficiency, effectiveness and overall contribution to U.S. foreign policy. The CASS program will be given appropriate consideration during this review.

